

U.S. DEPARTMENT OF VETERANS AFFAIRS

Agency Financial Report | Fiscal Year 2021



ABOUT THE COVER

The cover art is the winning entry for the 2021 Veterans Day Poster Contest. Matt Tavares, of Ogunquit, Maine, an author-illustrator of children's books and advocate for military families is this year's Veterans Day poster contest winner. The design for this year's poster contest theme commemorates the Centennial Anniversary of the Tomb of the Unknown Soldier.

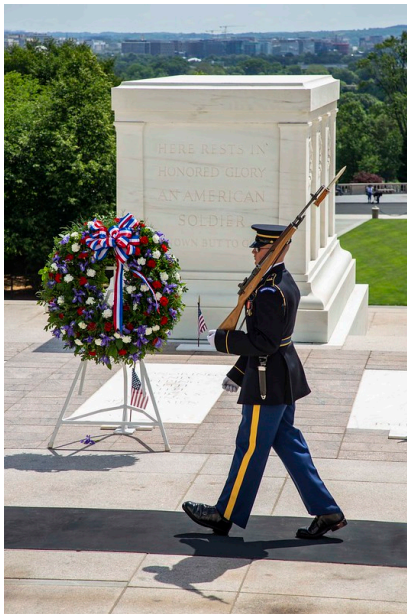
The Tomb of the Unknown Soldier was dedicated on November 11, 1921, to make sure those who made the ultimate sacrifice but were not identified were never forgotten. Soldiers with the 3rd U.S. Infantry Regiment, known as "The Old Guard," have volunteered to serve as Tomb Guards since 1948. They are selected through a rigorous process and undergo intensive training.

Here's how Tavares describes his winning entry:

"In this poster, a Tomb Guard carries out his responsibilities with unwavering dedication, alone on the quiet plaza at dawn. There have been Tomb Guards of all races, genders, religions and creeds, so I wanted to keep the identity of this Tomb Guard ambiguous.

By placing the Tomb Guard off to the side, I hoped to remind the viewer to look past the sentinel and focus on the tomb itself and the unknown soldiers who died in service to our nation."

A HISTORY OF THE TOMB OF THE UNKNOWN SOLDIER



A Tomb Guard at the Tomb of the Unknown Soldier during the wreath-laying ceremony on Memorial Day, May 31, 2021. The Arlington National Cemetery is managed by the U.S. Department of the Army.

Located at Arlington National Cemetery, the Tomb of the Unknown Soldier was initially dedicated by the Army on Armistice Day, November 11, 1921. The Tomb dedication by President Warren G. Harding commemorates all Veterans who died in service. The dedication was the first event in history attended by three presidents: Harding, Woodrow Wilson and William Howard Taft. The site has become a people's memorial that inspires reflection on service, valor, sacrifice and mourning.

The Tomb of the Unknown Soldier lies above the remains of an unidentified American soldier from World War I, representing all of the fallen heroes who died during conflict. Since that time, Unknowns from World War II, the Korean and Vietnam Wars were also interred in the plaza beside their comrade from World War I. In 1998, mitochondrial DNA testing identified U.S. Air Force 1st Lt. Michael Joseph Blassie as the Vietnam Unknown. The crypt that held his remains for 14 years remains empty and is now inscribed, "Honoring and Keeping Faith with America's Missing Servicemen, 1958-1975," in memory of those Missing in Action (MIA) from the conflict.

TABLE OF CONTENTS

	<p>1 Message from VA's Secretary 2 <i>About the Agency Financial Report</i> 3 <i>Certificate of Excellence in Accountability Reporting</i></p>
	<p>4 Management's Discussion and Analysis 6 <i>Mission and Organizational Structure</i> 9 <i>Performance Goals, Objectives and Results</i> 20 <i>Analysis of the Financial Statements</i> 27 <i>Analysis of Systems, Controls and Legal Compliance</i> 27 <i>Management's Statement of Assurances</i> 33 <i>Financial Systems Framework</i> 35 <i>Forward-Looking Information</i> 36 <i>Spotlight on Climate Change</i></p>
	<p>38 Financial Section 40 <i>Message from VA's Chief Financial Officer (CFO)</i> 41 <i>Financial Statements</i> 47 <i>Notes to the Financial Statements</i> 116 <i>Required Supplementary Information (RSI)</i> 120 <i>Inspector General's Transmittal Letter</i> 124 <i>Independent Auditors' Report</i></p>
	<p>156 Other Information 158 <i>Inspector General's VA Management and Performance Challenges</i> 171 <i>Summary of Financial Statement Audit and Management Assurances</i> 172 <i>Payment Integrity Information Act Reporting</i> 173 <i>Civil Monetary Penalty Adjustment for Inflation</i> 174 <i>Grant Programs</i></p>
	<p>176 Appendix 178 <i>Abbreviations and Acronyms</i> 180 <i>VA Online</i> 181 <i>Acknowledgements</i> 182 <i>VA by the Numbers</i></p>



THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

November 15, 2021



I am pleased to present the United States Department of Veterans Affairs' (VA) Fiscal Year (FY) 2021 Agency Financial Report. This report provides complete and reliable financial and performance information demonstrating our commitment to fiscal transparency and responsibility as we provide Veterans with world-class healthcare; ensure access to the benefits they have justly earned; and honor them with a lasting tribute for their service.

VA received its 23rd consecutive unmodified audit opinion from independent public accounting firm CliftonLarsonAllen. While we are pleased to report this accomplishment, we are mindful that we still have much work to do to address financial weaknesses and other areas the auditors identified. Information on our remediation efforts is detailed in the Management Statement of Assurance discussion.

Our most significant financial management accomplishment this year was our first “go live” of the new Integrated Financial and Acquisition Management System (iFAMS). The National Cemetery Administration (NCA) and the Veterans Benefits Administration general administration account are both operational on iFAMS. Notably, NCA is approaching its first full year using this modern accounting and acquisition system that replaces our obsolete 30+ year old legacy Financial Management System. Although the road to this point has not been without significant challenges, iFAMS has already proven to be a viable solution that will greatly strengthen our financial management and transparency.

Looking ahead, VA is investing in our top financial priorities including the continued deployment of iFAMS; becoming more agile and responsive in providing financial information to our valued stakeholders like the Office of Management and Budget, Congress and the American Taxpayer; and re-doubling our efforts to improve our processes and internal controls as evidenced by a reduction of \$6.25 billion in reported improper payments this year. Ultimately, every dollar we are provided must be accounted for and devoted to the health and wellness of Veterans and their families.

Sincerely,

A handwritten signature in black ink, appearing to read "DMcDonough".

Denis McDonough

ABOUT THE AGENCY FINANCIAL REPORT

The Department of Veterans Affairs (VA) Fiscal Year (FY) 2021 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, 2020 through September 30, 2021. The AFR consists of three primary sections, as presented below. Each section within the AFR is introduced by a cover story that highlights one of Secretary McDonough's top agency priorities.

- *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, management assurance regarding internal controls and forward-looking information.
- *Financial Section:* detailing the VA's financial position as of the fiscal year ended September 30, 2021. VA's FY 2021 audited financial statements and footnote disclosures are presented in this section, along with the results of the independent auditors' 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 2021 APP&R will be provided along with the Congressional Budget Justification in March 2022 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/>



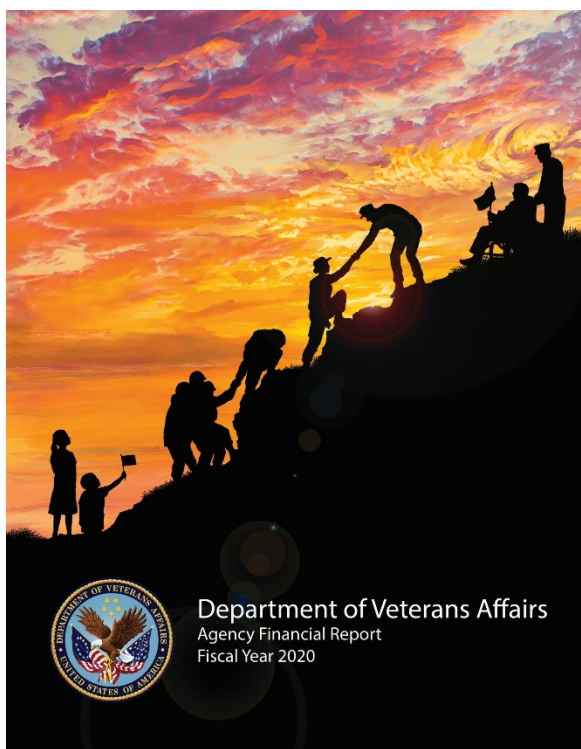
<https://www.youtube.com/user/DeptVetAffairs>



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

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

VA is proud to announce that its FY 2020 AFR was awarded the Association of Government Accountants' (AGA) [Certificate of Excellence in Accountability Reporting](#) (CEAR) at a virtual ceremony held May 27, 2021. The CEAR is the highest form of recognition in Federal Government management reporting and FY 2020 is the second consecutive 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.



MANAGEMENT'S DISCUSSION AND ANALYSIS



Formerly homeless Veteran flourishes in job at national cemetery

Picture previous page: David Lowe, Army Veteran.

As part of VA's mission to end Veteran homelessness, the [National Cemetery Administration](#) and [Homeless Veterans Community Employment Services](#) are providing the opportunity for Veterans experiencing or at risk of homelessness to work at national cemeteries. The Cemetery Apprenticeship Program trains Veterans to be caretakers at VA national cemeteries, performing a variety of grounds, equipment and building maintenance duties.

The apprenticeship program started in 2012 at a handful of VA cemeteries and expanded to additional locations based on yearly needs and availability. Veterans who successfully complete the year-long program are guaranteed full-time permanent employment at a national cemetery or can pursue employment at other federal facilities.

A Program Helping Veterans Thrive

At [Dayton National Cemetery](#) in Ohio, Army Veteran David Lowe found great success through the apprenticeship program. In 2015, Lowe was experiencing homelessness but was persistent in searching for a job despite the many obstacles he faced, including not having a phone or vehicle. He was even turned down for many jobs because he didn't have a car. But Lowe didn't give up.

In 2018, while receiving assistance from [VA's Housing and Urban Development-VA Supportive Housing \(HUD-VASH\)](#) program, Lowe learned about the Cemetery Apprenticeship Program and applied. He has done nothing but flourish since being accepted. He was even promoted to a higher position at the cemetery after completing the apprenticeship year.

Lowe encourages other Veterans to maintain the same level of determination he had when looking for a job. Many describe him as an excellent employee who is always smiling while holding his co-workers to a high standard.

"Keep trying and have patience – strive for excellence and continue to follow up with people," Lowe said. "During the apprenticeship, it was great to hear other Veteran success stories that gave me hope."

VA is dedicated to helping Veterans who are experiencing or at risk of homelessness secure and maintain employment to increase their housing and personal stability. The ultimate goal is to help Veterans return to healthy, productive lifestyles in their own communities.

More Information:

- Interested in hiring Veterans? Click [here](#) to find local Veteran employment coordinators.
- Visit VA's [Homeless Veterans Community Employment Services](#) webpage to learn more about employment initiatives and other programs for Veterans experiencing homelessness.
- Veterans who are homeless or at risk of homelessness should contact the National Call Center for Homeless Veterans at **877-4AID-VET (877-424-3838)**.

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: Service members transitioning to civilian life should check out VA's Transition Assistance Program (TAP). TAP provides emotional, employment and financial stability and a support network to make this a smooth transition.





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: L. Gale Bell, Registered Nurse (RN), Women Veterans Program Manager gave Secretary McDonough a tour of the Women Veterans Health Pavilion at the Washington, DC VA Medical Center (VAMC) on February 10, 2021.

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.

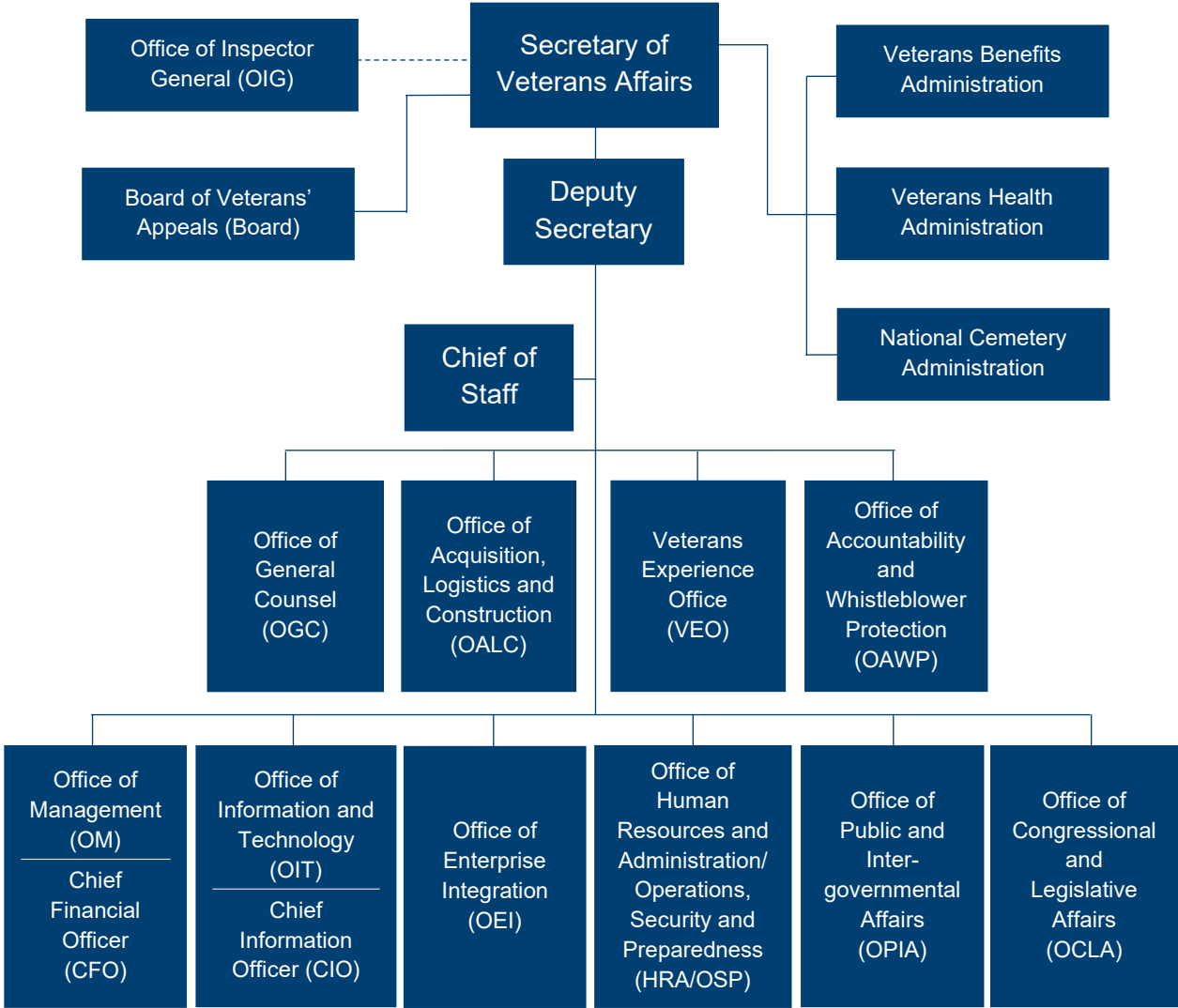
Photo: A student volunteer from the University of Central Florida leads a group of 7th graders through a "Day of Learning" at St. Augustine National Cemetery as part of NCA's Veterans Legacy Program. The program aims to educate the public about VA national cemeteries and the Veterans laid to rest within them.



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: In an effort to reach more of the 2 million female Veterans, the Office of Environmental Programs Service (EPS)/Healthcare Environmental Facilities Program (HEFP) is encouraging female Veterans to apply for the Environmental Management Service (EMS) Technical Career Field (TCF) Trainee Program.






DEPARTMENT OF VETERANS AFFAIRS ORGANIZATIONAL STRUCTURE



On Memorial Day, May 31, 2021, VA Secretary Denis McDonough and Vice President Harris took part in a wreath-laying ceremony at the Tomb of the Unknowns at Arlington National Cemetery.

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 a high-level summary of the results reported in VA's FY 2020 Annual Performance Plan and Report (APP&R), which shows how VA measures and monitors its activities against a long-range plan. Beginning on page 13, the *Performance & the Financial Connection* section links significant performance metrics to the Administrations and discusses their impact on VA's financial results. The goal icons in the graphic below are used throughout this section to map the goals toward achieving the Agency Priority Goals (APGs) and financial results.

 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	
	<p>Goal 1: Veterans choose VA for easy access, greater choices, and clear information to make informed decisions.</p> <p>Objective 1.1: VA understands Veterans' needs throughout their lives to enhance their choices and improve customer experiences.</p> <p>Objective 1.2: VA ensures Veterans are informed of, understand, and can get the benefits, care, and services they earned, in a timely manner.</p>
	<p>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.</p> <p>Objective 2.1: VA has collaborative, high-performing, and integrated delivery networks that enhance Veteran well-being and independence.</p> <p>Objective 2.2: VA ensures at-risk and underserved Veterans receive what they need to end Veteran suicide, homelessness, and poverty.</p>
	<p>Goal 3: Veterans trust VA to be consistently accountable and transparent.</p> <p>Objective 3.1: VA is always transparent to enhance Veterans' choices, to maintain trust, and to be openly accountable for its actions.</p> <p>Objective 3.2: VA holds personnel and external service providers accountable for delivering excellent customer service and experiences while eliminating fraud, waste and abuse.</p>
	<p>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.</p> <p>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.</p> <p>Objective 4.2: (Human Capital Management Modernization & 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.</p> <p>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.</p> <p>Objective 4.4: (Data Driven Decision Making) VA will institutionalize data supported and performance focused decision making that improves the quality of outcomes.</p>

AGENCY PRIORITY GOALS (APG)

APGs are a mechanism to focus leadership priorities on 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 two years and review performance on a quarterly basis to identify barriers to progress and make changes to implementation strategies. VA's APGs for FY 2020 are reported below and mapped by icons to the strategic goals and objectives that support them. Updated APGs will be released in the latest Strategic Plan, to be published on www.va.gov/performance/ in February 2022.



DECISION REVIEW AND APPEALS

VA will provide claimants who disagree with VA's decisions on benefits claims and appeals with timely reviews under the new, streamlined process authorized by the Veterans Appeals Improvement and Modernization Act of 2017 (AMA). In FY 2020, despite the challenges presented by Coronavirus Disease 2019 (COVID-19), the Board of Veterans' Appeals (Board) dispatched a historic 102,663 appeals decisions to Veterans and their families. This represents 11,163 more decisions (12.2% higher) than the FY 2020 goal of 91,500 decisions and almost 8% higher than VA's record decision output in FY 2019.



SUICIDE PREVENTION

Through clinical and community strategies, VHA will proactively identify and provide interventions for at-risk Veterans, for those using VHA care and those using other care systems, to prevent suicide and overdose death. VA will increase the implementation of Safety Planning in Emergency Departments (SPED), increase the use of predictive modeling to reach high-risk Veterans and partner with the Department of Health and Human Services, Substance Abuse and Mental Health Services Administration to develop statewide plans to end Veteran suicide. VA's latest data shows a 7.2% decrease in the Veteran suicide mortality rate from 2018 to 2019, which equates to 399 fewer deaths.



CONNECTED CARE/TELEHEALTH

VA will improve Veterans' access to quality health care using digital care delivery methods. VA will focus efforts on ambulatory care providers delivering care to Veterans using video telehealth in the home, expand the use of VA's text messaging app, expand the use of secure messaging and increase triage support from clinical contact centers.



VETERAN EXPERIENCE WITH VA.GOV

VA will measure and improve Veterans experience with VA.gov by September 30, 2021, using the Government-wide drivers identified for measuring customer experience with the Federal Government. Veterans experience scores related to VA.gov will increase by 5% compared to an FY 2020 baseline with a long-range plan to reach an aspirational goal of at least 90%.

STRATEGIC GOAL RESULTS SUMMARY

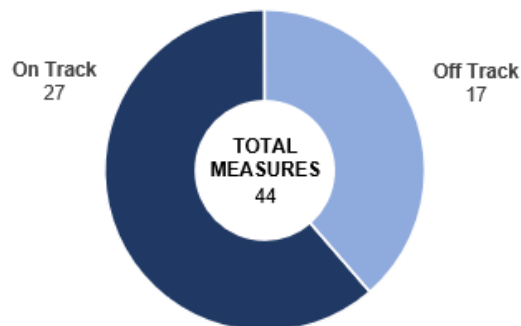
The results presented in this section are derived from performance data in the FY 2020 APP&R, the most current available. Results for FY 2021 performance will be published in the FY 2021 APP&R posted at www.va.gov/performance/ in March 2022. For each measure in the APP&R, VA sets a target that helps drive continuous improvement. On track measures are those where the target has been met or exceeded. Off track measures represent areas for improvement.

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



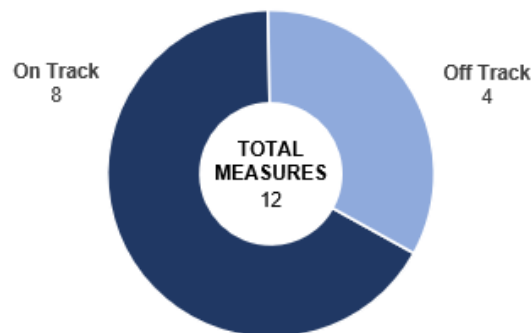
VA improved its performance in Goal 1 in FY 2020 by increasing total on track measures by one. VA increased the percentage of Integrated Disability Evaluation System (IDES) participants who have a proposed rating completed within the 20-day standard by nearly 18% over prior year.

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.*



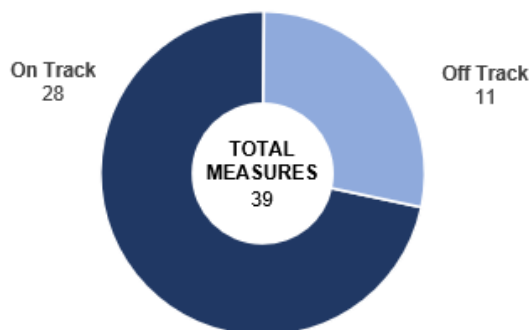
The percentage of on track measures for Goal 2 decreased slightly over prior year primarily due to the challenges presented by COVID-19. For example, VA saw a decrease in the use of housing vouchers due to closed or reduced operations at many public housing authorities. Despite these challenges, VA is maintaining progress in Goal 2.

STRATEGIC GOAL 3: *Veterans trust VA to be consistently accountable and transparent.*



In FY 2020, VA maintained progress with the Goal 3 measures. VA developed and deployed innovative capabilities to combat fraud, waste and abuse. Key highlights include convictions for fraudulent VA Aid and Attendance claims and a pension fraud scheme. VA also developed and implemented whistleblower rights and protection training for all VA employees.

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 employees.



In FY 2020, VA either maintained or achieved noteworthy progress with measures in three of the four Goal 4 objectives (4.1 – 4.3). The Department demonstrated the ability to ensure continuity of essential operations in the face of COVID-19. Objective 4.4 is a focus area for improvement. VA has taken several steps to improve its use of data to support decision-making. In FY 2020, VA leadership began asking senior leaders to demonstrate how their programs and metrics support VA’s Strategic Plan, encouraging collective ownership.

Suicide Prevention is Everyone’s Business



Eric Wittenberg, Minneapolis VA Suicide Prevention Coordinator and United States (U.S.) Army Veteran, recounted the following story, a testament to the fact that suicide prevention is everyone’s business.

“When we go to a public event, we always bring “swag” with the Veterans Crisis Line number. We bring tote bags, key chains, pop sockets, stress balls and bandanas. We don’t usually know for sure if the items are being used or if they are helpful. But talking with one very grateful Veteran, we were able to get the answer.

A Veteran approached our table at an outreach event. We started to ask him the usual questions of “Are you enrolled in VA Healthcare?” or “What branch of the military did you serve?” Before we could start, the man said he wanted to tell us how a Veterans Crisis Line bandana saved his battle buddy’s life.

He was with his dog at a local park one morning when he received a phone call from a battle buddy he served with in Iraq. The friend wasn’t doing well and said he didn’t know if he could continue with life. The Veteran knew his friend was in crisis, but he didn’t know what to do. The friend lived in a different state and he didn’t know about any resources to help him there. Then he remembered his dog was wearing a bandana he picked up at a VA outreach event. The bandana had the Veterans Crisis Line phone number on it.

The Veteran was able to give his battle buddy the direct phone number to the Veterans Crisis Line. He made his friend promise he’d call the line and call him back afterward. The friend called the line and was able to get help at his local VAMC. The Veteran said his dog’s bandana saved his friend’s life. Grateful for a way to help his friend, he thanked us and VA for doing the work to get the message in the hands of Veterans so they can help others.

You never know when you’ll encounter someone who needs help. Dogs aren’t the only ones who can be a man’s best friend.”



PERFORMANCE & THE FINANCIAL CONNECTION

VA's financial statements reflect the resources required or used to accomplish the Department's goals and objectives. This section links the Department's activities to achieve those goals with costs from the FY 2020 Statement of Net Cost (SNC). To mirror the components of the SNC, performance at each administration (VHA, VBA and NCA), plus the indirect administrative offices, is discussed.

VETERANS HEALTH ADMINISTRATION

PERFORMANCE HIGHLIGHT



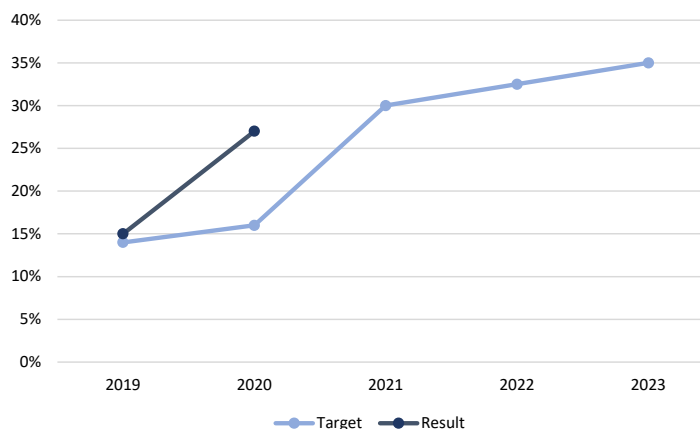
In FY 2020, total gross costs associated with VHA were \$103.3 billion for activities related to providing a broad range of primary care, specialized care and related medical and social support services. Activities performed by VHA help VA to achieve objectives for Goals 1, 2 and 4.

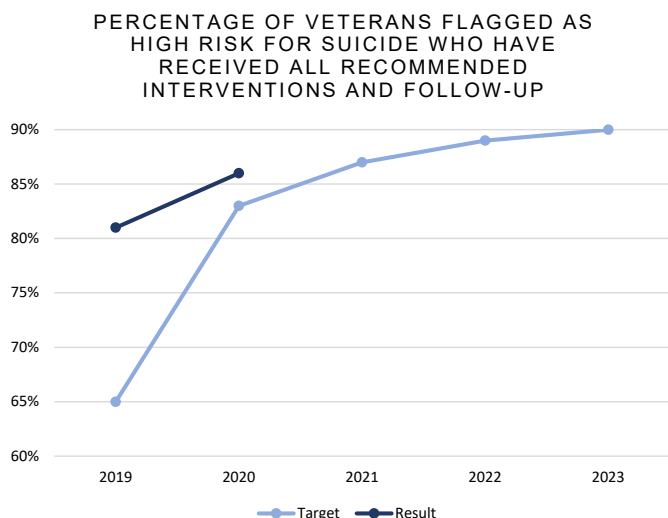
Two areas of focus for VHA under the Medical Services fund in alignment with the Department's APGs are 1) the expansion of telehealth services and 2) suicide prevention through mental health services. In FY 2020, costs related to telehealth and mental health services amounted to \$4.8 billion, which aided in the following accomplishments.

- During FY 2020, Veterans' access to care remained a VA priority, especially during the COVID-19 pandemic. VHA had already begun to expand telehealth capability; therefore, it was able to quickly shift routine care appointments to virtual modalities to keep Veterans safe. 1.1 million Veterans received video visits in their homes for general healthcare, which was a 1,037% increase from FY 2019. Daily video visits increased from approximately 2,500 in February 2020 to 38,000 in September 2020.
- VA providers in Mental Health conducted an unprecedented amount of outreach to Veterans, as they pivoted from face-to-face to telephone and video care, to keep Veterans safe during the COVID-19 pandemic. During FY 2020, Mental Health Services completed more than 1.5 million video visits into the home or other non-VA site. This represents an increase of 693,111 video visits since FY 2019.

In FY 2019, VA began tracking the percentage of eligible Veterans who have received telehealth services during the fiscal year. In the same year, the Department exceeded the baseline target by 1%. Due in part to the Department's ability to leverage telehealth during the COVID-19 pandemic, VA exceeded its FY 2020 target by 11%. For FY 2021, FY 2022 and FY 2023, the target is increased to 30%, 32.5% and 35%, respectively, to encourage continue building on the success of the programs.

PERCENTAGE OF ELIGIBLE VETERANS WHO HAVE RECEIVED TELEHEALTH SERVICES DURING THE FISCAL YEAR





In FY 2019, VA began tracking the percentage of Veterans flagged as high risk for suicide who have received all recommended interventions and follow-up. In the same year, the Department exceeded the baseline target by 16%. Despite the challenges encountered with COVID-19 in FY 2020, VA continued to improve, increasing the percentage by 5%. For FY 2021, FY 2022 and FY 2023, the target is increased to 87%, 89% and 90%, respectively, to encourage continued improvement in this highly impactful metric.

For FY 2021, VHA received \$313 million in budgetary resources, an increase of \$75 million over FY 2020, to enhance suicide prevention outreach activities. VHA received \$1.3 billion, an increase of \$271 million, to expand the Telehealth/Connected Care Services Program with the goal to increase Veteran access to healthcare. During FY 2021, Congress appropriated an additional \$13.5 billion for medical care and health needs under the American Rescue Plan (ARP) Act. It includes funding for sustainment of Coronavirus Aid, Relief and Economic Security (CARES) Act supported service-level expansions, including suicide prevention and telehealth.

PERFORMANCE IN ACTION



Michael Novielli, a U.S. Marine Veteran and COVID-19 survivor.

Michael Novielli served as a U.S. Marine during the late 1960s. Novielli's care team at the [VA Medical Center in Northport, New York](#), first suggested telehealth about five years ago. They gave Novielli a blood pressure monitor that he could use at home to keep track of his health.

In April, Novielli was hospitalized for four days with COVID-19 and upon returning home, he began sharing his temperature, oxygen levels and heart rate every day with his VA telehealth team. On April 22, more than two weeks after Novielli was discharged from the hospital, Marjorie Rogers, a registered nurse with 14 years' experience with

VA, noticed something unusual in Novielli's vitals. Although his temperature and oxygen levels were normal, Novielli's heart rate was elevated.

Rogers called Novielli immediately. "She said, 'Your heart rate is up. Something's definitely wrong. Go to emergency right away,'" When Novielli arrived back at the hospital, doctors found that COVID-19 had caused fluid to build up in his lungs. Novielli had developed pneumonia.

This time, Novielli was in the hospital for almost two weeks. He was on oxygen and antibiotics, felt weak and tired, and lost 40 pounds. But after 13 days, he said, "The monster had left me." "Marjorie saved my life," said Novielli. "If I wasn't on the telehealth, I would have stayed home with the pneumonia, and who knows what would have happened."

VETERANS BENEFITS ADMINISTRATION

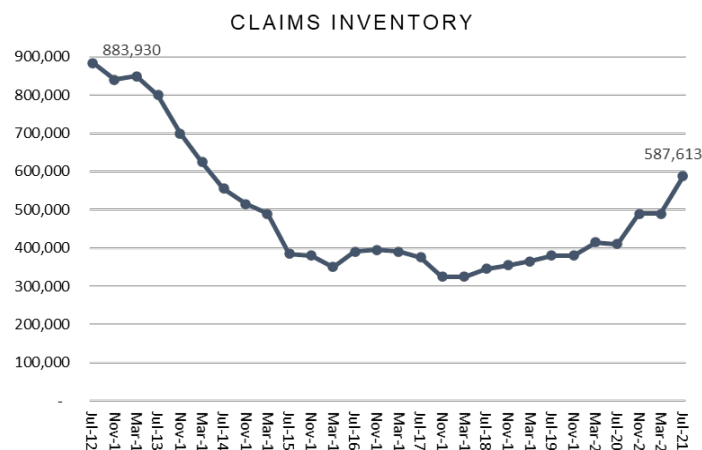
PERFORMANCE HIGHLIGHT



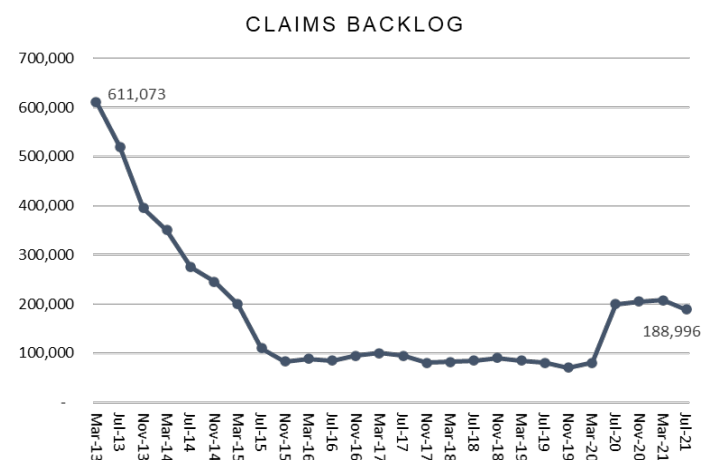
In FY 2020, total gross costs associated with VBA were \$125.4 billion for activities related to providing various benefits to Veterans and their families. Activities performed by VBA help VA to achieve objectives for Goals 1, 2 and 3.

One of VBA's primary functions is to process education, pension, compensation, survivor and community care claims and appeals with a focus on timeliness and quality. In FY 2020, costs related to these Veterans benefit claim activities were \$4.8 billion.

The following charts show fluctuations in the claims inventory since FY 2012 and the claims backlog since FY 2013. The claims inventory includes disability compensation and pension claims received by VA that normally require a rating decision. Commonly known as the rating bundle, this includes claims for disability compensation, dependency and indemnity compensation for survivors and Veterans' pension benefits, including both original and supplemental claims. Once VA decides a claim, it's no longer in the claims inventory. If a Veteran appeals a benefits decision, the appealed claim is tracked separately. When claims in the inventory exceed 125 days, they are considered "backlogged".



The charts presented demonstrate that the claims inventory and backlog decreased significantly from Quarter 2 of FY 2013 through Quarter 1 of FY 2015 and remained steady until Quarter 3 of FY 2020, when the COVID-19 pandemic halted medical examinations and caused inflated processing times. VA has prioritized resolving the enlarged backlog as the Department returns to more stable operating conditions.



The backlog also increased as a result of benefits changes for Veterans enacted by law. The Blue Water Navy Act of 2019 expanded the definition of qualifying service for Agent Orange exposure, allowing more Veterans to potentially receive compensation benefits for Agent Orange-related disabilities. Additionally, the William M. Thronberry National Defense Authorization Act for FY 2021, Public Law (P.L.) 116-283, added three conditions to the list of those presumptively associated with exposure to Agent Orange.

During FY 2021, Congress appropriated an additional \$272 million under the ARP Act, which will enable VBA to reduce the claims backlog to approximately 100,000 by mid-FY 2024, from approximately 207,000 in September 2021. In addition to the ARP funds, Congress has authorized an additional \$150 million to accelerate record-scanning; VA is seeking additional funding for this project to further reduce or eliminate any delays caused by third-party requests for federal records to support claims processing. For FY 2022, VA requested \$13.6 million, in part to hire 95 additional full-time employees (FTE) to support disability compensation claims processing.

PERFORMANCE IN ACTION



“Benefacts” podcast host James Fawbush discussed VBA benefits such as disability compensation and pension with VARO Outreach Coordinator Harry Miller (left) and VARO Public Contact Supervisor Eddie Fuenmayor (right).

On March 19, 2021, the Phoenix VA Regional Office (VARO) participated in the first season of “The Veteran Voice Podcast,” a collaborative communications initiative started by the Phoenix VA Health Care System.

During the hour-long program titled “Benefacts,” VARO Outreach Coordinator Harry Miller and VARO Public Contact Supervisor Eddie Fuenmayor provided Veterans and their beneficiaries useful

information about such VBA benefits as disability compensation and pension. They also provided recommendations on how to file these types of claims.

“This was a great opportunity to share my experiences working at the Veteran Resource Center (VRC) located on the Phoenix VA Health Care System campus,” said Miller, a Marine Corps Veteran. “I was also able to share tips on what a Veteran should bring when they visit the VRC to file for VBA benefits.”

“The Veteran Voice Podcast” is hosted by Army Veteran James Fawbush, a public affairs specialist at the Phoenix VA Health Care System. Starting in radio in 2008, he co-hosted a weekly entertainment radio program on American Forces Network (AFN) in Guantanamo Bay, Cuba. Fawbush has been involved in podcasting since 2011.

“This podcast is a wonderful opportunity to help share information on VBA benefits with Veterans,” said Fuenmayor, an Air Force Veteran. “We hope to continue on a regular basis and look forward to branching out with James and the Phoenix VA Healthcare System on their Facebook live channel.”

NATIONAL CEMETERY ADMINISTRATION

PERFORMANCE HIGHLIGHT



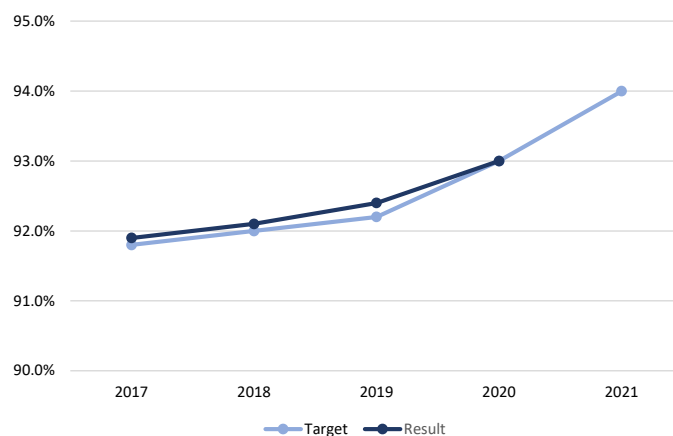
In FY 2020, total gross costs associated with NCA were \$376 million for activities related to Veteran burial and interment services (headstones, markers and flags), construction projects and operations at VA's 155 national cemeteries. Activities performed by NCA help VA to achieve objectives for Goals 1 and 2.

One of NCA's most significant performance metrics is the percentage of Veterans served by a burial option within a reasonable distance. This metric helps NCA identify areas of the country that are not appropriately served, such as rural areas, and plan potential construction projects or gravesite expansions for the future. NCA has continuously improved performance in this metric year over year. In FY 2020, NCA had \$4.6 million in gross cost for activities related to this metric.

The combined results of establishing planned new national cemeteries, working with our state and tribal partners in establishing new grant-funded Veterans' cemeteries through the NCA Veterans Cemetery Grants Program and completing the transfer of responsibility for 11 cemeteries formerly managed by the U.S. Army, has resulted in a significant increase in the percent of Veterans served with burial access.

In FY 2020, VA received \$172 million in budgetary resources for cemetery expansion and improvement projects, advance planning and design funds and land acquisition. In FY 2021, VA received \$94 million, a decrease of \$78 million primarily due to the completion of several gravesite expansion projects in the prior year.

VETERANS SERVED BY A BURIAL OPTION
WITHIN A REASONABLE DISTANCE



PERFORMANCE IN ACTION



Petty Officer 1st Class Matthew Leonard presents a flag for Paul Reed, an unclaimed Coast Guard veteran.

Phillip Key. Mark Hackett. Dallas Smith. Ronald Horn. John Gallagher. Dannie Fouts. Klaus Schaeffer. Paul Reed. Those are the names of six Army Veterans, one Navy Veteran and one Coast Guard Veteran whose remains were unclaimed by family or friends but received a burial honoring their service. The service was held at the Dallas-Ft. Worth National Cemetery on May 7, 2021.

More than eighty Patriot Guard Riders came to pay their respects to the eight unclaimed Veterans. Roshanda Bost, Army Veteran and assistant director, Dallas-Fort Worth National Cemetery, along with Army Veteran Ken Hammock, a ride captain with Patriot Guard Riders, accepted flags for their fellow Veterans

during the service. Hammock has participated in more than 700 services and says it was an honor to accept a Veteran's flag who did not have family available.

"We are here to honor Veterans," said Larry Williams, Marine Veteran and director, Dallas-Fort Worth National Cemetery. "All Veterans deserve the best and we are going to try and provide the best service for them. These eight Veterans didn't have anybody to claim them, but they do have somebody, us, their fellow Veterans."

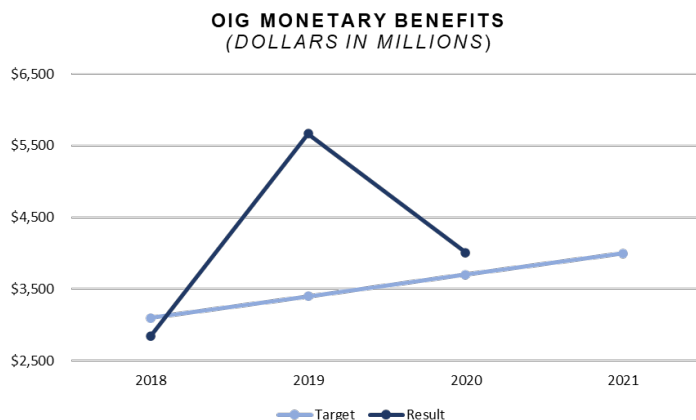
INDIRECT ADMINISTRATION

PERFORMANCE HIGHLIGHT



In FY 2020, total gross costs associated with Indirect Administration were \$2.4 billion for activities to support Department operations not directly attributable to VHA, VBA or NCA, including the supply fund, human resources, OIG investigations and Board of Veterans' Appeals programs. Indirect administrative activities help VA to achieve objectives for Goals 3 and 4.

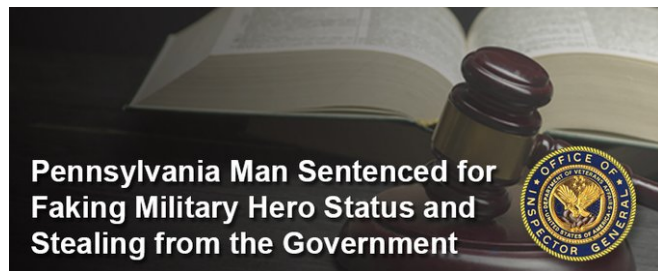
One of the most critical functions under Indirect Administration relates to the VA OIG. The OIG's mission is to serve Veterans and the public by conducting meaningful independent oversight of the Department. In FY 2020, total gross cost related to OIG activities was \$221 million. The monetary benefits metric, presented at right, provides an assessment of the value of OIG's audits, inspections, investigations and other reviews. OIG has exceeded the monetary benefits target since FY 2019.



In FY 2020, VA's OIG oversight work was detailed in the 336 publications issued and resulted in the identification of more than \$4 billion in monetary impact. VA's OIG hotline received and triaged more than 29,000 contacts to help identify wrongdoing and concerns with VA programs and activities. OIG criminal investigators opened 380 investigations and closed 471. Collectively, this work was essential to ongoing efforts to hold wrongdoers accountable, resulting in 2,224 arrests, indictments, convictions, criminal complaints, pretrial diversions and administrative sanctions.

In FY 2020, VA OIG received \$210 million in budgetary resources to support essential oversight of VA's programs and operations and for the timely detection and deterrence of fraud, waste and abuse. In FY 2021, VA received \$228 million, an increase of \$18 million primarily to hire and fund additional full-time employees. The additional resources provide support to further enhance oversight in program areas that are vital to Veterans and taxpayers, particularly implementation of the Maintaining Systems and Strengthening Integrated Outside Networks (MISSION) Act and the ongoing electronic health records modernization effort.

PERFORMANCE IN ACTION



In September 2021, a man from Pennsylvania was sentenced to three years and four months in prison and ordered to pay \$302,121 in restitution. The charges stemmed from the defendant fraudulently claiming to have served on an elite Navy Sea, Air and Land (SEAL) team and falsely representing that he had been a Prisoner of

War (POW) in order to secure healthcare benefits from the VA. Due to his false representations as a POW, the defendant received healthcare from the VA in Priority Group 3, effectively receiving healthcare before deserving military Service members. In reality, the defendant never served a single day in the U.S. military.

“We are grateful to our federal partners for their work in pursuing and prosecuting those who impersonate our nation’s hero’s and unlawfully obtain benefits meant for those who served,” said Rear Admiral Karen Flaherty-Oxler (Retired), Medical Center Director for the Corporal Michael J. Crescenz VAMC in Philadelphia. “It is disheartening to see someone who benefited from the service of our Veterans, dishonor them in this manner. Nonetheless, our day-to-day mission of caring for our Veterans continues uninterrupted and with the same vigor and commitment.”

“Today’s sentence sends a clear message that those who benefit from falsely claiming to have served in the United States military will be held accountable,” said Special Agent in Charge Christopher Algieri, VA OIG, Northeast Field Office. “The VA OIG appreciates the support of the United States Attorney’s Office and our law enforcement partners in securing justice for our nation’s true heroes.”

The case was investigated by the VA OIG, Social Security Administration OIG and the Bureau of Alcohol, Tobacco and Firearms. The case was prosecuted by the U.S. Department of Justice (DOJ).

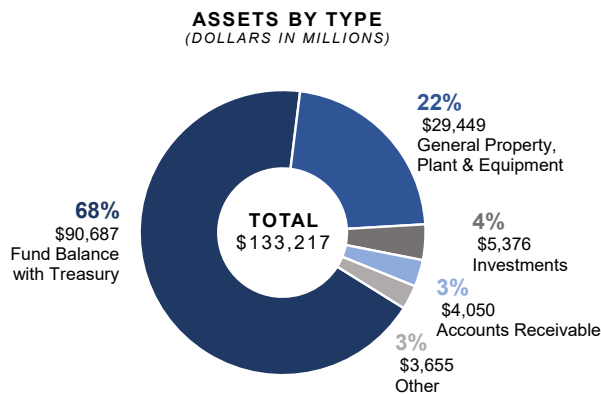
ANALYSIS OF THE FINANCIAL STATEMENTS

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)	2021	2020	\$ Change	% Change
Assets				
Fund Balance with Treasury	\$ 90,687	\$ 70,401	\$ 20,286	29%
General Property, Plant, & Equipment	29,449	28,110	1,339	5%
Accounts Receivable	4,050	5,134	(1,084)	-21%
Investments	5,376	4,781	595	12%
Other	3,655	3,565	90	3%
Total Assets	\$ 133,217	\$ 111,991	\$ 21,226	19%
Liabilities				
Federal Employee and Veterans' Benefits (FEVB)	\$ 4,469,540	\$ 4,014,824	\$ 454,716	11%
Non-FEVB Liabilities				
Accounts Payable	14,105	13,193	912	7%
Loan Guarantee Liability, Net	10,870	7,408	3,462	47%
Other	6,601	8,747	(2,146)	-25%
Total Non-FEVB Liabilities	31,576	29,348	2,228	8%
Total Liabilities	4,501,116	4,044,172	456,944	11%
Total Net Position	(4,367,899)	(3,932,181)	(435,718)	-11%
Total Liabilities and Net Position	\$ 133,217	\$ 111,991	\$ 21,226	19%

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, 2021, the largest asset was fund balance with Treasury (FBWT) at \$90.7 billion, an increase of \$20.3 billion or 29% primarily due to:

- Emergency funding received in response to the COVID-19 pandemic (refer to page 25 for additional information); and,
- An increase in VBA's FY 2021 appropriation due to historical increases in caseload and average payments, economic assumptions and implications of enacted legislation and VA policy decisions.

The second largest asset was property, plant and equipment (PP&E) at \$29.4 billion, which is primarily composed of buildings, structures, equipment and internal use software (IUS) used to provide medical care to Veterans. The PP&E balance did not change significantly from FY 2020.

Accounts receivable was \$4.1 billion, a decrease of \$1.1 billion or 21% primarily due to the cancellation of copayments receivable as a result of the ARP Act and collections on an account receivable for excess contingency reserves in the Veterans' Group Life Insurance (VGLI) Program. Additional details may be found in [Note 6](#) in the Financial Section.

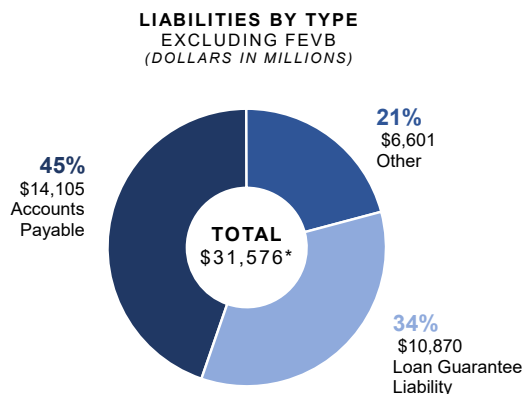
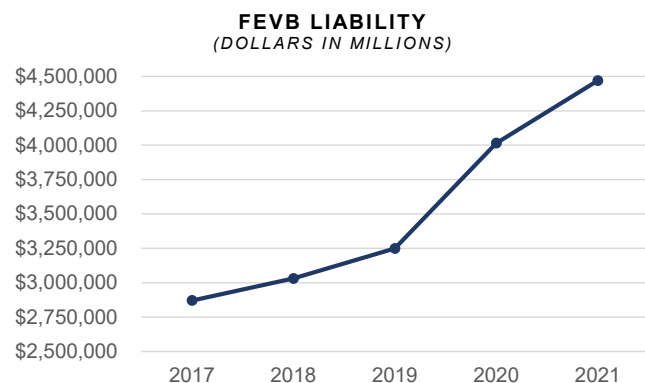
Investments was \$5.4 billion, an increase of \$595 million or 12% primarily due to the collection and subsequent investment of the VGLI and Servicemembers Life Insurance Program (SGLI) excess contingency reserves.

The other category includes cash, direct loans and loan guarantees, inventory and other assets, which did not change significantly from FY 2020.

LIABILITIES

Liabilities represent probable future outflows or other sacrifices of resources as a result of past transactions or events. As of September 30, 2021, the largest liability was Federal employee and Veterans' benefits (FEVB) at \$4.5 trillion or 99% of total liabilities, an increase of \$454.7 billion or 11% 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 2017 – FY 2021. Actuarial cost and the loss on actuarial assumptions drive these increases. Refer to page 23 for discussion of increases in actuarial cost and losses. For additional information, refer to [Note 13](#) in the Financial Section.



*Total Liabilities with FEVB is \$4,501,116

The composition of the remaining liability balance is illustrated in the graphic at left. The Department's second largest liability is accounts payable at \$14.1 billion, which did not change significantly from FY 2020.

Loan guarantee liability, net was \$10.9 billion, an increase of \$3.5 billion or 47%. As a result of an active market during FY 2021, VA experienced an increase in funding fees paid by the borrower, which increased the liability.

The other category includes debt, environmental and disposal liabilities and other liabilities totaling \$6.6 billion, a decrease of \$2.1 billion or 25% primarily due to a decrease in the liability to the U.S. Department of Treasury (Treasury) resulting from the budget credit subsidy calculations used to maintain the estimated amounts to cover future costs.

CHANGES IN NET POSITION

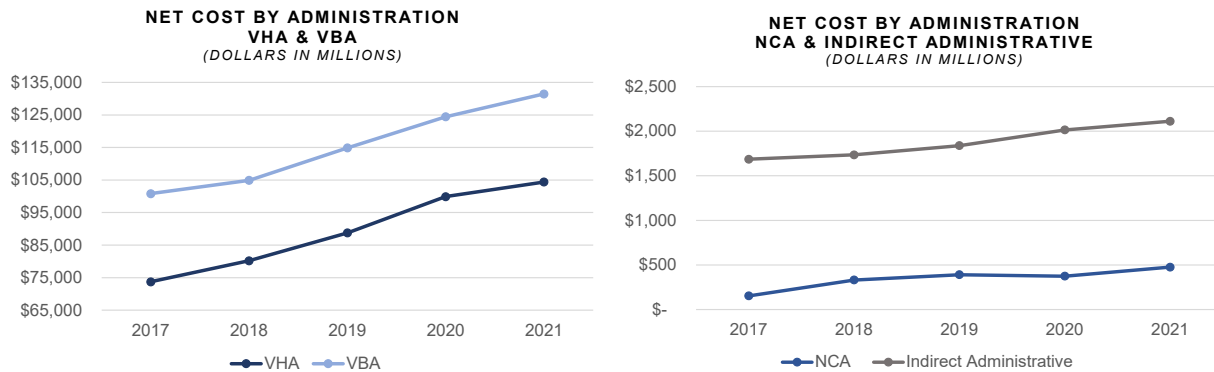
The Statement of Changes in Net Position combines the net cost of operations with nonexchange sources of financing to arrive at a net position. Net position decreased by 11% from a deficit of \$3.9 trillion in FY 2020 to a deficit of \$4.4 trillion in FY 2021. The decrease is attributable to the increase 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 SNC 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 2021, total net cost of operations for the Department was \$695.8 billion, a decrease of \$291.6 billion or 30%, driven primarily by a decrease of \$256.4 billion in the loss on actuarial liability changes.

PROGRAM NET COST

The graphics below present program net cost by Administration, excluding actuarial, from FY 2017 – FY 2021. While VHA and VBA have experienced significant increases in net cost over the past five years, NCA and indirect administrative net costs have remained relatively consistent.



VHA's net cost was \$104.4 billion, an increase of \$4.5 billion or 5% primarily due to an increase in community care payments and other medical expenses that align with the implementation of the MISSION Act. Areas of focus include mental health services, homeless programs, telehealth, caregiver support, opioid treatment, accessibility for rural Veterans, Women Veterans (gender-specific care) and precision oncology.

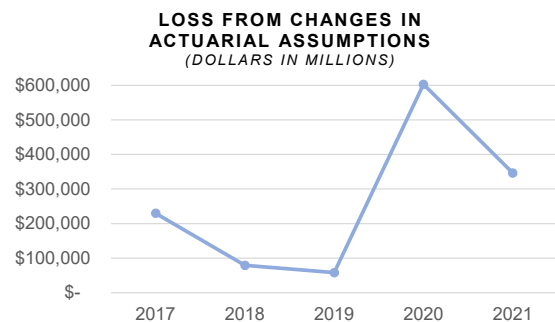
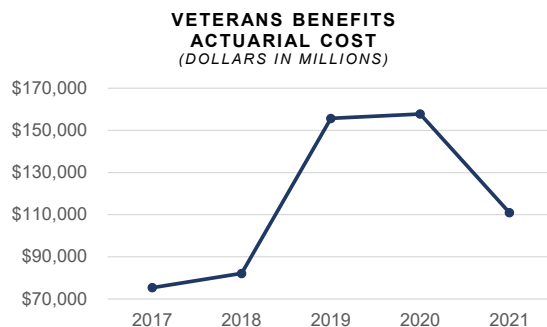
VBA's net cost (excluding actuarial) was \$131.5 billion, an increase of \$7 billion or 6% primarily due to increases in compensation payments to Veterans and their beneficiaries.

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 [Note 13](#) in the Financial Section). 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	<ul style="list-style-type: none"> • Interest on Liability Expense • Changes in Experience (e.g., Veteran counts) • Prior Service Cost • Less: Amounts Paid 	(Gain) / Loss	<ul style="list-style-type: none"> • Discount Rate • Cost of Living Adjustments (COLA) • Other Assumptions
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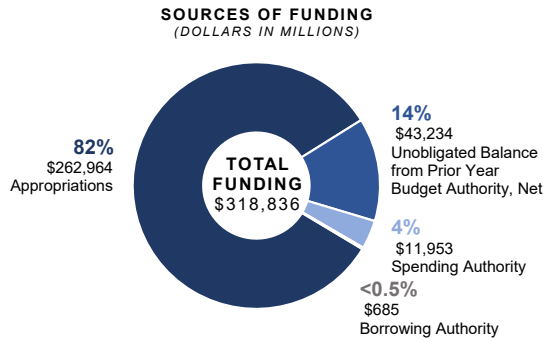
The Veterans benefits actuarial cost was \$111 billion, a decrease of \$46.9 billion or 30% compared to FY 2020. The number of Veterans increased in 2021 but not at the same rate as that of FY 2020, which resulted in a decrease of the Veterans benefits actuarial cost.



Loss from changes in actuarial assumptions was \$346.3 billion, a decrease of \$256.4 billion or 43% compared to FY 2020 due to assumption changes in the model used to estimate the liability for compensation, burial, education and VR&E. The most significant changes are related to the discount rate and COLA assumptions.

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.

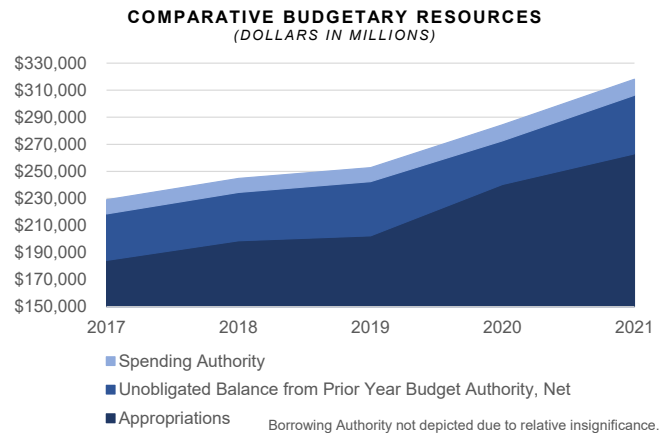


Appropriations were \$263.0 billion, an increase of \$22.6 billion or 9% over FY 2020, primarily due to the \$17.1 billion in funding from the ARP Act, as discussed on page 25.

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 2017 – FY 2021 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, Families First and ARP Acts.



The rise in overall budgetary resources between FY 2020 and FY 2021 resulted in an increase of new obligations and upward adjustments totaling \$16.8 billion or 7% 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 personal protective equipment (PPE) and other supplies in response to the COVID-19 pandemic in accordance with the CARES, Families First and ARP 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.

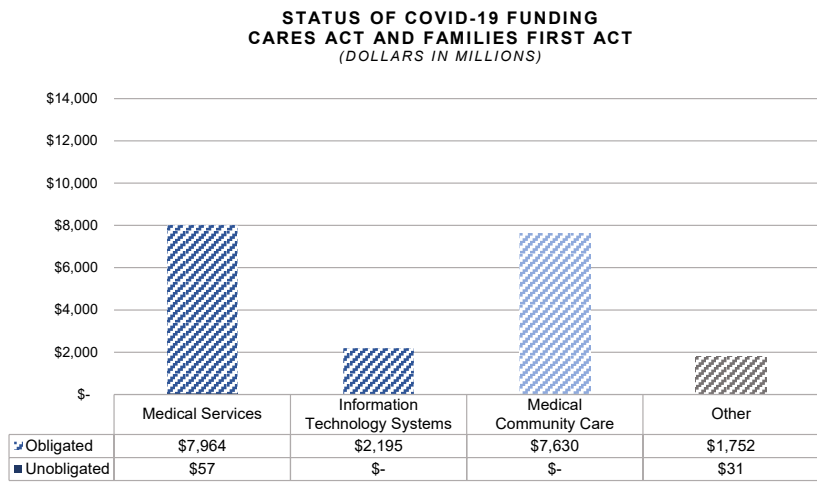
Net outlays increased by \$15.8 billion or 7%. The increase in net outlays was primarily attributable to the increase in budgetary resources, new obligations and upward adjustments.

IMPACT OF COVID-19

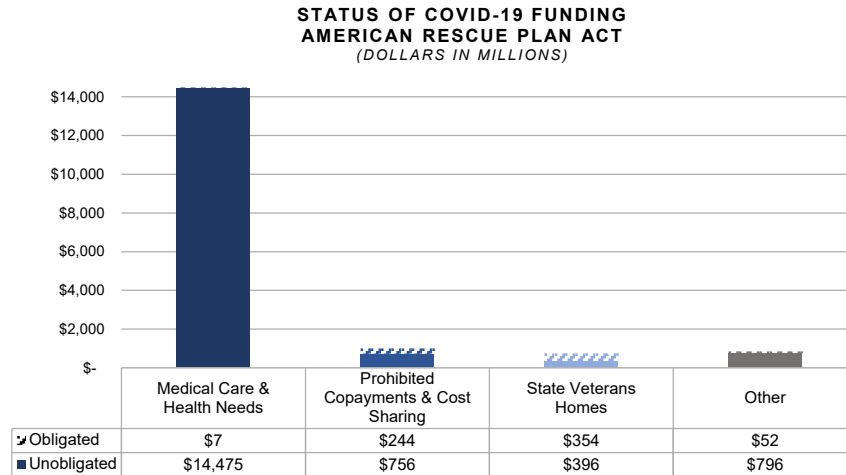
As the largest integrated health care system in the U.S. providing services to over nine million Veterans, VA was heavily impacted by the COVID-19 pandemic in FY 2021. In response to the pandemic, the Department received \$19.6 billion in supplemental emergency funding from the CARES and Families First Acts in FY 2020 and an additional \$17.1 billion from the ARP Act in FY 2021. As depicted in the graphics below, the funding was primarily allocated to the Medical Services Program, which received \$8 billion or 41% of the CARES and Families First Act funding, after reallocation, and \$14.5 billion or 85% of the ARP Act funding. In FY 2021, \$6.4 billion in funding from medical care services was reallocated to Information Technology Systems, Medical Community Care and three new CARES Act programs (National Cemetery Administration, Board of Veterans' Appeals and Canteen Service). The new programs fall under the Other category in the CARES Act and Families First Act graphic below.



As of September 30, 2021, nearly 100% of the total CARES and Families First Act funding had been obligated. 61% of the total funding was obligated during FY 2021. As depicted in the graphic below, \$8 billion or 99% had been obligated from the Medical Services Program as of September 30, 2021 to cover inpatient COVID-19 pandemic care, surge activities and national purchases of PPE and other equipment. 100% of the available funding had been obligated for Information Technology Systems and Medical Community Care. \$1.8 billion or 98% had been obligated for programs in the other category.



As of September 30, 2021, 4% of the total ARP Act funding had been obligated. The ARP Act funds have various periods of availability, ranging from September 2021 through 2023, or until expended. Nearly all ARP Act obligations as of September 30, 2021 fall under the Prohibited Copayments and Cost Sharing Program, which allows VA to waive copays that otherwise would be charged to Veterans for healthcare services, and the State Veterans Homes (SVH) Program, which provides construction funds and emergency payments to enhance treatment of Veterans at SVHs. Additional detail may be found in [Note 26](#) 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
- Support to Non-VA Nursing Homes
- Veteran Engagement
- 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.

MANAGEMENT'S STATEMENT OF ASSURANCE



THE SECRETARY OF VETERANS AFFAIRS WASHINGTON

November 15, 2021

The Department of Veterans Affairs' (VA or the Department) 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, 2021, except for the following reported material weaknesses:

- Controls over Significant Accounting Estimates and Transactions;
- Financial Systems and Reporting; and
- Information Technology Security Controls.

The Department noted noncompliance with:

- FMFIA § 2 and § 4;
- Anti-Deficiency Act (ADA);
- Payment Integrity Information Act of 2019;
- 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*; and
- Federal Financial Management Improvement Act (FFMIA).

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

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

Sincerely,

A handwritten signature in black ink, appearing to read "Denis McDonough". The signature is stylized and cursive.

Denis McDonough

SUMMARY OF MATERIAL WEAKNESSES

- (1) Controls over Significant Accounting Estimates and Transactions:** VA's financial statement auditor identified internal control deficiencies in the control environment related to the Compensation, Pension and Education (CP&E) actuarial estimates, along with infrequent and untimely experience studies/assumption updates. The Veterans Benefits Administration (VBA) CFO's office continues to implement a Corrective Action Plan (CAP) to improve CP&E model audit readiness, including controls to ensure data used is complete and accurate, strengthen controls surrounding the models and enhance the current policies, procedures and/or process narratives relevant to VBA's accounting and financial reporting of benefits. Estimated completion date: FY 2022.
- (2) Financial Systems and Reporting:** VA's outdated legacy financial management system (FMS) continues to require manual processes, reconciliations and journal entries in order for VA to produce a set of auditable financial statements. VA continues to have various financial reporting issues, though some improvements have occurred in certain areas since the prior year. VA is implementing a multi-year migration plan to the new accounting system, the Integrated Financial and Acquisition Management System (iFAMS). Until iFAMS is fully deployed across all Administrations and Staff Offices, VA will continue to require stations to perform a quarterly Integrated Funds Distribution, Control Point Activity Accounting & Procurement (IFCAP) to FMS reconciliation. Estimated completion date: FY 2028.
- (3) Information Technology Security Controls:** VA maintains a material weakness in its 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, as identified by the Office of Inspector General (OIG) during its annual Federal Information Systems Audit Manual audit. VA established both operational and procedural capabilities to evaluate, prioritize, plan and execute actions designed to mitigate or close the material weakness findings noted in the OIG Notice of Findings and Recommendations (NFR) report. VA continues to pursue a prioritized set of actions designed to improve or mature the overall cybersecurity state of the environment to address the material weakness. Estimated completion date: FY 2022.

SUMMARY OF MATERIAL NONCOMPLIANCE

- (1) **FMFIA § 2 and § 4:** VA conducted its evaluation of financial management systems for compliance with FFMA in accordance with OMB Circular A-123, Appendix D. Based on the results, VA's FMS does not substantially comply with Federal financial management system requirements and application of the USSGL at the transaction level. The Office of Management (OM) developed an internal control assessment process to implement the requirements for full compliance with FMFIA and OMB Circular A-123, to include documentation of transactional-level testing to support the assurance statement. VA is developing a new accounting 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 2028.
- (2) **Anti-Deficiency Act:** As of September 30, 2021, VA received confirmation from OMB that there are five violations of the ADA, 31 U.S.C. §1341(a) (for reporting to Congress and the President, with a copy of the report provided to the Comptroller General). These five violations were previously being investigated as potential violations from prior years. The violations relate to obligations made in the Minor Construction and/or Medical Facilities accounts on projects that should have been classified as "Major Construction Projects." Total obligations for each of these projects exceeded \$10 million, the statutory Major Construction threshold at the time of their original obligations. VA expects to formally report this violation in FY 2022. VA also identified a potential violation where VA may have improperly used current-year appropriations to fund within-scope modifications for which there was antecedent liability on prior-year major and minor construction contracts. The review to determine if an ADA violation occurred is expected to be completed in FY 2022.

VA identified a violation where VA improperly signed a Confidentiality and Hold Harmless Agreement with an insurance company, which stated, among other provisions, that upon written request the insurance company would disclose confidential information requested by VA. The agreement also contains an open-ended indemnification provision that purported to indemnify the insurance company for damages incurred as a result of fulfilling the agreement that were not the result of negligence or malfeasance on the part of insurance company's employees. VA sent letters to the President, Congress and the Government Accountability Office (GAO) on September 28, 2021 disclosing the ADA violation.

VA identified a potential violation where VA improperly authorized extensions of adaptive sports grants. The ADA investigation is in progress and is expected to be completed in FY 2022.

- (3) **Payment Integrity Information Act of 2019:** In FY 2021, VA reported its third consecutive and largest decrease in improper payments of \$6.25 billion. In addition, VA removed five programs from improper payment reporting, as statistically valid testing showed these programs did not have significant improper payments. VA continues to enact specific corrective actions to remediate the root causes of improper payments and strategically strengthen payment 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 2029.
- (4) **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 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. The FY 2022 President's Budget included a legislative proposal to clarify Secretary of VA authority on interest and administrative costs charged on delinquent debts. The proposal is awaiting Congressional action. Estimated completion date: FY 2023.
- (5) **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 undergoing a multi-year rollout of a new accounting system, iFAMS, to replace FMS. iFAMS is designed to be compliant with FFMIA. Estimated completion date: FY 2028.

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 GAO'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 2021, VA assessed the following three distinct but overlapping objectives of internal control: operations, compliance and reporting.

In FY 2021, 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 the entity's internal controls. OBO analyzed ICA submissions and statements of assurance to ensure the statements appropriately captured material weaknesses identified during the internal control assessments.

In FY 2021, OBO conducted OMB Circular A-123, Appendix A, Test of Design and limited Test of Effectiveness over specified business processes and key controls. OBO focused its efforts on developing business process narratives and testing 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 is increasing the transparency, accuracy, timeliness and reliability of financial information, resulting in improved fiscal accountability to American taxpayers and offering a significant opportunity to improve 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;
- Providing real-time financial and acquisition integration by implementing a single, integrated system;
- Leveraging economies of scale to increase efficiencies; 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 Management System (FMS) and the core 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).

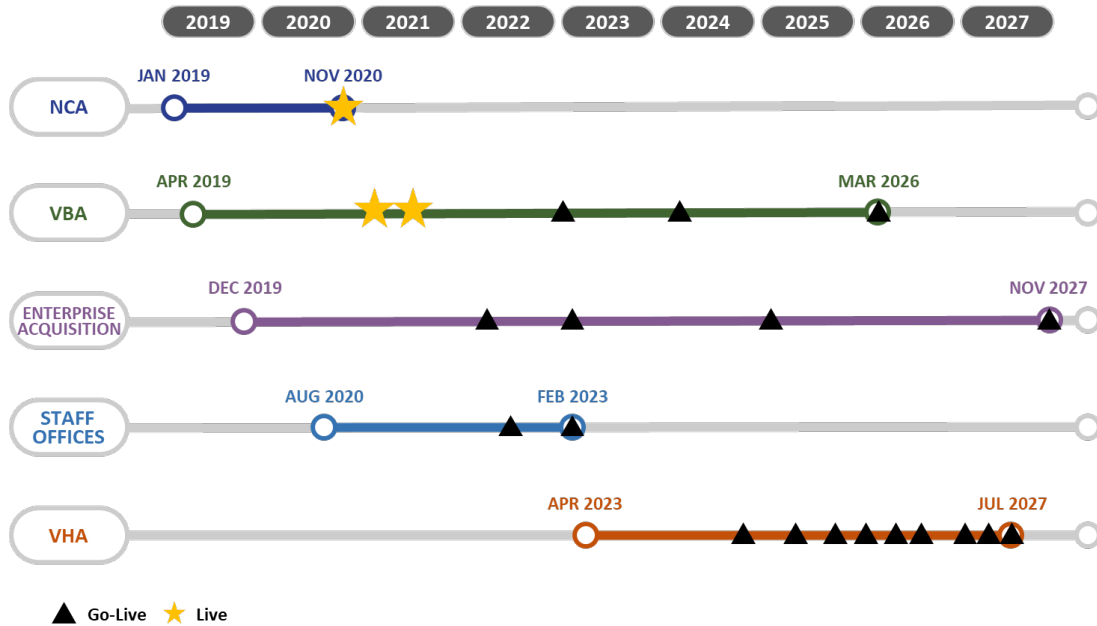
The external financial statement auditors repeatedly identified a need for VA to fully integrate these applications and the detailed transactions they contain into a single, integrate core financial and acquisition management systems.

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 and hosted in the VA Azure cloud. 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 is being deployed in a phased implementation approach. Each completed system delivery, or go-live, represents the point of transition of one or more VA organizations from their legacy systems to iFAMS. Following go-live, the organization is now considered live in iFAMS. As of September 2021, FMBT has delivered the financial component of iFAMS to NCA and the VBA General Operating Expenses (GOE) fund. The next planned system go-live is the Enterprise Acquisition implementation wave in support of NCA, which is scheduled for April 2022. FMBT will continue deploying iFAMS in a phased approach across VA until enterprise-wide implementation is achieved. A high-level implementation timeline is shown below.



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.

VA'S FOUR FUNDAMENTAL PRINCIPLES

VA leadership is developing the FY 2022 – 2028 Strategic Plan under the Department's new Secretary, Denis McDonough. The Strategic Plan will incorporate Secretary McDonough's four fundamental principles, outlined below, to lead and manage VA. The Strategic Plan will be published in February 2022 at www.va.gov/performance/.

1. Advocacy – VA will be the Nation's premier advocate for Veterans, their families, caregivers and survivors.

2. Access – VA will provide timely access to VA resources: world-class health care, earned benefits and a final resting place as a lasting tribute to their service:

- Deliver benefits, care and services to our most vulnerable Veterans.
- Reduce Veterans' homelessness and suicide.
- Ensure access to educational opportunities, training and jobs worthy of their skills and service.
- Provide care in their homes when Veterans need it and the training, support and resources our caregivers need.

3. Outcomes – Veteran outcomes will drive everything we do:

- Leverage data, health informatics and evidence to understand outcomes.
- Measure the quality and effectiveness of benefits, care and services and Veterans' experiences and satisfaction.

4. Excellence – VA will seek excellence in all we do for Veterans:

- Leverage the strength and diversity that defines our Veterans, workforce and our country.
- Ensure every Veteran is afforded access to VA's capacity and resources.
- Diversity, equity and inclusiveness are fundamental to everything we do.
- VA welcomes all Veterans, including women, Veterans of color and lesbian, gay, bisexual, transgender and queer (LGBTQ) Veterans.

Every person feels safe, free of harassment and discrimination in VA facilities.

SPOTLIGHT ON CLIMATE CHANGE

The realities of climate change have become increasingly apparent for communities across the Nation, and the VA community is no exception. VA recognizes that climate change has a real and lasting impact on our mission and capabilities to provide timely, high-quality care and benefits to Veterans.

Louisiana has been especially susceptible to climate change in the form of intense hurricanes. In the wake of Hurricane Ida in August 2021, the cities of Shreveport and Monroe opened shelters to support the community. Many survivors were Veterans, and the Overton Brooks VAMC in Shreveport deployed teams to provide healthcare and support for displaced Veterans. One of the VA peer support specialists, Mike Smith, explained that “we are tracking each Veteran we identify to ensure they know we are here for healthcare needs, counseling, clothing or just answering questions.” One Veteran, Harry Rouyer, said, “I’m grateful to know I can speak to someone about medical issues. The situation is bearable, but I would like to be home. It’s good you guys from Shreveport are here.”



In August 2021, Staff from the Overton Brooks VAMC in Shreveport deployed teams to each shelter to provide care for survivors of Hurricane Ida.

VA'S CLIMATE ACTION PLAN

As the frequency of natural disasters like Hurricane Ida continues to rise, the need for an updated Climate Action Plan (CAP) has become increasingly critical. VA's 2021 CAP outlines our response to the projected impacts of climate change with the goal of ensuring sustained operations to support the uninterrupted delivery of benefits and services and VA's fourth mission. VA's CAP was developed in response to Executive Order (EO) 14008 § 211, *Tackling the Climate Crisis At Home and Abroad*, signed



Hurricane Laura was a category 4 storm that caused 20 deaths and damaged buildings, roads and infrastructure with its 150 mph sustained winds and widespread flooding in August 2020.

January 27, 2021, which places greater emphasis on taking a government-wide approach to the climate crisis. The CAP draws on VA's ongoing efforts and establishes a pathway for expanding climate adaptation and resilience opportunities across all agency missions and roles.

Climate change is driving widespread changes to both natural and human systems. With a broad mission and geographical distribution of facilities, VA expects to be affected by these changes in a variety of ways. VA's primary climate vulnerabilities are those of its built infrastructure and burdens placed on its healthcare delivery systems, and interruptions in the supply of energy and material.

Specific vulnerabilities include:

1. **Threats to VA Facilities and Infrastructure:** Damage to buildings and built infrastructure from water, extreme temperatures, wind, hail, fire or sea level rise.
2. **Negative Public Health Impact:** Increased demand for emergency care and supplies during dangerous natural disasters.
3. **Adverse Financial Impacts:** Interruption of mission critical supply chains to include any network of systems such as transportation, communications, the supply of raw materials or other resources that might impact the agency's mission.
4. **Emergency Response and Continuity of Healthcare Operations:** Damage to or interruption of the critical resource delivery systems on which VA facilities rely, such as electrical, power line failure or water.
5. **Adverse Medical Impact to Veterans and Employees:** Human health impacts by altering exposures to heat waves, floods, droughts and other extreme events like food-, water- and vector-borne diseases, changes in the quality and safety of air, food, water and stresses to mental health.



A VA emergency response vehicle is loaded on an Air Force Reserve Command plane for deployment to the site of a disaster.

VA has identified specific adaptation actions to decrease its vulnerability to the impacts of climate change. Actions include implementing changes to building design and resilience standards, developing a facility climate risk list and updating sustainable building certification requirements. VA is also preparing for surges in demand for medical supplies and pharmaceuticals, which will include regular review and inspection of the All-Hazards Emergency Cache that provides short-term coverage for supplies during emergencies. To track new and emerging infections, VA will create a biosurveillance system and epidemiologic

investigation program to proactively surveil for high consequence infections in Veterans receiving care from VA. Climate change risks will also be incorporated into VA's Strategic Capital Investment Planning process, which determines the optimal path for prioritizing capital program appropriations among multiple VA goals. Lastly, VA will further incorporate climate change into emergency response planning with the development of a capabilities-based framework that supports an enterprise-side strategy.

FINANCIAL SECTION



VA Solid Start Program helps Veterans transition to civilian life

Picture previous page: VA's Solid Start Program.

Transitioning from military to civilian life can be a stressful time for Service members and their families – and VA is committed to supporting them throughout this process. In December 2019, VA implemented the Solid Start Program to provide consistent, caring contact between Service members and VA to guide them through understanding and using the benefits and resources available to them.

Getting a solid start

Representatives at the VA Solid Start Program call newly-separated Veterans three times during their first year of separation. A trained VA Representative will reach out to these Veterans around 90-, 180- and 365-days post-separation. The phone conversations are tailored to the Veteran's needs, directing them toward appropriate resources, services and benefits. After each call, Veterans receive a follow up email with the information and resources specific to their needs.

Why Veterans should take the call

We know the first year post-separation can be overwhelming, with a great deal of information to review and understand. There are new routines and new responsibilities, but Veterans don't have to carry that weight alone. VA Solid Start is designed to help them find the information and answers to their benefits- or transition-related questions.

Some common transition topics VA Solid Start can help with include:

- Medical and dental care, such as helping Veterans make appointments and connect with associated resources
- Time-sensitive insurance programs, such as advising Veterans on the option to convert Servicemembers' Group Life Insurance (SGLI) to Veterans Group Life Insurance (VGLI)
- Mental health resources, prioritizing contact to Veterans who had a mental health care appointment within the last year of active duty service
- Information on low and no down payment housing loans and refinancing options
- Education assistance through the GI Bill that will pay for up to 36 months of education benefits
- Counseling assistance, such as connecting Veterans to personalized career planning and guidance resources to help set goals for success

VA will not ask for financial information and will only discuss topics that the Veteran is comfortable with. VA is committed to helping Veterans understand and access the benefits they have earned to help them get a solid start on civilian life.

Recently separated Veterans are encouraged to keep their contact information up to date in their VA.gov account.

For questions about VA Solid Start visit <https://benefits.va.gov/transition/solid-start.asp> or call the toll-free hotline at 1-800-827-0611, Monday through Friday, 8:00 a.m. to 8:00 p.m. (ET).



DEPARTMENT OF VETERANS AFFAIRS
ASSISTANT SECRETARY FOR MANAGEMENT
WASHINGTON DC 20420

November 15, 2021



The Department of Veterans Affairs (VA) faced critical challenges in Fiscal Year (FY) 2021, many of them made even more complex by the COVID-19 pandemic. Getting our Veterans through the pandemic was VA's highest priority. Much of the financial management workforce continued to work remotely, which forced us to engineer flexible solutions for everything from financial statement audit site visits to continuing the deployment of the Integrated Financial and Acquisition Management System (iFAMS). Through it all, VA has demonstrated incredible resiliency by providing continuous services across all lines of business consistent with both national policy and customer expectations. VA is first and foremost a people-centered organization; and our people are our greatest asset.

Our recent roll-out of iFAMS at both the National Cemetery Administration and the Veterans Benefits Administration has not been without challenges and has exposed the incredible complexities inherent in a financial and acquisition system implementation of this magnitude. We are learning from these early deployments and adjusting our strategy accordingly. Nonetheless, these implementations bring us one step closer to providing a modern, standardized and secure integrated solution that enables VA to meet its objectives and fully comply with financial management and acquisition legislation and directives. I am proud to report that as of this writing, iFAMS has over 2,000 users. The system has had 100% availability and processed over 200,000 transactions with almost \$1 billion in payments made.

I am equally pleased to report that in May 2021, the Association of Government Accountants awarded VA its second consecutive Certificate of Excellence in Accountability Reporting for the Department's FY 2020 Agency Financial Report, which recognized our dedication to financial transparency and effective stewardship over taxpayer dollars.

I reviewed the FY 2021 Audit Report and am proud to announce that VA received its 23rd consecutive unmodified ("clean") audit opinion. We also made significant progress in our efforts to eliminate long-standing material weaknesses by reducing two conditions to significant deficiencies. VA recognizes these achievements and remains committed to resolving the residual material weaknesses. The auditors' report identifies three material weaknesses related to controls over significant accounting estimates; financial systems and reporting; and information technology security controls.

We express our appreciation to the Office of Inspector General and CliftonLarsonAllen LLP for their dedication in our mutual pursuit of financial excellence. I would also like to thank VA's financial community for their hard work addressing the findings and commitment toward improving VA's financial environment in the face of unprecedented challenges.

Sincerely,

A handwritten signature in black ink that reads "Jon J. Rychalski". The signature is written in a cursive style.

Jon J. Rychalski

CONSOLIDATED BALANCE SHEETS <i>(dollars in millions)</i>	(As Adjusted)	
As of September 30,	2021	2020
Assets		
Intragovernmental		
Fund Balance with Treasury (Note 3)	\$ 90,687	\$ 70,401
Investments, net (Note 5)	5,236	4,641
Accounts Receivable (Note 6)	40	25
Advances and Prepayments	2,630	2,430
Total Intragovernmental	98,593	77,497
With the Public		
Cash (Note 4)	4	4
Accounts Receivable, Net (Note 6)	4,010	5,109
Loans Receivable, Net (Note 7)	817	953
Inventory and Related Property (Note 8)	176	158
General Property, Plant, and Equipment, Net (Note 9)	29,449	28,110
Advances and Prepayments	28	20
Investments (Note 5)	140	140
Total with the Public	34,624	34,494
Total Assets	\$ 133,217	\$ 111,991
Heritage Assets (Note 10)		
Liabilities		
Intragovernmental		
Accounts Payable	\$ 426	\$ 371
Debt (Note 11)	563	588
Advances from Others and Deferred Revenue	31	68
Other Liabilities (Note 15)	1,325	2,857
Total Intragovernmental	2,345	3,884
With the Public		
Accounts Payable	13,679	12,822
Federal Employee and Veterans Benefits (Note 13)		
Veterans Benefits (Note 13)	4,459,588	4,004,415
Life Insurance Benefits (Note 17)	4,530	5,145
Federal Employee Benefits (Note 13)	5,422	5,264
Environmental and Disposal Liabilities (Note 14)	949	972
Loan Guarantee Liabilities (Note 7)	10,870	7,408
Advances from Others and Deferred Revenue	26	29
Other Liabilities (Note 15)	3,707	4,233
Total with the Public	4,498,771	4,040,288
Total Liabilities	\$ 4,501,116	\$ 4,044,172
Commitments and Contingencies (Note 18)		
Net Position - Funds from Dedicated Collections (Note 19)		
Unexpended Appropriation	56	-
Cumulative Results	3,916	3,966
Total Net Position – Funds from Dedicated Collections (Note 19)	3,972	3,966
Net Position - All Other Funds		
Unexpended Appropriation	62,020	44,341
Cumulative Results	(4,433,891)	(3,980,488)
Total Net Position – All Other Funds	(4,371,871)	(3,936,147)
Total Net Position	(4,367,899)	(3,932,181)
Total Liabilities and Net Position	\$ 133,217	\$ 111,991

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

CONSOLIDATED STATEMENTS OF NET COST <i>(dollars in millions)</i>	(As Adjusted)	
For the Periods Ended September 30,	2021	2020
Net Program Costs By Administration		
Veterans Health Administration		
Gross Cost	\$ 108,007	\$ 103,301
Less Earned Revenue	(3,608)	(3,386)
Net Program Cost	104,399	99,915
Veterans Benefits Administration		
Gross Cost		
Program Costs	132,031	125,399
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	110,954	157,809
Less Earned Revenue	(543)	(927)
Net Program Cost	242,442	282,281
National Cemetery Administration		
Gross Cost		
Less Earned Revenue	474	376
Net Program Cost	-	(1)
Net Program Cost	474	375
Indirect Administrative Program Costs		
Gross Cost		
Less Earned Revenue	2,557	2,391
Net Program Cost	(446)	(377)
Net Program Cost	2,111	2,014
Net Program Costs by Administration Before (Gain)/Loss From Changes in Veterans Benefits Actuarial Assumptions		
	349,426	384,585
(Gain)/Loss From Changes in Actuarial Assumptions (Note 13)		
	346,307	602,720
Net Cost of Operations	\$ 695,733	\$ 987,305

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION <i>(dollars in millions)</i>	Funds from		
As of September 30, 2021	Dedicated Collections (Note 19)	All Other Funds	Consolidated Total
Unexpended Appropriations			
Beginning Balance	\$ -	\$ 44,341	\$ 44,341
Appropriations Received	300	259,206	259,506
Appropriations Transferred In/Out	-	152	152
Other Adjustments	-	(323)	(323)
Appropriations Used	(244)	(241,356)	(241,600)
Net Change in Unexpended Appropriations	<u>56</u>	<u>17,679</u>	<u>17,735</u>
Total Unexpended Appropriations: Ending	<u>56</u>	<u>62,020</u>	<u>62,076</u>
Cumulative Results of Operations			
Beginning Balance	3,966	(3,980,488)	(3,976,522)
Appropriations Used	244	241,356	241,600
Nonexchange Revenue	-	169	169
Donations and Forfeitures of Cash and Cash Equivalents	19	-	19
Transfers In/Out Without Reimbursement	(3,031)	3,202	171
Donations and Forfeitures of Property	57	1	58
Imputed Financing	-	2,781	2,781
Other	200	(2,718)	(2,518)
Net (Cost)/Benefit of Operations (Note 21)	<u>2,461</u>	<u>(698,194)</u>	<u>(695,733)</u>
Net Change	(50)	(453,403)	(453,453)
Cumulative Results of Operations: Ending	3,916	(4,433,891)	(4,429,975)
Net Position	<u>\$ 3,972</u>	<u>\$ (4,371,871)</u>	<u>\$ (4,367,899)</u>

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION <i>(dollars in millions)</i>	Funds from		
As of September 30, 2020	Dedicated Collections (Note 19)	(As Adjusted) All Other Funds	(As Adjusted) Consolidated Total
Unexpended Appropriations			
Beginning Balance	\$ -	\$ 31,321	\$ 31,321
Adjustments	-	2,165	2,165
Beginning Balance, As Adjusted	-	33,486	33,486
Appropriations Received	-	236,797	236,797
Appropriations Transferred In/Out	-	142	142
Other Adjustments	-	(1,390)	(1,390)
Appropriations Used	-	(224,694)	(224,694)
Total Budgetary Financing Sources	-	10,855	10,855
Total Unexpended Appropriations: Ending	-	44,341	44,341
Cumulative Results of Operations			
Beginning Balance	4,293	(3,215,564)	(3,211,271)
Adjustments	-	(2,165)	(2,165)
Beginning Balance, As Adjusted	4,293	(3,217,729)	(3,213,436)
Appropriations Used	-	224,694	224,694
Nonexchange Revenue	-	29	29
Donations and Forfeitures of Cash and Cash Equivalents	16	-	16
Transfers In/Out Without Reimbursement	(3,384)	3,577	193
Donations and Forfeitures of Property	78	-	78
Imputed Financing	-	2,458	2,458
Other	-	(3,249)	(3,249)
Net (Cost)/Benefit of Operations (Note 21)	2,963	(990,268)	(987,305)
Net Change	(327)	(762,759)	(763,086)
Cumulative Results of Operations: Ending	3,966	(3,980,488)	(3,976,522)
Net Position	\$ 3,966	\$ (3,936,147)	\$ (3,932,181)

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

COMBINED STATEMENT OF BUDGETARY RESOURCES <i>(dollars in millions)</i>	Non-Budgetary Credit Reform Financing Account	
For the Period Ended September 30, 2021	Budgetary	Account
Budgetary Resources (Discretionary and Mandatory)		
Unobligated Balance from Prior Year Budget Authority, Net	\$ 35,193	\$ 8,041
Appropriations	262,961	3
Borrowing authority	-	685
Spending Authority from Offsetting Collections	8,140	3,813
Total Budgetary Resources	\$ 306,294	\$ 12,542
Status of Budgetary Resources		
New Obligations and Upward Adjustments (Total)	\$ 256,899	\$ 4,800
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	46,710	-
Unapportioned, Unexpired Accounts	53	7,742
Unexpired Unobligated Balance, End of Year	46,763	7,742
Expired Unobligated Balance, End of Year	2,632	-
Unobligated Balance, End of Year (Total)	49,395	7,742
Total Status of Budgetary Resources	\$ 306,294	\$ 12,542
Outlays, Net, and Disbursements, Net		
Outlays, Net (Total) (Discretionary and Mandatory)	\$ 241,297	
Distributed Offsetting Receipts (-)	(7,516)	
Agency Outlays, Net (Discretionary and Mandatory)	\$ 233,781	
Disbursements, Net (Total) (Mandatory)		\$ 366

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

COMBINED STATEMENT OF BUDGETARY RESOURCES <i>(dollars in millions)</i>	(As Adjusted)	Non-Budgetary
For the Period Ended September 30, 2020	Budgetary	Credit Reform
Budgetary Resources (Discretionary and Mandatory)	Financing	Account
Unobligated Balance from Prior Year Budget Authority, Net	\$ 23,219	\$ 8,972
Appropriations	240,404	-
Borrowing Authority	-	22
Spending Authority from Offsetting Collections	7,371	4,431
Total Budgetary Resources	\$ 270,994	\$ 13,425
Status of Budgetary Resources		
New Obligations and Upward Adjustments (Total)	\$ 239,591	\$ 5,313
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	27,751	-
Unapportioned, Unexpired Accounts	4,958	8,112
Unexpired Unobligated Balance, End of Year	32,709	8,112
Expired Unobligated Balance, End of Year	(1,306)	-
Unobligated Balance, End of Year (Total)	31,403	8,112
Total Status of Budgetary Resources	\$ 270,994	\$ 13,425
Outlays, Net, and Disbursements, 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.

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 the 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, the Under Secretary for Memorial Affairs and the Chairman of the Board of Veterans' Appeals. Additionally, a General Counsel, an Executive Director, a Chief Officer and seven Assistant Secretaries support the Deputy Secretary. The Inspector General provides oversight.

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.

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 Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in the financial statements.

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 (FASAB) 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 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. 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 the appropriation and consumption of budget 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 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 and 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 or 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. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

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 amounts borrowed 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 or 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 or default provisions approved by OMB.

Direct loans obligated before October 1, 1991 and any other non-Credit Reform Act direct loans and loan guarantees 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. VA specifically uses a Notional Foreclosure Proportion Model that generates time period-specific default rates for the Loan Guaranty Program. 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 retail store stock held for current sale by the Veterans Canteen Service (VCS). 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. 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 two 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 planning phase. The useful life of IUS is determined on a per-project basis, no less than two 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. Accounting for historic heritage assets allow VA to meet its responsibilities under the National Historic Preservation Act to preserve Federally 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. ADVANCES AND PREPAYMENTS

Intragovernmental advances consist primarily of payments to the U.S. Army Corps of Engineers for major construction projects. Public advances consist of 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.

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), OPM and Department of Justice (DOJ). 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 (VSLLI) 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, VSLLI 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, VSLLI, 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, VSLLI 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	3.5%
	Term Policies	2001 VBM Table	3.5%
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	2.25%
	5-year Term Policies	Varying percent of 1941 CSO Table	2.25%
	Term Policies Renewed for Age 70 and Over	1941 CSO Table	2.25%
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 2021 and FY 2020, the interest rates range from 3.75% 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 the 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 2021 Discount Rate	FY 2020 Discount Rate
NSLI	3.0%	3.0%
VSLI	3.5%	4.0%
VRI	3.5%	3.5%

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 2021 and FY 2020, the dividend interest rates were 1.85% and 2.15%.

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

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

VA has a group policy with Prudential to administer these programs. 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. 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 Servicemember'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 future charges 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. 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 Servicemembers 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 Servicemembers 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 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, Servicemembers 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 Servicemember.	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 Servicemembers 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 Servicemembers who have at least two 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 disenrollment 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, 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

The Consolidated Appropriations Act, 2021 (P.L. 116-260), signed December 27, 2020, authorized VA to record community care obligation when a claim is approved for payment. The law made this change retroactively to October 1, 2018. VA estimates a liability to recognize the cost of services incurred but not yet 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 Costs.

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. The 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 DOJ. 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.

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,	2021	2020
Intragovernmental		
Fund Balance with Treasury	\$ 215	\$ 227
Accounts Receivable	186	1,804
Total Intragovernmental	401	2,031
With the Public		
Accounts Receivable	60	64
Total Non-Entity Assets	461	2,095
Total Entity Assets	132,756	109,896
Total Assets	\$ 133,217	\$ 111,991

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

<i>(dollars in millions)</i> As of September 30,	2021	(As Adjusted) 2020
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	\$ 34,834	\$ 26,129
Unavailable*	16,435	14,928
Obligated Balance Not Yet Disbursed*	38,888	28,858
Deposit Funds	215	227
Clearing Accounts	41	40
Unavailable Receipts	274	219
Fund Balance with Treasury	\$ 90,687	\$ 70,401

*This line has been adjusted from the previous year's reported amount to align with the FY 2020 retrospective change in accounting. See Note 23, Retrospective Change in Accounting.

Due to ARP and the CARES Acts, VA received \$17.1 billion and \$19.6 billion respectively in supplemental appropriations in response to the COVID-19 pandemic. These funds are to be used by VA to prevent, prepare for, respond to and recover from 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

<i>(dollars in millions)</i> As of September 30,	2021	2020
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

<i>(dollars in millions)</i>	Cost	Amortized (Premium)/ Discount	Interest Receivable	Investments, Net
As of September 30, 2021				
Federal Securities (Note 19)				
Special Bonds by Insurance Program				
Supervised Life Insurance Programs	\$ 2,523	\$ -	\$ 9	\$ 2,532
VRI	50	-	-	50
NSLI	1,476	-	11	1,487
USGLI	2	-	-	2
VSLI	1,064	-	10	1,074
Subtotal Special Bonds	5,115	-	30	5,145
Treasury Notes	92	(1)	-	91
Total	\$ 5,207	\$ (1)	\$ 30	\$ 5,236
Public Securities				
Trust Certificates (Loan Guarantee)	140	-	-	140
Total	\$ 140	\$ -	\$ -	\$ 140

<i>(dollars in millions)</i>	Cost	Amortized (Premium)/ Discount	Interest Receivable	Investments, Net
As of September 30, 2020				
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

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 2036, 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.H](#), 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 and are intended to be held to maturity. 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,	2021	2020
Intragovernmental Accounts Receivable	\$ 40	\$ 25
Public Accounts Receivable		
Medical Care	\$ 3,390	\$ 2,991
Contractual Adjustment and Allowance for Loss Provision	(2,458)	(1,697)
Net Medical Care	932	1,294
Compensation and Pension Benefits	2,124	1,736
Allowance for Loss Provision	(800)	(735)
Net Compensation and Pension Benefits	1,324	1,001
Education and VR&E Benefits	733	632
Allowance for Loss Provision	(472)	(366)
Net Education and VR&E Benefits	261	266
Excess Contingency Reserve Funds	1,412	2,460
Net Excess Contingency Reserve Funds	1,412	2,460
Other	183	221
Allowance for Loss Provision	(102)	(133)
Net Other	81	88
Total Accounts Receivable	7,842	8,040
Total Contractual Adjustment and Allowance for Loss Provision	(3,832)	(2,931)
Public Accounts Receivable, Net	\$ 4,010	\$ 5,109

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 \$2.0 billion as of September 30, 2021 for VGLI. The full amount of the VGLI receivable is contractually guaranteed; therefore, no Allowance for Loss Provision is recognized. VA also established a receivable for excess SGLI Contingency Reserve that is held by Prudential. The funds were collected 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](#).

Another factor contributing to the decrease in Public Accounts Receivable, net relates to the continued negative impact of the COVID-19 pandemic on medical care activity. The American Rescue Plan (ARP) Act of 2021 provided for the elimination of first-party copayments and cost-sharing provisions for a pre-defined period from April 2020 through September 2021. As a result, this cancellation of debt increased the Allowance for Loss Provision, causing a reduction in net Medical Care receivables.

VA's Accounts Receivable as of September 30, 2021 and 2020, includes \$173 million and \$146 million, respectively, related to monitored criminal restitution orders, for which an estimate of net realizable value is currently undeterminable but considered negligible.

NOTE 7. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

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, Servicemembers, qualifying dependents and limited non-Veterans to purchase homes and retain homeownership with favorable market terms.

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

Since the declaration of the COVID-19 pandemic, VA's Loan Guaranty Service has taken multiple steps to assist borrowers in retaining their homes. VA has also been working with other federal housing agencies to ensure a consistent approach during the pandemic. Under CARES Act § 4022 Chapter 37, Title 38 U.S.C. and Executive Orders related to the COVID-19 pandemic, these steps include allowing borrowers with a federally backed loan to request forbearance of their loan payments for up to 180 days with an option to request another 180 days. Consistent with the CARES Act, VA also put in place moratorium on foreclosures and evictions which ended on July 31, 2021. Subsequently, VA extended the moratorium on evictions through September 30, 2021.

VA has a suite of loss mitigation tools for borrowers who are unable to make mortgage payments which include repayment plans, special forbearance, loan modifications, compromise sale and deed-in-lieu of foreclosure. A final rule for the COVID-19 Veterans Assistance Partial Claim Payment program became effective on July 27, 2021 and provides support for borrowers who have entered COVID-19 forbearances with their mortgage servicers and can continue to make their usual mortgage payment. VA also utilized its authority to expand the list of pre-approved loan modification options to include a new loan modification, under a COVID-19 Refund Modification.

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 Title 38 §§ 3713 and 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, 2021 and 2020 was \$46 million and \$90 million, respectively.

LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY FROM DIRECT AND GUARANTEED LOANS

<i>(dollars in millions)</i>	Loans Receivable, Gross	Interest and Fees Receivable	Allowance for Loan Losses	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Loans, Net
As of September 30, 2021						
Loans Obligated Prior to FY 1992 (Allowance for Loan Loss Method)						
Direct Home Loans	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ 1
Defaulted Guaranteed Home Loans	30	-	(26)	-	-	4
Loans Obligated After FY 1991 (Present Value Method)						
Direct Home Loans	359	16	-	69	1	445
Defaulted Guaranteed Home Loans	4	-	-	-	200	204
Direct Insurance Policy Loans	159	4	-	-	-	163
Total Loans Receivable	\$ 553	\$ 20	\$ (26)	\$ 69	\$ 201	\$ 817

<i>(dollars in millions)</i>	Loans Receivable, Gross	Interest and Fees Receivable	Allowance for Loan Losses	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Loans, Net
As of September 30, 2020						
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

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, 2021 and 2020.

As of September 30, 2021 and 2020, the number of residential properties in VA's inventory is 1,348 and 1,980, respectively. For FY 2021, the average holding period from the date properties are conveyed to VA until the date properties are sold was approximately two months, and six months for FY 2020. The number of properties for which foreclosure proceedings are in process is 6,628 and 19,547 as of September 30, 2021 and 2020, 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,	2021	2020
Allowance balance as of October 1,	\$ (49)	\$ (23)
Subsidy expense for direct loans disbursed during the reporting years	(4)	-
Adjustments:		
Foreclosed property acquired	(2)	3
New Loans	2	2
Loans written off	-	(1)
Subsidy allowance amortization	(5)	2
Change in re-estimate approved by OMB	(39)	(26)
Total Adjustments	(44)	(20)
Ending balance of the subsidy cost allowance before re-estimates	(97)	(43)
Total subsidy re-estimates	28	(6)
Ending balance of the subsidy cost allowance	\$ (69)	\$ (49)

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	10.53%	-13.08%	0.00%	0.98%	-1.57%
Veterans Housing Direct Vendee Loans	0.22%	-20.95%	-2.23%	0.43%	-22.54%
Native American Housing Loans	0.00%	-25.11%	-0.51%	5.38%	-20.25%
Housing Guaranteed Loans	0.73%	0.00%	-1.23%	0.00%	-0.50%

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

(dollars in millions)

As of September 30, 2021	Direct Home Loans	Guaranteed Home Loans	Loan Sale Guarantees	Total Subsidy Expense
Interest Differential	\$ (4)	\$ -	\$ -	\$ (4)
Defaults	-	3,069	-	3,069
Fees	-	(5,183)	-	(5,183)
Interest Rate Reestimates	19	101	(1)	119
Technical Reestimates	9	2,617	(1)	2,625
Total Subsidy Expense	\$ 24	\$ 604	\$ (2)	\$ 626

(dollars in millions)

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

E. OUTSTANDING LOAN GUARANTEES

During the period FY 1992 through 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

<i>(dollars in millions)</i> As of September 30, 2021	Principal of Guaranteed Loans Made by Financial Institutions, Face Value	Amount of Outstanding Principal Guaranteed by VA
Post-FY 1991		
Home Loan Guarantees	862,241	218,279
Loan Sale Guarantees	-	369
Total	\$ 862,241	\$ 218,648

<i>(dollars in millions)</i> 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

NEW GUARANTEED LOANS DISBURSED

<i>(dollars in millions)</i> As of September 30, 2021	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	\$ 394,496	\$ 98,790	1,288,770

<i>(dollars in millions)</i> 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

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.

<i>(dollars in millions)</i>	Home Loans	Loan Sales	Home Loans	
As of September 30, 2021	Post-FY 1991	Post-FY 1991	Pre-FY 1992	Total
Loan guarantee liabilities as of October 1, 2020	\$ 7,027	\$ 95	\$ 286	\$ 7,408
Less claim payments to lenders	(262)	(1)	(6)	(269)
Add fees received	3,218	-	-	3,218
Less foreclosed property and loans acquired	(161)	-	5	(156)
Add subsidy expense reestimates	2,718	(2)	-	2,716
Less negative subsidy payments	(2,114)	-	-	(2,114)
Less upward reestimate	(18)	(5)	-	(23)
Less downward reestimates	(107)	(72)	-	(179)
Other	268	1	-	269
Ending balance of the loan guarantee liabilities	\$ 10,569	\$ 16	\$ 285	\$ 10,870

<i>(dollars in millions)</i>	Home Loans	Loan Sales	Home Loans	
As of September 30, 2020	Post-FY 1991	Post-FY 1991	Pre-FY 1992	Total
Loan guarantee liabilities as of October 1, 2019	\$ 7,254	\$ 109	\$ 273	\$ 7,636
Less claim payments to lenders	(431)	(4)	3	(432)
Add fees received	2,795	-	-	2,795
Less foreclosed property and loans acquired	(282)	-	(28)	(310)
Less subsidy expense reestimates	(1,172)	(4)	-	(1,176)
Less negative subsidy payments	(1,087)	-	-	(1,087)
Less upward reestimate	(79)	(1)	-	(80)
Less downward reestimates	(140)	(10)	-	(150)
Veteran liability debts	-	-	38	38
Other	169	5	-	174
Ending balance of the loan guarantee liabilities	\$ 7,027	\$ 95	\$ 286	\$ 7,408

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 2021.

H. ADMINISTRATIVE EXPENSE

The administrative expense for direct and guaranteed loans for the periods ended September 30, 2021 and 2020 are \$206 million and \$202 million, respectively.

NOTE 8. INVENTORY

For additional details of inventory and related property, refer to [Note 1.K](#).

(dollars in millions)

As of September 30,	2021	2020
Inventory Held for Sale	\$ 15	\$ 15
Operating Materials and Supplies	23	16
Stockpile Materials	138	127
Total Inventory and Related Property	\$ 176	\$ 158

NOTE 9. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

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

(dollars in millions)

As of September 30, 2021	Cost	Accumulated Depreciation/Amortization	Net Book Value
Land	\$ 550	\$ -	\$ 550
Buildings	40,370	(22,540)	17,830
Equipment	3,608	(2,524)	1,084
Other Structures	6,113	(3,329)	2,784
Internal Use Software	5,142	(3,149)	1,993
Construction Work in Progress	5,208	-	5,208
Total Property, Plant, and Equipment	\$ 60,991	\$ (31,542)	\$ 29,449

(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)

	2021	2020
Property, Plant, and Equipment Balance as of October 1,	\$ 28,110	\$ 27,164
Capitalized acquisitions	3,313	3,037
Dispositions	(205)	(210)
Depreciation expense	(1,814)	(1,881)
Donations	43	-
Others	2	-
Balance as of September 30,	\$ 29,449	\$ 28,110

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 1,152 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.

<i>(in units)</i>	2021			2021
As of September 30, 2021	Beginning Balance	2021 Increases	2021 Decreases	Ending Balance
Archaeological Sites	10	-	-	10
Art Collections	41	-	(2)	39
Buildings	663	96	(211)	548
Monuments	1,403	45	(34)	1,414
Multi-Use Buildings in PP&E	974	278	(100)	1,152
Non-Buildings	1,071	46	(70)	1,047
Cemeteries, Soldier's Lots and Monument Sites	184	5	-	189
Total Heritage Assets in Units	4,346	470	(417)	4,399

<i>(in units)</i>	2020			2020
As of September 30, 2020	Beginning Balance	2020 Increases	2020 Decreases	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

NOTE 11. DEBT AND RELATED INTEREST PAYABLE

<i>(dollars in millions)</i>	Debt to the Treasury	Debt to the Federal Financing Bank	Total Other Debt
Other Intragovernmental Debt, October 1, 2019	\$ 565	\$ 4	\$ 569
2020 Net Borrowing	19	-	19
Other Intragovernmental Debt, September 30, 2020	584	4	588
2021 Net Borrowing	(25)	-	(25)
Other Intragovernmental Debt, September 30, 2021	\$ 559	\$ 4	\$ 563

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 the Vocational Rehabilitation Loan Program which has a 2-year term from the date of issuance. Principal repayment is expected within 10 months from the date of issuance of debt.

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.

<i>(dollars in millions)</i>	(As Adjusted)	
As of September 30,	2021	2020
Intragovernmental		
Workers Compensation (FECA)	\$ 416	\$ 439
Future Funded Expense - Contract Dispute Act	150	175
Total Intragovernmental	<u>566</u>	<u>614</u>
With the Public		
Veterans Benefits Payable (Note 13)*	4,459,588	4,004,415
Federal Employee Benefits Payable (Note 13)	5,405	5,190
Environmental and Disposal Liabilities (Note 14)	949	972
Insurance (Note 17)	1,765	1,753
Other (Note 15)	1,077	1,314
Total Liabilities Not Covered By Budgetary Resources*	<u>4,469,350</u>	<u>4,014,258</u>
Total Liabilities Covered By Budgetary Resources*	30,795	28,795
Total Liabilities Not Requiring Budgetary Resources	971	1,119
Total Liabilities	<u>\$ 4,501,116</u>	<u>\$ 4,044,172</u>

*This line has been adjusted from the previous year's reported amount to align with the FY 2020 retrospective change in accounting. See Note 23, Retrospective Change in Accounting.

NOTE 13. FEDERAL EMPLOYEE AND VETERANS' BENEFITS LIABILITIES

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

<i>(dollars in millions)</i>	(As Adjusted)	
For the Periods Ended September 30,	2021	2020
Compensation	\$ 4,291,700	\$ 3,854,300
Education and VR&E	151,177	133,116
Burial	10,600	8,800
Medical Claims Benefits*	6,111	8,199
Accrued Annual Leave	2,975	2,800
Workers' Compensation (FECA)	2,447	2,464
Total Federal Employee and Veterans' Benefits Liabilities	<u>\$ 4,465,010</u>	<u>\$ 4,009,679</u>

*This line has been adjusted from the previous year's reported amount to align with the FY 2020 retrospective change in accounting. See Note 23, Retrospective Change in Accounting.

A. COMPENSATION AND BURIAL

VA provides compensation 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 Servicemembers who died during active military service.

Burial benefits, including burial flags, headstones 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 Servicemembers 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 the projected amount of future payments for pension benefits (presented for informational purposes only) as of September 30, 2021 and 2020, is \$130.1 billion and \$110.6 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, 2021 and 2020 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, 2021 and 2020 were computed based on the average of the last 10-year monthly Treasury Breakeven Inflation Curve rates.

For the Periods Ended September 30,	2021	2020
Discount Rate	2.95%	3.23%
COLA Rate	2.32%	2.16%

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 in the liability calculation. The compensation projection only reflects benefits associated with military service through September 30, 2021.

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 2020, VA conducted in depth experience studies to refine several assumptions related to 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 which represents the largest increase to the liability in FY 2020. No equivalent enhancement was performed in FY 2021.

The reconciliation table that follows the narrative below shows that the total September 30, 2021 liability for compensation and burial of \$4.3 trillion. This represents an increase of \$439 billion from the September 30, 2020 liability of \$3.9 trillion. This increase was primarily the result of changes in the discount and COLA rate assumptions and estimated interest on the liability. The level equivalent discount rate decreased from 3.23% to 2.95% as of September 30, 2021 which increased the liability by \$225 billion. The increase in the level equivalent COLA rate from 2.16% to 2.32% as of September 30, 2021 also increased the liability by \$133 billion. The estimated interest on the liability also increased the liability by \$125 billion. Other changes to the compensation and burial liability are presented in the reconciliation table that follows.

In FY 2021, VA conducted in-depth experience studies to refine several other assumptions that currently exist in the compensation and burial models. Specifically, VA enhanced the assumptions related to life expectancy, pension new case rate and mortality improvement rate. VA updated the life expectancy assumption of Veterans not yet collecting benefits by using the mortality rates from the Veteran Population Projection (VetPop) Model 2018. The VetPop 2018 report contained more recent information when compared to the VetPop 2016 report used in the FY 2020 model. The impact of this change resulted in a decrease to the compensation liability by approximately \$2.6 billion. VA also updated the pension new case rate assumption which is the probability that a Veteran, who is not currently enrolled in either the Compensation or Pension Programs, will enroll in the Pension Program. As the Veteran population ages, and as the updated assumption is based on observed enrollment rates by age, the model projected larger Veteran pension enrollments. This change reduced the number of projected Veterans eligible for compensation benefits which resulted in a decrease of the compensation liability of \$2.0 billion. Further, VA assessed the impact of the COVID-19 pandemic as it relates to the assumptions in the model. The COVID-19 pandemic increased the overall mortality rates in the U.S.; however, VA does not expect the ongoing excess deaths to be as great as we have seen; therefore, the mortality improvement assumption for FY 2022 and FY 2023 were removed from the model. This change resulted in a decrease of the compensation liability of \$0.9 billion.

In FY 2021, there were several regulatory changes impacting the prior year service cost component of the compensation liability. During FY 2021, the "Johnny Isakson and David P. Roe, M.D. Veterans Health Care and Benefits Improvement Act of 2020" (P.L. 116-315) contained various provisions for VA to care for homeless Veterans during a covered public

health emergency to carry out a retraining assistance program for unemployed Veterans and other purposes. Several sections of this law affected the compensation and burial liability model. There were also two procedural advisory changes that impacted the liability. As follows:

- 1) The section that addresses the musculoskeletal system within the VA's schedule for rating disabilities was revised to ensure the rating schedule uses current medical terminology thus providing updated criteria for the evaluation of musculoskeletal disabilities.
- 2) VA amended its adjudication regulations to establish presumptive service connection for three chronic respiratory health conditions, i.e., asthma, rhinitis, and sinusitis, including rhinosinusitis, based on exposure to fine, particulate matter.

These regulatory changes resulted in a combined increase of \$26.3 billion of the compensation liability and increase of \$1.1 billion in the burial liability as of September 30, 2021.

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

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.

When computing the liability, VA's actuaries make assumptions about the future. 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 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. Priorities are subject to deviations as other factors affecting benefit programs may emerge requiring a re-prioritization of tasks.

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. VA considers these estimates to be reasonably stated as of September 30, 2021.

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,	2021	2020
Post-9/11	\$ 83,706	\$ 85,720
VR&E	35,583	17,036
DEA	31,534	29,972
MGIB-AD	354	388
Total	\$ 151,177	\$ 133,116

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 30 years for Post-9/11, 18 years for VR&E, 65 years for DEA and 20 years for MGIB-AD. Post-9/11, VR&E and MGIB-AD use average annual benefit growth rates that are static rates generated from previous experience studies.

	2021			
	Post-9/11	VR&E	DEA	MGIB-AD
Discount Rate for New Enrollees	2.52%	2.26%	2.69%	-
Discount Rate for Existing Enrollees	2.55%	1.35%	1.17%	1.52%

	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%

VA estimates education and VR&E benefit liabilities for Servicemembers and Veterans on an actuarial basis. The models have been in operation for 5 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 2020, VA enhanced the model for future new enrollees eligible for the Post-9/11 GI Bill by using data from the Veterans Affairs/Department of Defense Identity Repository (VADIR data). This enhancement contributed to the total liability of approximately \$85.7 billion as of September 30, 2020. In FY 2021, VA changed the model's projection years for Post-9/11 GI Bill from 62 to 30 years as a result of an experience study VA conducted which indicated a minimal number of beneficiaries were projected to be active beyond 30 years. This change decreased the liability by \$13.8 billion. Assumptions related to the benefit and utilization, assumed participation

termination age and disenrollment rates were also updated and increased the liability by \$2.1 billion.

In FY 2020, potential data limitations were found to be inherent in the data being used to project 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 developed an accounting estimate to reduce the liability by \$761 million. In FY 2021, VA published a procedural advisory to enforce that 1) any prior usage of VR&E will not count towards the maximum entitlement for Post-9/11 GI Bill benefits and 2) VR&E will continue to count Post-9/11 GI Bill benefits usage towards its 48-month limitation. Since the Post-9/11 GI Bill model assumes Veterans will use the maximum entitlement before the delimiting date, there is no change required for the Post-9/11 GI Bill model. Conversely, as part of the VR&E model VA added the usage of Post-9/11 GI Bill benefits counted towards the maximum entitlement for VR&E benefits. In order to reflect the reduction in the maximum number of months of eligibility caused by usage of Post-9/11 GI Bill benefits prior to enrolling in the VR&E Program, VA developed a scalar factor which resulted in a decrease of \$1.9 billion in the VR&E liability estimate.

In FY 2020, VA conducted 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. The result of these refinements contributed to the total liability estimate of approximately \$17.0 billion as of September 30, 2020. In FY 2021, updates were made to certain assumptions related to the initial enrollees for the VR&E future enrollees model. VA used the United States Veterans Eligibility Trends and Statistics (USVETS) 2019 to develop the initial population of eligible enrollees and consequently, the initial enrollment rate, initial enrollment distribution and scalar factor assumptions were revised. Collectively, these changes resulted in an increase of the VR&E liability of \$5.6 billion. In addition, P.L. 116-315 § 1025 eliminated the period of eligibility for training and rehabilitation for certain Veterans with service-connected disabilities. Prior to this legislation, all Veterans were required to use their benefits within 12 years of discharge or release from military service. This resulted in an increase of \$14.3 billion in the VR&E liability.

In FY 2020, an experience study was performed and a model was developed for future new enrollees for the DEA program which primarily contributed to the total liability of approximately \$29.9 billion as of September 30, 2020. The future new enrollees represent beneficiaries who are eligible but have not yet enrolled in the DEA program. In FY 2021, VA conducted an experience study on the benefit growth rate assumption. The existing regression model was replaced by a formulaic approach based on applying the benefit increases specified in legislation Title 38 U.S.C. § 3564. The historical annual increase in benefit amounts were calculated using the annual increase in the consumer price index for urban wage earners and clerical workers (CPI-W) rates, and the projected benefit growth rates are based on CPI-W rates from the official economic assumptions distributed by OMB. This assumption change led to an increase in liability of \$1.3 billion. In addition, the initial level of benefits per unit of eligibility was updated to a blended initial payment rate, which was developed using the weighted average of

the various training times, as opposed to assuming full-time enrollment for all beneficiaries. This update resulted in a decrease of \$3.8 billion in the liability.

With regards to the COVID-19 pandemic VA considered assumptions other than mortality and determined these assumptions were tied closely to the nation-wide quarantine, closing of VA processing offices or educational institutions during FY 2020. VA does not expect additional wide-spread closures at this time and will continue to monitor the potential impact of COVID-19 with respect to the estimation models.

VA does not plan to include potential enrollees in its MGIB-AD 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 2022, VA plans to conduct experience studies on several assumptions for the DEA liability model and will continue to enhance the Post-9/11 GI Bill and VR&E benefit liability models as appropriate. The Education and VR&E liability estimates are based on experience studies of relevant and reliable data and assumptions; therefore, VA considers these estimates to be reasonably stated as of September 30, 2021.

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, 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

(dollars in millions)

As of September 30, 2021	Compensation	Burial	Education and VR&E	Total
Liability at October 1, 2020	\$ 3,854,300	\$ 8,800	\$ 133,116	\$ 3,996,216
Expense:				
Interest on the Liability Balance**	124,500	300	3,641	128,441
Actuarial (Gain)/Loss:				
Changes in Experience (Veterans Counts, Status)**	47,700	(200)	17,391	64,891
Changes in Assumptions:				
Changes in Discount Rate Assumption	224,400	500	3,580	228,480
Changes in COLA Rate Assumption	132,500	400	881	133,781
Changes in Other Assumptions	(7,400)	-	(8,554)	(15,954)
Net (Gain)/Loss from Changes in Assumptions	349,500	900	(4,093)	346,307
Prior Service Costs **	26,300	1,100	14,278	41,678
Total Expense	548,000	2,100	31,217	581,317
Less Amounts Paid**	(110,600)	(300)	(13,156)	(124,056)
Net Change in Actuarial Liability	437,400	1,800	18,061	457,261
Liability at September 30, 2021	\$ 4,291,700	\$ 10,600	\$ 151,177	\$ 4,453,477

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

**The sum of these changes represents Veterans' benefits actuarial cost, excluding change in actuarial assumptions on the Statement of Net Cost for FY 2021.

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 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.

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,	2021	2020
Civil Service Retirement System	\$ 38	\$ (88)
Federal Employees Health Benefits	2,565	2,397
Federal Employees Group Life Insurance	6	6
Total Imputed Expenses-Employee Benefits*	\$ 2,609	\$ 2,315

* 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 \$949 million and \$972 million as of September 30, 2021 and 2020, 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 \$161 million and \$178 million, for September 30, 2021 and 2020, respectively; and nonfriable asbestos removal of \$528 million and \$525 million, for September 30, 2021 and 2020, respectively.

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

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

NOTE 15. OTHER LIABILITIES

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

(dollars in millions)

As of September 30,	2021	2020
Intragovernmental		
Other liabilities (without Reciprocals)	\$ 190	\$ 28
Other liabilities	890	961
Liability to the General Fund of the U.S. Government and Other		
Non-Entity Assets	245	1,868
Total Intragovernmental	<u>1,325</u>	<u>2,857</u>
With the Public		
Accrued Annual Leave*	32	31
Energy Savings Performance Contracts and Similar Unfunded		
Contracts	303	339
Accrued Payables	200	725
Accrued Salaries and Benefits	2,122	1,876
Contingent Legal Liabilities, Unfunded (Note 18)	774	975
Deposit and Clearing Account Liability	255	264
Other	21	23
Total with the Public	<u>3,707</u>	<u>4,233</u>
Total Other Liabilities	<u>\$ 5,032</u>	<u>\$ 7,090</u>

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

NOTE 16. LEASES

Operating leases consist of equipment and real property leases that are funded annually and expensed as incurred. Operating equipment leases generally consist of medical and office equipment with terms of five years or less and have equal payments over the lease term.

Operating real property leases generally consist of Veterans medical facilities and clinics, regional and district benefits offices and administrative facilities. For the period ended September 30, 2021, VA had 1,986 real property leases in effect consisting of approximately 29 million square feet and base annual minimum rental obligations of approximately \$997 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, 2021 are \$1.0 billion for real property rentals and \$178 million for equipment rentals. The FY 2020 operating lease costs are \$972 million for real property rentals and \$184 million for equipment rentals.

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

<i>(dollars in millions)</i>	GSA OAs	Third Party Direct Leases	Total Real Property
For the Years Ending:			
2022	\$ 158	\$ 495	\$ 653
2023	150	459	609
2024	138	422	560
2025	133	388	521
2026	125	367	492
2027 and Thereafter (in total)	455	2,775	3,230
Total Future Lease Payments (For Non-Cancellable Real Property Operating Leases)	<u>\$ 1,159</u>	<u>\$ 4,906</u>	<u>\$ 6,065</u>

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 25](#).

The EUL program consists of 76 operational leases of land and/or buildings to state and local governments and the private sector. VA also has five projects with signed leases that are not yet operational as buildings are under construction or awaiting 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 is \$2 million for each of the periods ended September 30, 2021 and 2020. The future rental income to be recognized over the next five years and thereafter approximates \$69 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

<i>(dollars in millions)</i>	Insurance	Death Benefit	Disability	Reserve
As of September 30, 2021	Death Benefits	Annuities	Income & Waiver	Totals
NSLI	\$ 1,040	\$ 19	\$ 4	\$ 1,063
USGLI	-	1	-	1
VSLI	770	2	3	775
S-DVI	945	6	742	1,693
VRI	33	-	-	33
VMLI	241	-	-	241
Subtotal	3,029	28	749	3,806
Insurance Dividends Left on Credit or Deposit				567
Dividends Payable to Policy Holders				14
Unpaid Policy Claims				143
Insurance Liabilities Reported on the Balance Sheet				4,530
Less Liabilities not Covered by Budgetary Resources (Note 12)				(1,765)
Liability Covered by Budgetary Resources				\$ 2,765

<i>(dollars in millions)</i>	Insurance	Death Benefit	Disability	Reserve
As of September 30, 2020	Death Benefits	Annuities	Income & Waiver	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

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

<i>(dollars in millions)</i> As of September 30, 2021	Unpaid Claim Liability as of October 1, 2020	Claims Expenses	Less Payments to Settle Claims	Ending Unpaid Claim Liability Balance
NSLI	\$ 98	\$ 390	\$ (414)	\$ 74
USGLI*	-	-	-	-
VSLI	32	141	(144)	29
S-DVI	31	136	(136)	31
VRI	4	11	(13)	2
VMLI	7	34	(34)	7
Total	\$ 172	\$ 712	\$ (741)	\$ 143

*Less than \$.5

<i>(dollars in millions)</i> 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

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. In March 2021, VA determined that an additional \$200 million of SGLI Contingency Reserve were excess funds. VA collected the \$500 million through FY 2021 by withholding SGLI premiums from the amounts forwarded 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 five years. Through September 30, 2021, VA has received nine installments totaling \$2.0 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,	2021	2020
NSLI	\$ 1,006	\$ 1,353
VSLI	742	852
S-DVI	752	725
VRI	32	43
Total	\$ 2,532	\$ 2,973

*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, 2021	Program Costs	Premiums Collected	Appropriations Used
NSLI	\$ 469	\$ 29	\$ -
VSLI	181	12	-
S-DVI	169	69	103
VRI	15	-	-
VMLI	34	6	28
Total	\$ 868	\$ 116	\$ 131

(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

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.

	2021 Policies	2020 Policies	2021 Face Value	2020 Face Value
	(# of policies)		(dollars in millions)	
Supervised Programs (UNAUDITED)				
SGLI Active Duty	1,478,000	1,460,000	\$ 566,359	\$ 557,608
SGLI Ready Reservists	684,500	625,500	214,803	199,204
SGLI Post Separation	77,000	80,000	27,718	29,123
SGLI Family - Spouse	932,000	924,000	92,062	91,117
SGLI Family - Children	1,705,000	1,675,000	17,050	16,750
TSGLI*	-	-	216,250	208,550
VGLI	440,225	437,549	84,739	81,344
Total Supervised	5,316,725	5,202,049	1,218,981	1,183,696
Administered Programs				
NSLI	90,489	122,845	1,149	1,565
VSLI	59,612	70,113	896	1,045
S-DVI	276,060	278,709	2,907	2,933
VRI	3,647	4,881	37	50
USGLI**	3	4	-	-
VMLI	2,479	2,570	353	360
Total Administered	432,290	479,122	5,342	5,953
Total Supervised and Administered Programs	5,749,015	5,681,171	\$ 1,224,323	\$ 1,189,649

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

**USGLI has only three 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 2021 and 2020 were \$27 million and \$41 million, respectively.

NOTE 18. COMMITMENTS AND CONTINGENCIES

VA records a contingent liability of \$774 million and \$975 million for FY 2021 and FY 2020, 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 2021 and 2020, respectively.

<i>(dollars in millions)</i>	Accrued Liabilities	Estimated Range of Loss	
For the Periods Ended September 30, 2021		Low	High
Legal Contingencies			
Probable - Medical Malpractice and Other Torts	\$ 548	\$ 548	\$ 548
Probable - Non-Tort	226	226	560
Reasonably Possible - Non-Tort		162	182
Total	\$ 774	\$ 936	\$ 1,290

<i>(dollars in millions)</i>	Accrued Liabilities	Estimated Range of Loss	
For the Periods Ended September 30, 2020		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

In FY 2021, VA increased the threshold for reporting contingent liabilities from \$1 million individually or \$50 million in the aggregate to \$10 million individually or \$100 million in the aggregate, which captures more than 90% of the probable non-tort liabilities as compared to the prior threshold. The increased threshold is the primary contributor for the lower balance in the contingent liabilities in FY 2021 compared to FY 2020, as fewer litigations, claims and assessments met the reporting threshold.

Additionally, as of September 30, 2021 and 2020, 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 US Court of Appeals for Veterans Claims (CAVC) granted a writ petition and certified a class of claimants whose claims for reimbursement of non-VA, non-service-connected emergency treatment expenses were denied because the amount owed was a deductible or coinsurance liability. The CAVC invalidated the VA regulation prohibiting these payments and ordered VA to re-adjudicate reimbursement claims that were previously denied on this basis. VA must provide regular reports on the re-adjudication of these claims. In August and September 2021, the CAVC appointed Special Master filed Reports and Recommendations

to the Court. VA's appeal to the Federal Circuit is scheduled for oral argument on December 7, 2021.

Also, in 2019, the CAVC rendered a decision on a case that could grant certain Veterans who qualify for both MGIB and Post-9/11 GI Bill benefits an extra 12 months of eligibility. In July 2021, the Federal Circuit issued a decision, which included a dissenting opinion, affirming CAVC's decision in July 2021. DOJ extended the Government's filing deadline until November 2021, while considering a motion for en banc review.

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,	2021	2020
Fiscal Year Settlement Payments	\$ 176	\$ 142
Less Contract Dispute and "No Fear" Payments	(4)	(4)
Imputed Financing-Paid by Other Entities*	\$ 172	\$ 138

*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, 2021, 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.

In accordance with 38 Code of Federal Regulations (CFR) § 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 2017 through FY 2021, the average medical care cost per year is \$80.9 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

<i>(dollars in millions)</i>	Insurance	Medical Care	Benefits	Burial	Funds from Dedicated Collections
Balance Sheet as of September 30, 2021					
Assets					
Intragovernmental					
Fund Balance with Treasury	\$ 113	\$ 528	\$ 62	\$ 2	\$ 705
Investments	5,145	91	-	-	5,236
Accounts Receivable	-	4	-	-	4
Total Intragovernmental Assets	\$ 5,258	\$ 623	\$ 62	\$ 2	\$ 5,945
With the Public					
Cash	\$ -	\$ 3	\$ -	\$ -	\$ 3
Accounts Receivable, Net	1,412	745	-	-	2,157
Direct Loan and Loan Guarantees, Net	164	-	-	-	164
Inventory	-	15	-	-	15
General PP&E	-	79	-	7	86
Total Assets	\$ 6,834	\$ 1,465	\$ 62	\$ 9	\$ 8,370
Liabilities					
Intragovernmental					
Accounts Payable	\$ 17	\$ (5)	\$ -	\$ -	\$ 12
Debt and Related Interest Payable	-	-	-	-	-
Total Intragovernmental Liabilities	\$ 17	\$ (5)	\$ -	\$ -	\$ 12
With the Public					
Accounts Payable	\$ 21	\$ 42	\$ 1	\$ -	\$ 64
Federal Employee and Veterans Benefits	4,282	-	-	-	4,282
Advances from Others and Deferred	-	-	-	-	-
Revenue	24	-	-	-	24
Other Liabilities	-	16	-	-	16
Total Liabilities	\$ 4,344	\$ 53	\$ 1	\$ -	\$ 4,398
Net Position					
Total Net Position	\$ 2,490	\$ 1,412	\$ 61	\$ 9	\$ 3,972
Total Liabilities and Net Position	\$ 6,834	\$ 1,465	\$ 62	\$ 9	\$ 8,370
Statement of Net Cost for the Period Ended September 30, 2021					
Gross Program Costs	\$ 377	\$ 849	\$ 1	\$ 2	\$ 1,229
Less Earned Revenues	240	3,450	-	-	3,690
Net Cost/(Benefit) of Operations	\$ 137	\$ (2,601)	\$ 1	\$ 2	\$ (2,461)
Statement of Changes in Net Position for the Period Ended September 30, 2021					
Unexpended Appropriations					
Appropriations Received	\$ -	\$ 300	\$ -	\$ -	\$ 300
Appropriations Used	-	(244)	-	-	(244)
Net Change in Unexpended Appropriations	-	56	-	-	56
Total Unexpended Appropriations:					
Ending	-	56	-	-	56
Cumulative Results of Operations					
Budgetary and Other Financing Sources	2,324	1,569	62	11	3,966
Net (Cost)/Benefit of Operations	303	(2,814)	-	-	(2,511)
Net Change	(137)	2,601	(1)	(2)	2,461
Net Change	166	(213)	(1)	(2)	(50)
Cumulative Results of Operations:					
Ending	2,490	1,356	61	9	3,916
Total Net Position	\$ 2,490	\$ 1,412	\$ 61	\$ 9	\$ 3,972

<i>(dollars in millions)</i>	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					
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
Debt and Related Interest Payable	-	-	-	-	-
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	\$ 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: Ending	\$ 2,325	\$ 1,569	\$ 62	\$ 10	\$ 3,966

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

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

- (d) For research purposes in circumstances under which VA medical care appropriation is to be reimbursed by VA research appropriation; and
- (e) To beneficiaries of the DoD or other Federal agencies, when the care or service provided is not covered by an applicable sharing agreement.

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

VA's Loan Guarantee Program collects certain fees that are set by law authorized in 38 U.S.C. § 3729, such as, loan guarantee funding fees and loan guarantee lender participation fees. A person who pays a fee for a loan guaranteed or insured after December 31, 1989, or who is exempt from payment of the fee, will have no liability to VA for any loss resulting from default except in the case of fraud, misrepresentation or bad faith. This exemption does not apply to manufactured homes under § 3712 or to loan assumptions. 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, 2021	VHA	VBA	NCA	Indirect Admin	Total
Intragovernmental					
Program Costs	\$ 14,954	\$ 972	\$ 65	\$ 565	\$ 16,556
Less Earned Revenues	(106)	(286)	-	(259)	(651)
Net Intragovernmental Program Costs	\$ 14,848	\$ 686	\$ 65	\$ 306	\$ 15,905
With the Public					
Program Costs	\$ 93,053	\$ 131,059	\$ 409	\$ 1,992	\$ 226,513
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	-	110,954	-	-	110,954
Less Earned Revenues	(3,502)	(257)	-	(187)	(3,946)
Net Program Costs	\$ 89,551	\$ 241,756	\$ 409	\$ 1,805	\$ 333,521
Net Program Cost by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions					
	\$ 104,399	\$ 242,442	\$ 474	\$ 2,111	\$ 349,426
Net (Gain)/Loss from Actuarial Liability Assumptions (Note 13)	-	346,307	-	-	346,307
Net Cost of Operations	\$ 104,399	\$ 588,749	\$ 474	\$ 2,111	\$ 695,733

(dollars in millions)

For the Period Ended September 30, 2020	(As Adjusted) VHA	VBA	NCA	Indirect Admin	(As Adjusted) 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*	\$ 89,858	\$ 124,434	\$ 314	\$ 1,887	\$ 216,493
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	\$ 86,559	\$ 281,660	\$ 313	\$ 1,728	\$ 370,260
Net Program Cost by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions					
	\$ 99,915	\$ 282,281	\$ 375	\$ 2,014	\$ 384,585
Net (Gain)/Loss from Actuarial Liability Assumptions (Note 13)	-	602,720	-	-	602,720
Net Cost of Operations	\$ 99,915	\$ 885,001	\$ 375	\$ 2,014	\$ 987,305

*This line has been adjusted from the previous year's reported amount to align with the FY 2020 retrospective change in accounting. See Note 23, Retrospective Change in Accounting.

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.

<i>(dollars in millions)</i>	2021		2020	
	Value	Interest Rate	Value	Interest Rate
Home Loan Guarantee Program	\$ 684	2.3%	\$ 22	3.6%
Vocational Rehabilitation Program				
Direct Loans	1	1.6%	-	3.3%

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 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 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 2020 Statement of Budgetary Resources and the actual amounts reported in the FY 2022 Budget of the U.S. Government. The FY 2023 Budget of the United States with the actual amounts from VA's FY 2021 Statement of Budgetary Resources will not be available until February 2022 in VA's Appendix. Once published, the FY 2021 actual data will be available on the OMB website, <https://www.whitehouse.gov/omb/appendix/>.

<i>(dollars in millions)</i>	Budgetary Resources	New Obligations & Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
For the Period Ended September 30, 2021				
Actual Balances per the 2022 Budget of the U.S. Government	\$ 280,426	\$ 249,910	\$ (3,828)	\$ 226,582
Reconciling Items: *				
Expired Unobligated Funds	(1,306)	-	-	-
Expired Prior Year Budget Authority	598	-	-	-
Medical Care Collection Fund - Copayments	-	-	(3,309)	-
Special Funds not in the U.S. Budget but in the SBR	7	1	-	1
Offsetting Differences between the U.S. Budget and the SBR	-	-	33	-
Miscellaneous Differences	2	1	(1)	-
Retrospective Change in Accounting**	4,692	(5,008)	-	-
Per the 2020 Statement of Budgetary Resources	\$ 284,419	\$ 244,904	\$ (7,105)	\$ 226,583

*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 has been adjusted from the previous year's reported amount to align with the FY 2020 retrospective change in accounting. See Note 23, Retrospective Change in Accounting.

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 five additional fiscal years for recording and adjusting previously recorded obligations but cannot be used to fund new obligations.

Unobligated VA funds are available for use as defined in the 2021 Appropriation Act (P.L. 116-260) and the ARP Act for the Coronavirus Pandemic (P.L. 117-2).

E. UNDELIVERED ORDERS AT THE END OF A PERIOD

<i>(dollars in millions)</i>	2021		(As Adjusted) 2020	
As of September 30,	Paid	Unpaid	Paid	Unpaid
Intragovernmental Undelivered Orders	\$ 2,634	\$ 4,467	\$ 2,434	\$ 2,589
Undelivered Orders*	25	16,182	16	14,990
Total Undelivered Orders	\$ 2,659	\$ 20,649	\$ 2,450	\$ 17,579

*This line has been adjusted from the previous year's reported amount to align with the FY 2020 retrospective change in accounting. See Note 23, Retrospective Change in Accounting.

F. LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

<i>(dollars in millions)</i>		(As Adjusted)
As of September 30,	2021	2020
Unapportioned Amounts Unavailable for Future Apportionments*	\$ 7,795	\$ 13,070
Expired Authority	<u>2,632</u>	<u>(1,306)</u>
Total Unobligated Balances	<u>\$ 10,427</u>	<u>\$ 11,764</u>

*This line has been adjusted from the previous year's reported amount to align with the FY 2020 retrospective change in accounting. See Note 23, Retrospective Change in Accounting.

G. CONTRIBUTED CAPITAL

For the years ended September 30, 2021 and 2020, General Post Fund donations totaled \$77 million and \$94 million, respectively.

NOTE 23. RETROSPECTIVE CHANGE IN ACCOUNTING

P.L.116-260, Consolidated Appropriations Act, 2021, was enacted on December 27, 2020. Title XVI, § 1601 of the Act requires VA to record obligations for hospital care or medical services furnished at non-Department facilities at the time of approval of (a) a claim by a health care provider for payment, or (b) voucher, invoice or request for payment from a vendor for services rendered under a contract. The Act made this requirement retroactive to October 1, 2018. With this change, community care obligations are recorded when medical service claims are approved and scheduled for payment in the Financial Management System.

Prior to October 1, 2018, funds were obligated at the issuance of the patient authorization using an estimated cost of care. Obligation now occurs when provider or vendor requests for payment successfully clear the invoice or claim adjudication systems, ensuring it passes each system's established business rules. VA accounted for this new authority as a retrospective change that is analogous to a change in accounting principle by adjusting the FY 2020 column of the Department's Consolidated Balance Sheet, Statement of Changes in Net Position and Statement of Budgetary Resources.

(dollars in millions)

Adjusted Balances as of September 30, 2020

	2020 As Previously Reported	Adjustments	2020 As Adjusted
Consolidated Balance Sheet			
Liabilities			
With the Public:			
Accounts Payable	\$ 18,894	\$ (6,072)	\$ 12,822
Federal Employee and Veterans Benefits (Note 13)			
Veteran Benefits (Note 13)	3,998,134	6,281	4,004,415
Life Insurance Benefits (Note 17)	5,145	-	5,145
Federal Employee Benefits (Note 13)	5,264	-	5,264
Environmental and Disposal Liabilities (Note 14)	972	-	972
Loan Guarantee Liability, Net (Note 7)	7,408	-	7,408
Advances from Others and Deferred Revenue	29	-	29
Other (Note 15)	4,233	-	4,233
Total Liabilities with the Public	4,040,079	209	4,040,288
Total Liabilities	\$ 4,043,963	\$ 209	\$ 4,044,172
Net Position - All Other Funds			
Unexpended Appropriation	38,269	6,072	44,341
Cumulative Results	(3,974,207)	(6,281)	(3,980,488)
Total Net Position - All Other Funds	(3,935,938)	(209)	(3,936,147)
Total Net Position	\$ (3,931,972)	\$ (209)	\$ (3,932,181)
Consolidated Statement of Net Cost			
Veterans Health Administration			
Gross Cost	\$ 103,092	\$ 209	\$ 103,301
Net Program Cost	384,376	209	384,585
Net Cost of Operations	\$ 987,096	\$ 209	\$ 987,305

Consolidated Statement of Changes in Net Position

Unexpended Appropriations

Beginning Balance	\$ 31,321	\$ -	\$ 31,321
Beginning Balance, as adjusted	\$ 31,321	\$ 2,165	\$ 33,486
Appropriations received	\$ 236,797	\$ -	\$ 236,797
Appropriations transferred in/out	142	-	142
Other Adjustments	(1,390)	-	(1,390)
Appropriations Used	(228,601)	3,907	(224,694)
Net Change in Unexpended Appropriations	<u>6,948</u>	<u>3,907</u>	<u>10,855</u>

Unexpended Appropriations: Ending

<u>38,269</u>	<u>6,072</u>	<u>44,341</u>
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Cumulative Results of Operations

Beginning Balance	(3,211,271)	\$ -	\$ (3,211,271)
Beginning Balance, as adjusted	(3,211,271)	(2,165)	\$ (3,213,436)

Cumulative Results of Operations

Appropriations used	228,601	(3,907)	224,694
Nonexchange revenue	29	-	29
Donations and Forfeitures of Cash and Cash Equivalents	16	-	16
Transfers In/Out without Reimbursement	193	-	193
Donations and Forfeitures of Property	78	-	78
Imputed Financing	2,458	-	2,458
Other	(3,249)	-	(3,249)
Net (Cost)/Benefit of Operations (Note 21)	(987,096)	(209)	(987,305)
Net Change	<u>(758,970)</u>	<u>(4,116)</u>	<u>(763,086)</u>

Cumulative Results of Operations: Ending

(3,970,241)	(6,281)	(3,976,522)
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Net Position

\$ (3,931,972)	\$ (209)	\$ (3,932,181)
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Combined Statement of Budgetary Resources

Budgetary Resources

Unobligated Balance from Prior Year Budget Authority, Net	\$ 18,527	\$ 4,692	\$ 23,219
Appropriations	240,404	-	240,404
Borrowing Authority	-	-	-
Spending Authority from Offsetting Collections	7,371	-	7,371
Total Budgetary Resources	\$ 266,302	\$ 4,692	\$ 270,994

Status of Budgetary Resources

New obligations and upward adjustments (total)	\$ 244,599	\$ (5,008)	\$ 239,591
Unobligated balance, end of year:			
Apportioned, unexpired accounts	27,751	-	27,751
Unapportioned, unexpired accounts	(4,742)	9,700	4,958
Unexpired unobligated balance, end of year	<u>23,009</u>	<u>9,700</u>	<u>32,709</u>
Expired unobligated balance, end of year	(1,306)	-	(1,306)
Unobligated balance, end of year (total)	<u>21,703</u>	<u>9,700</u>	<u>31,403</u>
Total Status of Budgetary Resources	\$ 266,302	\$ 4,692	\$ 270,994

VA used an actuarial model to estimate an unfunded Medical Claims liability of \$6.1 billion in FY 2021 and \$8.2 billion in FY 2020 for provider services incurred but not invoiced or paid at the end of each period.

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.

(dollars in millions)

For the Period Ended September 30, 2021

	Intra- governmental	With the Public	Total
Net Operating Cost (SNC)	\$ 15,905	\$ 679,828	\$ 695,733
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant, and Equipment Depreciation Expense	-	(1,814)	(1,814)
Property, Plant, and Equipment Disposal and Reevaluation	-	(205)	(205)
Year-End Credit Reform Subsidy Re-Estimates	(2,744)	-	(2,744)
Cost of goods sold	-	(317)	(317)
Inventory disposals and revaluations	-	32	32
Increase/(Decrease) in Assets:			
Accounts and Taxes Receivable, net	(2,288)	(1,096)	(3,384)
Loans Receivable, net	-	(22)	(22)
Other Assets	200	9	209
Investments	595	-	595
(Increase)/Decrease in Liabilities:			
Accounts Payable	(1,691)	5,194	3,503
Loans Guarantee Liability	-	1	1
Environmental and Disposal Liabilities	-	23	23
Federal Employee and Veterans Benefits	-	(461,070)	(461,070)
Other Liabilities	1,660	527	2,187
Other Financing Sources			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(2,781)	-	(2,781)
Total Components of Net Operating Cost Not Part of the Budget Outlays	(7,049)	(458,738)	(465,787)
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	-	3,313	3,313
Inventories and Related Property	-	302	302
Negative Subsidy Credit Reform	2,117	-	2,117
Effects of Prior Year Credit Reform Subsidy Reestimates	221	-	221
Total Components of Net Operating Cost Not Part of the Budget Outlays	2,338	3,615	5,953
Financing Sources			
Transfers in/out without Reimbursements	(155)	-	(155)
Total Financing Sources	(155)	-	(155)
Miscellaneous Items			
Year-End Credit Reform Upward Reestimate Accruals	2,927	-	2,927
Activity in Fund Types with no Budgetary Outlays	120	3,018	3,138
Distributed Offsetting Receipts	(7,516)	-	(7,516)
Other	(512)	-	(512)
Total Miscellaneous Items	(4,981)	3,018	(1,963)
Total Net Outlays			233,781
Budgetary Agency Outlays, Net (SBR)			233,781
Budgetary Agency Outlays, Net			233,781

FINANCIAL SECTION
NOTES TO THE FINANCIAL STATEMENTS

(dollars in millions)

For the Period Ended September 30, 2020

	Intra- governmental	(As Adjusted) With the Public	(As Adjusted) Total
Net Operating Cost (SNC)*	\$ 14,325	\$ 972,980	\$ 987,305
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)	(866)	(1,724)
Loan Guarantee Liabilities	-	(10)	(10)
Environmental and Disposal Liabilities	-	(38)	(38)
Federal Employee and Veterans Benefits*	-	(763,965)	(763,965)
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)	(768,751)	(770,112)
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
Financing Sources			
Transfers in/out without Reimbursements	(185)	-	(185)
Total Financing Sources	(185)	-	(185)
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	(301)	-	(301)
Total Miscellaneous Items	(6,621)	3,383	(3,238)
Total Net Outlays			218,394
Budgetary Agency Outlays, Net (SBR)			218,394
Budgetary Agency Outlays, Net			218,394

*This line has been adjusted from the previous year's reported amount to align with the FY 2020 retrospective change in accounting. See Note 23, Retrospective Change in Accounting.

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.

<i>(dollars in millions)</i> As of September 30, 2021	Actual Amount Received in FY	Actual Amount Paid in FY	Estimated Amount to be Received in Future Years	Estimated Amount to be Paid in Future Years
EUL	\$ 2	\$ 14	\$ 69	\$ -
ESPC	-	63	-	914
UESC	-	33	-	191
Total	<u>\$ 2</u>	<u>\$ 110</u>	<u>\$ 69</u>	<u>\$ 1,105</u>

<i>(dollars in millions)</i> As of September 30, 2020	Actual Amount Received in	Actual Amount Paid in FY	Estimated Amount to be Received in	Estimated Amount to be Paid in Future
EUL	\$ 2	\$ -	\$ 71	\$ 11
ESPC	-	63	-	966
UESC	-	33	-	29
Total	<u>\$ 2</u>	<u>\$ 96</u>	<u>\$ 71</u>	<u>\$ 1,006</u>

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 for most properties) 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, § 211, limited to supportive housing, and set to expire on December 31, 2023. This authority was further modified by the West Los Angeles Leasing Act of 2016 (P.L. 114-226) on September 29, 2016. The previous authority 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. Under the West Los Angeles Leasing Act of 2016, the VA may enter into an EUL specifically limited to the West Los Angeles property of up to 75 years and also collect cash consideration. This authority has subsequently been amended through the West Los Angeles Campus Improvement Act to allow for EULs up to 99 years specifically for the West Los Angeles property. In addition, as a result of the enactment of the Mission Act (P.L. 115-182) a certification from OMB prior to the EUL going into effect is no longer required and only OMB's review of EUL to ensure it is in compliance with terms in 38 U.S.C. § 8162(b) paragraph 5 is required.

The majority of the EUL projects serve to provide safe, affordable housing for Veterans and their families. The properties are leased to 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. Developers utilize various sources of financing including tax credits for low-income housing, grants, private and commercial loans and 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);
- Cost savings, (i.e., discounts realized on VA purchases, such as energy, office space or parking); and,
- Veterans' access to an expanded range of services, including housing, job training and mental health counseling.

<i>(dollars in millions)</i> As of September 30, 2021	Total Cumulative Funding by VA over life of Arrangement	Total Cumulative Funding by Private Sector over life of Arrangement
EUL	\$ 78	\$ 1,673

<i>(dollars in millions)</i> 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, 2021	Total Cumulative Funding by VA over life of Arrangement	Total Cumulative Funding by Private Sector over life of Arrangement
ESPC	\$ 100	\$ 640
UESC	115	199
Total	\$ 215	\$ 839

(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

A. AMERICAN RESCUE PLAN ACT OF 2021

In FY 2021, VA received supplemental appropriations of \$17.1 billion to respond to COVID-19 under the ARP Act, (P.L. 117-2). The ARP Act funds were allocated to the following eight programs and have various periods of availability, ranging from September 2021 through 2023, or until expended:

Program	Purpose
Medical Care and Health Needs	To cover the impacts of delays in care and Veterans' greater reliance on VA healthcare due to loss of other health insurance or other economic impacts from the pandemic. To fund sustainment of CARES Act supported staffing and service-level expansions, in suicide prevention, women's health, VA homelessness programs and telehealth.
Prohibited Copayments and Cost Sharing	Allows VA to waive copays that otherwise would be charged to Veterans for VA healthcare services and authorizes VA to reimburse Veterans who have recently submitted payments for care they received during this period.
State Veterans Homes (SVHs)	Construction funds to states for projects to upgrade and enhance safety and operation of SVHs. One-time emergency payments to enhance treatment of Veterans, including cleaning services, PPE or other equipment and temporarily expanding staffing levels.
Veteran Rapid Retraining Assistance Program	To support up to 12 months of retraining assistance for Veterans who are unemployed due to COVID-19 and do not have other Veteran education

benefits. To cover the cost of the retraining program and a housing allowance while they undergo training.

Claims and Appeals	To mitigate the impacts of the pandemic on the benefits claims and appeals backlog caused by delays in claim development, which resulted from COVID-19 related shutdowns. To increase staff overtime in FY 2022, expand VBA funded scanning of service records from federal records facilities impacted by COVID-19 and improve scheduling of hearings. To support the Board of Veterans' Appeals' mail processing, add temporary intake specialists, attorneys and staff to support tele-hearings.
Supply Chain Modernization	To provide investments in information technology systems to support the acceleration of VA's supply chain modernization efforts.
Emergency Employee Leave	A new fund established to pay VA for the use of paid leave by any covered employee who is unable to work due to impacts from COVID-19.
Office of Inspector General	To support oversight of VA projects and activities carried out pursuant to the ARP Act.

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

<i>(dollars in millions)</i>					
For the Period Ended September 30, 2021	Appropriations Received	Obligations Incurred	Remaining Available for Obligation	Appropriations Used	
Medical Care and Health Needs	\$ 14,482	\$ 7	\$ 14,475	\$	5
Prohibited Copayments and Cost Sharing	1,000	244	756		244
State Veterans Homes	750	354	396		250
Veteran Rapid Retraining Assistance Program	386	32	354		49
Claims and Appeals	272	2	270		1
Supply Chain Modernization	100	-	100		-
Emergency Employee Leave	80	18	62		18
Office of Inspector General	10	-	10		-
Total	\$ 17,080	\$ 657	\$ 16,423	\$	567

B. FAMILIES FIRST CORONAVIRUS RESPONSE ACT AND CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT

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 Consolidated Appropriations Act, 2021 (P.L. 116-260) authorized the transfer of CARES Act supplemental Medical Services account appropriations to the National Cemetery

Administration and Board of Veterans Appeals accounts to address coronavirus response. In addition, the Continuing Appropriations Act, 2021, and Other Extensions Act (P.L. 116-159) authorized the transfer of CARES Act supplemental Medical Services account appropriations to the Veterans Canteen Service Fund to respond to COVID-19. Additional transfers between several CARES Act programs were authorized by P.L. 116-260. VA has also expended funds in response to the COVID-19 pandemic that were part of VA's regular base appropriations. The result of such allocations are captured under the As Reallocated column in the following September 30, 2021 schedule below.

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.
Canteen Service	To prevent, prepare for and respond to COVID-19. For offsetting losses of Canteen Service collections.
Office of Inspector General	To support oversight of VA's efforts to prevent, prepare for and respond to COVID-19.
National Cemetery Administration	To support operations, maintenance and other expenses to prevent, prepare for and respond to COVID-19, including the elimination of backlogs that may have occurred.
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.

Board of Veterans' Appeals To support personnel costs and other expenses to prevent, prepare for and respond to COVID-19, including the reduction of appeals pending intake and hearing requests.

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

<i>(dollars in millions)</i> As of September 30, 2021	Appropriation	As Reallocated	Obligated (cumulative)	Unobligated	Outlays (cumulative)
Medical Services	\$ 14,462	\$ 8,021	\$ 7,964	\$ 57	\$ 7,159
Information Technology	2,150	2,195	2,195	-	1,589
Medical Community Care	2,130	7,630	7,630	-	7,630
Medical Facilities	606	756	752	4	505
Grants for Construction of Extended Care Facilities	150	150	150	-	0
Medical Support and Compliance	100	355	332	23	270
General Operating Expenses (VBA)	13	351	347	4	86
Canteen Service	-	140	140	-	140
Office of Inspector General	12	12	12	-	12
National Cemetery Administration	-	12	12	-	2
Emergency Management (Gen Admin)	6	6	6	-	4
Board of Veterans Appeals	-	1	1	-	1
Total	\$ 19,629	\$ 19,629	\$ 19,541	\$ 88	\$ 17,398

In addition to supplemental appropriations, VA also used budgetary resources from existing appropriations for COVID-19 activities. Obligations in the amount of \$90 million and \$118 million in FY 2021 and FY 2020, respectively, 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 THE 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 Statement of Net Cost and a Reclassified Statement of Changes in Net Position for each agency. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements.

This note shows VA's financial statements and VA's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2020 FR can be found here: <https://www.fiscal.treasury.gov/reports-statements/> and a copy of the 2021 FR will be posted to this site as soon as it is released, generally in January.

FINANCIAL SECTION
NOTES TO THE FINANCIAL STATEMENTS

FY 2021 VA Balance Sheet (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 2021 Government- wide Balance Sheet	
Financial Statement Line	Amounts					Amounts	Reclassified Financial Statement Line
Assets							Assets
Intragovernmental							Intragovernmental
Fund Balance with Treasury (Note 3)	90,687	705	-	89,982	-	90,687	Fund Balance with Treasury (Note 3)
Investments (Note 5)	5,236	5,236	-	-	-	5,236	Investments (Note 5)
Accounts Receivable (Note 6)	40	4	-	55	(19)	40	Accounts Receivable (Note 6)
Advances and Prepayments	2,630	-	-	2,630	-	2,630	Advances and Prepayments
Total Intragovernmental	98,593	5,945	-	92,667	(19)	98,593	Total Intragovernmental
With the Public							With the Public
Cash (Note 4)	4	3	-	1	-	4	Cash (Note 4)
Accounts Receivable, Net (Note 6)	4,010	2,157	-	1,853	-	4,010	Accounts Receivable, Net (Note 6)
Direct Loans and Loan Guarantees, Net (Note 7)	817	164	-	653	-	817	Direct Loans and Loan Guarantees, Net (Note 7)
Inventory (Note 8)	176	15	-	161	-	176	Inventory (Note 8)
General Property, Plant, and Equipment, Net (Note 9)	29,449	86	-	29,363	-	29,449	General Property, Plant, and Equipment, Net (Note 9)
Advances and Prepayments	28	-	-	28	-	28	Advances and Prepayments
Investments (Note 5)	140	-	-	140	-	140	Investments (Note 5)
Total with the Public	34,624	2,425	-	32,199	-	34,624	Total with the Public
Total Assets	133,217	8,370	-	124,866	(19)	133,217	Total Assets
Liabilities							Liabilities
Intragovernmental							Intragovernmental
Accounts Payable	426	12	-	394	20	426	Accounts Payable
Debt (Note 11)	563	-	-	563	-	563	Debt and Related Interest Payable (Note 11)
Advances from Others and Deferred Revenue	31	-	-	31	-	31	Advances from Others and Deferred Revenue
Other Liabilities (Note 15)	1,325	-	-	1,325	-	1,325	Other (Note 15)
Total Intragovernmental	2,345	12	-	2,313	20	2,345	Total Intragovernmental
With the Public							With the Public
Accounts Payable	13,679	64	-	13,615	-	13,679	Accounts Payable
Federal Employee and Veterans Benefits (Note 13)							Federal Employee and Veterans Benefits (Note 13)
Veterans Benefits (Note 13)	4,459,588	-	-	4,459,588	-	4,459,588	Veterans Benefits (Note 13)
Life Insurance Benefits (Note 17)	4,530	4,282	-	248	-	4,530	Life Insurance Benefits (Note 17)
Federal Employee Benefits (Note 13)	5,422	-	-	5,422	-	5,422	Federal Employee Benefits (Note 13)
Environmental and Disposal Liabilities (Note 14)	949	-	-	949	-	949	Environmental and Disposal Liabilities (Note 14)
Loan Guarantee Liability, Net (Note 7)	10,870	-	-	10,870	-	10,870	Loan Guarantee Liability, Net (Note 7)
Advances from Others and Deferred Revenue	26	24	-	2	-	26	Advances from Others and Deferred Revenue
Other (Note 15)	3,707	16	-	3,691	-	3,707	Other (Note 15)
Total with the Public	4,498,771	4,386	-	4,494,385	-	4,498,771	Total with the Public
Total Liabilities	4,501,116	4,398	-	4,496,698	20	4,501,116	Total Liabilities
Net Position							Net Position
Unexpended Appropriations – Funds from Dedicated Collections (Note 19)	56	56	-	-	-	56	Unexpended Appropriations – Funds from Dedicated Collections
Cumulative Results – Funds From Dedicated Collections (Note 19)	3,916	3,916	(11)	-	11	3,916	Cumulative Results – Funds From Dedicated Collections
Total Net Position - Funds from Dedicated Collections	3,972	3,972	(11)		11	3,972	Total Net Position
Unexpended Appropriations – All Other Funds	62,020			62,020	-	62,020	Unexpended Appropriations – All Other Funds
Cumulative Results – All Other Funds	(4,433,891)			(4,433,922)	31	(4,433,891)	Cumulative Results - All Other Funds
Total Net Position - All Other Funds	(4,371,871)			(4,371,902)	31	(4,371,871)	Total Net Position
Total Net Position	(4,367,899)	3,972	(11)	(4,371,902)	42	(4,367,899)	Total Net Position
Total Liabilities and Net Position	133,217	8,370	(11)	124,796	62	133,217	Total Liabilities and Net Position

FY 2021 VA Statement of Net Cost (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 2021 Government- wide Statement of Net Cost	
Financial Statement Line	Amounts					Amounts	Reclassified Financial Statement Line
Gross Costs	354,023						Non-Federal Costs
		1,145	-	336,322	-	337,467	Non-Federal Gross Cost
		1,145	-	336,322	-	337,467	Total Non-Federal Costs
							Intragovernmental Costs
		31	-	9,150	-	9,181	Benefit Program Costs
		-	-	2,781	-	2,781	Imputed Costs
		53	-	1,987	(68)	1,972	Buy/Sell Costs
		-	-	66	-	66	Purchase of Assets
		-	-	33	-	33	Borrowing and Other Interest Expense
		-	-	2,589	-	2,589	Other Expenses (w/o Reciprocals)
		-	-	(66)	-	(66)	Purchase of Assets Offset
		84	-	16,540	(68)	16,556	Total Intragovernmental Costs
		Total Gross Costs	354,023	1,229	-	352,862	(68)
Earned Revenue	(4,597)	(3,534)	-	(412)	-	(3,946)	Non-Federal Earned Revenue
							Intragovernmental Revenue
		(33)	11	(425)	69	(378)	Buy/Sell Revenue
		(123)	-	-	-	(123)	Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange)
		-	-	(150)	-	(150)	Borrowing and Other Interest Revenue
		(156)	11	(575)	69	(651)	Total Intragovernmental Earned Revenue
Total Earned Revenue	(4,597)	(3,690)	11	(987)	69	(4,597)	Total Reclassified Earned Revenue
Gain/Loss-Pension/ORB/OPEB Assumptions	346,307	-	-	346,307	-	346,307	Gain/Loss on Changes in Actuarial Assumptions (Non-Federal)
Net Cost	695,733	(2,461)	11	698,182	1	695,733	Net Cost

FINANCIAL SECTION
NOTES TO THE FINANCIAL STATEMENTS

FY 2021 VA Statement of Changes in Net Position <i>(dollars in millions)</i>		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 2021 Government- wide Statement of Changes in Net Position	
Financial Statement Line	Amounts					Amounts	Reclassified Financial Statement Line
UNEXPENDED APPROPRIATIONS							
Unexpended Appropriations, Beginning Balance	44,341	-	-	44,341	-	44,341	Net Position, Beginning of Period
Appropriations Received	259,506	300	-	259,206	-	259,506	Appropriations Received as Adjusted
Other Adjustments	(323)	-	-	(323)	-	(323)	Appropriations Received as Adjusted
Appropriations Transferred In/Out	152	-	-	152	-	152	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources (Federal)
Total Appropriations Transferred In/Out	152	-	-	152	-	152	Total Reclassified Appropriations Transferred In/Out
Appropriations Used	(241,600)	(244)	-	(241,356)	-	(241,600)	Appropriations Used (Federal)
Net Change in Unexpended Appropriations	17,735	56	-	17,679	-	17,735	Net Change in Unexpended Appropriations
Total Unexpended Appropriations	62,076	56	-	62,020	-	62,076	Total Unexpended Appropriations
CUMULATIVE RESULTS OF OPERATIONS							
Beginning Balance	(3,976,522)	3,966	-	(3,980,488)	-	(3,976,522)	Net Position, Beginning of Period
Appropriations Used	241,600	244	-	241,356	-	241,600	Appropriations Expended
Non-Exchange Revenues	169	-	-	169	-	169	Collections Transferred into a TAS Other Than the General Fund of the U.S. Government - Nonexchange
Donations and Forfeitures of Cash and Cash Equivalents	19	19	-	-	-	77	Other Taxes and Receipts (Non- Federal)
Donations and Forfeitures of Property	58	57	-	1	-		
Transfers In/Out without Reimbursement	171	3,091	-	-	(3,091)	-	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-In
		(3,091)	-	-	3,091	-	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-Out
		-	-	3,091	(3,091)	-	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
		(3,091)	-	-	3,091	-	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
		103	-	166	(103)	166	Expenditure Transfers-In of Financing Sources
		-	-	(103)	103	-	Expenditure Transfers-Out of Financing Sources
		(43)	-	5	43	5	Transfers-in/out w/o Reimbursement
(3,031)	-	3,159	43	171	Total Reclassified Transfers In/Out w/o Reimbursement – Budgetary (Federal)		
Other	(2,518)	-	-	(4,333)	-	(4,333)	Non-Entity Custodial Collections Transferred to the General Fund
		-	-	1,615	-	1,615	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund
		200	-	-	-	200	Miscellaneous Earned Revenues
Total Other	(2,518)	200	-	(2,718)	-	(2,518)	Total Reclassified Other
Imputed Financing	2,781	-	-	2,781	-	2,781	Imputed Financing Sources (Federal)
Net Cost of Operations	(695,733)	2,461	(11)	(698,182)	(1)	(695,733)	Reclassified Net Cost of Operations
Net Change	(453,453)	(50)	(11)	(453,434)	42	(453,453)	Net Change
Ending Balance – Cumulative Results of Operations	(4,429,975)	3,916	(11)	(4,433,922)	42	(4,429,975)	Ending Balance – Cumulative Results of Operations
Total Net Position	(4,367,899)	3,972	(11)	(4,371,902)	42	(4,367,899)	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 three-year cycle, assessing all components. Building components assessed include architectural structural, mechanical, plumbing and electrical systems. Also included for assessment are capitalized, fully depreciated and noncapitalized elements of general PP&E, heritage assets and stewardship land. Each property, plant, or equipment component is given a description, an estimate of remaining useful life and a grade from "A" to "F" based on VA's standard evaluation guidelines. Any building component graded "D" (poor) and "F" (critical) is given an estimated correction cost and recorded in Deferred Maintenance and Repairs, except where deficiencies will be replaced by capital expenditures. See [Notes 1, 9](#) and [10](#) for additional information on general PP&E and heritage assets.

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)

As of September 30,	2021	2020
General PP&E	\$ 12,647	\$ 12,187
Heritage Assets	1,083	980
Total Deferred Maintenance and Repairs	\$ 13,730	\$ 13,167

SCHEDULE OF BUDGETARY ACTIVITY

DEPARTMENT OF VETERANS AFFAIRS
SCHEDULE OF BUDGETARY ACTIVITY
FOR THE PERIOD ENDED SEPTEMBER 30, 2021

(dollars in millions)

	Veterans Health Administration						VHA Total
	0140 Medical Community Care	0152 Medical Support	0160 Medical Services	0162 Medical Facilities	0172 Veterans Choice Fund	All Other Funds	
Budgetary Resources							
Unobligated Balance from Prior Year							
Budget Authority, Net	\$ 6,016	\$ 812	\$ 9,639	\$ 1,887	\$ 306	\$ 6,954	\$ 25,614
Appropriations	19,470	8,169	58,830	6,543	-	26,199	119,211
Spending Authority from Offsetting Collections	-	64	136	26	-	524	750
Total Budgetary Resources	\$ 25,486	\$ 9,045	\$ 68,605	\$ 8,456	\$ 306	\$ 33,677	\$ 145,575
Status of Budgetary Resources							
New Obligations and Upward Adjustments	\$ 23,593	\$ 8,304	\$ 63,259	\$ 7,623	\$ 25	\$ 12,646	\$ 115,450
Apportioned, Unexpired Accounts	1,855	405	3,904	690	281	20,762	27,897
Unapportioned, Unexpired Accounts	-	3	-	-	-	-	3
Unexpired Unobligated Balance, End of Year	1,855	408	3,904	690	281	20,762	27,900
Expired Unobligated Balance, End of Year	38	333	1,442	143	-	269	2,225
Unobligated Balance, End of Year	1,893	741	5,346	833	281	21,031	30,125
Total Status of Budgetary Resources	\$ 25,486	\$ 9,045	\$ 68,605	\$ 8,456	\$ 306	\$ 33,677	\$ 145,575
Outlays, Net							
Outlays, Net	\$ 23,401	\$ 7,842	\$ 60,379	\$ 6,770	\$ (76)	\$ 10,188	\$ 108,504
Distributed Offsetting Receipts	-	-	-	-	-	(3,166)	(3,166)
Agency Outlays, Net	\$ 23,401	\$ 7,842	\$ 60,379	\$ 6,770	\$ (76)	\$ 7,022	\$ 105,338
Disbursements, Net	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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DEPARTMENT OF VETERANS AFFAIRS
SCHEDULE OF BUDGETARY ACTIVITY
FOR THE PERIOD ENDED SEPTEMBER 30, 2021
(dollars in millions)

	Veterans Benefits Administration						VBA Total
	0102	0137	4129	8132	0151	All Other	
	Compensa- tion and Pensions	Readjust- ment Benefits	Veteran Housing Program	Life Insurance Fund	General Operating Expenses	Funds	
Budgetary Resources							
Unobligated Balance from Prior Year							
Budget Authority, Net	\$ 1,284	\$ 4,604	\$ 7,910	\$ 1	\$ 295	\$ 2,560	\$ 16,654
Appropriations	124,357	12,965	3	451	3,764	1,006	142,546
Borrowing Authority	-	-	539	-	-	146	685
Spending Authority from Offsetting Collections	-	155	3,804	21	2,460	1,770	8,210
Total Budgetary Resources	\$ 125,641	\$ 17,724	\$ 12,256	\$ 473	\$ 6,519	\$ 5,482	\$ 168,095
Status of Budgetary Resources							
New Obligations and Upward Adjustments	\$ 116,682	\$ 12,329	\$ 4,616	\$ 473	\$ 6,001	\$ 1,805	\$ 141,906
Apportioned, Unexpired Accounts	8,799	5,395	-	-	349	3,514	18,057
Unapportioned, Unexpired Accounts	-	-	7,640	-	20	106	7,766
Unexpired Unobligated Balance, End of Year	8,799	5,395	7,640	-	369	3,620	25,823
Expired Unobligated Balance, End of Year	160	-	-	-	149	57	366
Unobligated Balance, End of Year	8,959	5,395	7,640	-	518	3,677	26,189
Total Status of Budgetary Resources	\$ 125,641	\$ 17,724	\$ 12,256	\$ 473	\$ 6,519	\$ 5,482	\$ 168,095
Outlays, Net							
Outlays, Net	\$ 116,227	\$ 12,066	\$ -	\$ 548	\$ 3,036	\$ (250)	\$ 131,627
Distributed Offsetting Receipts	-	-	-	(24)	-	(4,273)	(4,297)
Agency Outlays, Net	\$ 116,227	\$ 12,066	\$ -	\$ 524	\$ 3,036	\$ (4,523)	\$ 127,330
Disbursements, Net	\$ -	\$ -	\$ 1,050	\$ -	\$ -	\$ 34	\$ 1,084

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**DEPARTMENT OF VETERANS AFFAIRS
SCHEDULE OF BUDGETARY ACTIVITY
FOR THE PERIOD ENDED SEPTEMBER 30, 2021**

(dollars in millions)

	Indirect Administrative Programs					VA	
	NCA	1122			All Other Funds	Total	TOTAL
Total	0142 General Admin	Board of Veterans Appeals	4537 Supply Fund	Total			
Budgetary Resources							
Unobligated Balance from Prior Year							
Budget Authority, Net	\$ 28	\$ 66	\$ 13	\$ 525	\$ 334	\$ 938	\$ 43,234
Appropriations	408	354	207	-	238	799	262,964
Borrowing Authority	-	-	-	-	-	-	685
Spending Authority from Offsetting Collections	1	392	-	1,282	1,318	2,992	11,953
Total Budgetary Resources	\$ 437	\$ 812	\$ 220	\$ 1,807	\$ 1,890	\$ 4,729	\$ 318,836
Status of Budgetary Resources							
New Obligations and Upward Adjustments	\$ 425	\$ 776	\$ 202	\$ 1,350	\$ 1,590	\$ 3,918	\$ 261,699
Apportioned, Unexpired Accounts	5	6	10	457	278	751	46,710
Unapportioned, Unexpired Accounts	4	5	1	-	16	22	7,795
Unexpired Unobligated Balance, End of Year	9	11	11	457	294	773	54,505
Expired Unobligated Balance, End of Year	3	25	7	-	6	38	2,632
Unobligated Balance, End of Year	12	36	18	457	300	811	57,137
Total Status of Budgetary Resources	\$ 437	\$ 812	\$ 220	\$ 1,807	\$ 1,890	\$ 4,729	\$ 318,836
Outlays, Net							
Outlays, Net	\$ 383	\$ 336	\$ 199	\$ 50	\$ 198	\$ 783	\$ 241,297
Distributed Offsetting Receipts	-	-	-	-	(53)	(53)	(7,516)
Agency Outlays, Net	\$ 383	\$ 336	\$ 199	\$ 50	\$ 145	\$ 730	\$ 233,781
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
2021 and 2020

AUDIT

REPORT #21-01052-33

NOVEMBER 15, 2021



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



November 15, 2021

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 2021 and 2020

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, 2021 and 2020, 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) 2021 and FY 2020. CLA did, however, note material weaknesses and significant deficiencies in internal control and instances of noncompliance with laws and regulations.
3. Regarding internal control, CLA identified three 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 three material weaknesses are as follows:
 - Controls over significant accounting estimates
 - Financial systems and reporting
 - Information technology security controls
4. CLA identified two significant deficiencies, which were previously reported as material weaknesses in FY 2020. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The two significant deficiencies are as follows:
 - Obligations, undelivered orders, and accrued expenses
 - Entity-level controls including chief financial officer organizational structure

To: Secretary of Veterans Affairs

5. The information technology security controls material weakness has been reported for more than 10 years. Regarding the other material weaknesses and significant deficiencies, CLA has changed titling, elements, or classification either as a material weakness or significant deficiency over time, but in general, CLA has reported control deficiencies in these areas at least since FY 2016.
6. 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 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 two violations of the Antideficiency Act, Title 31 of the United States Code, section 1341 (a), in FY 2021. VA is in the process of reporting five others that were identified as potential violations in previous years and were deemed in FY 2021 to be actual violations. VA has two potential violations, which are being reviewed by VA's Office of General Counsel. CLA has reported actual or potential violations of the Antideficiency Act since FY 2012.
 - Noncompliance with the Payment Integrity Information Act for FY 2020, previously reported by the OIG as noncompliance with the Improper Payments Elimination and Recovery Act since 2012.

To: Secretary of Veterans Affairs

7. CLA is responsible for the attached audit report dated November 15, 2021, 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 2022 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 2021 and 2020 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, 2021, and 2020, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- Three material weaknesses and two significant deficiencies for fiscal year (FY) 2021 in internal control over financial reporting based on the limited procedures we performed; and
- Five reportable noncompliance matters in connection with our testing of provisions of applicable laws, regulations, contracts, and grant agreements for FY 2021.

The following sections discuss in more detail (1) our report on the financial statements, which includes an emphasis-of-matter paragraph related to the adjustment of certain FY 2020 financial statement balances, and required supplementary information (RSI)¹ and other information² 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 the accompanying financial statements of VA, which comprise the consolidated balance sheets as of September 30, 2021, and 2020; the related consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

We conducted our audits 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. 21-04, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 21-04). We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

¹The RSI consists of "Management's Discussion and Analysis", "Deferred Maintenance and Repairs", and "Schedule of Budgetary Activity", which are included with the financial statements.

²Other information consists of information included with the financial statements, other than the RSI, Financial Section, and the auditors' report.

INDEPENDENT AUDITORS' REPORT (Continued)

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, 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, 2021, and 2020, 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, Retrospective Change in Accounting, P.L.116-260, Consolidated Appropriations Act, 2021, was enacted on December 27, 2020. Prior to October 1, 2018, funds were obligated for patient authorizations under the Community Care program based on estimated costs of care. Obligation is now based on provider or vendor requests for payment that have successfully cleared the invoice or claim adjudication systems and their established business rules. The Act made this requirement retroactive to October 1, 2018. VA accounted for a retrospective change that is analogous to a change in accounting principle by adjusting the FY 2020 column of the Consolidated Balance Sheet, Statement of Changes in Net Position, and Statement of Budgetary Resources. This matter and the effect of the change to specific financial

INDEPENDENT AUDITORS' REPORT (Continued)

statement line items are 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. 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) and (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).

INDEPENDENT AUDITORS' REPORT (Continued)

Auditors' Responsibility

In planning and performing our audit of VA's financial statements as of and for the year ended September 30, 2021, 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 of 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 of 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, and therefore, material weaknesses 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 and significant deficiencies, described below and in Exhibit A and Exhibit B.

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. We consider the deficiencies described below and in Exhibit A to be material weaknesses.

INDEPENDENT AUDITORS' REPORT (Continued)

Controls Over Significant Accounting Estimates

The Veterans Benefits Administration (VBA) modeling activities that produce significant accounting estimates for the compensation, pension, education, and loan guarantee programs warrant management's continued focus.

Financial Systems and Reporting

VA's legacy core financial management and general ledger system, the Financial Management System (FMS), has limited functionality to meet VA's current financial management and reporting needs. VA continues to record a large number of journal entries in order to produce a set of auditable financial statements. Further, VA continues to have financial reporting issues with respect to intragovernmental agreements and reconciliations between FMS and subsidiary systems.

Information Technology Security Controls

VA continues to have control weaknesses in configuration management, access controls, security management, and contingency planning.

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

Obligations, Undelivered Orders (UDOs), and Accrued Expenses

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.

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

VA continues to have control weaknesses throughout the organization with respect to financial reporting, as described in this report. 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.

During our FY 2021 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.

INDEPENDENT AUDITORS' REPORT (Continued)

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 comply substantially 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.

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 2021, in Exhibit C, that are reportable under *Government Auditing Standards*. In addition, as described in Exhibit C, our tests of compliance with the FFMIA Section 803(a) requirements disclosed instances in which VA's financial management systems did not comply substantially 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.

INDEPENDENT AUDITORS' REPORT (Continued)

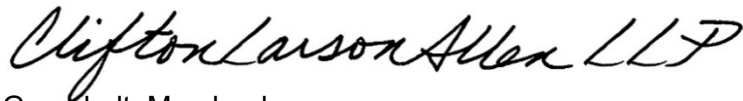
Status of Prior Year's Control Deficiencies and Noncompliance Issues

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 24, 2020. The status of prior year findings is presented in Exhibit D.

VA's Response to Audit Findings and Recommendations

VA's response to the findings and recommendations identified in our report can be found on page 40. 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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

Greenbelt, Maryland
November 15, 2021

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. Four large benefit programs that have significant accounting estimates and impact VA's financial statements for FY 2021 reporting are (1) compensation, (2) pension, (3) education, and (4) loan guaranty programs. VBA has made 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), Veteran Readiness and Employment (VRE, Chapter 31), Survivor's and Dependents' Educational Assistance (Chapter 35), and Montgomery GI Bill Active Duty (Chapter 30), and, collectively referred to as education programs. 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's Office of Financial Management (OFM) uses complex models to estimate 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 \$4.5 trillion as of September 30, 2021. Further, VA disclosed the present value of projected amounts of future payments for pension benefits of \$130.1 billion.

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 \$10.9 billion as of September 30, 2021.

Conditions:

VBA uses a variety of modeling techniques to produce the accounting estimates for their compensation, pension, education, and loan guaranty benefit programs. These models require updates and refinements to their inputs such as financial data, assumptions, and non-financial data. VBA continues to make progress to correct certain control deficiencies related to their modeling efforts. VBA has expanded their team of actuaries that possess the technical knowledge and experience for performing these complex estimates. Also, VBA enhanced their collaboration and communication through the involvement of actuaries outside of VBA operations. In addition, VBA completed a number of experience studies which resulted in improvements to the assumptions used in the models. Although they have made these improvements, the following weaknesses remain for significant accounting estimates:

A. Veterans Benefits Actuarial Liability Estimate

The Veterans benefits liability balance reported at September 30, 2021, consists largely of VBA's compensation (\$4.3 trillion) and education (\$151.2 billion) liability estimates. The accuracy of

EXHIBIT A

Material Weaknesses

those estimates is 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 2021; however, our examination of VBA's compensation, pension, and education models continued to identify the following:

1. Untimely assumption updates or refinements (i.e., experience studies) – VBA did not perform experience studies, which are necessary to update or develop new assumptions, on a timely basis. We observed significant changes to management's estimates as a result of the updates or refinements. Some of the significant impacts are discussed below:
 - Compensation and Pension – There was an increase of approximately \$18 billion, or 16%, to the pension estimate due to the pension Veteran new case rates assumption update, which had not been updated since FY 2013. Of note, in the prior year auditors' report, we reported a significant impact to the compensation liability as a result of untimely assumption updates. Further, for both the compensation and pension estimates, VBA's future timeline for certain planned assumption updates will not occur for a period of more than five years from the last update (i.e., termination other than death rates for survivors, withholding time lag, and Veteran mortality rates).
 - Education – The education models (including VRE) are not mature and require further analysis to refine and enhance the assumptions used in the models. We observed that VBA management did not proactively perform an in-depth analysis of its actuarial model outputs to actual results on a predetermined periodic basis. Historically, updates have resulted in significant changes to the estimated education liabilities. For example, we observed management updated their assumption of a fixed ending date for the projection period (i.e., over 60 years) to an assumption that all beneficiaries terminate their enrollment after thirty years. This resulted in a significant decrease to the Chapter 33 estimate by \$13.8 billion, or 16%.

2. Data input, reconciliations, and look-back analyses needs 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 and actuals-to-projected (i.e., recent experience compared to projections) analyses to assess the accuracy and precision of the model outputs. For example, we identified the following:
 - Chapter 31 - We found that the preliminary Chapter 31 liability calculation for future new enrollees provided by VBA contained errors, which resulted in a \$10.4 billion overstatement of the liability. VBA subsequently provided a revised model that included the error correction.
 - Compensation and Pension Retroactive Adjustment Factor – Upon our inquiry about an unreconciled variance between the data source and datasets provided to VBA's actuaries to update the retroactive adjustment factor in the preliminary compensation and pension models, VBA management provided updated datasets to its actuarial team. The correction to the erroneous data used in the preliminary model resulted in a decrease to the compensation liability estimate by approximately \$11.2 billion and an increase to the pension estimate by approximately \$700 million.

EXHIBIT A Material Weaknesses

B. Loan Guaranty Liability

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 estimated future program cash flows. The model is comprised of two main components: the Variable Default Model (VDM) and the Cash Flow Model. Although VBA has improved some of the model deficiencies that we have reported in prior years, the following still remain:

1. Lack of a loan level model approach - 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 geographical location, mark-to-market and other critical 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.
2. Model risk management needs improvement – VBA management updated their documentation regarding model oversight by defining the processes for engaging and involving senior leadership outside of the budget office for critical decisions and oversight for various loan guarantee subsidy modeling activities. However, we continue to identify the oversight still needs significant improvement:
 - There is a lack of formal oversight with regard to the modeling and modeling activities that brings together relevant areas such as program, budget, accounting, and econometric expertise. VBA plans to move to a loan level approach, and such expertise will be important in implementing and monitoring the model.
 - There is a lack of a formalized process for developing, updating, and maintaining modeling policies and controls, as well as conducting a more robust risk assessment.
 - There is a lack of comprehensive model validation, including ongoing monitoring, analysis, risk assessment, review, and documentation, to support key model decision making.

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

EXHIBIT A

Material Weaknesses

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, pension, and education estimates, some of which is due to limited resources. In addition, VBA did not perform a thorough review of the actuarial estimates prior to providing them to the auditors. Further, resources and time limitations pose challenges on updating underlying key assumptions and performing thorough review of the actuarial estimates.
- B. Management has been delayed in addressing the corrective actions for the loan guaranty models identified in the prior years. There is a lack of an effective, formal, and robust model governance mechanism supported by policy to ensure controls over the model risk management framework.

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, pension, 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, review, 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, pension, and education assumptions and other relevant factors used in the calculations to ensure accuracy of financial reporting.

EXHIBIT A

Material Weaknesses

- a) Compare estimates with subsequent results (e.g., projected to recent experience) 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) Utilize the best available data which is loan level data as input to the default model versus at a cohort level and ensure audit readiness in year of implementation. Include variables at the loan level to account for certain significant underwriting characteristics, geographic specific house price appreciation, and mark-to market valuations.
 - b) Implement policies and procedures that establish formal model oversight, with a control framework that defines the roles and responsibilities for such areas as program, budget, accounting, and econometrics.
 - c) Use a strong model oversight framework to:
 - Ensure a formalized process for developing, updating, and maintaining modeling policies and procedures and conducting risk assessments.
 - Ensure comprehensive model validation.
 - Ensure policies and procedures are carried out and needed resources are allocated.
 - Ensure the oversight framework includes the appropriate components of internal control as found in GAO's Standards for Internal Control in the Federal Government.

2. 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 Integrated Financial and Acquisition Management System (iFAMS) and create financial statements for external financial reporting. The FMS process requires significant manual intervention and creates risks to the accuracy and completeness of financial reporting. VA is currently deploying iFAMS, a new core financial system using a phased approach over a number of years. The implementation and completion of iFAMS is critical in remediating the control weaknesses associated with VA's financial system reporting capabilities.

Conditions:

The majority of VA's financial systems and reporting control weaknesses stem from the antiquated financial management system and will remain until iFAMS is fully implemented. VA continues to refine its financial reporting practices, but many of these issues have existed for years and require extensive efforts to change the current business processes. Through FY 2021, VA's financial systems and reporting issues remain in the following areas:

EXHIBIT A

Material Weaknesses

A. Lack of FMS Reconciliations with Subsidiary Systems

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. VA does not perform comprehensive reconciliations between its feeder/subsidiary systems and FMS. 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. Historically, the subsidiary systems where the financial events are initiated are not always the systems that directly feed information into FMS. Moreover, VA's accounting and financial reporting is severely hindered by system and business process limitations which continues to further exacerbate the reconciliation issues.

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

The use of manual adjustments such as top-side entries often bypass system controls instituted for ordinary transactional processing and inherently increase the risk of introducing errors into financial reporting. 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 that are subject to manual controls. 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. For instance, we noted the following:

1. 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.
2. VA continues to use an automated tool to assist with their data cleansing efforts related to prior year recoveries transactions. In FY 2021, VA recorded material adjustments to correct errors in recoveries for approximately \$2.07 billion (absolute value).

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. Therefore, the accounts involving intragovernmental financial transactions, such as obligations, unfilled customer orders, and offsetting collections recorded in FMS, do not agree to the agreement amounts in the repository. The VA intragovernmental differences by trading partner approximated \$1.36 billion, including an intra-entity difference of approximately \$647 million as of June 30. VA resolved the intra-entity difference by September 30.

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.

EXHIBIT A

Material Weaknesses

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 continues to impede VA's ability to record transactions in a more automated manner, which results in extensive manual intervention to prepare its financial statements for external reporting purposes. In addition, there was a lack of adequate internal controls around centralized and consolidated reconciliations for key systems and accounts, and a lack of a complete inventory, proper accounting, and monthly reconciliation of intra-agency and intergovernmental agreements.

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) 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.

EXHIBIT A Material Weaknesses

2. Use of JVs:
 - a) Continue to monitor the JV recording process, especially surrounding the research and review of account differences and subsequent adjustments. Focus on addressing the common root causes of these JVs in order to:
 - Take the necessary actions to reduce the volume and value of JVs, especially as part of system modernization.
 - Ensure any risks identified are considered and addressed in the system modernization efforts.
 - b) Continue analysis of 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.).
 - c) For prior year recoveries:
 - Refine, if necessary, 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.
 - Continue to perform an assessment to validate the transactions included in the population of PYR prior to recording them on the financial statements.
 - 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.
 - As part of the system modernization efforts, establish PYR practices and transaction codes that are consistent with USSGL when transactions occur.
3. Intragovernmental agreements and reconciliations:
 - a) Ensure compliance with the reimbursable policy to provide the final agreement to the centralized repository. Continue to work to maintain and validate all intragovernmental agreements in that repository to ensure they 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.
 - Automate cumulative reconciliation between the repository and the general ledger system and perform it monthly.
 - b) 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 for the financial statements. Any corrections made as a result of the research should be documented and recorded in FMS at the transaction level.
 - c) Continue to strengthen VA's controls and processes as described in the Treasury Financial Manual Volume I, Part 2, Chapter 4700, Appendix 5, *Overall Intra-governmental Transactions (IGT) Processes/General Information*, revised in June 2021.

EXHIBIT A

Material Weaknesses

3. Information Technology Security Controls

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

Our review of IT controls covered general and business process application controls across 24 selected VA medical centers, regional offices, and major data centers. We also reviewed controls over 50 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 2021. Examples of improvements within 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 and continued to mitigate recent vulnerabilities present on its networks. VA has also piloted passive vulnerability scanning for segments of the network typically isolated from normal scan activity. Further, VA continues to mature its 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 comprehensive manner to information systems across VA in order to be considered consistent and fully effective. For example, many VA systems have recently been migrated to cloud environments which provide vendor support for a certain subset of security controls. However, we continue to identify weaknesses in control processes related to those applications even after the migrations. Therefore, the effective and consistent implementation of controls are inconsistent whether they are hosted at a VA data center or a cloud environment. 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 and enforcement 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

EXHIBIT A

Material Weaknesses

transmitting financial and sensitive information between VA's medical centers, regional offices, and data centers. This is a result of an inadequate application of vendor patches and outdated system software that could jeopardize the data integrity and confidentiality of VA's financial and sensitive information. VA continued to make progress in deploying current security patches and configuration updates; 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 timely deployment of security patches, system upgrades, and system configurations that will mitigate significant security vulnerabilities and enforce a consistent process across the enterprise that will mitigate significant security vulnerabilities. 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 at all facilities. Additionally, VA must communicate security deficiencies to the appropriate personnel, who take responsibility for implementing corrective actions and ensuring those actions are taken. Our assessment of the general and application controls of VA's key IT infrastructure and financial systems identified the following conditions:

Conditions:

Configuration Management

- Systems including key databases supporting financial applications were not timely patched or securely configured to mitigate known and unknown information security vulnerabilities. The deployment of vendor patches, configuration settings, and system upgrades to mitigate the vulnerabilities was not effective across all VA facilities, systems, and network segments. Furthermore, VA did not scan all of the devices connected to its networks with credentials and therefore 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 had configuration weaknesses and 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 configured to prevent detection during vulnerability testing.
- There were weaknesses in the process for monitoring configuration baseline standards. Specifically, not all platforms were monitored for compliance with approved 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.

EXHIBIT A

Material Weaknesses

- VA did not employ automated mechanisms to prevent the execution of changes to systems prior to approval and did not proactively compare/review implemented changes to authorized changes.
- 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 numerous service accounts that were not needed or had passwords that were not changed in over three years. In addition, 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 timely from applications and networks. Critical 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 effectively 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 application's 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 systems.

Security Management

- Security Control Assessments (SCAs) were not consistently performed for new systems requiring an Authority to Operate and existing systems going through re-authorization. In addition, most SCAs were conducted by groups that were not independent of the systems they manage, and the groups did not consistently assess the effectiveness of the controls in place.
- Security and risk management processes were not consistently performed and documented within the GRC tool. We identified instances of controls that were not 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) and documentation was inadequate to support closed actions.

EXHIBIT A

Material Weaknesses

- System interconnections were not consistently documented and were not always accurately reported within system and site inventories.

Contingency Planning

- Contingency Plans were not consistently documented, reviewed, updated, or tested. In addition, Contingency Plans were missing several key elements to identify which assets, interdependent systems, and processes directly support mission essential functions and business functions.

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, 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;

EXHIBIT A

Material Weaknesses

- 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 and effectively 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. This inconsistency was noted for systems hosted at VA data centers as well as systems residing within cloud environments. VA also counts a significant portion of technical vulnerabilities as mitigated when assigned to POA&Ms or identified as being above their baseline even though the risks still remain on their network. These weaknesses should not be counted as mitigated until technical or operational measures can be enacted to remove or reduce the risk.

In addition, VA recently underwent a system boundary re-organization, which aligned their main systems along area and district territories. This has created a new system boundary structure and VA system inventory, thus complicating the consistent and effective implementation 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 could result in improper disclosure or theft of information without detection. Further, key financial management systems use outdated technology that hinders mitigation of certain security vulnerabilities. Without remediating all significant security vulnerabilities, systems could be compromised resulting in potential harm to confidentiality, integrity, and availability of VA sensitive data.

Recommendations:

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

1. Implement improved mechanisms to continuously identify and remediate security deficiencies. Ensure security scans are performed with credentials on as many systems as possible and the subsequent vulnerabilities are remediated in a timely manner in accordance with VA policy timeframes.
2. Continue to implement controls that restrict medical devices from unnecessary access to the general network.

EXHIBIT A

Material Weaknesses

3. Ensure that all baseline configurations are appropriately 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. 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. Implement improved processes for monitoring system audit logs for unauthorized or unusual activities and privileged functions across all systems and platforms.
10. Implement an improved continuous monitoring program including: processes for reviewing and updating key security documentation; processes to ensure security control implementation status and risks are accurately reported; and 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 and formalize the position descriptions and the Position Designation Automated Tool methodology. Implement improved processes for establishing and maintaining accurate investigation data within an authoritative system of record for the VA.
12. Implement improved mechanisms to ensure system owners and information system security officers follow procedures for establishing, tracking, updating, and closing POA&Ms.
13. Review and update existing contingency plans to include critical information systems, components, interdependencies, and detailed recovery priorities. Ensure contingency plans for all systems and applications are updated and tested in accordance with VA requirements.

EXHIBIT B

Significant Deficiencies

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

Background:

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 completely, timely, and accurately. In FY 2021, 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 with respect to its non-Community Care program expenses and related obligations as follows:

As reported in our prior years auditors' report, VA does not perform a complete reconciliation of all outstanding obligations and expenditures between FMS and the Integrated Funds Distribution Control Point Activity, Accounting and Procurement System (IFCAP), Centralized Administrative Accounting Transaction System (CAATS), and Electronic Contract Management System (eCMS) at the transactional level. This increases the risk that all activities are not accurately reflected in the financial records, and ultimately, in the financial statements since periodic cumulative reconciliations between these subsidiary systems and FMS are not performed.

VA continues to use VA Form 1358 "Obligation or Change in Obligation" (1358s) to record financial transactions related to procurement obligations. VA approved the use of 1358s for 21 different types of 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. With respect to the potential overstatement of accrued expenses, VA continues to use a monthly auto-accrual process to liquidate obligations and record accruals for accounts payable without evidence of goods or services received. The auto-accrual process is prone to errors and cannot replace active monitoring by management to verify completeness and accuracy of the obligation and related accounts payable balances. The monitoring activities used by VA to validate accounts payable and accrued balances need to be strengthened. VA's obligations based on 1358s approximated \$6.7 billion as of September 30, 2021.

VA did not adequately perform a comprehensive look-back analysis or validation of its accrual methodology for its non-Community Care activity, which resulted in significant manual adjustments of approximately \$1.3 billion at June 30 and \$1.7 billion at September 30 to accurately report the Accounts Payable balances. Further, a manual adjustment of approximately \$540 million was recorded at year end 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:

EXHIBIT B

Significant Deficiencies

- Untimely liquidation of inactive UDOs – Delays ranged from nine months to two years and five months.
- Untimely recording of contracts or modifications into the general ledger system (FMS) – Delays ranged from approximately two months to three years and three months.
- Over-obligation of funds – Recorded obligations exceeded the contract or purchase order amounts.
- 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:

The information technology systems 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 with respect to obligations, accrued expenses, and UDOs, which required manual adjustments to accurately report balances at September 30, 2021.

Recommendations:

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

1. Continue efforts to develop and refine methodologies for establishing and validating non-Community Care obligations and accruals to improve financial reporting.
2. 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 follow-up on inactive and 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.
3. Improve the periodic look-back validations; i.e., analyses of obligation and accrual balances reported for non-Community Care 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.

EXHIBIT B

Significant Deficiencies

4. 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.

2. 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 2021, VA continues to have 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 overcome organizational siloes and continue moving 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, and we have observed significant steps to address material weaknesses previously identified. However, we continue to identify weaknesses and areas for improvement around the untimely resolution of significant matters that impacted VA's financial reporting in FY 2021. These matters were included in Material Weaknesses 1, 2, and Significant Deficiency 1 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.

EXHIBIT B Significant Deficiencies

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 2021, 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 1-3, Significant Deficiency 1, 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 completing experience studies for the Compensation, Pension, and Education benefit programs.
- Lack of a complete centralized repository for intragovernmental agreements.
- Extensive use of journal vouchers due to system limitations.

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 of corrective actions.

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—

EXHIBIT B

Significant Deficiencies

- 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 decentralized reporting structure coupled with legacy system issues presents a challenging entity level control environment. VA continues to have control deficiencies that impede its 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.

EXHIBIT B

Significant Deficiencies

Recommendations:

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

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

2. 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 C 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 2, many of VA's legacy systems have been obsolete for several years. 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. Consequently, 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 the deficiencies reported in Exhibit A and Exhibit B, including Material Weakness 3 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 2. 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 2021:

- *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, management found it difficult at times to retrieve 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.

EXHIBIT C Noncompliance Findings

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. 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.

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

- 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 payment 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 payments 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.

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.
- 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

EXHIBIT C

Noncompliance Findings

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.
- Account code descriptions did not match the USSGL.
- The FMS chart of accounts had inconsistencies 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 2021 to strengthen VA Administrations' use of the Reporting Entity Internal Control Assessment (ICA) which supports the required assurances. The ICA 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 Education, Loan Management, Revenue and Receivables Management, Fund Balance with Treasury, and Budgetary Resources Management in FY 2021.

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.

EXHIBIT C

Noncompliance Findings

4. Actual and Potential Violations of the Antideficiency Act

VA reported two violations of the Antideficiency Act, 31 U.S.C. 1341 (a), during FY 2021, and is in the process of reporting five other violations, as follows:

A. ADA Violations Reported in FY 2021:

- The Office of Community Care used the Medical Community Care (Fund 0140) appropriation instead of the Medical Services (Fund 036-0160) appropriation for the payment of State Veterans Home expenses during fiscal years 2017, 2018, and 2019 and reported the violation on November 5, 2020.
- The second violation occurred on March 31, 2000, in the General Operating Expenses, Veterans Benefits Administration (Fund 036-0151) in connection with an Insurance Service agreement for fiscal years 2000 through 2020 that included an open ended, uncapped indemnification clause, and was reported on September 28, 2021.

B. ADA Violations in Process:

- In addition, VA is in the process of reporting five potential violations which are carried forward from prior years that were deemed to be actual violations of the Antideficiency Act, during FY 2021.

C. Other Matters:

VA has two potential violations of the Antideficiency Act, which are being reviewed by VA's Office of General Counsel.

5. Noncompliance with Payment Integrity Information Act

On August 2, 2021, the VA Office of Inspector General reported that VA did not fully comply for FY 2020 with the Payment Integrity Information Act, 31 U.S.C. 3301 note.

EXHIBIT D
Status of Prior Year Findings

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

<i>Type of Finding</i>	<i>Fiscal Year (FY) 2020 Finding</i>	<i>Fiscal Year (FY) 2021 Status</i>
Material Weakness	Controls Over Significant Accounting Estimates	Modified Repeat – See FY 2021 Material Weakness Finding 1
Material Weakness	Obligations, Undelivered Orders (UDOs), and Accrued Expenses	Modified Repeat – See FY 2021 Significant Deficiency Finding 1
Material Weakness	Financial Systems and Reporting	Modified Repeat – See FY 2021 Material Weakness Finding 2
Material Weakness	Information Technology Security Controls	Modified Repeat – See FY 2021 Material Weakness Finding 3
Material Weakness	Entity Level Controls including Chief Financial Officer (CFO) Organizational Structure	Modified Repeat – See FY 2021 Significant Deficiency Finding 2
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	Modified Repeat – See Noncompliance Finding 4
Noncompliance	Noncompliance with Improper Payments Elimination and Recovery Act	Repeat – See Noncompliance Finding 5

OTHER INFORMATION



VA researchers use novel approach to gain insight into suicide risk factors

Picture previous page: Dr. Robert Graziano, the lead researcher on the study, received support from the Mid-Atlantic Mental Illness Research, Education and Clinical Center at the Durham VA.

Predicting suicide has long been one of the most researched subjects in psychology. One of the key conclusions is that suicide has many risk factors and it's hard to pinpoint how those factors relate to one another.

Dr. Robert Graziano, a postdoctoral Fellow in clinical psychology at the Durham VA Health Care System in North Carolina, led a study on the risk factors among Iraq and Afghanistan Veterans for suicidal ideation. His study used an emerging approach in mental health research called network theory. The main purpose is to illustrate how a series of variables - in this case risk factors for suicide - relate to each other and which are the most important, thus addressing a major shortcoming of other methodologies.

Graziano's team found suicidal ideation to be strongly related to depression, with small connections to past suicide attempts and anger. Previous suicide attempts were strongly related to the history of childhood trauma and weakly related to illegal drug use and post-traumatic stress disorder (PTSD). "These results offer valuable information for both predicting suicide risk and differentiating targets for interventions lowering suicide risk in Veterans," said the researchers. The [findings](#) appeared in the Journal of Psychiatric Research in April 2021.

Graziano's study isn't the first one to use network theory to look at suicide. But he believes only one other study—research led by Dr. Jeffrey Simons of the Sioux Falls VA Health Care System in South Dakota—used network theory to examine suicide risk factors in the Veteran population.

Graziano's work built on Simons' study by looking at series of additional important risk factors related to suicide risk. Simons' study included trauma exposure, PTSD symptoms and depression, but Graziano added past suicide attempts, substance abuse, anger and sleep quality. Including those additional risk factors allowed Graziano and his team to look at a larger set of potential links related to suicide risk.

Network analysis is based on the factors included in the models, but researchers are often limited by what is available in their data, Graziano explains. His study had a relatively large sample size of 2,268 Veterans, which has historically been a limitation in studies using network theory. The data were collected via surveys and have been used in many other studies. Without a large sample size, he notes, a researcher can't include a lot of risk factors and expect to create a stable, accurate network. Simons' study included 276 Veterans.

Suicide prevention is VA's top clinical priority. [VA's 2020 National Veteran Suicide Prevention Annual Report](#) notes that in 2018 - the most recent year for which data are available - the total number of Veterans who died by suicide increased less than one percent compared to the prior year to an average of 17.6 per day.

VA Research Currents conducted a full [interview with Dr. Graziano](#), which can be read online.

**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 enhancements to VA services, operations, 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 the 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.

As we are well into the second year of the COVID-19 pandemic, our thoughts are with the families of the more than 15,000 veterans and over 225 VA employees who have died as a result of the virus. The OIG lauds the efforts of the numerous VA employees who have worked to treat and comfort veterans, their families, and caregivers. We also recognize the other efforts by VA personnel to address the many challenging situations caused by the pandemic, including working to assist communities in need across the nation. They have done so at significant personal risk. In addition, the OIG recognizes the many VA staff who have found innovative solutions to continue providing benefits and services during these challenging times.



MICHAEL J. MISSAL
Inspector General

OIG CHALLENGE #1:

Veterans and their families entrust their lives to VHA medical providers and staff every day at the more than 1,200 VHA facilities. They expect and deserve the highest quality of care delivered in a safe and accountable healthcare setting. Fundamental to providing this level of care is creating an environment where patient safety is the highest priority of all staff at every patient interaction, and any perceived compromises to that safety are reported and thoroughly evaluated.

This past year, the OIG has reported on high-profile instances in which facility leadership did not consistently promote a culture that prioritized patient safety as expected of a high reliability organization. Consequently, a combination of clinical and administrative failures created conditions that put patients at risk and, in some instances, allowed for the carrying out of horrific crimes against some veterans.

Among the worst, a former nursing assistant pleaded guilty to seven counts of second-degree murder and one count of assault with the intent to commit murder of veterans at the Louis A. Johnson VA Medical Center in Clarksburg, West Virginia. The former nursing assistant pleaded guilty to deliberately administering insulin to these patients in 2017 and 2018, resulting in profound hypoglycemia and death.

The OIG reviewed the events surrounding the homicides to understand how such actions could have occurred, whether they could have been detected earlier, and what actions should be taken to prevent future tragedies. The OIG found that the facility had serious, pervasive, and deep-rooted clinical and administrative failures that contributed to the criminal actions not being identified and stopped earlier. The failures occurred in virtually all the critical functions required to promote patient safety and prevent avoidable adverse events at the facility.

Also this year, the OIG completed its inspection related to allegations that a doctor within the Pathology and Laboratory Medicine Service at the Veterans Health Care System of the Ozarks in Fayetteville, Arkansas, was misdiagnosing patients' pathological specimens and altering quality management documents to conceal his errors. It was also alleged that a facility leader did not adequately monitor the doctor's clinical practice and failed to address misconduct.

After the doctor admitted to the OIG of a 30-year problem with alcohol and the more recent use of a substance with similar effects, but not detectable by routine testing, the OIG grew concerned about facility staff having observed signs of impairment earlier than 2016 but not formally reporting them as required. For example, a patient was diagnosed with lymphoma when the patient actually had a small-cell carcinoma. The doctor covered his tracks by falsifying the patient's medical record. The patient later died due to misdiagnosis that resulted in the failure to have appropriate treatment.

When interviewed, staff who observed impaired behaviors shared concerns about reporting, including fear of reprisal. An administrative investigation board was initiated in 2018 and evaluated the facility's culture related to quality and safety reporting. The administrative investigation board found a lack of transparency in the pathology quality management processes and communication delays. The OIG determined that facility leaders did not foster a

culture of accountability to staff. The OIG concluded that facility leaders did not meet VHA's goal to establish an "environment in which staff act with integrity to achieve accountability."

Why This Is a Challenge.

In every hospital, patients are exposed to known risks that are often inherent to that environment. Ultimately, quality health care is dependent on leaders who promote a culture of safety that reduces or eliminates those risks whenever possible. Providing high-quality health care to a diverse and complex patient population demands the support of, and adherence to, an organization-wide culture of safety. When this occurs, a patient-centric environment becomes the "norm."

Conversely, systemic weaknesses in a facility's culture of safety can have devastating consequences. The choices providers make in the delivery and management of health care may result in unintentional poor quality outcomes. An honest, open discussion of these poor outcomes is difficult and, at times, places extreme stress upon the personal and working relationships that exist within the healthcare system. Nevertheless, they must occur. The OIG's reports continue to highlight examples of significant compromises to patient safety that persisted over extended periods of time without meaningful interventions or actions to correct and ultimately prevent patient harm.

What the Department Needs to Do.

The failure to create an environment where clinical staff and facility leadership work in concert to address unusual and unexplained patient deaths is an indication of the need to reconsider all aspects of VA's patient safety program. A failure of facility leaders to vigorously explore or take action may promote perceptions that reporting will have no effect. Not aggressively addressing reports of safety issues can also discourage staff from complying with the facility's policy to report observations of possibly unsafe treatment. VA leaders need to instill in all employees the understanding that patient safety is ultimately a consequence of accountability, adherence to protocols that prioritize high-quality care, and a shared responsibility among all who participate in that care to recognize and report any perceived compromises to that safety.

Finally, VA needs to (1) review the data collected as the basis for evaluation of patient safety within facilities, (2) complete the roll-out of VA's High Reliability Program, (3) create a culture where honest discussions of difficult problems is encouraged and is the result of collaboration with VHA stakeholders, and (4) consider wider use of clinical case management rounds where difficult cases are objectively reviewed and alternative decision possibilities are discussed in an open provider patient safety forum.

OIG CHALLENGE #2:

Eligible veterans, their families, and caregivers must receive proper benefits and services in a timely manner. VBA has faced significant challenges as the result of the necessity of limiting in person exams during the pandemic to keep veterans and personnel safe while at the same time minimizing benefit claims processing delays and ensuring claims are not prematurely denied due to missed or canceled in-person exams.

In the next fiscal year, staff will need to continue to navigate safety measures while working through the identified backlog of medical examinations, claims, and other matters, all while balancing ongoing demands. The pandemic's effect on education, training, and the economy has been felt by veterans nationwide who have applied for a wide range of benefits. Similarly, the demand for healthcare benefits is expected to remain high.

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 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.

OIG reports have often identified significant challenges in VBA's attempts to deliver accurate and timely claims decisions and appeals. Failures in timeliness, guidance, training, quality assurance, and systems have been well-documented, especially with regard to particularly complex claims, such as those involving conditions of the spine with secondary service connected conditions.

More recent OIG reports have identified the need for VA to enhance its strategy to reduce the disability exam inventory due to the pandemic and to reduce errors related to canceled exams. During a period of discontinued in-person exams, the OIG found that some claims were denied prematurely or improperly, based on notifications in VBA electronic records showing the veteran did not report for an exam, or the exam was canceled at the veteran's or VA's request. VBA later assured veterans that no final action—including the denial of claims—would be taken on claims when an in-person exam was needed. However, based on the results of the OIG review, continued oversight of premature or improperly denied claims is needed to ensure appropriate action has been taken. Finally, VBA must further develop and test its strategy to reduce the growing inventory and incoming exam requests.

The MISSION Act focus on the delivery of 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.

Finally, 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.

What the Department Needs to Do.

As VA continues to manage the effects of the pandemic on its facilities and staff, safety measures have been put in place and protocols have been communicated. Veterans have become less hesitant to report for in-person exams, and VA has steadily increased the number of compensation and pension exams it has processed.

The OIG has reported that VBA took a number of positive and decisive actions in response to the COVID-19 pandemic. However, VBA continues to need to enhance its strategies to help reduce disability exam inventory and backlog related to pandemic restrictions and take additional steps to address errors related to exam cancellations. Greater oversight is needed to ensure VA personnel and contractors comply with policies and procedures in examinations.

The OIG has made many recommendations in recent years related to improving the accuracy and timeliness of VBA's claims decisions and appeals processes. VA has implemented and encouraged more training at the local levels to better complete assigned roles.

Finally, VBA must further develop, implement, and test its strategy to reduce the growing inventory of pending exams, while handling incoming exam requests. The plan must incorporate lessons from COVID-19 to ensure continuation of exam processing and prepare for future pandemic surges and other national emergencies. A detailed and tested strategy that draws on all its partners and resources will help VBA reduce the risk of further delaying veterans' claims or denying them the benefits they are due.

OIG CHALLENGE #3:

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. When funds are wasted or misused, valuable resources are diverted from benefiting veterans, their families, and caregivers.

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

These chronic reporting weaknesses have been highlighted much in the past, and also in recent OIG work as it examined VHA's reporting of the billions of dollars in pandemic-related relief funds provided by Congress.

While the OIG found that VA met its congressionally mandated reporting requirements for the pandemic-related relief funds, the OIG noted three concerns that affected the completeness and accuracy of VA's reporting to the Office of Management and Budget and Congress. First, obligations were at risk of not being included in VA's reports; second, VA initially delayed the reporting of reimbursable obligated amounts for two months; and third, VA's reports contained anomalies (negative dollar amounts in data fields that should only have positive amounts, which misstated VA's overall reported obligations).

The OIG believes that due to VHA's reliance on several accounting subsystems for payroll and purchase card transactions, VHA staff had to perform a significant amount of manual work to identify and perform adjustments so that the COVID-19 obligations and expenditures were captured in VA's reporting. The overall complexity of VHA's reporting process indicates that controls around VA's data reporting and validation efforts can be improved.

The OIG has repeatedly 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. 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.

Why This Is a Challenge.

VA's size and complexity of operations make effective budget management extremely challenging. VA's financial management system is over 30 years old and has functional limitations well-documented in OIG reports. The complex and disjointed architecture of the financial management system creates 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.

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 audit of VA's financial statements for fiscal year 2020 continued to report instances where VA's financial management systems did not substantially comply with federal financial management systems requirements and the United States Standard General Ledger at the transaction level under FFMIA. These findings have been repeatedly reported in part for more than 10 years.

Also, VA did not fully comply with the intent of the Federal Managers' Financial Integrity Act due to internal control weaknesses identified and because improvements could be made in VA's testing of internal controls.

The pandemic is intensifying these long-standing challenges and delaying initiatives intended to remediate these problems, including financial management reforms and the transformation of business processes. While VA has numerous initiatives to curb fraud, waste, and abuse, the pandemic is creating novel opportunities for bad actors, and has left VA 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, 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 \$1.02 billion in monetary benefits.

What the Department Needs to Do.

VA has made progress on correcting certain control deficiencies pertaining to financial reporting, and VA is in the process of deploying a new financial system in a series of phases over an extended period of time.

Compliance with 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.

OIG CHALLENGE #4:

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 depends in large part on the security functionality, effectiveness, and ease of use of underlying systems. The OIG has amassed a large number of 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. Changes to mission critical systems and infrastructure network devices did not always follow standardized software change control procedures, and infrastructure was not always upgraded timely in order to bring facilities up to VA and industry standards. Decentralized oversight, unrealistic timelines, inadequate engagement of all stakeholders and end users, and minimal testing for some systems have plagued IT projects. The OIG has detailed recurrent issues that run through reports on the GI Bill implementation, changes to systems affecting benefits to eligible veterans, payments for care in the community, medical supply and equipment inventory, financial management, electronic healthcare waiting lists, and police information management.

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. VA is nearly three years into replacing its aging electronic health record system. The OIG has been conducting early oversight of VA's efforts because of the tremendous cost and scale of the effort and its impact on veteran health. 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. However, recent OIG work has found that the

estimate of \$4.3 billion was not reliable. Furthermore, the OIG determined that VA did not report to Congress other, critical program-related IT infrastructure upgrade costs totaling about \$2.5 billion as well as physical infrastructure upgrade costs totaling about \$2.7 billion.

In addition to EHRM, VA is working to implement 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. The OIG has ongoing work to examine these efforts.

Finally, VA has also begun implementing the Integrated Financial and Acquisition Management System (iFAMS) to replace its legacy financial and contracting IT systems of record. The new system is expected to deploy across the VA enterprise through calendar year 2027. This replacement is critical because continued reliance on the Department's legacy financial system presents enormous risk to VA operations. The OIG has ongoing work to evaluate the first phase of this system's deployment.

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 internally as well as with DoD, and to modernize VA's aging infrastructure to accommodate the new system. OIG reports demonstrate failures in oversight, planning, and coordination, and VA has temporarily halted plans for EHRM implementation.

The recommendations from our five reports published between April 2020 and July 2021 are meant to help VA make modifications to its roadmap for future implementation efforts. The OIG has repeatedly found issues with this deployment including deficiencies in infrastructure readiness at the first VA facility to use the new system and stove-piped governance with decision-making that does not appropriately engage VHA personnel who are the end users of the new EHR system. The OIG also found that the risk mitigations facility leaders would employ during the planned go-live period were inadequate to address the gaps in capabilities and presented a potential, yet significant, risk to patient safety.

As with EHRM, interoperability with VA systems and holistic changes to business processes continue to be significant hurdles to VA's implementation of the DMLSS System.

What the Department Needs to Do.

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.

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 part due to the OIG's work, VA has already taken actions to improve the reliability of its estimates.

VA should continue strengthening its cost-estimating procedures to ensure all characteristics of a reliable estimate are consistently and fully met. VA should also continue to reassess the enterprise-wide deployment schedule to ensure projected milestones are realistic and achievable, and that training is effective and evaluated. 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.

OIG CHALLENGE #5: LEADERSHIP AND GOVERNANCE

A common theme across recent OIG reporting has been the prevalence of a culture of complacency. By this it is meant that there were staff who either felt it was futile to report problems or were concerned that they would be retaliated against if they did report. Some of the more significant failures include the murders of veterans at the Clarksburg VA medical center; the Arkansas doctor who continued to report for duty while intoxicated (both mentioned in challenge #1); and unreported misconduct by a gynecological provider at the Gulf Coast Veterans Health Care System in Biloxi, Mississippi. A non-healthcare example includes VA staff knowingly failing to refund hundreds of millions of dollars in home loan funding fees to disabled veterans.

A leadership culture that does not seek to support transparency, oversight, and accountability will often fail to put veterans first when faced with external pressures. This was evident in the OIG investigation into senior VA officials' response to a veteran's sexual assault allegations at the Washington, DC, VA Medical Center wherein the OIG concluded that the then-VA Secretary failed to meet the agency's most basic mission of providing care and to consider the safety and welfare of veterans. The OIG found that former senior VA officials questioned the veteran's credibility and motive after learning of her complaint. Later, the former senior VA officials publicly cast doubt on the veteran's credibility by mischaracterizing the allegations as "unsubstantiated." The OIG's investigation was also hindered by the refusal of several former senior VA officials to cooperate with request for follow-up interviews to clarify and resolve conflicting evidence.

Why This Is a Challenge.

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.

Across VA, previous OIG reports have shown that leadership environments were not effective in recruiting and retaining the talent required. In fact, in our hotline reports and Comprehensive Health Care Inspection reports, it is common to see many leaders placed in acting positions throughout VHA. 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.

Finally, 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. Information critical to operations may not be well-documented, shared, or used for decision-making.

What the Department Needs to Do.

VA needs to promote a culture of accountability. 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. This includes supporting the OIG's oversight mission, complying with requests for interviews and information, providing accurate and timely information, and responding to recommendations. The current VA Secretary has taken steps to improve communication and cooperation in support of the OIG's oversight mission, including supporting training developed by the OIG for VA employees to educate staff on the OIG mission and authorities.

VA needs to work to create a stable leadership group that is experienced in delivering the high quality benefits that veterans deserve. The Department needs to continue its efforts to hire quality talent, pay competitive wages, and place value in technical competence and proven leadership.

VA has increased the transparency and utility of its staffing and vacancy data by adding elements to its reporting, such as summary and historical information. However, VA still needs to work on the quality and transparency of position data to achieve full staffing capacity and identify the additional funds needed to achieve it. More action is needed to ensure that vacancies and employee gains and losses are reported accurately and comply with legislative requirements.

VA Management's Response

VA acknowledges the five challenges presented in the OIG report and appreciates the IG's dedication to identifying opportunities for improvement in VA programs and operations. VA management is committed to implementing corrective action plans developed in response to each of the five challenges.

Challenge #1: Healthcare Services - VA has learned a great deal from OIG's findings and will use them to understand where we can improve. As an organization dedicated to high reliability, we strive to promote employee willingness to raise concerns and to build robust systems for investigation around unusual or unexpected deaths.

To ensure adequate controls are in place, VA established an interdisciplinary work group to review high alert medication safety, storage and security across VA and conducted an audit of medication storage areas at all local medical centers. The audit found that 95% of 8,859 medication storage areas were kept locked. All facilities not meeting 100% of all medication storage areas locked are developing action plans for improvement.

Challenge #2: Benefits for Veterans - VA expects the claims backlog to rise due to the court ordered *Nehmer* re-adjudication and the implementation of three new presumptive conditions established in the FY 2021 National Defense Authorization Act; however, VBA plans to reduce the claims backlog to 100,000 by the end of FY 2023 through collaboration with medical exam contractors, VHA and Federal records partners. In FY 2022, VBA will establish the Office of Review, Compliance and Accountability, to promote continuous improvement, sustainability of actions taken and fewer repetitive findings.

Challenge #3: Stewardship of Taxpayer Dollars - VA continues to implement 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. The Department is leveraging lessons learned during recent deployments of the new financial system at NCA and VBA to evaluate and adjust our strategy moving forward.

Challenge #4: Information Systems and Innovation - While the key findings of VA's EHRM strategic review largely match those of the OIG, the Department remains committed to the Cerner Millennium solution and the EHRM implementation has not been halted.

Challenge #5: Leadership and Governance - VA is working to address challenges with mission critical gaps through the implementation of more robust workforce management analytical capabilities to assess staffing requirements and the development of tools and policies to fill staffing gaps in a timely manner. These strategies are supported by a range of efforts to include: continued direct hiring authorities, recruitment and retention flexibilities and incentives; hiring initiatives; virtual trainee recruitment events; improved employee engagement; human resources modernization; workforce planning; targeted recruitment of military spouses and Service members transitioning from the Department of Defense (DoD); national recruiter programs for hard-to-fill occupations and specialties; and strategies for filling Medical Center Director (MCD) positions throughout VA. These strategies aim to reduce time to hire and loss to competition by using standard position descriptions, non-competitive authorities, reducing onboarding time and offering more workplace flexibilities.

To support oversight, VA will provide staff with a web-based training module titled, "Meeting Responsibilities to Report Misconduct and Promote VA Efficiency and Effectiveness". The training will provide clear roles, responsibilities and OIG legal authority. This training is designed to ensure VA employees understand the engagement protocol with OIG staff to improve VA programs, operations and services through proper and accurate reporting of fraud, waste, abuse and other complaints associated with OIG's responsibility area.

For additional information regarding major management challenges and how VA is working to address each one, please follow the links to related reports and testimony on page 169-170.

RELATED REPORTS:

Selected related reports from fiscal year 2021 (with a comprehensive list of publications available at www.va.gov/oig):

Related Report	Challenge				
	#1	#2	#3	#4	#5
Care and Oversight Deficiencies Related to Multiple Homicides at the Louis A. Johnson VA Medical Center in Clarksburg, West Virginia	X				X
Pathology Oversight Failures at the Veterans Health Care System of the Ozarks in Fayetteville, Arkansas	X				X
Deficiencies in the Mental Health Care of a Patient who Died by Suicide and Failure to Complete an Institutional Disclosure, VA Southern Nevada Healthcare System in Las Vegas	X				X
Improper Feeding of a Community Living Center Patient Who Died and Inadequate Review of the Patient's Care, VA New York Harbor Healthcare System in Queens	X				X
Deficiencies in Community Living Center Practices and the Death of a Patient Following Elopement from the Chillicothe VA Medical Center in Ohio	X				X
Challenges for Military Sexual Trauma Coordinators and Culture of Safety Considerations	X				X
Enhanced Strategy Needed to Reduce Disability Exam Inventory Due to the Pandemic and Errors Related to Canceled Exams		X			X
VBA Did Not Consistently Comply with Skills Certification Mandates for Compensation and Pension Claims Processors		X			
Improvements Still Needed in Processing Military Sexual Trauma Claims		X			X
VA Needs Better Internal Communication and Data Sharing to Strengthen the Administration of Spina Bifida Benefits		X			
Audit of VA's Financial Statements for Fiscal Years 2020 and 2019			X	X	
Review of VA's Compliance with the Payment Integrity Information Act for Fiscal Year 2020			X		
Inadequate Financial Controls and Payments Related to VA-Affiliated Nonprofit Corporations			X	X	
Review of VHA's Financial Oversight of COVID-19 Supplemental Funds			X	X	X
Training Deficiencies with VA's New Electronic Health Record System at the Mann-Grandstaff VA Medical Center in Spokane, Washington				X	X
Unreliable Information Technology Infrastructure Cost Estimates for the Electronic Health Record Modernization Program				X	X

Related Report	Challenge				
	#1	#2	#3	#4	#5
Deficiencies in Reporting Reliable Physical Infrastructure Cost Estimates for the Electronic Health Record Modernization Program				X	X
Improvements Needed in Adding Non-VA Medical Records to Veterans' Electronic Health Records				X	
Program of Comprehensive Assistance for Family Caregivers: IT System Development Challenges Affect Expansion				X	

Related Congressional Testimony	#1	#2	#3	#4	#5
Statement of Deputy Inspector General David Case, Office of Inspector General, Department of Veterans Affairs, Before the Subcommittee on Technology Modernization, U.S. House of Representatives, Committee on Veterans' Affairs, Hearing on Moving Forward: Evaluating Next Steps for the Department of Veterans Affairs Electronic Health Record Modernization Program	X		X	X	X
Statement of Deputy Inspector General David Case, Office of Inspector General, Department of Veterans Affairs, Before the U.S. Senate Committee on Veterans' Affairs Hearing on VA Electronic Health Records: Modernization and the Path Ahead	X		X	X	X
Statement of Michael Bowman, Office of Inspector General, Department of Veterans Affairs, Director of IT and Security Audits Division, Before the Subcommittee on Technology Modernization, Committee on Veterans' Affairs, U.S. House of Representatives, Hearing on Cybersecurity and Risk Management at VA: Addressing Ongoing Challenges and Moving Forward			X	X	X
Statement of Inspector General Michael Missal, Office of Inspector General, Department of Veterans Affairs, Before the U.S. House of Representatives, Committee on Veterans' Affairs, Subcommittee on Oversight and Investigations, Hearing on "The Pandemic and VA's Medical Supply Chain: Evaluating the Year-Long Response and Modernization"			X	X	X
Statement of Brent E. Arronte, Deputy Assistant Inspector General, Office of Audits and Evaluations, Office of Inspector General, Department of Veterans Affairs Before the Subcommittee on Disability Assistance and Memorial Affairs Committee on Veterans' Affairs, U.S. House of Representatives Hearing on VA Compensation and Pension Exams During the COVID-19 Pandemic: A Path Forward		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 2021 AFR.

Audit Opinion	Unmodified				
	Yes				
Restatement	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Material Weaknesses					
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	-	2	-	3

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

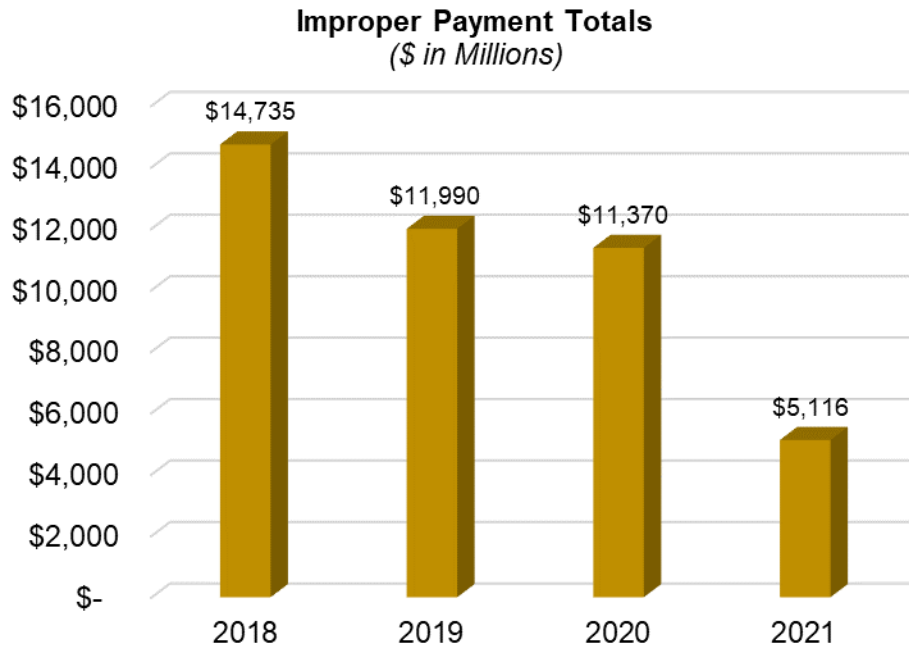
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Obligations, Undelivered Orders and Accrued Expenses	1	-	1	-	-	-
Entity Level Controls including CFO Organizational Structure	1	-	1	-	-	-
Total Material Weaknesses	2	-	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 2021, VA reports its largest reduction to date of \$6.25 billion in improper and unknown payments, a reduction of over 50% from FY2020 results. VA also removed five programs (Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA), Compensation, Dependency and Indemnity Compensation, Prosthetics and State Home Per Diem Grants) from improper payment reporting, as statistically valid testing showed these programs did not have significant improper payments. Since FY 2018, VA has reduced improper payments by \$9.6 billion, a 65% reduction, and removed a total of seven programs from reporting requirements.



VA's Payment Integrity Information Act and high priority program reporting can be found, once published by OMB at <https://paymentaccuracy.gov/>.

OTHER INFORMATION**CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION****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	2021 (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 \$23,607	VBA/Loan Guaranty	Federal Register 86 (02/02/2021) : 7811-7813
Program Fraud Civil Remedies Act of 1986, as amended	Fraudulent Claims or Statements	1986	2021	\$11,803	All VA Programs	Federal Register 86 (02/02/2021) : 7811-7813

In February 2021, VA published a regulation in the Federal Register, reflecting the Federal Civil Penalties annual inflation adjustment for FY 2021. VA will also publish an updated regulation in the Federal Register, reflecting the Federal Civil Penalties annual inflation adjustment for FY 2022. 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, 2021. 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	21	21	3
Number of Grants/Cooperative Agreements with Undisbursed Balances	47	14	-
Total Amount of Undisbursed Balances	\$6,937,835	\$427,219	\$ -

Although VA planned to have all grants closed out by September 30, 2021, the Department’s response to COVID-19 remained 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, 2021 goal for closeout. State Home Construction comprises 34 of the grants with undisbursed balances, totaling \$6,868,635 .

Additionally, the Adaptive Sports grant office is dealing with staffing shortages and has determined that new grantees need educating on proper procedures to close out awards. Trainings have been planned for grant recipients. Adaptive Sports comprises 27 of the grants with undisbursed balances, totaling \$496,419.

TRAILBLAZING WOMEN OF THE VETERANS HEALTH ADMINISTRATION



1867



Mrs. Emma L. Miller was VA's first woman employee, hired as the matron for the Central Branch of the National Home for Disabled Volunteer Soldiers (VHA predecessor) in Dayton, Ohio, in the fall of 1867 and served until her death in 1914.

1890



In 1890, the National Homes' Northwestern Branch in Milwaukee became the first to hire women nurses. After Milwaukee's successful efforts, the remaining National Homes followed suit and by 1898 women nurses worked at all of the National Homes.

1968



Dr. Omega Silva was the first African American woman medical doctor awarded a research associateship at VA in 1968.

1946



Dr. Margaret D. Craighill became VA's first chief medical consultant on women Veteran's medical care. Under Dr. Craighill's leadership, VA hired the first 10 female doctors.

1924



The first African American women nurses and medical staff were hired in 1924 to work at the Veteran's Bureau hospital for African American World War I veterans in Tuskegee, Alabama.

1919



In 1919, Lucy Minnigerode, R.N. was appointed as the Public Health Service's first Superintendent of Nursing and oversaw nurses who cared for those afflicted by the 1918–1919 influenza pandemic and returning World War I Veterans.

1971



Dr. Valerija B. Raulinaitis was the first woman appointed as director of VA hospital at the Leech Farm Road Hospital in Pittsburgh, Pennsylvania in 1971.

1977



Reverend Victoria Hatch was the first woman chaplain at VA. She was appointed as chaplain at the Jerry L. Pettis Memorial VA hospital in Loma Linda, CA.



In 1977, Rosalyn Sussman Yalow became the first VA doctor and second woman ever to receive the Nobel prize for Physiology and Medicine.

1980



Vernice Ferguson was the first African American woman appointed as Director of Nursing Service in 1980.

2020



Dr. Kameron Matthews became the first African American woman Chief Medical Officer in 2020.

2018



Dr. Teresa Boyd became the first woman Chief Medical Officer at VACO in 2018.

2000



Dr. Frances M. Murphy became the first woman Deputy Undersecretary for Health in 2000.

1992




Sue Kinnick planted the seed for what would become VA's Bar Code Medication Administration (BCMA) program in 1992 at the Topeka VAMC.

1984



Viola Johnson became the first African American woman hospital director in Battle Creek Michigan in 1984.

APPENDIX



If you're struggling,
take a moment.

REACH OUT

VA
Caregiver
Support

Caregiver & Family Resource Fair coming to a location near you

Picture previous page: VA Caregiver Support Program.

Like so many caregivers, Barb Webb has been the sole caregiver to her son since he retired from the Army National Guard 13 years ago. Her son, who was wounded in combat, has undergone 68 surgeries and is now 90% blind.

As a caregiver, Webb has devoted her life to providing him with emotional and physical support and extensive care. She has taken the initiative to find resources that support not only her son but herself as well. Recently, she turned to her local Caregiver and Family Resource Fair for assistance.

“There are so many resources available to us as caregivers,” Webb said. “Opportunities and events like the fair allow us to tap into all that is available.” Caregiver and Family Resource Fairs, provided through the VA Caregiver Support Program (CSP), offer Webb and other caregivers a wealth of support, including opportunities to broaden their networks.

Caregiver Resource Fair at every VA facility

For the second year, CSP is hosting Caregiver and Family Resource Fairs at every VA facility to reach caregivers across the country, including those who live in rural areas.

Caregivers have the option to attend a fair most convenient to them, including virtually or in person, and will learn first-hand about supports available to them. Information about resources provided by VA’s Veterans Benefits Administration, local non-profits, county agencies and other local community partners are also available.

“This is a full-time job and being a caretaker can be lonely, especially for those who live in rural communities. When I finally found my network within VA, I didn’t feel alone anymore. This is why we need events like the resource fair. We matter,” Webb said.

About CSP

The mission of CSP is to promote the health and well-being of caregivers who care for our nation’s Veterans with a focus on improving the quality of life for caregivers. This, in turn, can assist in helping Veterans live to their fullest potential.

CSP accomplishes this by providing support, helping caregivers navigate the VA health care system and linking caregivers to needed resources.

If you are providing care to a loved one, it’s normal to want to be there for them and offer the best care possible. It’s also natural to feel frustrated, sad, lonely, or even angry at times.

But it’s important to recognize signs that you may be feeling overwhelmed. CSP is here to support you. You can find your local CSP Team by visiting https://www.caregiver.va.gov/support/New_CSC_Page.asp.

For more information on the Caregiver & Family Resource Fair, please contact your [local Veterans Affairs Medical Center](#).

ABBREVIATIONS AND ACRONYMS

Acronym	Definition	Acronym	Definition
ADA	Anti-Deficiency Act	EPS	Environmental Programs Service
AFN	American Forces Network	EMS	Environmental Management Service
AFR	Agency Financial Report	EO	Executive Order
AGA	Association of Government Accountants	ERM	Enterprise Risk Management
AMA	Veterans Appeals Improvement and Modernization Act of 2017	ESCO	Energy Service Company
APG	Agency Priority Goal	ESPC	Energy Saving Performance Contracts
APP&R	Annual Performance Plan and Report	EUL	Enhanced-Use Lease
ARP Act	American Rescue Plan Act	Families First Act	Families First Coronavirus Response Act
ATO	Authority to Operate	FASAB	Federal Accounting Standards Advisory Board
BDN	Benefits Delivery Network	FBWT	Fund Balance with Treasury
Board	Board of Veterans' Appeals	FCA	Facility Condition Assessment
C&P	Compensation and Pension	FCRA	Federal Credit Reform Act of 1990
CAATS	Centralized Automated Accounting Transaction System	FECA	Federal Employees' Compensation Act
CAP	Climate Action Plan	FERS	Federal Employees Retirement System
CAP	Corrective Action Plan	FEVB	Federal Employee and Veterans' Benefits
CARES Act	Coronavirus Aid, Relief and Economic Securities Act	FFMIA	Federal Financial Management Improvement Act
CAVC	Court of Appeals for Veterans Claims	FISMA	Federal Information Security Modernization Act
CEAR	Certificate of Excellence in Accountability Reporting	FMBT	Financial Management Business Transformation
CFO	Chief Financial Officer	FMFIA	Federal Managers' Financial Integrity Act
C.F.R.	Code of Federal Regulations	FMS	Financial Management System
CHAMPVA	Civilian Health And Medical Program of the Department of Veterans Affairs	FR	Financial Report
CIO	Chief Information Officer	FTE	Full-time Employee
CLA	CliftonLarsonAllen	FY	Fiscal Year
COBOL	Common Business Oriented Language	GAAP	Generally Accepted Accounting Principles
COLA	Cost-of-Living Adjustment	GAO	Government Accountability Office
COTS	Commercial Off the Shelf	GOE	General Operating Expenses
COVID-19	Coronavirus Disease 2019	GPRAMA	Government Performance and Results Act Modernization Act
CP&E	Compensation, Pension, Burial and Education	GRC	Governance, Risk and Compliance
CPAC	Consolidated Patient Accounting Center	GSA	General Services Administration
CPI-W	Consumer Price Index for Urban Wage Earners and Clerical Workers	GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System
Credit Reform Act	Federal Credit Reform Act of 1990	HEFP	Healthcare Environmental Facilities Program
CSO	Commissioner's Standard Ordinary	HRA/OSP	Office of Human Resources and Administration/Operations, Security and Preparedness
CSP	Caregiver Support Program	HUD-VASH	Housing and Urban Development-VA Supportive Housing
CSRS	Civil Service Retirement System	ICA	Internal Controls Assessment
DATA Act	Digital Accountability and Transparency Act	IDES	Integrated Disability Evaluation System
DEA	Survivors' and Dependents' Education Assistance	iFAMS	Integrated Financial and Acquisition Management System
DMLSS	Defense Medical Logistics Standard Support	IFCAP	Integrated Funds Distribution, Control Point Activity, Accounting and Procurement System
DoD	Department of Defense	IGT	Intragovernmental Transaction
DOJ	Department of Justice	IT	Information Technology
DOL	Department of Labor	IUS	Internal Use Software
eCMS	Electronic Contract Management System	JV	Journal Voucher
EHRM	Electronic Health Record Modernization	LGBTQ	Lesbian, Gay, Bisexual, Transgender and Queer

APPENDIX A ABBREVIATIONS AND ACRONYMS

Acronym	Definition	Acronym	Definition
LLG	Liability for Loan Guarantee	S-DVI	Service-Disabled Veterans Insurance
LTS	Long Term Solution	SEAL	Sea, Air and Land
MCCF	Medical Care Collections Fund	SFFAS	Statement of Federal Financial Accounting Standards
MCD	Medical Center Director	SGLI	Service members' Group Life Insurance
MD&A	Management's Discussion and Analysis	SLVHCS	Southeast Louisiana Veterans Healthcare System
MGIB-AD	Montgomery GI Bill Active Duty	SPED	Safety Planning in Emergency Departments
MIA	Missing in Action	SNC	Statement of Net Cost
MinX	Management Information Exchange	SVH	State Veterans Homes
MISSION	Maintaining Systems and Strengthening Integrated Outside Networks	TAP	Transition Assistance Program
NCA	National Cemetery Administration	TCF	Technical Career Field
NFR	Notice of Findings and Recommendations	TFM	Treasury Financial Manual
NSLI	National Service Life Insurance	Treasury	U.S. Department of Treasury
OA	Occupancy Agreements	TSGLI	Servicemembers' Group Life Insurance Traumatic Injury Protection
OALC	Office of Acquisition, Logistics and Construction	U.S.	United States
OAWP	Office of Accountability and Whistleblower Protection	U.S.C.	United States Code
OBO	Office of Business Oversight	UESC	Utility Energy Service Contracts
OCC	Office of Community Care	USGLI	United States Government Life Insurance
OCLA	Office of Congressional and Legislative Affairs	USSGL	U.S. Standard General Ledger
OEI	Office of Enterprise Integration	USVETS	United States Eligibility Trends and Statistics
OEM	Office of Emergency Management	VA	Veterans Affairs
OFM	Office of Financial Management	VADIR	Veterans Affairs/Department of Defense
OGC	Office of General Counsel	VAMC	VA Medical Center
OIG	Office of Inspector General	VARO	VA Regional Office
OIT	Office of Information and Technology	VBA	Veterans Benefits Administration
OM	Office of Management	VBM	Valuation Basic Male
OMB	Office of Management and Budget	VCS	Veterans Canteen Service
OPEB	Other Post-Employment Benefits	VDM	Variable Default Model
OPIA	Office of Public and Intergovernmental Affairs	VEO	Veterans Experience Office
OPM	Office of Personnel Management	VETSNET	Veterans Services Network
P.L.	Public Law	VetPop	Veteran Population Projection
P3	Public-Private Partnerships	VGLI	Veterans' Group Life Insurance
POA&M	Plan of Action and Milestones	VHA	Veterans Health Administration
POW	Prisoner of War	VI&I	Veterans' Insurance & Indemnities
PP&E	Property, Plant and Equipment	Vista	Veterans Information System and Technology Architecture
PPE	Personal Protective Equipment	VMLI	Veterans' Mortgage Life Insurance
PTSD	Post-traumatic Stress Disorder	VR&E	Veteran Readiness and Employment
PYR	Prior Year Recovery	VRC	Veteran Resource Center
R&R	Report and Recommendation	VRI	Veterans Reopened Insurance
REO	Real Estate Owned	VSLI	Veterans Special Life Insurance
RN	Registered Nurse	WIP	Work-in-Process
RSI	Required Supplementary Information		

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](#)[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](#)[Virtual Mental Health Care](#)[Substance Use/Alcohol Treatment](#)[Sexually Transmitted Infection Prevention /
Treatment](#)[Tobacco Cessation Resources](#)[Intimate Partner Violence Support](#)[Infertility](#)

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This report was produced through the tireless dedication of VA staff. We would like to offer our sincerest gratitude and acknowledgment to the participating offices and organizations. In particular, we would like to recognize the following for their contributions:

Office of the Secretary

Executive Secretariat

Veterans Health Administration

Veterans Benefits Administration

National Cemetery Administration

Office of Management

Office of Finance

Office of Business Oversight

Office of Asset Enterprise Management

Office of Financial Management Business Transformation Service

Office of Congressional and Legislative Affairs

Office of Enterprise Integration

**Office of Human Resources and Administration/
Operations, Security and Preparedness**

Office of Information and Technology

Office of Public and Intergovernmental Affairs

Office of Acquisition, Logistics and Construction

Board of Veterans' Appeals

Office of General Counsel

Additionally, we express our appreciation to the Office of Inspector General and CliftonLarsonAllen, LLP for their dedication in our mutual pursuit of financial excellence. We also thank the AGA for their valuable feedback on the AFR during the annual CEAR review process.

VA BY THE NUMBERS

The infographic below presents key statistics on Veteran population and VA programs as of September 30, 2021. 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>.





Veterans salute at the Vietnam Veterans Memorial in Washington, DC on May 31, 2021 in celebration of Memorial Day.



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