



Office of Inspector General

REPORT OF AUDIT OF THE DEPARTMENT OF VETERANS AFFAIRS CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEARS 1999 AND 1998

Report No. 99-00006-46

Date: MARCH 14, 2000

Office of Inspector General
Washington DC 20420



**DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420**

**Memorandum To The Assistant Secretary
For Financial Management (004)**

**Report Of Audit Of The Department Of Veterans Affairs Consolidated
Financial Statements For Fiscal Years 1999 and 1998**

1. The Office of Inspector General (OIG) conducted an audit of the Department of Veterans Affairs (VA) Consolidated Financial Statements for the fiscal years (FYs) ended September 30, 1999 and 1998. This report contains our audit opinion and our assessments of VA's internal control and compliance with laws and regulations.
2. The objective of a financial statement audit is to determine whether the financial statements taken as a whole are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation.
3. Our audit was made in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Office of Management and Budget's Bulletin No. 98-08, as amended. The audit includes obtaining an understanding of the internal control over financial reporting, and testing and evaluating the design and operating effectiveness of the internal control. Due to the inherent limitations in any internal control, there is a risk of error or fraud may occur and not be detected.
4. Our audit opinion provides an unqualified opinion on the Department's Consolidated Financial Statements for FYs 1999 and 1998. This represents a major milestone in improving financial management and reporting in VA and provides sound baseline information for the future. Office of Financial Management staff and the Chief Financial Officer staffs of the Veterans Health Administration and the Veterans Benefits Administration made a significant effort to make this possible.
5. Our Report on Internal Control discusses three material weaknesses concerning (i) VA-wide information system security controls, (ii) Housing Credit Assistance (HCA) program accounting, and (iii) fund balance with Treasury reconciliations. The Department made significant improvement to address previously reported information system security controls and HCA program accounting issues. We encourage the Department to continue their efforts and to complete correction of the remaining open information security and HCA recommendations and the new recommendations concerning fund balance with Treasury reconciliations. These internal control weaknesses expose VA to significant risks and vulnerabilities. The Department reported the information systems security controls and the HCA program accounting issues as material weaknesses in their Federal Managers' Financial Integrity Act (FMFIA) reports for FYs 1999 and 1998. In this report we reaffirm our prior recommendations and have additional

recommendations addressing these weaknesses and the reportable conditions. We believe these three issues should be considered for inclusion as material weaknesses in the Department's FMFIA reporting.

6. Our Report on Compliance with Laws and Regulations discusses the Department's noncompliance with Federal Financial Management Improvement Act (FFMIA) requirements concerning HCA program financial management information systems, information system security, and cost accounting standards. Except for these noncompliances, the report concludes that for the items tested, VA complied with those laws and regulations materially affecting the financial statements. We also continued to identify noncompliance with one law that while not material to the financial statements, warrants disclosure: the requirement for charging interest and administrative costs on compensation and pension accounts receivable.

7. We will follow up on these issues and evaluate implementation actions during the audit of VA's FY 2000 Consolidated Financial Statements.

MICHAEL SLACHTA, JR.
Assistant Inspector General
for Auditing

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DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

OFFICE OF INSPECTOR GENERAL'S REPORT
ON THE DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED FINANCIAL STATEMENTS

To The Secretary
Department Of Veterans Affairs

This report presents our opinion on the Consolidated Financial Statements of the Department of Veterans Affairs (VA). This report also presents our determinations from our review of the Department's internal controls and our review of compliance with certain laws and regulations.

OPINION ON FINANCIAL STATEMENTS

We have audited the accompanying Consolidated Balance Sheet of the Department of Veterans Affairs as of September 30, 1999 and 1998, and the related Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and the Combined Statement of Financing for the fiscal years then ended. These financial statements are the responsibility of VA's management. Our responsibility is to express an opinion based on our audit.

Scope

We conducted our audit in accordance with generally accepted auditing standards, the Government Auditing Standards issued by the Comptroller General of the United States; and the Office of Management and Budget's (OMB) Bulletin No. 98-08, Audit Requirements for Federal Financial Statements, and amendments. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. Moreover, in accordance with these standards we reviewed VA's internal control structure and its compliance with laws and regulations.

Opinion

In our report dated March 10, 1999, we qualified our opinion on the Department's FY 1998 Consolidated Financial Statements due to our inability to satisfy ourselves as to the recorded balances of certain Housing Credit Assistance (HCA) program related accounts. The Department has subsequently restated the statements, and we have been able to satisfy ourselves as to these recorded balances. Accordingly, our present opinion on the FY 1998 Consolidated Financial Statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the accompanying Consolidated Financial Statements present fairly, in all material respects, the financial position of the Department as of September 30, 1999 and 1998, and the related items in the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and the Combined Statement of Financing in conformity with generally accepted accounting standards and OMB guidance as described in Note 1 of VA's financial statements.

Consistency of Other Information

Our audit was conducted for the purpose of expressing an opinion on VA's Consolidated Financial Statements taken as a whole. VA's draft Accountability Report included an overview of VA and supplemental financial and management information containing a wide range of data, most of which are not directly related to the Consolidated Financial Statements. The information presented in the draft Accountability Report and the supplemental financial and management information has not been subjected to the auditing procedures applied in the audit of the VA's Consolidated Financial Statements and accordingly, we express no opinion on this information. We reviewed the draft Accountability Report to assess whether the information and the manner of its presentation is materially inconsistent with the information, and the manner of its presentation, appearing in the Consolidated Financial Statements. Based on our limited work, we found no material inconsistencies with the financial statements.

REPORT ON INTERNAL CONTROL

We conducted our audit in accordance with the Government Auditing Standards issued by the Comptroller General of the United States; and the Office of Management and Budget's (OMB) Bulletin No. 98-08, Audit Requirements for Federal Financial Statements, and amendments. In planning and performing our audit of VA's Consolidated Financial Statements as of and for the fiscal years ended September 30, 1999 and 1998, we considered VA's internal control structure in order to determine our auditing procedures necessary for expressing our opinion on the financial statements. In evaluating the reliability of financial information we obtained an understanding of the design of internal controls, determined whether they have been placed in operation, assessed control risk, and performed tests of VA's internal controls. However, our evaluation was not made to provide assurance on the overall internal control structure. Consequently, we do not provide an opinion on internal controls.

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the effectiveness of the design, and operation of policies and procedures may deteriorate.

In addition, with respect to internal controls related to performance measures reported in the Department's draft Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 98-08. Our procedures were not designed to provide assurance on internal control

over reported performance measures and accordingly, we do not provide an opinion on such controls.

With respect to Required Supplementary Stewardship Information (RSSI), we performed a review to determine the reasonableness of data presented. Our procedures were not designed to provide assurance on internal control over RSSI and accordingly, we do not provide an opinion on such controls.

Management's Responsibility For Establishing And Maintaining Internal Control Structure

VA's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, management makes estimates and judgments assessing the expected benefits and related costs of internal control structure policies and procedures. The objective of an internal control structure is to provide management with reasonable, but not absolute, assurance that (i) assets are safeguarded against loss from unauthorized use or disposition, (ii) transactions are executed in accordance with management's authorization, and (iii) transactions are recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting standards and OMB guidance.

Definition Of Reportable Conditions

We noted certain matters involving the internal control structure and its operation that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB's audit requirements. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements and reported performance measurement information.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Conclusion

We concluded that three matters involving the internal control structure and its operation were weaknesses that could materially affect VA's Consolidated Financial Statements: (i) information systems security controls, (ii) Housing Credit Assistance (HCA) program accounting, and (iii) fund balance with Treasury reconciliations. The Department continued to report information systems security and relevant HCA program accounting areas as material weaknesses in the their Federal Managers' Financial Integrity Act (FMFIA) report for FY 1999. In our opinion, these internal control weaknesses expose VA to significant risks and vulnerabilities.

1. Information Systems Security Controls. VA's program and financial data continue to be vulnerable to error or fraud because of Department-wide weaknesses in automated data processing (ADP) general controls. We previously reported this condition in our FY 1997 and 1998 audit reports and made recommendations for VA to implement a comprehensive security program that would improve these controls. The Department reported information system security controls as a material weakness in its FMFIA report for FY 1998. During FY 1999, VA proposed and took a number of corrective actions, particularly at VA Central Office, that could result in an effective comprehensive security program and eventually strengthen other general controls. The initiatives are beginning to be implemented but have not yet had the time to permeate the entire Department. However, a number of obstacles exist that could hinder or undermine VA's efforts to implement a comprehensive security program. The obstacles include significant organizational weaknesses in information security programs at the Veterans Health Administration (VHA) and the Veterans Benefit Administration (VBA), as well as the need to commit the resources needed to implement an effective information security program.
2. Housing Credit Assistance Program Accounting. The Department substantially completed corrective actions on conditions we reported on in prior years concerning serious weaknesses in direct loan portfolio, loan sales accounting, and Credit Reform subsidy model issues. Following the end of FY 1999, VA also began processing HCA program expenditures directly through VA's core financial system to resolve another FFMIA noncompliance issue. However, a number of material weaknesses still exist that impede timely completion of financial statements and reduce the use and value of internal financial reports for management control and program monitoring of its direct loans and related foreclosed properties. The Department's HCA program general ledger system does not interface with VA's core financial system and still is not compliant with Federal financial systems requirements.
3. Fund Balance With Treasury Reconciliations. Corrective actions were underway during FY 1999 to improve reporting and reconciling of fund balances with Treasury; however, weaknesses still exist that impair the completeness and efficiency of the reconciliations. The Austin Finance Service Center's (FSC) reconciliations were incomplete. The reconciliation process verified that Treasury transactions were recorded in VA's general ledger, but did not verify whether items recorded in VA's general ledger agreed with Treasury records. Additionally, documentation was deficient. Incomplete reconciliations were caused to a great extent by the cumbersome, labor intensive process involved, and weaknesses in the existing accounting system and the Treasury reporting and reconciliation processes. Internal VA cash account transactions continued to be reported on the Statement of Transactions, SF-224, provided to Treasury. New transaction codes were implemented to ensure cash entries were correctly recorded, but controls did not exist to ensure the new codes were used. Additionally, station level reconciliations intended to facilitate resolution of differences were not fully implemented during FY 1999.

To assist Department managers in improving operations and financial reporting, we are also issuing management letters addressing internal control weaknesses in information systems security; HCA program accounting; medical facility accounts receivable; property accounting;

payroll and timekeeping; veterans benefits accounting; life insurance accounting; and expenditures and payables.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We conducted our audit in accordance with the Government Auditing Standards issued by the Comptroller General of the United States; and the Office of Management and Budget's (OMB) Bulletin No. 98-08, Audit Requirements for Federal Financial Statements, and amendments. Compliance with laws and regulations applicable to VA is the responsibility of VA's management. As part of obtaining reasonable assurance as to whether the financial statements were free of material misstatement, we performed tests of VA's compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Under Public Law 104-208, "Federal Financial Management Improvement Act (FFMIA) of 1996," we are required to report whether the agency's financial management systems substantially comply with the Federal financial management system requirements, Federal accounting standards, and United States Standard General Ledger (U.S. SGL) at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA in OMB Bulletin No. 98-08. As part of our audit, we also reviewed management's process for evaluating and reporting on internal control and accounting systems as required by the Federal Managers' Financial Integrity Act (FMFIA), and compared the Department's most recent FMFIA reporting with the evaluation we conducted of VA's internal control system.

Conclusion

The results of our tests for FY 1999 indicate that, for the items tested, VA complied with those provisions of laws and regulations which could have a material effect on the financial statements, except for the following FFMIA requirements.

1. VA's HCA systems were not yet fully compliant with FFMIA requirements that Federal systems comply with Federal financial system requirements published by the Joint Financial Management Improvement Program. VA's HCA general ledger and subsidiary program systems did not interface with VA's core financial system and also did not have processes in place for reconciling general ledger and subsidiary foreclosed property data, and for providing financial information that could be used in monitoring HCA programs. Additionally, the HCA systems did not provide timely data necessary for preparing VA's Consolidated Financial Statements.
2. With the exception of the Austin Automation Center, the Department was noncompliant VA-wide with FFMIA information system security requirements.
3. VA was noncompliant with respect to requirements that systems be able to accumulate and report the costs of their activities on a regular basis. With respect to the cost accounting system requirements, the Department was able to develop and allocate costs on a reasonable

basis in preparing the Consolidated Statement of Net Cost. However, full implementation of activity level cost accounting systems was in process but not completed during FY 1999. VBA had implemented a cost accounting system during FY 1999, while the National Cemetery Administration (NCA) was testing a system during FY 1999. VHA designated and approved its managerial cost accounting system in November 1998. Department officials informed us they expect all systems to be fully compliant in FY 2000.

Additionally, VA was noncompliant with provisions of Public Law 96-466 and Title 38 United States Code Section 5315, "Interest and Administrative Costs" that, while not material to the Consolidated Financial Statements, warrants disclosure. We have reported each year since our report of the Audit of VA's Consolidated Financial Statements for FY 1992, that VA was not in compliance with the requirements that interest and administrative costs shall be charged on any amount owed to the United States for an indebtedness resulting from a person's participation in a benefits program administered by the Secretary, other than a loan, loan guaranty, or loan-insurance program. Since FY 1992, VA has not taken collection action on over \$152.6 million in interest and administrative costs due the Department. VA should comply with the law for charging interest and administrative costs on benefit program indebtedness.

With respect to transactions not tested, nothing came to our attention that caused us to believe that VA had not complied, in all material respects, with those provisions.

This report is intended for the information of the management of VA, OMB, and Congress. However, this report is a matter of public record and its distribution is not limited.

(Original signed by:)
MICHAEL SLACHTA, JR.
Assistant Inspector General
for Auditing

March 10, 2000

REPORTABLE CONDITIONS

1. Information System Security Controls

VA's program and financial data continue to be vulnerable to error or fraud because of Department-wide weaknesses in automated data processing (ADP) general controls. We previously reported this condition in our fiscal year (FY) 1997 and 1998 audit reports and made recommendations for VA to implement a comprehensive security program that would improve these controls. The Department reported information system security controls as a material weakness in its Federal Managers' Financial Integrity Act (FMFIA) reports for FYs 1998 and 1999.

During FY 1999, VA proposed and took a number of corrective actions, particularly at VA Central Office, that could result in an effective comprehensive security program and eventually strengthen other general controls. VA has structured its initiatives to reflect generally accepted information security practices represented in publications and guidance disseminated by the General Accounting Office (GAO), the Office of Management and Budget (OMB), and the National Institute of Standards and Technology (NIST). At this time, these initiatives are beginning to be implemented but have not had the time to permeate the entire Department.

We also concluded that a number of obstacles exist that could hinder or undermine VA's efforts to implement a comprehensive security program. The obstacles include significant organizational weaknesses in information security programs at the Veterans Health Administration (VHA) and the Veterans Benefit Administration (VBA), as well as a lack of commitment from administration, program, and facility managers.

In addition to reaffirming our recommendations from previous years, we have added a new recommendation. This year we recommend VA strengthen its revised password policy. We also suggested that the Principal Deputy Assistant Secretary for Information and Technology take specific actions to implement, and then to verify the successful implementation of a revised minimum password policy by December 31, 2000.

Significant ADP General Control Weaknesses Continue

From September 1999 through January 2000, we conducted tests at VA and VBA central offices in Washington, DC; VHA's Medical Information Security Service (MISS) in Martinsburg, WV; and VBA data processing centers in Hines, IL and Philadelphia, PA. In addition, we conducted tests at VBA Regional Offices in Chicago, IL, Cleveland, OH, and St. Petersburg, FL; and VHA's Stars and Stripes Health Care Network [Veteran Integrated Service Network (VISN) Number 4]; and the Pittsburgh Health Care Center, in Pittsburgh, PA. In addition to our work, GAO staff conducted tests at the New Mexico Health Care System in Albuquerque, NM and the Dallas Medical Center in Dallas, TX.

Our audit tests continue to demonstrate wide spread weaknesses in each of the ADP general controls: entity-wide security program planning and management, access controls, application

software development, systems software, segregation of duties, and service continuity. Often, the needed improvements were well known within the security community, such as installing and implementing patches (corrections in software), employing more secure configurations, and making use of more secure management procedures.

- Access controls and monitoring were ineffective at VBA. Penetration tests at VBA demonstrated that weaknesses allowed us to obtain privileged access from outside and inside VBA to significant computing resources without being detected. This access was obtained using relatively unsophisticated methods including guessing account names and passwords, and exploiting known configuration weaknesses. These weaknesses could have been mitigated or prevented by stronger passwords, installing and implementing patches, better configurations, and use of more secure management practices.
- Significant weaknesses in ADP general controls also continued within VHA. For example, at one facility we determined that 3,860 users inappropriately had the ability to obtain one of the password files, and that 90 accounts remained active despite the fact that the owners had not signed on in more than a year. We also concluded that the Information Security Officer (ISO) was not adequately monitoring automated activities.

VA's Information Security Program Initiatives

VA developed its Information Security Program and began implementing initiatives late in FY 1999 and early FY 2000. We believe these initiatives could contribute significantly to a comprehensive security program that is well integrated into VA's organization. These initiatives include:

- An enterprise-wide assessment of information security risk and the preparation of an enterprise risk management plan. A contract for the initial assessments was awarded in December 1999.
- A Department incident response capability to provide the combined rules, roles, procedures, and tools for security incident response. The contract for this initiative was awarded in November 1999.
- Development of certification criteria and training curricula for Department ISOs.

In addition, VA is in the process of developing indicators to measure the progress it is making towards; (i) a mature information security management program, as well as (ii) the effectiveness of its efforts to improve other general controls.

Obstacles To Implementing An Effective Information Security Program

VA's efforts to implement a comprehensive security program to improve ADP general controls may be hindered by ineffective organization and oversight at VBA and VHA. Security programs at VA's administrations were fragmented, lacked authority, and contained conflicting interests.

- Weaknesses existed in VBA's information security program organization. The fragmentation of security responsibilities at VBA central office was a significant barrier to a coordinated security program as well as a barrier to the effectiveness of our efforts to gather information about their program. Security responsibilities were delegated across operations divisions that did not share significant information.
- VBA's security program was not well understood by its staff members. One staff member incorrectly believed he no longer had security responsibilities that were delegated to his position in a May 1997 memorandum.
- Weaknesses existed in VHA's information security program. The location of MISS within VHA's organization structure provided insufficient authority to effectively integrate security practices into VHA. MISS was located two steps below and within VHA's Chief Information Officer's (CIO) organization. MISS staff could not provide us updates on the progress of VISN security programs or programs securing VHA's national gateways that interface networks. Further, we did not find any involvement by security professionals with the initiative that developed the Computerized Patient Record System.
- The mission of MISS to provide operational support to program, VISN, and facility Directors conflicted with their mission to oversee information security programs at these same locations. Separating the operational support and security functions would strengthen security.

VA's efforts to implement a comprehensive security program were also hindered by a lack of effective oversight by its administrations. VBA central office staffs had not verified, and MISS staffs had limited ability to verify that corrective actions were taken effectively at respective facilities. For example, MISS staff had not verified that reported actions were effectively implemented at one of the facilities we visited. Our test results indicated that the corrective actions reported by facility staffs to MISS were not effective. Without improved oversight VA will not be able to accurately assess the status and effectiveness of actions taken to improve information security.

VA's efforts to implement a comprehensive information security program will fail without significant commitments from program and facility Directors to dedicate necessary resources.

- The need to improve security practices by facility Directors is demonstrated by the practice of assigning information security responsibilities as collateral duties to individuals who do not possess adequate technical knowledge. Often the assigned staffs have limited time for security responsibilities. For example, one ISO (who did not possess adequate technical knowledge) was able to spend only 2 hours each day

overseeing three medical campuses. These campuses included a 590-bed medical center treating neuropsychiatric, substance abuse, and intermediate care veterans; a 446-bed acute and intermediate care facility; as well as a 240-bed nursing home care unit. Research programs included aging, alcoholism, computer science, and immunology. As a result, we noted significant information security weaknesses at this three-campus facility.

- The practice of appointing individuals with limited technical knowledge and little time for security responsibilities may also contribute to a high turn over rate within these positions. Twenty-six percent of VHA's ISOs were newly appointed during the fiscal year. This turn over rate may cause VA's efforts to improve the knowledge of and time available for ISOs to be unsuccessful.
- Program and facility Directors demonstrated the need to strengthen their commitment to improving information security by implementing existing VA password policy for their own accounts. VA Directive 6210 prohibited English words, required passwords to be at least six characters long, and required passwords to be changed at least every 180 days. For example, one facility Director used a password that was an English word only five characters long; in addition, another program Director's passwords never expired. We also questioned managers' understanding of the need for improved security because we generally observed a lack of significant security improvements during our follow-up audits.

Conclusion

VA's program and financial data continue to be vulnerable to error or fraud because of Department-wide weaknesses in ADP general controls. We continue to see significant weaknesses in physical and logical access controls, segregation of duties, systems software, application software development, and contingency planning. These weaknesses present an immediate risk to VA information resources. Efforts underway to implement a comprehensive security program that will improve ADP general controls need to be integrated and subjected to effective oversight.

We have also suggested¹ that VA's Principal Deputy Assistant Secretary for Information and Technology put forth considerable effort during FY 2000 to ensure that more complex passwords are implemented throughout the Department. This effort should help focus VA's efforts to overcome the obstacles it faces and to improve an access control often used to compromise program and financial information. We believe this effort can succeed by:

- Directly notifying all VA employees via email of the new minimum requirements periodically during the year. In addition, VA contractors and other users should be notified periodically.

¹ Management Letter – VA's Minimum Password Configuration Policy, Report No. 99-00003-33

- Periodically reminding VA employees in logon announcements to use the more complex revised passwords.
- Training VA employees how to manage and remember more complex passwords.
- Auditing password composition quarterly of a significant sample of VA systems to identify passwords that do not meet the 8-character, alphabetic, numeric, and “special” character requirements. The persons responsible for those accounts should be notified in writing and provided additional training. This responsibility should include accounts that are used by computers or computer processes.

Recommendation No. 1

We reaffirm the recommendations a through f below that we made in our FY 1997 and 1998 audit reports and provide a new recommendation g that VA enhance information security by:

- a. Modifying current policies and procedures to provide more explicit direction to criteria for the organizational level being addressed to establish comprehensive standards and minimum information security safeguards.
- b. Strengthening the oversight and monitoring of information security activities.
- c. Strengthening information system controls that limit and monitor access to operating system and application software as well as data.
- d. Ensuring that a comprehensive contingency program incorporates regular backups and continuous recovery testing and improvement.
- e. Strengthening safeguards that restrict physical access to computers and reduce environmental vulnerabilities.
- f. Providing computer operations and security staffs with training about the specific technologies they are responsible for monitoring.
- g. Revising provision 1b of VA’s User Account and Password Management Policy to specify that passwords must be at least eight characters in length and that each password must include at least (i) one alphabetic, (ii) one numeric, and (iii) one “special” character (e.g., \$, %, &).

2. Housing Credit Assistance Program Accounting

During FY 1999 the Department substantially corrected conditions we reported on in prior years concerning internal control weaknesses in direct loan accounting, loan sales accounting, and Credit Reform subsidy reporting. However, the following material internal control weaknesses existed that impede timely completion of financial statements and reduce the effectiveness of safeguards over HCA program resources.

- The HCA General Ledger System (GLS) is not compliant with Federal financial systems requirements.
- Detail foreclosed property information in HCA program systems was not periodically reconciled to the HCA control accounts.
- About \$30 million of refunded loans processed at VA Regional Offices was not recorded in the HCA GLS.
- Program transactions were not recorded timely in HCA general ledger accounts.
- The liability for loan guarantees and related Credit Reform subsidy re-estimates could not be prepared timely because of HCA program and financial system weaknesses.
- Weaknesses in oversight of the contractor managing VA's \$1.8 billion direct loan portfolio increased the Government's vulnerability to losses.

At the end of FY 1999, the HCA program loan guaranty liability totaled \$5.8 billion, direct loans receivable and foreclosed properties awaiting sale totaled about \$3.6 billion, and program subsidy costs totaled \$890 million for the year.

During the audit, VBA had a number of organization and system changes underway to address the internal control weaknesses noted. Management officials informed us their goal is to complete all corrective actions by the end of FY 2000. Timely implementation of the organization and system changes underway is important. Accurate, reliable, and timely financial reports are essential to enable managers to carry out their fiduciary and stewardship responsibilities to VA beneficiaries and the public. Without them, the HCA financial statements will continue to be prepared untimely and are vulnerable to error. Additionally, program assets and resources may not be efficiently used or adequately safeguarded.

Noncompliance With Federal Financial System Requirements

The HCA GLS is not compliant with Federal financial systems requirements. VA first identified a need for improving HCA systems in its 1986 FMFIA report. Starting with the FY 1996 VA Consolidated Financial Statement audit, the OIG has reported serious internal control weaknesses in the HCA accounting process for each successive year. The Department continued to report loan guaranty financial modernization as a material weakness in its FMFIA report for FY 1999. In 1999, they reported that the loan guaranty system lacked up-to-date interfaces between manual and automated components. They further reported that 70 percent of loan guaranty monies flow through accounts that were standard general ledger (SGL) compliant at the end of FY 1999.

One area of noncompliance involved the lack of summary control accounts for significant items such as loans receivable and foreclosed property. For example, the GLS had no loans receivable or foreclosed property control accounts although their balances totaled about \$1.9 billion and

\$1.3 billion, respectively. Numerous subaccounts had to be manually added together for seven different funds to compile the control account total. The control accounts would help improve internal control by providing a baseline for comparison when doing reconciliations, and would also facilitate financial statement preparation and reporting.

As management has reported, VA's GLS does not interface with VA's core financial system in a number of areas. During FY 1999, loans sales accounting was interfaced with VA's core financial system. Starting October 1, 1999, HCA began processing payments previously processed through its Automated Voucher Audit Payment System directly into VA's core financial management system. However, other transactions for the direct loan and guaranteed loan financing accounts, as well as transactions for several other HCA funds and systems, were not yet integrated with VA's core financial system. VBA officials stated their goal is to fully switch to VA's core financial system by the end of FY 2000.

Reconciliation Of Foreclosed Property Detail Information In Program Systems To General Ledger Control Accounts

The acquisition and claim amounts recorded in HCA program systems were not reconciled to GLS control accounts to verify the completeness and accuracy of the records, or to ensure that internal controls adequately safeguarded these assets. VA had about 18,000 foreclosed properties with claim and acquisition costs of about \$1.3 billion for which it either had marketable title or for which foreclosure proceedings were in process at the end of FY 1999.

The Joint Financial Management Improvement Programs (JFMIP) Core Financial System Requirements establish that Federal financial management systems have a general ledger analysis and reconciliation process to ensure that amounts posted to general ledger control accounts agree with detailed subsidiary accounts, and in reconciling system balances with financial information contained in reports from Treasury and other agencies. To support the general ledger analysis and reconciliation process, financial systems must:

- Report a comparison between amounts in other components of the core financial system and the related control accounts in the SGL and annotate out-of-balance accounts on the report.
- Provide control accounts in the general ledger and other systems, such as property.
- Provide the capability to correct out-of-balance conditions discovered during the reconciliation process, and maintain an audit trail of any such corrections.

We were not able to completely reconcile the detail in the program system subsidiary files to the HCA GLS. We did however establish that the total amount reported is reasonable through the use of other analytical procedures. The analysis and tests made included (i) reconstructing the capitalized costs of foreclosed properties shown in the HCA program systems and comparing to HCA GLS amounts, (ii) comparing reconstructed capitalization amounts with historical data, and comparing with amounts capitalized for foreclosed properties sold during FY 1999, (iii) analysis

of the elapsed time properties have been held since foreclosure or since title was obtained, and (iv) other analytical reviews to assess whether properties should be included in the inventory.

Several voids in existing HCA program systems and the HCA GLS make reconciliation cumbersome and difficult. First, a summary control account is needed in the GLS to show the total of foreclosed properties on hand at the end of each accounting period. A multitude of sub-accounts must be added to compile the total instead of the GLS system doing it. Second, an automated method is needed to extract acquisition and claim cost accounting data from the program systems at the end of each accounting period for foreclosed property on-hand.

Our analysis identified a number of conditions indicating errors in the HCA program system data or general ledger data, or possible internal control weaknesses in managing foreclosed properties. The conditions included:

- One-hundred-eighteen properties with costs of \$9.6 million with foreclosure dates from FY 1996 all the way back to FY 1981.
- One property on hand for which VA had obtained marketable title (Title Status 2) during FY 1990 and another during FY 1996.
- Another approximate 500 properties for which VA's property management system included no cost information.

VBA field stations perform monthly reconciliations between the HCA program systems and the station GLS to ensure individual transactions are recorded. HCA program officials also require that field stations do an annual verification of data in their Property Management System. The last verification was in February 1999. When the applicable general ledger control accounts are established, complete reconciliations should be done at least quarterly by HCA program and financial management staff, and the reconciliations should include comparisons between the program detail subsidiary records and general ledger accounts to verify both the number and dollar amount of properties on hand.

Refunded Loans Processed At VA Regional Offices Need To Be Recorded Timely Into The General Ledger Accounts

HCA staff used a manual process to identify about \$29.7 million of VA refunded loans (i.e., guaranteed loans VA acquired, thus making the loans direct VA loans) being processed at VA Regional Offices. The amounts were not in the HCA GLS at the end of FY 1999. To identify the amounts for inclusion in VA's financial statements, VBA instructed all field stations to identify and manually report the loans not yet in the HCA GLS. HCA staff attributed the problem to difficulty in obtaining needed documentation from the original lenders, and receipt of incomplete or erroneous information that precluded them from recording the transactions into VA's systems. HCA program and financial management need to develop and implement system changes that capture and track refunded loan data to ensure all refunded loans are recorded timely in VA's program systems and general ledger. HCA program staff stated that their Loan

Service and Claims (LCS) system implemented in September 1999 would eventually be able to track the refunded loan data.

Lack Of Timely Data To Support Credit Reform Accounting Requirements

Considerable corrective action was taken and improvement realized during FY 1999 to (i) refine the credit subsidy model, (ii) calculate the subsidy rates, and (iii) determine the loan guaranty liability. Using a contractor, the Department revised the credit subsidy model to identify and estimate the liability for the guaranty on direct loans VA had sold, and reconstructed various historical records. Because of the many changes that took place during the year, and the related adjustments and restatements necessary to the loan guaranty portion of the financial statements, completion of final financial statements was delayed.

In addition, delays in completing the HCA financial statements occurred and are likely to continue to occur because of dated automated accounting systems which lack important controls and financial reporting capability. Significant manual processing and adjustments necessary to prepare the financial statements also result in an increased risk of errors. Dated automated accounting systems inhibit the ability to identify errors and anomalies in accounting data. VBA needs to continue efforts underway to migrate all loan guaranty accounting to VA's core financial system so that the financial statements can be system generated.

Efforts to reconcile the loan guaranty liability revealed numerous differences between amounts originally recorded. Although the net adjustment was not material to the financial statements, significant errors found in amounts originally recorded reduce the usefulness of historical data for program analyses. Examples include; errors in the timing and/or amount of some subsidy estimates and re-estimates, interest income and expense, amortization; and the timing and completeness of recorded cash flows. In addition, wide variations between years and funds for gross margin on foreclosed property sold, increase the risk that some transactions were not recorded appropriately. Although the incidence of these problems has been significantly reduced in recent years, uncorrected errors from the early and mid 1990's could continue to impact the loan guaranty liability balance.

Additional refinement is also needed of data used in the subsidy model. Subsidy calculator "warnings" that occur as a result of negative costs input to the subsidy model should be resolved. To further refine the loan guaranty liability estimate, HCA staff should do additional research and adjustment to further minimize upward and downward re-estimates, and to make comparative data more meaningful for program analysis.

Oversight Of VA's Direct Loan Portfolio

In a separate report, Evaluation of Loan Guaranty Service's Quality Control System, the VA OIG reported serious weaknesses in VA's oversight of its portfolio loans that were being managed by a contractor. As of September 30, 1999, the portfolio included about 29,000 direct loans with an unpaid principal balance valued at \$1.9 billion. About 3,200 of these loans, with an unpaid principal balance valued at \$209 million, were in serious default (defined by VA as loans 5 or more months delinquent) and for which the borrowers would need to pay \$36 million to clear

their outstanding delinquencies. The review revealed a number of contractor performance deficiencies such as: the contractor had not actively serviced many of the loans as required by the contract, the contractor had not timely referred seriously defaulted loans for foreclosure, and finally, the contractor had not routinely monitored about 24 percent of the bankruptcy cases tested.

Strong oversight to ensure effective management and servicing of the direct loan portfolio is needed to minimize the risk of loss on loans that go into default. The vulnerability to such losses has increased as a result of an increase in the number of refunded loans in the portfolio during the last several years.

VBA program staff initiated corrective action based on the report recommendations to improve direct loan portfolio servicing by establishing an oversight review team to do periodic reviews and audits. The first review is currently in process. Management expects it to be complete by approximately the end of March or April 2000.

Conclusion

HCA financial statement reporting will continue to be a high-risk area vulnerable to error until corrective actions are complete and HCA program and financial systems comply with Federal financial system requirements.

Recommendation No. 2

We reaffirm recommendation a made in our FY 1997 and 1998 audit reports, and add new recommendations b through d:

- a. Replace or modify the current multiple program-oriented systems with an integrated financial accounting system that interfaces with VA's core financial system and meets Federal financial accounting requirements.
- b. Develop and implement procedures to ensure that complete reconciliations are performed between program subsidiary records and general ledger control accounts.
- c. Develop and implement general ledger control accounts for financial statement items such as loans receivable, foreclosed property, and any other accounts for which general ledger control accounts should be maintained.
- d. Continue system changes underway to migrate all loan guaranty accounting to VA's core financial system.
- e. Continue analysis and correction of baseline historical data used in the subsidy model to further refine the loan guaranty liability estimate.

3. Fund Balance With Treasury Reconciliations

Corrective actions were underway during FY 1999 to improve reporting and reconciling of Treasury fund balances; however, weaknesses still exist that impair the completeness and efficiency of the reconciliations. Reconciliations performed at VA's Finance Service Center (FSC) located in Austin, TX were incomplete. The reconciliation process verified that Treasury transactions were recorded in VA's general ledger, but did not verify whether items recorded in VA's general ledger agreed with Treasury records. Additionally, documentation was deficient.

Incomplete reconciliations were caused to a great extent by the cumbersome, labor intensive process involved, and weaknesses in the existing accounting system and Treasury reporting and reconciliation processes. Internal VA cash account transactions continued to be reported on the Statement of Transactions, SF-224, provided to Treasury. New transaction codes were implemented to ensure cash entries were correctly recorded, but controls did not exist to ensure the new codes were used. Additionally, station level reconciliations intended to facilitate resolution of differences were not fully implemented during FY 1999.

VA's Financial Management System (FMS) is the primary accounting system for Treasury Agency Location Code (ALC) 1200. For this ALC, in FY 1999 VA reported SF-224 disbursements of approximately \$8.8 billion and receipts of approximately \$1.1 billion. The Financial Reports Section at the Austin FSC prepares the SF-224s, performs reconciling activities, and monitors FMS general ledger cash transactions for ALC 1200.

Concerning Treasury reconciliations for ALC 1200, we reported in a management letter based on our FY 1998 Consolidated Financial Statement audit that (i) the Statement of Transactions, SF-224, provided to Treasury included numerous collection or disbursement transactions that do not pass through Treasury, (ii) VA's Financial Management System (FMS) did not have controls to ensure all accounting entries for internal VA cash account transactions requiring multiple entries were input simultaneously, and (iii) reconciliations were incomplete.

Unreconciled Differences

Reconciliations for both receipts and disbursements were incomplete. Our analysis showed approximately \$5.8 million more in total FY 1999 disbursements on Treasury reports than the net disbursements shown in VA's general ledger for the same accounts. Unresolved disbursement differences at the end of FY 1999 totaled about \$1.6 million, and depository differences at the end of FY's 1998 and 1999 that had been unresolved for from 1 month to 2 years amounted to \$2 million and \$1 million, respectively.

VA financial management staff attributed unresolved deposit differences to timing differences between when transactions were recorded by VA and when the transactions cleared Treasury. While most deposits clear after about one month, differences older than one month generally remained unresolved. VA had not reconciled the amount of deposit differences shown on Treasury's Statement of Difference. Internal VA reports were used to match VA and Treasury depository data, but the specific items composing the depository Statement of Difference

amounts were not identified. VA needs to develop and implement a process to identify items making up the depository differences. These prior month differences need to be resolved because the number of months with depository differences will continue to grow if not adequately addressed.

Financial management staff attributed disbursement differences to (i) timing differences, (ii) intra-VA transactions where accounting staff failed to record the second or third part of a multi-part transaction, and (iii) transactions where staff input the incorrect month of the original transaction. We were unable to verify the content of the disbursement differences because copies of the reconciliations were not kept as of the conclusion of each month's reconciliation efforts. The absence of these records prevented us from determining the extent to which reconciliations were performed completely and timely during the year, and made verification of prior month amounts reported in Section II of the SF-224s impossible.

In addition, internal VA transactions were not always eliminated from amounts reported to Treasury and when adjustments for internal VA transactions were made, they were not entirely accurate or documented. Internal VA transactions are transactions that do not involve a Treasury disbursement or a change in appropriation, such as a transfer between stations within the same appropriation. During FY 1999, VA did not have current, written procedures to instruct employees on SF-224 reporting requirements, documentation, and procedures. Written procedures were being prepared in FY 2000. Furthermore, supervisory review of the SF-224s was not documented. Supervisors should document their review of supporting evidence, computations, and adjustments.

In addition, an adjustment decreasing VA's Treasury Fund balance by about \$18 million was made to an expiring 1994 appropriation in June 1999 to resolve differences with Treasury. VA management attributed the differences to VA's previous reporting practices; however, the differences began accruing after reporting practices had been changed and VA had been unable to identify the exact appropriations and transactions causing the differences. Timely resolution of differences is critical because resolution becomes more difficult, if not impossible, as time passes.

Causes Of Reconciliation Problems

The difficulty in doing complete reconciliations at the Austin FSC was caused to a great extent by the cumbersome, labor intensive process involved, and weaknesses in the existing accounting system and Treasury reporting and reconciliation processes. The process is inefficient considering the large volume of transactions involved. We believe several changes could be made that would help reduce the volume and magnitude of unreconciled items that are required to be resolved each month.

The SF-224 reports prepared from FMS and submitted to Treasury for ALC 1200 are based on general ledger transaction activity rather than cash receipts and disbursements journals. As a result, a number of manual processes must be accomplished to adjust the FMS computer generated SF-224 in order to (i) take out internal VA transactions that should not be on the

Statement of Transactions, and (ii) adjust for timing differences between when transactions are recorded at VA and when the transactions clear through the Treasury account.

FMS presently adds the net monthly activity of 10 general ledger accounts to compute receipt and disbursement amounts on a computer generated SF-224. The weakness in this process is that the general ledger accounts include transactions that should not be reported to Treasury. Examples of these transactions are transfers between stations within the same appropriation, and offsetting and expensing of convenience checks. VA's internal control system lacks controls to ensure that internal transactions do not increase or decrease cash accounts.

VA planned to eliminate the affects of internal transactions by instituting controls to ensure an equal debit and credit to Treasury fund balance general ledger accounts was included. New transaction codes were added by VA. However, VA was unable to eliminate the old transaction codes that permitted internal transactions to result in a net increase or decrease being reported to Treasury.

In August 1999, VA developed a prototype station level report to identify internal VA transactions incorrectly reported to Treasury as disbursements and collections. Most of these transactions pertain to VHA field stations. The station level report was sent to field stations in September 1999 with a request to research and provide written responses on the internal transactions. VA plans for this to be a monthly process. During the first 2 months of FY 2000, many stations had not provided responses to the reconciliation report. The success of this station level report to aid in correcting internal transactions is dependent on all stations providing complete and accurate responses. Adding criteria to the VHA Financial Indicator Report to measure each stations performance in clearing unresolved items would increase the priority given to resolving these transactions.

In addition to implementing the station level reconciliations between the Austin FSC and VA field stations, the number of differences needing to be researched and resolved would be significantly reduced by modifying and adding specific VA SGL cash accounts so that the general ledger accounts mimic cash receipt and cash disbursement journals. Presently, some general ledger accounts used in FMS are not defined in VA's SGL and transactions that should not be reported to Treasury are permitted in the Fund Balance With Treasury, account series 10XX, content. The following changes would help reduce the volume of non-SF-224 transactions reported to Treasury, thereby reducing the number of differences needing to be researched and resolved:

- Include every general ledger account used in FMS. There are 15 accounts in FMS that are permitted in the United States SGL, but are not defined in VA's SGL. VA's SGL should include these account numbers, their full titles, a general description of the uses of the account, and examples of debits and credits permitted in the account.
- Design the accounts to mimic cash receipt and cash disbursement journals. This would increase the accuracy and usefulness of the FMS computer generated SF-224, and reduce the number of adjustments required. Currently the computer generated FMS SF-224 must be manually adjusted to eliminate internal VA transactions. If the content of VA's

SGL accounts were required to be strictly either Treasury or non-Treasury reporting transactions, then the computer generated SF-224 would only include those transactions that should be reported to Treasury.

- Computations should be revised to separate transactions into the following categories:
 - Cash disbursements from Treasury
 - Cash receipts deposited to Treasury
 - Transfers between funds and between stations
 - Transfers between funds within a station
 - Intergovernmental receipts
 - Intergovernmental disbursements
- Additional accounts should be added to the VA general ledger to specifically identify transactions that should not be reported to Treasury on the SF-224's. VA's SGL should provide separate accounts in the Other Cash 1190 category that are not forwarded to the FMS computer generated SF-224 for internal transactions such as:
 - Transfers between stations that are in the same fund
 - Transfers within a station that are in the same fund
- VA should determine the feasibility of modifying or eliminating transactions that unnecessarily record multiple entries to cash accounts, such as the multiple transactions that must be recorded for items such as convenience checks which involve offsetting debits and credits to cash to complete a transaction.

Conclusion

Treasury reconciliations are a significant part of VA's internal control structure. Complete reconciliations are needed to ensure that VA and Treasury fund balances are accurately recorded and agree with each other. The reconciliations are also a compensating control that can assist an activity in identifying incorrect, improper, or fraudulent transactions. Compensating controls are particularly important in VA because we found and reported material ADP internal control weaknesses in the audit of VA's Consolidated Financial Statements.² Additionally, unreconciled items affect the accuracy and usefulness of internal management reports, and could materially affect station level financial statement reporting.

² Report of Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Year 1998, Report No. 9AF-G10-062, dated March 10, 1999.

Recommendation No. 3

We recommend that the Assistant Secretary for Management:

- a. Direct the Office of Financial Management to take the following actions to improve the Treasury reconciliation process:
 - 1) Continue efforts to stop reporting internal transactions that do not involve appropriation transfers on the SF-224 and eliminate transaction codes that allow internal transactions to not include both a debit and a credit to cash.
 - 2) Modify the VA SGL so that it defines all general ledger accounts used in VA's FMS and differentiates cash transactions not-reportable to Treasury, and coordinate the changes to VA's SGL with Treasury's Financial Standards and Reporting Division.
 - 3) Develop written procedures for identifying and resolving all transactions making up the deposit and disbursement difference on the Treasury Statement of Differences.
 - 4) Develop policies and procedures on reporting and reconciliation procedures, including supervisory reviews and documentation retention.
 - 5) Develop and implement a system edit to prevent one-sided transactions.
- b. Coordinate with the Under Secretary for Health and the VHA Chief Financial Officer to ensure that the following additional actions are taken to improve the Treasury reconciliation process:
 - 1) Add resolution/clearance of internal VA cash transactions and disbursement and deposit differences as a performance measure on the VHA Financial Indicator report.
 - 2) Develop and implement controls or edits to prevent field stations from entering only one part of a multi-part transaction into the accounting system.
 - 3) Provide VHA staff instructions for entering accounting transactions into the accounting system in the correct month.

DETAILS ON COMPLIANCE WITH LAWS AND REGULATIONS

1. Public Law 104-208, Federal Financial Management Improvement Act (FFMIA) Of 1996

The results of our tests for FY 1999 indicate that, for the items tested, VA complied with those provisions of laws and regulations which could have a material effect on the financial statements, except for the following FFMIA requirements.

HCA Federal Financial System Requirements

VA's HCA systems were not fully compliant with FFMIA requirements that Federal systems comply with Federal financial system requirements established by the Joint Financial Management Improvement Program. VA's HCA general ledger and subsidiary program systems did not interface with VA's core financial system and also did not have processes in place for reconciling general ledger and subsidiary foreclosed property data, and for providing financial information that could be used in monitoring HCA programs. Additionally, the HCA systems did not provide timely data necessary for preparing VA's Consolidated Financial Statements.

The Department continued to report loan guaranty financial modernization as a material weakness in its Federal Managers' Financial Integrity Act (FMFIA) report for FY 1999. They reported that the loan guaranty system lacked up-to-date interfaces in a number of areas. They further reported that 70 percent of loan guaranty monies flow through accounts that were standard general ledger (SGL) compliant at the end of FY 1999. Additionally, during FY 1999, loans sales accounting was interfaced with VA's core financial system and starting October 1, 1999, HCA began processing payments previously processed through its Automated Voucher Audit Payment System directly into VA's core financial management system. For other HCA funds and systems not yet integrated with VA's core financial system at the end of FY 1999, VBA officials stated their goal is to fully switch to VA's core financial system by the end of FY 2000.

We discussed the material weakness and make recommendations concerning VA's HCA systems in the Report on Internal Control Structure beginning on page 11.

Information Security Requirements

VA was not compliant with the FFMIA requirements that security over financial information be provided in accordance with OMB Circular A-130. We discussed the material weakness and make recommendations concerning VA's information system security controls in the Report on Internal Control Structure beginning on page 7.

Managerial Cost Accounting Requirements

Although improvements have been made, VA remains in noncompliance with the Statement of Financial Accounting Standard No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government provisions that require that systems accumulate cost data at the activity

level. The Department was able; however, to accumulate and allocate costs to the 10 lines of business defined in the Statement of Net Cost on a reasonable basis in preparing the FY 1999 statement.

Since we first reported this issue in our audit of the Department's FY 1998 Consolidated Financial Statements, each of the three VA administrations has made accelerated corrections to attempt to comply with the standard. VBA has fully implemented the Activity Based Cost (ABC) system for providing their cost accounting information. The National Cemetery Administration (NCA) has also selected ABC for their cost system, but were still in pilot testing during FY 1999. NCA expects to implement ABC in FY 2000. VHA has designated the Decision Support System (DSS) as its managerial cost accounting system, but had not fully implemented the system throughout VHA. In addition, VHA was revising the system in FY 2000 to comply with full costing by including Headquarters, pension, and other retirement costs to the activity levels. VHA expects full compliance by FY 2001.

2. Public Law 96-466 And Title 38 United States Code (U.S.C.) Section 5315, "Interest And Administrative Costs"

We have reported each year since our report of the Audit of VA's Consolidated Financial Statements for FY 1992, that VA was not in compliance with Public Law 96-466 (the Veterans Rehabilitation and Education Amendments of 1980) and Title 38 U.S.C. Section 5315. Public Law 96-466 and Title 38 prescribe that interest and administrative costs shall be charged on any amount owed to the United States for an indebtedness resulting from a person's participation in a benefits program administered by the Secretary other than a loan, loan guaranty, or loan-insurance program. VA does not charge interest and administrative costs on compensation and pension accounts receivable balances. The balance for compensation and pension accounts receivable totaled about \$490 million at the end of FY 1999. More than 56 percent (\$276 million) were over 2 years old. The total interest and administrative costs applicable to FY 1999 were over \$20 million. Since 1992, VA has not taken collection action on over \$152.6 million in interest and administrative costs due the Department.

In a July 1992 decision, the former VA Deputy Secretary decided that VA would not charge interest on compensation and pension debts. We disagreed with the Deputy Secretary's decision. Congress passed the law with the intent of charging interest and penalties on benefit debts similar to charges levied on other debts owed the Federal government. Rather than continuing the nonconformance, VA should comply, or work with Congress to change Public Law 96-466 if it believes that the law is not appropriate.

Department of
Veterans Affairs

Memorandum

Date: Mar 14, 2000

From: Assistant Secretary for Financial Management (004)

Subj: *Report of Audit of the VA's Consolidated Financial Statements for Fiscal Year 1999*

To: Inspector General (50)

1. Please convey my sincerest appreciation to everyone on your staff who worked so diligently on this year's audit of our financial statements. Certainly, we are very pleased with the overall outcome of the audit. We commend the efforts of your staff, especially Mr. John Jonson, to maintain a balance between cooperation and independence throughout this effort.
2. We will be sharing the results of the audit with senior officials in the Veterans Health Administration and Veterans Benefits Administrations as well as with other interested VA staff and program managers. The officials responsible for correcting the three material weaknesses-ADP Security, Housing Credit Assistance, and Treasury Reconciliation – will develop action plans, which we will forward to your office within 45 days from receipt of your final audit opinion.
3. Again, thank you for all the work that brought us to this successful conclusion. Please feel free to contact me at 273-5589 if you have any questions.

/original signed/

Edward A. Powell, Jr.

**VA CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS, NOTES,
AND REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
FOR FISCAL YEARS 1999 AND 1998**

Consolidated Balance Sheet
Consolidated Statement of Net Cost
Consolidated Statement of Changes in Net Position
Combined Statement of Budgetary Resources
Combined Statement of Financing
Notes to the Financial Statements
Required Supplementary Stewardship Information

CONSOLIDATED BALANCE SHEET**as of September 30th****Assets*****Intragovernmental***

	<u>1999</u>	<u>1998</u>
Fund Balance with Treasury (Note 2)	\$ 16,198	\$ 14,256
Investments (Note 4)	14,572	14,612
Accounts Receivable, Net (Note 5)	731	542
Other Assets (Note 6)	181	189
Total Intragovernmental Assets	31,682	29,599

Public

Investments (Note 4)	239	425
Accounts Receivable, Net (Note 5)	579	608
Loans Receivable, Net (Note 7)	4,156	3,578
Cash (Note 3)	61	39
Inventories (Note 8)	76	90
General Property, Plant and Equipment (Note 9)	12,036	11,941
Other Assets (Note 6)	22	38
Total Assets	\$ 48,851	\$ 46,318

Liabilities***Liabilities Covered by Budgetary Resources******Intragovernmental***

Accounts Payable	\$ 30	\$ 91
Debt (Note 10)	2,540	1,777
Other Liabilities (Notes 11)	3,127	2,685
Total Intragovernmental Liabilities	5,697	4,553

Public

Accounts Payable	2,336	2,324
Liabilities for Loan Guarantees (Note 7)	5,808	4,705
Insurance Liabilities (Note 14)	12,852	12,935
Other Public Liabilities (Note 11, 12)	3,875	3,581
Total Liabilities Covered by Budgetary Resources	30,568	28,098

Liabilities Not Covered by Budgetary Resources

Federal Employees and Veterans Benefits Liability (Note 13)	484,420	579,459
Environmental and Disposal Liabilities (Note 17)	199	139
Insurance Liabilities (Note 14)	524	524
Other Liabilities (Note 11, 12)	1,300	1,262
Total Liabilities Not Covered by Budgetary Resources	486,443	581,384
Total Liabilities	517,011	609,482

Net Position

Unexpended Appropriations (Note 15)	4,748	4,729
Cumulative Results of Operations	(472,908)	(567,893)
Total Net Position	(468,160)	(563,164)

Total Liabilities and Net Position	\$ 48,851	\$ 46,318
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The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST
for the years ended September 30th

	<u>1999</u>	<u>1998</u>
Net Program Costs		
Medical Care	\$ 17,573	\$ 17,176
Medical Education	830	833
Medical Research	650	575
Compensation	(75,607)	126,267
Pension	3,249	3,228
Education	944	964
Vocational Rehabilitation & Counseling	509	502
Loan Guaranty	1,251	1,317
Insurance	71	180
Burial	(598)	1,314
Net Intra-VA Elimination's	0	1
Total Net Program Costs*	(51,128)	152,357
Net Non-VA Program Costs	10	26
Net Cost of Operations (Note 19)	\$ (51,118)	\$ 152,383

*The change in net compensation costs between FY99 and FY98 is due to fluctuations in the actuarial out-year liability as detailed in note 13.

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

for the years ended September 30th

	<u>1999</u>	<u>1998</u>
Net Cost of Operations (Note 19)	\$ (51,118)	\$ 152,383
<i>Financing Sources (other than exchange revenues)</i>		
Appropriations Used	44,367	42,484
Other Non-exchange Revenue	3	3
Donations (non-exchange revenue)	44	43
Imputed Financing	786	760
Transfers-in	32	476
Transfers-out	(700)	(995)
Other Financing Sources	0	23
<i>sub-total</i>	<u>44,532</u>	<u>42,794</u>
Net Results of Operations	95,650	(109,589)
Increase/ (Decrease) in Unexpended Appropriations & Non-Operating Changes	(589)	(332)
<i>Current Period Change in Net Position</i>	<u>\$ 95,061</u>	<u>\$ (109,921)</u>
Net Position Reconciliation:		
Net Position-Beginning of Period	\$ (563,164)	\$ (453,659)
Prior Period Adjustments: add/(subtract) (Note 22)	3	416
Cumulative Effect of Change in Accounting Principle	(60)	0
Current Period Change in Net Position	<u>95,061</u>	<u>(109,921)</u>
Net Position-End of Period	\$ (468,160)	\$ (563,164)

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES (Note 18)

for the years ended September 30th

	1999	1998
Budgetary Resources		
Budget Authority	\$ 47,609	\$ 45,109
Unobligated Balance - beginning of period	20,034	21,007
Net Transfers (Prior-year balance, Actual [+ or -])	(41)	213
Spending Authority from Offsetting Collections	9,488	8,047
Adjustments	(1,395)	(3,248)
Total Budgetary Resources	\$ 75,695	\$ 71,128
Status of Budgetary Resources		
Obligations Incurred	54,250	51,094
Unobligated Balance Available	15,823	15,107
Unobligated Balance Not Yet Available	5,622	4,927
Total Status of Budgetary Resources	\$ 75,695	\$ 71,128
Outlays		
Obligation Incurred	\$ 54,250	\$ 51,094
Less: Spending Authority from Offsetting Collections and Adjustments	(9,868)	(8,463)
Subtotal	44,382	42,631
Obligated Balance, Net - Beginning of Period	7,335	6,864
Less: Obligated Balance, Net - End of Period	(7,098)	(7,286)
Total Outlays	\$ 44,619	\$ 42,209

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF FINANCING

for the years ended September 30th

	<u>1999</u>	<u>1998</u>
Obligations and Non-budgetary Resources		
Obligations Incurred	\$ 54,250	\$ 51,094
Less: Spending Authority from Offsetting Collections and Adjustments	(9,868)	(8,463)
Donations Not in the Entity's Budget	15	13
Financing Imputed for Cost Subsidies	786	760
Transfers-in (out)	1,099	1,496
Exchange Revenue Not in the Entity's Budget	(13)	(13)
Less: Trust Fund Receipts Related to Exchange Rev in VA's Budget	(1,146)	(1,193)
Other Financing Sources	(570)	(566)
Total Obligations as Adjusted and Non-budgetary Resources	44,553	43,128
 Resources That Do Not Fund Net Cost of Operations		
Change in Amount of Goods, Services and Benefits Ordered but Not Yet Provided (Net Increase)/ Net Decrease	474	257
Change in Unfilled Customer Orders	(45)	77
Costs Capitalized on the Balance Sheet (Increases)/ Decreases	(4,750)	(4,613)
Financing Sources That Fund Costs of Prior Periods	(95,081)	(216)
Collections that Decrease Credit Program Recv or Increase Credit Liabilities	260	0
Other	1,713	2,152
Total Resources That Do Not Fund Net Costs of Operations	(97,429)	(2,343)
 Costs That Do Not Require Resources		
Depreciation and Amortization	906	858
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	118	183
Revaluation of Assets and Liabilities	1	(24)
Loss on Disposition of Assets	124	236
Other	(150)	0
Total Costs That Do Not Require Resources	999	1,253
 Financing Sources Yet To Be Provided	759	110,345
 Net Cost of Operations	\$ (51,118)	\$ 152,383

The accompanying notes are an integral part of these statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The purpose of the Department of Veterans Affairs (VA) is to provide medical care, benefits, social support, and lasting memorials to veterans, their dependents, and beneficiaries (38 U.S.C. 301(b) 1997).

Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of VA, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from VA's books and records in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Basis of Accounting

VA accounts for its appropriations and funds in four lines of business: Veterans Health Administration, Veterans Benefits Administration, National Cemetery Administration, and Departmental Administration. VA's Consolidated Balance Sheet aggregates these four lines of business. The Consolidated Statement of Net Cost separates all VA costs by the 10 programs outlined in VA's Strategic Plan. The financial statements have been prepared in accordance with the Form and Content guidance specified by OMB and the Statements of Federal Financial Accounting Standards (SFFAS). The principles and methods applied to significant assets, liabilities, revenue, and costs are contained in the following individual footnotes.

Exchange revenues are recognized when earned. Expenses generally are recognized when incurred and non-exchange revenues are recognized on a modified cash basis. Remittances of non-exchange revenues are recognized when received and related receivables are recognized when measurably and legally collectible, as are refunds and related offsets. This basis of accounting differs from that used for budgetary reporting. All significant intra-agency balances and transactions have been eliminated in consolidation.

Interest income, which is earned primarily from the investments of VA's life insurance program, is recognized on the accrual basis. Insurance premiums are recognized as revenue when due. Loan origination fees are recognized as revenue at the time of the guaranty.

For certain accrued expenses (e.g., annual leave earned but not taken, future period veterans compensation and burial benefits, and insurance premiums for disabled veterans funded by appropriations), current or prior year appropriations aren't available to fund them. These expenses are financed (funds appropriated) in the year payment are made.

2

FUND BALANCE WITH TREASURY

The U. S. Department of Treasury performs cash management activities for all government agencies. The Fund Balance with Treasury represents the right of the Department to draw on the U. S. Treasury for allowable expenditures.

The Trust Fund Balances consist primarily of amounts relating to the Post-Vietnam Educational Assistance Trust Fund, National Service Life Insurance (NSLI) Fund, United States Government Life Insurance (USGLI) Fund, Veterans Special Life Insurance (VSLI) Fund, General Post Fund, National Cemetery Gift Fund, Transitional Housing Loan Program Account, and the Transitional Housing Loan Financing Account. The use of these funds is restricted.

<i>Fund Balance With Treasury as of September 30</i>		<u>1999</u>	<u>1998</u>
<i>Entity Assets</i>			
Trust Funds	\$	120	\$ 137
Revolving Funds		5,929	4,825
Appropriated Funds		8,266	8,027
Special Funds		51	55
Other Fund Types		17	6
Entity Totals		14,383	13,050
<i>Non-Entity Assets</i>			
Special Funds		1,771	1,152
Other Fund Types		44	54
Non-Entity Totals		1,815	1,206
Total Entity and Non-Entity		16,198	14,256
Reconciliation of VA General Ledger Balances with Treasury			
Entity VA General Ledger*		15,801	14,224
Reconciled Differences		368	21
Unreconciled Differences		29	11
Fund Balance with Treasury	\$	16,198	\$ 14,256
<p>*Includes a \$17 million write-down adjustment recorded during FY 1999 to reconcile VA's General Ledger to the Fund Balance with Treasury.</p>			

3**CASH**

Cash consists of Canteen Service and Loan Guaranty Program amounts in commercial banks. All other cash receipts and disbursements are processed by the Department of Treasury. The amount of Canteen Service's cash held in commercial banks totaled \$0.5 and \$0.8 million respectively at the end of fiscal years 1999 and 1998. The Loan Guaranty Program held \$44.8 and \$37.9 million in commercial banks at September 30, 1999 and 1998 respectively. These amounts represent deposits with trustees for offsets against loan loss claims related to sold loan portfolios. The Loan Guaranty Program also had \$15.6 million of deposits in transit at September 30, 1999.

Cash as of September 30	<u>1999</u>	<u>1998</u>
<i>Public Assets:</i>		
Canteen Service	\$ 0.5	\$ 0.8
Loan Guaranty Program	60.4	37.9
Total Public Cash	\$ 60.9	\$ 38.7

4**INVESTMENTS**

All VA investments are reported at cost and are redeemable at any time for their original purchase price. Insurance program investments, which comprise most of VA's investments, are in non-marketable U.S. Treasury special bonds and certificates. Interest rates for Treasury special securities are based on average market yields for Treasury issues. The special bonds, which mature during various years through the year 2014, are generally held to maturity unless needed to finance insurance claims and dividends. Other VA programs' investments are in securities issued by the Department of Treasury with the exception of the Loan Guaranty Program investments which are in trust certificates that were issued by the American Housing Trust, a private entity not associated in any way with the Government.

Investment Securities as of September 30		<u>1999</u>	<u>1998</u>
Intragovernmental Securities:	<i>Interest Range</i>		
Special Bonds	5.875-11.500%	\$ 14,213	\$ 14,243
Treasury Notes *	5.11-9.125%	51	45
Treasury Bills	3.905-4.875%	36	39
Subtotal		14,300	14,327
Accrued Interest		272	285
Total		\$ 14,572	\$ 14,612
Other Securities:			
Accrued Interest		0	186
Trust Certificates (Loan Guaranty)		239	239
Total		\$ 239	\$ 425
<p>*The investment in Treasury notes includes un-amortized premiums of \$0.3 million as of September 30, 1999 and 1998. Premiums and discounts are amortized on a straight-line basis over the life of the investments. U.S. Treasury Bills are shown at face value (cost), which is the same as market value, since these securities can be redeemed at any time for their face value.</p>			

Offset for Losses on Investments

As of September 30, 1999 and 1998, allowances were recorded to reflect estimated losses of principal as a result of the subordinated position in American Housing Trust I-V certificates. The estimated allowance computations were based upon historical loan defaults. The net investment balances are as follows:

Offset for Losses on Investments as of September 30		<u>1999</u>	<u>1998</u>
Investment in subordinate certificates at time of sale		\$ 424	\$ 424
Cumulative reductions		(143)	(139)
Subtotal		281	285
Allocation of loss provision		(42)	(46)
Net investment		\$ 239	\$ 239

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ACCOUNTS RECEIVABLE, NET

VA's Public Accounts Receivable, Net totaled \$ 579 million at September 30, 1999 and \$608 million at September 30, 1998 and consists mainly of amounts due from patients and third-party insurers for veterans' healthcare and amounts due from individuals for compensation, pension, and readjustment benefit overpayments. Based on prior experience, allowances for bad debt losses have been established at approximately 19% for medical-related receivables and at 73% for compensation, pension, and readjustment benefit overpayment-related receivables.

Accounts Receivable as of September 30		<u>1999</u>	<u>1998</u>
Intragovernmental Accounts Receivable	\$	731	\$ 542
Public Accounts Receivable Gross		1,093	1,165
Allowance for Bad Debts		(514)	(557)
Net Public Accounts Receivable	\$	579	\$ 608

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OTHER ASSETS

Public advance payments are primarily to hospitals and medical schools under house staff contracts; grantees; beneficiaries and employees on official travel. Intragovernmental advance payments are primarily to GSA and GPO for supplies, printing and equipment.

Other Assets as of September 30		<u>1999</u>	<u>1998</u>
Intragovernmental advance payments	\$	181	\$ 189
Public advance payments		22	38

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LOANS RECEIVABLE, NET AND RELATED DISCLOSURES

Direct loan obligations and loan guaranty commitments made after 1991, and the resulting direct loans or loan guarantees, are governed by the Federal Credit Reform Act of 1990. The Act provides that the present value of the subsidy costs associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. Direct loans are reported net of an allowance for subsidy at present value and loan guarantee liabilities are reported at present value. Pre-1992 direct loans and loan guarantees are reported under the allowance for loss method. The nominal amount of the direct loan is reduced by an allowance for uncollectible amounts and the liability for loan guarantees is the amount VA estimates will more likely than not require a future cash outflow to pay default claims.

Neither loans receivable, net nor the value of assets related to direct loans is the same as the proceeds that an agency would expect to receive from selling its loans.

- ♦ VA operates the following direct loan and loan guarantee programs:
- Vocational Rehabilitation and Counseling

- Education
- Insurance
- Loan Guaranty

Loans Receivable

VA's loans receivable represents the net value of assets related to pre-1992 and post-1991 direct loans acquired, defaulted guaranteed loans, and non-defaulted guaranteed loans. For pre-1992 loans, VA employs the allowance for loss method in which the assets are offset by an allowance for loan losses (estimated uncollectible loans). For post-1991 loans, the assets are offset by an allowance for subsidy cost. An analysis of loans receivable, loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy and administrative costs associated with the direct loans and loan guarantees is provided as follows.

Total Loans Receivable and Related Foreclosed Property, Net: as of September 30th					
	<i>Loans Receivable, Gross</i>	<i>Interest Receivable</i>	<i>Allowance for Loan Losses</i>	<i>Foreclosed Property</i>	<i>Value of Assets Related to Loans</i>
Direct Loans Obligated Prior to FY1992 (Allowance for Loss Method)					
FY 99	\$ 155	\$ 59	\$ (69)		\$ 145
FY 98	297	36	(76)	118	375
Direct Loans Obligated after FY 1991					
FY 99*	1,713	45	(124)	24	1,658
FY 98*	1,162	12	(299)	14	889
Defaulted Guaranteed Loans Pre-1992 (Allowance for Loss Method)					
FY 99	329		(299)	211	241
FY 98	614		(549)	129	194
Defaulted Guaranteed Loans Post-1991 (Present Net Value Method)					
FY 99	44			1,119	1,163
FY 98	156			998	1,154
Non-Defaulted Guaranteed Loans (Insurance Policy Loans)					
FY 99	927	22			949
FY 98	941	25			966
FY 99 Total Loans Receivable and Related Foreclosed Property, Net					\$ 4,156
FY 98 Total Loans Receivable and Related Foreclosed Property, Net					\$ 3,578
*Loans Receivable, Gross includes \$.9 million and \$.8 million in direct loans for the vocational rehabilitation program in FY 99 and FY 98 respectively.					

Foreclosed Property

- There are no changes from the prior year's accounting methods;
- There are no restrictions on the use/disposal of the property;
- As of September 30, 1999 and September 30, 1998, VA held marketable title to 12,044 and 12,542 residential properties. For FY 1999 and FY 1998, the average holding period from the date marketable title was obtained until the properties were sold was 6.7 and 6.2 months respectively.
- The number of properties for which foreclosure proceedings are/were in process is 17,906 at September 30, 1999 and 16,396 at September 30, 1998.

Guaranteed Loans Outstanding as of September 30th			
	<i>Outstanding Principal, Guaranteed Loans, Face Value</i>		<i>Amount of Outstanding Principal Guaranteed</i>
1999	\$	214,000	\$ 84,000
1998	\$	203,451	\$ 70,032

<i>Liabilities for Loan Guarantees for Post 1991 Guarantees Present Value</i>		
1999	\$	5,808
1998	\$	4,705

Guarantee Commitments:

As of September 30, 1999, VA had outstanding commitments to guarantee loans, which will originate in FY 2000. The number of commitments could not be determined, as VA has granted authority to various lenders to originate VA loans that meet established criteria without prior VA approval. Nearly 90 percent of VA's guaranteed loans originate under this authority.

Provision for Losses on Pre-1992 Loans:

One element of the cost of the mortgage loan benefit that VA provides to veterans is the present value of the cost VA will bear as loans already guaranteed default in the future.

This cost is reflected in the financial statements as an offset to the value of certain related assets.

The provision for losses on guaranteed loans is based upon historical loan foreclosure results applied to the average loss on defaulted loans. The calculation is also based on the use of the average interest rate of the U. S. interest-bearing debt as a discount rate on the assumption that VA's outstanding guaranteed loans will default over a twelve-year period. The discount rate used in the calculation was 6.5 percent and 6.7 percent for FY 1999 and FY 1998 respectively. The components of the provision are as follows:

Provision for Loss as of September 30th	<u>1999</u>	<u>1998</u>
Offsets against loans receivable	\$ 53	\$ 36
Offsets against foreclosed property held for sale	0	23
Offsets against investments	42	46
Reserve for losses on guaranteed loans	16	40
Total	\$ 111	\$ 145

Subsidy Expense for Post-1991 Direct Loans:

Pursuant to the Credit Reform Act, all direct loans established and guaranteed loans closed after September 30, 1991, will be subsidized. In FY 1999 VA re-estimated the subsidy expense for all loan sale guarantees made between FY 1992 and FY 1998 and estimated the subsidy expense for loan sale guarantees issued in FY 1999. The subsidy expense for direct loans and loan guarantees related to the Loan Guaranty Program is as follows:

Direct Loan Subsidy Expense for the years ended September 30th	<u>1999</u>	<u>1998</u>
Current Year's Direct Loans		
Interest Differential	\$ 3	\$ (760)
Defaults*	119	553
Fees**	(81)	(298)
Other***	86	986
Total Current Year's Direct Loans	127	481
Interest Modifications		
Re-estimates	(154)	6
Total Direct Loan Subsidy Expense	\$ (27)	\$ 487

*Includes approximately \$123,000 and \$160,000 in defaults and other expenses of the vocational rehabilitation program for FY 1999 and 1998 respectively.

**(\$81) million in fee expense for direct loans includes estimated down payments and other fees collected when homes are sold with vendee financing.

*** The \$86 million in "Other" subsidy expense for direct loans includes the estimated loss of scheduled principal and interest when vendee loans are sold.

**Guaranteed Loan Subsidy Expense
for the years ended September 30th**

	<u>1999</u>	<u>1998</u>
Current Year's Guaranteed Loans:		
Defaults	\$ 3,242	\$ 2,331
Fees*	(819)	(1,712)
Other**	(2,225)	(180)
Total Current Year's Guaranteed Loans:	198	439
Loan Modifications		
Re-estimates	307	159
Total Guaranteed Loan Subsidy Expense	\$ 505	\$ 598

* The (\$819) million in fee expenses for guaranteed loans includes estimated up-front fees collected when the loan is guaranteed and the present value of estimated annual fees from loan assumptions.

**The (\$2,225) million in "Other" subsidy expense for guaranteed loans includes estimated recoveries on defaults through the sale of foreclosed property

**Loan Sale: Guaranteed Loan Subsidy Expense
for the years ended September 30th**

	<u>1999</u>	<u>1998</u>
Current Year's Guaranteed Loans:		
Defaults	\$ 48	*
Other	4	*
Total Current Year	52	*
Re-estimates	360	*
Total Loan Sale; Guaranteed Loan Subsidy Expense	\$ 412	*

* Prior to FY1999, VA did not budget separately for the subsidy expense of loan sale guarantees.

Total Subsidy Expense For the year ended September 30, 1999	<u>1999</u>	<u>1998</u>
Direct Loan Subsidy Expense	\$ (27)	\$ 487
Guaranteed Loan Subsidy Expense	505	598
Loan Sale Guaranteed Subsidy Expense	412	0
Total Subsidy Expense	\$ 890	\$ 1,085

Administrative Expense

Direct and Guaranteed Loans for the years ended September 30th	
	<i>Amount</i>
1999	\$ 160
1998	\$ 161

Loan Sales:

The Department of Veterans Affairs continues to have vendee loan sales to reduce the administrative burden of servicing vendee loans. During the period FY 92 through FY 98, the total loans sold amounted to \$8.9 billion. VA completed two sales during fiscal year 1999 totaling approximately \$968 million of vendee loans. The components of the vendee sales are summarized in the tables below:

Loan Sales for the years ended September 30th	<u>1999</u>	<u>1998</u>
Loans receivable sold	\$ 968	\$ 1,129
Proceeds from sale*	960	1,170
Loss (Gain) on receivables sold	\$ 8	\$ (41)
Information presented does not reflect the transaction expenses incurred to sell the loans.		

Outstanding Balance of Loan Sale Guarantees:

All loans sold under American Housing Trust (AHT VI through AHT XI) and the Vendee Mortgage Trust (VMT 92-1 through 99-2) programs carry a full government guarantee. The outstanding balance for guaranteed loans sold is summarized in the table below:

for the years ended September 30th	<u>1999</u>	<u>1998</u>
Outstanding balance: guaranteed loans sold start of year	\$ 6,946	N/A
Guaranteed loans sold to the public	968	N/A
Payments, repayments and terminations	(304)	N/A
Outstanding balance: guaranteed loans sold end of year	\$ 7,610	N/A

Liability for Loan Sale Guarantee (post-1991):

Starting in FY 1999, the VA began reporting the liability on the guarantee of loans sold under the Vendee Mortgage Trust and American Housing Trust programs. All guaranteed loan sales after September 30, 1991 are subject to Credit Reform requirements. For these loans, the guaranteed loan sale liability represents the present value of the estimated net cash flows to be paid by VA as a result of the guarantee. The VA guarantees that the principal and interest payment due on a loan will be paid by the 15th of each month. If the payment is not made, VA allows the loan servicer to receive funds from a cash reserve account for the amount in deficiency. The VA also guarantees the loans against losses at foreclosure. Although VA will not buy back the loans, VA will pay off the loan loss and foreclosure expenses. The liability for loan sale guarantee is currently \$260 million.

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INVENTORIES

VA inventory properties consists of merchandise inventory such as general supplies, burial flags, precious metals held for sale, and Canteen retail store stock and is valued at the lower of cost or market. VA follows the Purchases method of accounting for operating materials and supplies in the hands of the end user.

Inventories as of September 30th	<u>1999</u>	<u>1998</u>
Held for current sale	\$ 65	\$ 72
Excess, obsolete and unserviceable	10	17
Held for repair and parts	1	1
Total	\$ 76	\$ 90

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GENERAL PROPERTY PLANT AND EQUIPMENT

The majority of the general property, plant and equipment is used to provide medical care to veterans and is valued at cost, including transfers from other Federal agencies. Major additions, replacements, and alterations are capitalized whereas routine maintenance is expensed when incurred. Construction costs are capitalized as Construction in Progress until completion, then transferred to the appropriate property account. Individual items are capitalized if the useful life is two years or more and the unit price is \$25,000 or greater for real property and \$5,000 or greater for personal property. Buildings are depreciated straight-line over estimated useful lives of 25 to 40 years. Equipment is also depreciated straight-line over its useful life, usually 5 to 20 years. There are no restrictions on the use or convertibility of general property, plant and equipment.

All VA heritage assets are multi-use facilities and are classified as general property, plant and equipment. Depreciation totaled \$905.5 and \$858 million in FY 1999 and FY 1998, respectively. The following table provides property and equipment data as of September 30, 1999 and 1998.

Property, Plant and Equipment as of September 30th		<u>1999</u>	<u>1998</u>	
	<u>Cost</u>	<i>Accumulated Depreciation</i>	<i>Net Book Value</i>	<i>Net Book Value</i>
Land and Improvements	\$ 177	\$ 1	\$ 176	\$ 166
Buildings	13,219	5,232	7,987	7,860
Equipment	4,840	2,646	2,194	2,143
Other	1,633	865	768	735
Construction in Progress	911		911	1,037
Total	\$ 20,780	\$ 8,744	\$ 12,036	\$ 11,941

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DEBT

All Intragovernmental debt is due to the U.S. Treasury and is related to borrowing by the Loan Guaranty Program. The interest rates ranged from 4.76-5.81% and 5.34-5.98% in FY 1999 and FY 1998, respectively. VA's financial activities interact with and are dependent upon those of the Federal Government as a whole.

Intragovernmental Debt as of September 30th	<u>1999</u>	<u>1998</u>
Intragovernmental Debt:	\$2,540	\$1,777

OTHER LIABILITIES

Covered by Budgetary Resources

Intragovernmental

Intragovernmental Funded Liabilities as of September 30th	<u>1999</u>	<u>1998</u>
Deposit & Clearing Acct Liabilities	\$ 15	\$ 10
Deferred Revenue	19	14
Resources Payable to Treasury	731	995
Subsidy Re-estimates*	2,251	1,587
GFR Liability	31	8
Accrued VA Contributions for Employee Benefits	80	71
Total	\$ 3,127	\$ 2,685

*Subsidy Re-estimates for Loan Guaranty loans made after September 30, 1991 are subject to the provisions of the Credit Reform Act of 1990. The liability provision for future losses on credit reform guaranteed loans is comprised of a funded subsidy for each loan guaranteed at the rate equal to the amount of the present value of estimated loss to the government for the cohorts of loans. The subsidy amount for each cohort is re-estimated annually to ensure the amounts reflect the actual losses on guaranteed loans. Based on the re-estimated amounts, additional subsidy funds are provided or excess funds are returned.

Public

Public Funded Liabilities as of September 30th	<u>1999</u>	<u>1998</u>
Accrued Funded Annual Leave	\$ 9	\$ 8
Accrued Payables	1,205	1,036
Accrued Salaries and Benefits	558	505
Contract Holdbacks	22	24
Unredeemed Coupons	1	1
Deposit & Clearing Account Liability	45	48
Unearned Premiums	143	150
Insurance Dividends Left on Deposit and Related Interest Payable*	1,461	1,390
Capital Lease Liability	24	24
Judgment Fund - Funded	0	2
Dividend Payable to Policyholders	345	351
Custodial Liability	46	2
Reserve for Losses on Guaranteed Loans	16	40
Total	\$ 3,875	\$ 3,581

*Interest earned on dividends left on deposit is paid annually to insurance policyholders on their policy anniversary dates.

Not Covered by Budgetary Resources:

Public

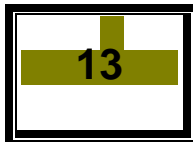
Public Unfunded Liabilities as of September 30	<u>1999</u>	<u>1998</u>
Annual Leave*	\$ 904	\$ 882
Capital Lease Liability	1	3
Judgment Fund – Unfunded**	82	67
Accrued FECA Liability	313	310
Total	\$ 1,300	\$ 1,262
<p>*Annual leave is accrued when earned and the accrual is reduced when leave is used. At least once a year, the balance in the accrued annual leave account is adjusted to reflect current pay rates of cumulative annual leave earned but not taken. Sick and other types of leave are expensed as taken.</p> <p>**The Judgment Fund liability amount represents the estimate for future payments on legal cases that will be paid by the Treasury Judgment Fund on behalf of VA.</p>		

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LEASES

VA has both capital and operating leases. Due to the magnitude of operating leases and the decentralization of records, the future commitment for operating leases is not known. VA's FY 99 operating lease costs were \$185 million for real property rentals and \$46 million for equipment rentals. The value of VA's capital leases for Outpatient Clinics are as follows:

Summary of Assets Under capital Lease:	<u>1999</u>	<u>1998</u>
Present Value:		
Land and Buildings	28	28
Accumulated Amortization	1	1
Net Book Value	27	27
Future Payments Due:		
Fiscal Year:		
2000	3	3
2001	3	3
2002	3	3
2003	3	3
2004	3	3
After 2004	27	27
Total Future:		
Lease Payments	42	42
Less: Imputed Interest	13	13
Executory Costs (e.g., taxes)	5	5
Net Capital		
Lease Liability	24	24
Liabilities covered by budgetary resources	24	24
Liabilities not covered by budgetary resources	1	1



FEDERAL EMPLOYEES AND VETERANS BENEFITS

Federal Employees Benefits

Employee Benefits consist of costs relating to workers compensation claims under: the Federal Employee Compensation Act (FECA) program administered by the Department of Labor (DOL), pension benefits for employees under either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) and other post-employment benefits such as the Federal Employees Health Benefits Program (FEHB) and the Federal Employees Group Life Insurance (FEGLI) Program. The Office of Personnel Management (OPM) administers both of these pension programs and the other post-retirement benefits.

VA makes contributions on behalf of VA employees covered by the CSRS retirement system. However, VA is not required to fully fund the CSRS pension liability pertaining to VA employees. OPM subsidizes the CSRS pension cost. VA is required to recognize an expense and impute a financing source for OPM's estimated total cost of the pension benefits pertaining to current employees. VA does not fund other post-employment benefits, but is required to recognize an expense and impute a financing source, which is fully financed by OPM.

Imputed Expense for the Period:

Employee Benefits as of September 30	<u>1999</u>	<u>1998</u>
CSRS	\$ 270	\$ 273
FEHB	445	420
FEGLI	1	1
Total Imputed Expenses	\$ 716	\$ 694

The FECA liability amount shown below relates to the actuarial estimates provided by DOL for future workers compensation claims. Once claims are actually billed to VA, they are recorded as an "Other Liability" on the balance sheet. (see Note 11).

Veterans Benefits

Veterans who die or are disabled from military service-connected causes as well as their dependents receive compensation benefits and are provided with burial flags, headstones/markers, and grave liners for burial in either a VA national cemetery or a plot allowance for burial in a private cemetery. These benefits are provided in exchange for a veteran's military service and are required by SFFAS No. 5 to be recorded as a future liability on VA's balance sheet.

VA provides veterans or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled from non service-connected causes. The actuarial present value of the future liability for pension benefits is a non-exchange transaction and, in accordance with SFFAS No. 5, is not required to be recorded on VA's balance sheet.

**Federal Employees and Veterans Benefits Liability
as of September 30th**

	<u>1999</u>	<u>1998</u>
FECA	\$ 1,220	\$ 1,310
Compensation	480,300	574,427
Burial	2,900	3,722
Total	\$ 484,420	\$ 579,459

The significant decrease in estimates of the Compensation and Burial Benefits liability between September 30, 1998 and 1999 results from the increase in interest rates between these two dates.

Not Reported on VA's Balance Sheet

The projected liability for pension benefits, presented for informational purposes only, is as follows:

for the years ended	<u>1999</u>	<u>1998</u>
September 30th		
Pension	\$ 73,300	\$ 101,827

Assumptions Used to Calculate the Veterans Benefits Liability:

The significant actuarial assumptions used in the September 30, 1999 valuation of compensation, pension, and burial benefits were:

To calculate the present value of the liability, future cash flows were discounted in perpetuity. A liability was recognized for the projected benefit payments to: (1) those beneficiaries, including veterans and survivors, currently receiving benefit payments, and (2) current veterans who will in the future become beneficiaries of the compensation and pension programs, and (3) a proportional share of those in active military service as of the valuation date who will become veterans in the future. Survivors of those veterans in classes (1), (2) and (3) who receive benefits after the death of the veterans are also incorporated into the projection.

Discount rates were based on rates on securities issued by the Department of Treasury on September 30, 1999, ranging from 5.22% to 6.06%, and on September 30, 1998, ranging from 4.41% to 4.98%. Cash flows were assumed to occur at the midpoint of the fiscal year.

All calculations were done by program. The calculation for pension benefits was performed separately for each law: Old Law, Sec. 306, and PL 95-588. Burial liabilities were calculated on an overall basis.

Dollars by category, and by age, were used in the liability for compensation and pension benefits. Therefore, ratios, trends in caseloads, and mortality tables, were used to allocate dollars in these areas.

Life expectancy of veterans is based upon studies by VA actuaries in relation to the Service Disabled Veterans Insurance (SDVI) Fund adjusted to 1991 and supplemented by adjusted 1991 U.S. Life mortality rates for males in early years. The life expectancies for elderly males were determined using the 1994 Uninsured Pensioners mortality table. These rates were brought forward to the present by applying mortality improvements at a rate of 1% per annum. The SDVI study contains mortality information for ages 41 through 75 inclusive.

Cost of living adjustments (COLAs) were applied to determine the average benefits per veteran for each future time period. COLAs of 3.1% and 2.4% were assumed for fiscal years 1998 and 1999, respectively. For fiscal years after 1999, COLAs were determined from the OMB's estimates prepared in conjunction with the Administration's annual budget.

Expected benefit payments have been explicitly modeled for the next seventy years. This period is roughly the same as that used by the Office of the Actuary of the Social Security Administration (seventy-five years). However, unlike Social Security, estimates of expected benefit payments after this seventy year period were reflected in the liability based on extrapolations reflecting aggregate experience by beneficiary category between the sixty-fifth and seventieth year.

A public law went into effect on October 1, 1998 permitting surviving spouses whose Dependency and Indemnity Compensation (DIC) benefits had previously been terminated as a result of remarriage, and have subsequently become divorced or widowed, to begin collecting DIC benefits again. As a result, the number of new awards to surviving spouses increased by about twenty percent during FY 1999. The future rate of new awards to surviving spouses was estimated to continue at that same level in the model.

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INSURANCE PROGRAMS

VA Life Insurance Programs for Veterans:

1. United States Government Life Insurance established in 1919 to handle new issues and the conversion of World War I War Risk Term Insurance;
2. National Service Life Insurance, established in 1940 to meet the needs of World War II service personnel;
3. Veterans Special Life Insurance, established in 1951 for Korean veterans who did not have service-connected disabilities;
4. Service-Disabled Veterans Insurance, established in 1951 for veterans with service-connected disabilities;
5. Veterans Reopened Insurance, a one-year reopening in 1965 of National Service Life Insurance, for certain disabled World War II and Korean veterans;
6. Veterans Mortgage Life Insurance, established in 1971 to provide insurance to veterans who have received Specially-Adapted Housing grants.

VA also supervises the administration of the Servicemembers' Group Life Insurance (SGLI) program and a subprogram of SGLI, the Veterans' Group Life Insurance (VGLI) program. SGLI is directly administered by the Prudential Insurance Company of America. This coverage is provided to active members of the Military Services, cadets attending service academies, and active members of the Armed Forces Reserves, National Guard, and Reserve Officers Training Corp.

The SDVI and Veterans Mortgage Life Insurance (VMLI) programs receive appropriations to meet their operating deficits. The National Service Life Insurance (NSLI) and United States Government Life Insurance (USGLI) programs receive appropriations to fund claims traceable to the extra hazards of military service. The NSLI, USGLI, SDVI, Veterans Special Life Insurance (VSLI), and Veterans Reopened Insurance (VRI) programs receive appropriations to fund the cost of overpayments waived.

VA administers the SGLI and VGLI programs through a group policy with the Prudential Life Insurance Company of America. Premiums are set by mutual agreement of VA and Prudential. SGLI premiums for Active Duty service personnel, ready Reservists, and Reservists with part-time coverage are deducted from their pay and remitted by

each uniformed service to VA, which in turn remits them to Prudential. Veterans insured under VGLI send their premiums directly to Prudential.

VA also monitors Prudential reserve balances to determine their adequacy and may increase or decrease the amounts retained by Prudential for contingency purposes. Amounts withdrawn are held in the SGLI revolving fund and are invested in Treasury Department securities. VA can use the SGLI revolving fund assets to stabilize and to augment participant premiums.

The Treasury Department maintains VA cash balances and the life Insurance programs' receipts and disbursements are processed by the Federal Reserve System and Treasury. As required by Title 38, the life insurance programs invest in U.S. Treasury Securities.

Most insurance liabilities are actuarially determined policy reserves representing the present value of future benefits less the present value of future premiums.

Liabilities:

The liability amounts for unearned insurance premiums, insurance dividends left on deposit, and dividends payable to policyholders are included in Other Liabilities, Note 11.

Part of the SDVI and VI&I reserves include future policy benefits which are classified as Insurance Liabilities Not Covered by Budgetary Resources on the Balance Sheet. Actuarial reserve liabilities for VA life insurance programs are based on mortality and interest assumptions at time of issue. These assumptions vary by fund, type of policy, and type of benefit. The interest assumptions range from 2.25% to 5.00%. The mortality assumptions include the American Experience Table, the 1941 CSO Table, the 1958 CSO Basic Table, and the 1980 CSO Basic Table.

<i>Insurance Liability (Reserve) Balances</i> as of September 30th						
			Disability		1999	1998
	Insurance	Death	Income and			
	Death	Benefit	Waiver of			
Programs	Benefits	Annuities	Premium	Other	Reserve Total	Reserve Total
NSLI	\$ 10,285	\$ 189	\$ 279	\$ 68	\$ 10,821	\$ 10,927
USGLI	53	8	0	0	61	67
VSLI	1,360	11	47	3	1,421	1,395
SDVI	412	1	110	1	524	508
VRI	443	2	10	1	456	464
VI&I	93	0	0	0	93	99
	\$ 12,646	\$ 211	\$ 446	\$ 73	\$ 13,376	\$ 13,460
Less						
Liability Not Covered by Budgetary Resources					(524)	(524)
<i>Liability Covered by Budgetary Resources</i>					\$ 12,852	\$ 12,935

Insurance-in-Force:

The amount of insurance-in-force is the total face amount of life insurance coverage provided by each VA insurance program as of the end of the fiscal year. It includes any paid-up additional coverage provided under these policies. The number of policies represents the number of active policies remaining in the program as of the end of the fiscal year.

VA Supervised and Administered Programs for the years ended September 30th				
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
	Number of Policies		Face Amount of Insurance	
Supervised Programs:				
SGLI Active Duty	1,431,000	1,457,000	\$ 271,107	\$ 278,012
SGLI Ready Reservists	792,500	826,500	139,483	149,607
SGLI Post Separation	105,000	115,000	19,392	21,584
VGLI	363,660	367,950	31,899	31,471
Total Supervised Programs	2,692,160	2,766,450	461,881	480,674
Administered Programs:				
National Service Life Insurance	1,802,101	1,906,825	17,662	18,264
Veterans Special Life Insurance	233,893	240,394	2,699	2,730
Service-Disabled Veterans Insurance	154,410	156,745	1,440	1,452
Veterans Reopened Insurance	82,545	87,590	675	701
U.S. Government Life Insurance	17,973	19,660	59	65
Veterans Insurance and Indemnities	0	1,246	0	6
Veterans Mortgage Life Insurance	3,518	3,679	201	206
Total Administered Programs	2,294,440	2,416,139	22,736	23,424
Grand Total - All Programs	4,986,600	5,182,589	\$ 484,617	\$ 504,098

Policy Dividends:

The Secretary of Veterans Affairs determines annually the excess funds available for dividend payment. Dividends payable are based on an actuarial analysis of the individual programs 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:

- | | |
|-----------------------------|--|
| (1) receive a cash payment; | (4) purchase paid-up insurance; or |
| (2) prepay premiums; | (5) Deposit the amount in an interest-bearing account. |
| (3) repay loans; | |

A provision for dividends is charged to operations and an insurance dividend payable is established when gains to operations are realized in excess of those essential to maintain solvency of the insurance programs.

Policy Dividends		
For the years ended September 30th		
	<u>1999</u>	<u>1998</u>
Dividends Paid	\$755	\$795
Premiums Paid	732	739

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UNEXPENDED APPROPRIATIONS

The total unexpended balance is the sum of undelivered orders and unobligated balances. Appropriation acts and other provisions of law provide authority to incur new obligations. An obligation represents an amount that is expected to be expended upon subsequent receipt of goods or services. The obligated balance is the cumulative amount of obligations incurred by VA for which outlays have not been made. Undelivered orders are the amount of goods and services ordered for which delivery or performance has not yet occurred and are included in this balance. An unobligated balance is the amount available after deducting the cumulative obligations from total budgetary resources. In some instances, unobligated balances are not available due to legal constraints regarding the time limit and purpose for which funds can be obligated.

Unexpended Appropriations					
as of September 30th					
	<i>Available</i>	Unobligated <i>Unavailable</i>	Undelivered <i>Orders</i>	Total	
1999	\$ 2,603	\$ 400	\$ 1,745	\$	4,748
1998	\$ 2,176	\$ 395	\$ 2,158	\$	4,729

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CONTINGENCIES

VA is a party in various administrative proceedings, legal actions, and tort claims arising from various sources including: disputes with contractors, challenges to compensation and education award decisions, loan guaranty indemnity debt cases, and allegations of medical malpractice.

Certain legal matters to which VA may be a named party are administered and, in some instances, litigated by the Department of Justice. Generally, amounts (more than \$2,500 for Federal Tort Claims Act cases) to be paid under any decision, settlement, or award are funded from the Judgment Fund, which is maintained by the Department of the Treasury. Of the amounts paid from the Judgment Fund, malpractice cases claimed 80% in FY 1999 and 82% in FY 1998. Contract dispute payments require reimbursement to the Judgment Fund by VA.

In accordance with OMB Interpretation No. 2 of Federal Financial Accounting Standards, VA has included a liability for pending legal claims that will probably be paid by the Judgment Fund. This liability is established for all pending claims whether reimbursement is required or not. This liability was \$82 million for FY 1999 and \$67 million for FY 1998. VA is also required to record an operating expense and imputed financing source for Judgment Fund pending claims and settlements. Judgment Fund accounting is shown below:

<i>Judgment Fund</i>			
for the years ended September 30th			
		1999	1998
Fiscal Year settlement payments	\$	77.5	\$ 73.8
Less contract dispute payments		(7.4)	(7.5)
Imputed financing-paid by other entities		70.1	66.3
Increase (decrease) in liability for claim		13.0	45.9
Operating expense	\$	83.1	\$ 112.2

It is the opinion of VA's management and Office of General Counsel that resolution of pending legal actions as of September 30, 1999 will not materially affect VA's operations or financial position when consideration is given to the availability of the Judgment Fund appropriation to pay some court settled legal cases. The amount of unobligated and obligated authority relating to appropriations cancelled on September 30, 1999 and September 30, 1998 was \$102.5 million and \$72 million respectively. Any payments that may arise relating to cancelled appropriations will be paid out of the current year's appropriations in accordance with the provisions of the Expired Fund Control Act of 1990.

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ENVIRONMENTAL AND DISPOSAL

The Department of Veterans Affairs had unfunded environmental and disposal liabilities in the amount of \$199 million and \$139 million for the years ending September 30, 1999 and September 30, 1998 respectively. The majority of the unfunded liability involves asbestos removal, lead abatement, replacement of underground oil and gasoline tanks, decommissioning of waste incinerators, and decontamination of equipment prior to disposal.

While some facilities have applied prevailing state regulations that are more stringent than federal guidelines, OSHA and EPA are the legal basis for regulations behind the majority of VA environmental and disposal liabilities. Estimated liabilities for these projects have been computed by the facility engineering staff based on similar projects already completed, or by independent contractors providing work estimates.

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DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

The net amount of budgetary resources obligated for undelivered orders at the end of the period:

- VA has obligations remaining at the end of each year for goods and services ordered but not yet received (undelivered orders);

- Aggregated undelivered orders amounted to \$1.7 billion at September 30, 1999 and \$2.4 billion at September 30, 1998;

Available borrowing authority and contract authority at the end of the period:

- VA does not have any contract authority;
- Loan Guaranty had borrowing authority of \$2 billion and \$1.4 billion at September 30, 1999 and September 30, 1998 respectively; and
- The vocational rehabilitation program had borrowing authority of \$2.3 million at September 30, 1999 and \$ 3 million at September 30, 1998 for making direct loans.

Repayment requirements, financing sources for payment, and other terms of borrowing authority used:

- Loan Guaranty borrowing was repaid to Treasury through the proceeds of portfolio loan collections, funding fees, and its sale of loans to Vinnie MAC trusts; and
- The vocational rehabilitation loans generally had duration of 1 year and repayment was made from offsetting collections.

Adjustments during the reporting period to budgetary resources available at the beginning of the year (supplemental appropriation or rescission):

- For fiscal year 1999, VA appropriations subjected to a rescission of \$37.6 million under the provisions of the "Emergency Steel Loan Guarantee and Emergency Oil and Gas Guaranteed Loan Act of 1999;
- The majority of the rescission, \$35.4 million, was taken from the multi-year medical care account; and
- Compensation, Pension, and Burial Benefits received a \$550 million supplemental appropriation.

Permanent Indefinite Appropriations:

VA has three permanent and indefinite appropriations;

- One is the Veterans Housing Benefit Program Fund (36x1119). It covers all estimated subsidy costs arising from post-1991 loan obligations for Veterans Housing Benefits. The fund's objective is to encourage and facilitate the extension of favorable credit terms by private lenders to veterans for the purchase, construction, or improvement of homes to be occupied by veterans and their families.
- The Loan Guarantee Revolving Fund (36x4025) is a liquidating account, which contains all of VA's pre-credit reform direct and guaranteed loans. It also holds fund balances received from reimbursements from Financing accounts for loan modifications and rentals of foreclosed properties not yet transferred to Financing accounts. This account is responsible for the property management expenses prior to the sales of foreclosed properties.
- The Native American Direct Loan Account (36x1120) was established to cover all subsidy costs arising from direct loan obligations related to a veteran's purchase, construction, or renovation of a dwelling on trust land.

Information about legal arrangements affecting the use of unobligated balances of budget authority, such as time limits, purpose, and obligation limitations:

- Available unobligated balances on the final Statement of Budgetary Resources are composed of current fiscal year apportioned funds for annual, multiyear, and no-year appropriations from Congress as well as revolving and trust funds. Other balances not available are composed of expired appropriation unobligated amounts which generally are not available for new obligations, but can be used to increase existing obligations under certain circumstances. This amount also includes unobligated funds that were not apportioned by OMB for FY 99 use.
- Unobligated VA funds are available for uses defined in VA's FY 99 Appropriation Law

(P.L.105-276). These purposes include: veterans' medical care, research, education, construction and maintenance of VA buildings, veterans' and dependents' benefits, veterans' life insurance, loan guaranty programs, veterans' burial benefits, and administrative functions.

- Various obligation limitations are imposed on individual VA appropriations. Examples include travel obligation limitations and limitation of the use of medical care multiyear funds to object classes for equipment, structures, and land.

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STATEMENT OF NET COST DISCLOSURE

Exchange revenues - normally require reporting entities to recover full cost

- VA's enhanced sharing authority provides legislated exception to the full cost recovery requirement. Arrangements entered into under this authority shall provide for payment to the Department (VA) in accordance with procedures that provide appropriate flexibility to negotiate payment that is in the best interest of the Government. Increasing the price of items charged might reduce the quantity demanded and thus the revenues.
- VA's Loan Guaranty Line of Business collects rental fees on a small number of properties during the period when the property is titled to the VA.
- The National Cemetery Administration leases lodges at 16 cemeteries to Not-for-Profit groups for no fee. The Not-for-Profit groups are required to provide the upkeep on the lodges and pay all other costs except for major repairs.
- The National Cemetery Administration has leases with private companies/individuals. The lessee is required to pay all costs of maintaining the land.

Exchange transactions with the public - occur when prices are set by law or executive order and are not based on full cost or on market price.

- 38 U.S.C. Chapter 17 substitutes the term "reasonable charges" for "reasonable cost" when billing third party payers for services provided to insured veterans for treatment of nonservice-connected conditions. Reasonable charges are based on provider charges in the market area of each VA facility. The lesser of VA's billed charges or the "reasonable charge" will be collected from the third party payers.
- 38 C.F.R. Section 1.555 governs fees to be charged by the VA for requests of information under the Freedom of Information Act (FOIA). Educational, non-commercial scientific institutional, representatives of the media, and all other non-commercial users are entitled to receive 100 pages of reproduced material and the first two hours of search time without charge. Commercial use requesters are to be charged the full direct costs of searching for, reviewing for release, and duplicating the records sought.
- The VA is required to collect a co-payment of \$2 from veterans with nonservice-connected conditions for each 30-day supply of medication furnished on an outpatient basis. This fee does not cover the cost of the medications in the vast majority of cases.
- VA's Loan Guaranty Line of Business collects certain fees that are set by law. The Loan Guaranty funding fees collected for the year were \$638 million. The loan guaranty lender participation fees collected for the year were \$2 million.

Intragovernmental exchange transactions in which the entity provides goods or services at a price less than the full cost or does not charge a price at all with explanations for disparities between the billing and full cost.

- VA and the Department of Defense (DOD) have authority to enter into agreements and contracts for the mutual use or exchange of use of hospital and domiciliary facilities and other resources. The providing agency shall be reimbursed for the cost of the health-care resources based on a methodology agreed to by VA and DOD. Facility Directors have the flexibility to consider local conditions and needs and the actual costs of providing the services. VA's General Counsel has opined that full cost recovery is not mandated.
- The Benefits Line of Business collects funding from DOD in order to administer certain educational programs within the line of business. DOD transferred \$208 million during the year for the VEAP, REPS, and the New GI Bill for Veterans.

Specific goods or services made to order under a contract - require disclosure of the full amount of the expected loss when it is probable and measurable.

- VA does not have any contracts where it makes specific goods or provides specific services.
- All of VA's net program costs are part of the 700 (Veterans Benefit and Services) Budget Functional Classification.

Production Costs: for the years ended September 30th											
	Medical Care	Medical Education	Medical Research	Compensation	Pension	Education	Vocational Rehab	Loan Guaranty	Insurance	Burial	Total
Governmental Costs	\$ 1,332		\$ 653								\$ 1,985
Less: Earned Revenues	(72)		(39)		(17)	(188)			(1,113)		(1,429)
Net Governmental Production Costs	1,260		614		(17)	(188)			(1,113)		556
Public Costs	17,183	830	38	(75,607)	3,266	1,305	509	1,683	1,965	(599)	(49,427)
Less: Earned Revenues	(928)		(2)			(173)		(432)	(781)		(2,316)
Net Public Production Costs	16,255	830	36	(75,607)	3,266	1,132	509	1,251	1,184	(599)	(51,743)
Non-Production Costs											
Hazardous Waste Clean-up	58									1	59
Net Program Cost	\$ 17,573	\$ 830	\$ 650	\$ (75,607)	\$ 3,249	\$ 944	\$ 509	\$ 1,251	\$ 71	\$(598)	\$(51,128)
Net Non-VA Program Cost											10
Total Net Cost of Operations:											\$(51,118)
The change in net compensation costs between FY 99 and FY 98 is due to fluctuations in the actuarial out-yet liability as detailed in Note 13."											

DEDICATED COLLECTIONS

In the Federal Government, dedicated collections are accounted for in trust funds and special funds. The term “trust funds” as used in this report and in Federal budget accounting, is frequently misunderstood. In the private sector, “trust” refers to funds of one party held by a second party (the trustee) in a fiduciary capacity. In the Federal budget, the term “trust fund” means only that the law requires that funds be accounted for separately and used only for specified purposes and that the account was designated as a “trust fund.” A change in law may change the future receipts and the terms under which the fund’s resources are spent. The “trust fund assets” represent all sources of receipts and amounts due the trust fund regardless of source. This includes “related governmental transactions,” which are transactions between two different entities within the Federal Government. The “Investments with Treasury” assets are comprised of investments in Federal debt securities and related accrued interest. These securities will require redemption if a fund’s disbursements exceed its receipts. Unless specifically provided for by law, trust funds may only place excess funds in Federally backed investments (e.g. Federal debt securities).

The following table summarizes the name, type, and purpose of the funds within VA that receive dedicated collections:

Fund Name	Fund Type	Treasury Symbol	Authority to Use	Purpose of Fund	Financing Sources Public or Federal
Medical Care Collections Fund	Special	36x5287	P.L.105-33	Accumulates recoveries from third parties and patient co-payments.	Public, primarily insurance carriers.
Escrowed Funds for Shared Medical Equipment Purchases	Deposit	36x6019	106 STAT. 1974	Receives payments from public companies involved in joint purchases of medical equipment.	Public, universities, pharmaceuticals & other medical organizations.
Personal Funds of Patients	Deposit	36x6020	38 U.S.C. 3204	Temporarily holds funds.	Public, patients.
Employee Allotments for Savings Bonds	Deposit	36x6050		Temporarily holds funds.	Employees.
Cemetery Gift Fund	Trust	36x8129	38 U.S.C. 1007	Expenditure of funds is limited to cemeteries by donor.	Public donors.
National Service Life Insurance Fund	Trust	36x8132	38 U.S.C. 720	Accumulates premiums to insure veterans of WWII.	Public, veterans.
Post-Vietnam Era Education Assistance Program	Trust	36x8133	38 U.S.C. 1622	To subsidize the cost of education to veterans.	Veterans, DOD.
U.S. Gov. Life Insurance	Trust	36x8150	38 U.S.C. 755	Premiums insure WWI veterans.	Public, veterans.
Veterans Special Life Insurance Fund	Trust	36x8455	38 U.S.C. 723 101-228	Premiums insure Korean War Vets without Service-related disabilities.	Public, veterans.
General Post Fund, National Homes	Trust	36x8180	38 U.S.C. 101-228	Receives restricted and unrestricted use donations	Public, mostly veterans.

Special funds pertaining to Loan Guaranty activities are not included in the chart above because they only receive transfers for downward re-estimates of subsidy expense. These funds are shown as cash on the balance sheet. All of the funds listed above use the accrual basis of accounting. However, collections are reported as actually received in accordance with OMB Circular A-34. The insurance funds listed above also adhere to the requirements of FASB No. 120 "Accounting and Reporting by Mutual Life Insurance Enterprises" and issue a separate annual report. All of the above funds generally receive authority to use all current year contributions as well as a portion of previously contributed amounts.

Condensed Information on Assets, Liabilities, and Fund Balances

Fund	5287	6019	6020	8129	8132	8133	8150	8455	8180	Total
Assets:										
Fund balance with Treasury	50.0		44.0		9.4	107.5	0.1	1.4	1.5	\$ 213.9
Investments with Treasury		0.3		12,177.0			81.0	1,701.5	50.9	14,010.7
Other Assets	391.4				742.3	1.9	4.1	114.6	27.5	1,281.8
Total Assets	441.4	0.3	44.0	3.0	12,928.7	109.4	85.2	1,817.5	79.9	15,509.4
Liabilities:										
Payables to Beneficiaries			44.0		1,687.7	1.5	1.6	315.5	0.6	2,050.9
Other Liabilities		0.3			10,821.1		80.1	1,421.2	1.8	12,324.5
Total Liabilities	0.0	0.3	44.0		12,508.8	1.5	81.7	1,736.7	2.4	14,375.4
Net Position:										
Cumulative Results	441.4			3.0	419.9	107.9	3.5	80.8	77.5	1,134.0
Total Liabilities & Net Position	441.4	0.3	44.0	3.0	12,928.7	109.4	85.2	1,817.5	79.9	\$ 15,509.4

Condensed Information on Net Costs and Changes in Fund Balances

Fund Symbol	5287	8129	8132	8133	8150	8455	8180	Total
Revenues:								
Exchange - Federal	1.6		929.1		5.4	144.1		\$ 1,080.2
Exchange - Public	615		643.9		(0.1)	79.4		1,338.2
Non-Exchange -Federal								0.0
Non-Exchange -Public							46.0	46.0
Total Revenues	616.6		1,573.0	0.0	5.3	223.5	46.0	2,464.4
Expenses:								
Program Expenses	31.2		1,692.7	13.4	11.6	206.0	44.0	1,998.9
Other Expenses			(106.4)		(5.9)	26.1		(86.2)
Total Expenses	31.2		1,586.3	13.4	5.7	232.1	44.0	1,912.7
Net Change from Operations								
Beginning Net Position	432.7	3.0	433.1	121.7	4.0	89.4	76.0	1,159.9
Net Change from Operations	585.4		(13.3)	(13.4)	(0.4)	(8.6)	2.0	551.7
Non-Operating Changes	(576.7)		0.0	(0.4)	0.0	0.0	(0.5)	(577.6)
Ending Equity	441.4	3.0	419.8	107.9	3.6	80.8	77.5	\$ 1,134.0

STATEMENT OF FINANCING NOTE DISCLOSURE

The total amount of VA liabilities not covered by budgetary resources was \$486.4 billion and \$581.4 billion as of September 30, 1999 and 1998 respectively. The following table contains the components of the balance sheet liability:

Components of Unfunded Liabilities as of September 30th	<u>1999</u>	<u>1998</u>
Workers Compensation*	\$ 1,533	\$ 1,621
Annual Leave	904	882
Judgment Fund	82	67
Environmental & Disposal	199	139
Capital Leases	1	3
Veterans Compensation & Burial	483,200	578,149
Insurance	524	524
Total	\$ 486,443	\$ 581,385

*The actuarial estimate for workers compensation provided by DOL was computed using an interest rate of 5.5-5.6% for FY 1999 and 5.6% for FY 1998. The Statement of Financing line "total financing sources yet to be provided" only reflects the amount of increases/decreases in these liabilities. For existing liabilities there will always be a difference between the "financing sources" line and the balance sheet amount.

RESTATEMENTS, RECLASSIFICATIONS & CHANGES IN ACCOUNTING PRINCIPLES

Restatement of FY 1998 Financial Statements

- Interest income on investments of the Housing Credit-Liquidating fund collected in FY 1999 was actually earned over the period from FY 1992 to 1999. The FY 1998 financial statements have been restated to record the earnings from FY 1992 to 1998. This restatement resulted in the establishment of interest receivable shown on the "Public Investments" line of \$186 million and an offsetting increase in "Other Intragovernmental Liabilities." It also increased the FY 98 "Transfers-out" line and decreased VA "Net Cost of Operations" by \$61 million.

Reclassifications

- Loan sales cash reserves were reported on the FY 1998 Balance Sheet as public advances. These reserves should be included on the "Cash" line. This reclassification resulted in an increase to "Cash" and a decrease to "Public Other Assets" of \$38 million.
- Insurance program revenues have been reclassified on the FY 1998 Statement of Financing to reflect the inclusion of a new line titled "Less: Trust Fund Receipts Related to Exchange Revenue in the Entity's Budget"

added for FY 1999 reporting. This reclassification resulted in an increase to the new line and a decrease to "Non-exchange Revenue not in the Entity's Budget" of \$1.2 billion.

- Non-Entity assets reported separately from Entity assets on the FY 1998 Balance Sheet are now included with Entity assets as permitted by the Technical Amendments to OMB Bulletin 97-01. Disclosure of the types and values of Non-Entity assets is made in Note 23.
- Public accrued services payable and contract holdbacks totaling \$1.1 billion have been moved from the "Accounts Payable" line on the Balance Sheet to the "Other Public Liabilities" line. The SGL crosswalk for these lines was changed for FY 1999 reporting.
- The reserve for losses on guaranteed loans of \$40 million has been moved from the "Loans Receivable, Net" line on the Balance Sheet to the "Other Public Liabilities" line. This reserve is a liability with no associated asset, so it should be reported in the liability section of the Balance Sheet.
- The accrued liability for VA contributions to OPM for employee benefits totaling \$71 million has been moved from the "Other Public Liabilities" line on the Balance Sheet to the "Other Intragovernmental Liabilities" line.
- MCCF collections transferred to the Medical Care appropriation were reported as a transfer-out on the FY 1998 financial statements. This transfer should be reported as a reduction in unexpended appropriations by the transferring entity. This reclassification resulted in a reduction of \$667 million in the "transfers-out" and "Increase (Decrease) in Unexpended Appropriations" lines on the Statement of Changes in Net Position.

Change in Accounting Principle

- The capitalization threshold for VA fixed assets is being raised from \$5,000 to \$25,000. The system modifications to account for this change were completed for real property during FY 1999. This change will be in effect for personal property during FY 2000. A new line titled "Cumulative Effect of Change in Accounting Principle" has been included on the Statement of Changes in Net Position to report the \$60 million reduction in real property book value.



NON-ENTITY ASSETS AND LIABILITIES

Entity and Non-Entity assets and liabilities have been combined on the face of the balance sheet and relate primarily to Guaranty and Indemnity Direct Loan Financing Funds, patient funds, and funds for shared purchases of medical equipment.

Non-Entity Assets as of September 30th	<u>1999</u>	<u>1998</u>
Intragovernmental:		
Fund Balance with Treasury	\$ 1,815	\$ 1,206
Accounts Receivable	1	0
Total Intragovernmental	1,816	1,206
Public:		
Accounts Receivable	6	1
Total Intragovernmental	\$ 1,822	\$ 1,207

Non-Entity Liabilities as of September 30th	<u>1999</u>	<u>1998</u>
Intragovernmental:		
Other – Special Receipt Accounts	\$ 1,772	\$ 1,152
Public:		
Other (Custodial Liabilities- Patient Funds)	50	55
Total	\$ 1,822	\$ 1,207

Supplemental Data

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 1999

DEPARTMENT OF VETERANS AFFAIRS STEWARDSHIP REPORTING

Deferred Maintenance

- Deferred Maintenance is classified, as maintenance not performed when it should have been or scheduled and delayed to a future period. It is VA policy to assure that medical equipment and critical facility equipment systems are maintained and managed in a safe and effective, manner, therefore, deferred maintenance is not applicable to them; and
- VA facilities reported their cost estimates utilizing either the Condition Assessment Survey or Total Life-Cycle Cost Methods. Amounts below are in millions.

Deferred Maintenance as of September 30th	<u>1999</u>	<u>1998</u>
General PP&E	\$ 835.4	\$ 602.2
Heritage Assets	24.1	20.8
Total	\$ 859.5	\$ 623.0

Nonfederal Physical Property

- The VA Extended Care Facilities Grant Program assists states in acquiring facilities for furnishing domiciliary or nursing home care to veterans, and to expand, remodel, or alter existing buildings for furnishing domiciliary, nursing home, or hospital care to veterans in state homes. Currently these grants may not exceed 65 percent of the total project cost; and
- Effective in FY 99, VA's State Cemetery Grants Program is authorized to pay up to 100 percent of the cost of constructing and equipping state veterans cemeteries. States provide the land and agree to operate the cemeteries. In FY 99, six new grants were awarded totaling more than \$6.9 million.

Grant Program Costs: as of September 30th	<u>1999</u>	<u>1998</u>
State Extended Care Facilities	\$ 35.9	\$ 34.2
State Veterans Cemeteries	3.3	6.1
Total	\$ 39.2	\$ 40.3

Human Capital

- Investment in human capital comprises those expenses for education and training programs for the general public that are intended to increase or maintain national economic productive capacity. It does not include expenses for internal Federal education and training of civilian employees.
- Educational Programs assist active duty and reservist veterans, eligible under the Montgomery GI Bill or the Veterans Educational Assistance Program (VEAP), as well as dependents of veterans who died of service-connected disabilities or whose service-connected disabilities were rated permanent and total.
- The Vocational Rehabilitation Program provides veterans, having a 10 percent service-connected disability rating who are found to have a serious employment handicap, with evaluation services, counseling, and training necessary to assist them in becoming employable and maintain employment to the extent possible.

Veterans and Dependents Education for the years ended September 30th		
<i>Program Expenses:</i>	<u>1999</u>	<u>1998</u>
Education and Training		
– Dependents of Veterans	\$ 135.8	\$ 106.8
Vocational Rehabilitation and Education Assistance	1,448.1	1,336.1
Administrative Program Costs	78.3	67.5
Total	\$ 1,662.2	\$ 1,510.4
<i>Program Outputs:</i>		
Dependent Education Participants	44,423	42,706
Veteran Rehabilitation Participants	52,284	53,004
Veterans Education Participants	362,010	372,010

Health Professions Education

- Title 38 U.S.C. mandates that VA assists in the training of health professionals for its own needs and for those of the nation. By means of its partnerships with affiliated academic institutions, VA conducts the largest education and training effort for health professionals in the nation. Each year, approximately 90,000 medical and other students receive some or all of their clinical training in VA facilities through affiliations with over 1,200 educational institutions including 107 medical schools. Many of these trainees have their health professional degrees and contribute substantially to VA's ability to deliver cost-effective and high-quality patient care during their advanced clinical training at the VA.

Health Profession Education for the years ended September 30th	<u>1999</u>	<u>1998</u>
<i>Program Expenses:</i>		
Physician residents and fellows	\$ 356.6	\$ 350.9
Associated health residents and students	42.2	42.1
Instructional and Administrative Support	326.9	337.0
Total Expenditures	\$ 725.7	\$ 730.0
<i>Program Outputs:</i>		
Health professions rotating through VA:		
Physician residents and fellows	31,012	29,908
Medical students	18,771	18,549
Nursing students	25,549	24,126
Associated health residents and students	16,499	18,613
Total	91,831	91,196

Research and Development

- Investments in research and development comprise those expenses for basic research, applied research, and development that are intended to increase or maintain national economic productive capacity or yield other benefits;
- For FY 99, VA's R&D general goal related to stewardship was to ensure that VA medical research programs met the needs of the veteran population and contributed to the Nation's knowledge about disease and disability. Target levels were established for the: (1) percent of funded research projects relevant to VA's healthcare mission in designated research areas and (2) number of research and development projects. Strategies were developed in order to ensure that performance targets would be achieved; and
- In addition, VHA researchers received grants from NIH in the amount of \$298 million and \$182 million in other grants during FY 99. These grants were given directly to the researchers and are not considered part of the VA Entity. They are being disclosed here as RSSI but are not accounted for in the financial statements.

Program Expenses, for the years ended September 30th				<u>1999</u>	<u>1998</u>
	Basic	Applied	Development	Total	Total
Medical Research Service	\$122.7	\$ 75.8		\$198.5	\$203.8
Rehabilitative Research and Development	2.6	17.8	\$ 7.7	28.1	27.2
Environmental Epidemiology Service		1.5		1.5	1.1
Health Services Research and Development		40.2		40.2	35.5
Cooperative Studies Research Service		41.8		41.8	26.9
Medical Research Support	128.2	182.8	9.6	320.6	305.9
Prosthetic Research Support	2.2	3.1	.1	5.4	4.8
Total	\$255.7	\$363.0	\$ 17.4	\$636.1	\$605.2

Research & Development for the years ended September 30th		<u>1999</u>	<u>1998</u>
Measure		Actual	Actual
Percent of funded research projects relevant to VA's health care mission		99%	99%
Number of research and development projects		2,013	1,756

Segment Information:

<i>Segment Information as of September 30th</i>					
Condensed Balance Sheet					
		<u>Supply Fund</u>		<u>Enterprise Fund</u>	
for the years ended September 30th		<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
ASSETS					
Fund Balance with Treasury	\$	129	\$ 101	\$ 34	\$ 33
Accounts Receivable, Net		34	66	3	3
General Property, Plant and Equipment		8	8	10	10
Other Assets including Inventory		34	39		
Total Assets	\$	205	214	\$ 47	\$ 46
LIABILITIES and NET POSITION					
Accounts Payable		64	70	11	16
Deferred Revenues		13	9		
Other Liabilities		3	3	8	4
Total Liabilities		80	82	19	20
Cumulative Results of Operations		125	132	28	26
Total Liabilities and Net Position	\$	205	\$ 214	\$ 47	\$ 46

Condensed Net Cost Information For the years ended September 30th	Supply Fund		Enterprise Fund	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
Total program costs	\$ 548	\$ 511	\$ 93	\$ 80
Less Earned Revenues				
Intra-Departmental	(437)	(411)	(89)	(74)
Other Federal Entities	(82)	(73)	(6)	(14)
Non-Federal	(19)	(15)		
Earned Revenues	(538)	(499)	(95)	(88)
Net Program costs	\$ 10	\$ 12	\$ (2)	\$ (8)

Enterprise Fund Services:

The Enterprise Fund is the entrepreneurial organizations of the VA Franchise Fund authorized under the Government Management Reform Act (GMRA) of 1994. Provides a wide range of services to both VA and other Federal agencies, including DOD, HUD, and GAO. The Fund consists of six Enterprise Centers:

- **The Financial Services Center (FSC):**

- | | |
|---|-------------------------------------|
| 1. Payments | 3. Electronic data interchange, and |
| 2. Purchase card transactions and travel voucher processing | 4. Accounting support |

- **The Austin Automation Center (AAC):** Supports general application systems, which includes:

- | | |
|-------------------------|--|
| 1. Payroll | 5. Centralized medical systems and integrated patient care databases |
| 2. Financial management | 6. Benefits delivery applications |
| 3. Vendor payment | 7. Other general data processing support utilities |
| 4. Logistics | |

- **Support services such as:**

- | | |
|---|--|
| 1. Time sharing | 3. Local and wide area network management, |
| 2. Communications with VA and non-VA entities | 4. Office automation support |

- **The VA Records Center and Vault:** Provides services to include:

- | | |
|-----------------------------|--|
| 1. Secure archival storage; | 2. Protection and retrieval services for veterans' and other stored Federal records. |
|-----------------------------|--|

- **The VA Law Enforcement Training Center (LETC):** the LETC is available to the approximately 2,400 law enforcement personnel working at VA health care facilities and to Federal law enforcement professionals at other government agencies:

1. Provides special training for police officers that work in a health care or service-oriented environment;
2. Emphasizing training in medical center patient situations.

Security and Investigations Center (S&I): provides quality and timely investigations and adjudication for employees in sensitive/public trust positions for all VA entities nationwide

- **The Debt Management Center (DMC):** provides direct collection of delinquent consumer debt owed to VA.

- **Supply Fund Services: Functions include:**

1. Stocking, repairing, and distributing supplies, medical equipment, and devices;
2. Providing forms, publications, and a full range of printing and reproduction services;
3. Training VA medical acquisition, supply, processing, and distribution personnel;
4. Increasing small and disadvantaged business participation in VA contracts;

- The primary customer for the VA Supply Fund is VA, but the Fund also has significant sales to other Federal agencies including DOD and HHS.

Balances with Other Federal Entities:

Intra-Governmental Assets as of September 30th				
	<u>Fund Balance with Treasury</u>	<u>Investments</u>	<u>Accounts Receivable</u>	<u>Other Assets</u>
Agency:				
Treasury	\$ 16,198	\$ 14,572	\$ 651	
DOD			20	
GPO				96
GSA				79
All Other			60	6
Total	\$ 16,198	\$ 14,572	\$ 731	\$ 181

Intra-Governmental Liabilities as of September 30, 1999				
<i>Agency</i>	<i>Accounts Payable</i>	<i>Debt</i>	<i>Other</i>	
<i>Treasury</i>	\$ 29	\$ 2,540	\$	3,013
<i>Other</i>	1			114
Total	\$ 30	\$ 2,540	\$	3,127

Intra-governmental Earned Revenues and Related Costs for FY 99 as of September 30th, 1999				
Trading Partner	Earned Revenue			
Treasury	\$	1,410		
DOD		234		
All Other		109		
Total Federal Earned Revenue	\$	1,753		
Budget Functional Classification	Gross Cost to Generate Revenue			
Veteran Benefit and Services	\$	2,082		

Intra-governmental Non-exchange Revenue for FY 99 as of September 30th, 1999				
Trading Partner	Transfers-In	Transfers-Out		
Treasury	\$ 32	\$	(700)	

**Schedule of Budgetary Activity
For Period Ending September 30th, 1999:**

	Total Budgetary Resources	Obligations Incurred	Spending Authority from Offsetting Collections & Adjustments	Obligated Balance Oct. 1	Obligated Balance Sept. 30	Total Outlays
<u>VHA</u>						
0160 Medical Care	\$ 19,614	\$ 18,170	\$ 487	\$ 2,734	\$ 2,572	\$ 17,845
0161 Medical & Prosthetic Research	392	377	45	122	110	344
All Other	1,568	734	267	814	704	577
Total	\$ 21,574	\$ 19,281	\$ 799	\$ 3,670	\$ 3,386	\$ 18,766
<u>VBA</u>						
0102 Compensation, Pension, & Burial Benefits	\$ 21,988	\$ 21,219	\$ 0	\$ 1,625	\$ 1,697	\$ 21,147
0137 Readjustment Benefits	1,671	1,636	188	55	58	1,445
4025 Housing Credit Liquidating	516	402	785	57	61	(387)
4127 Direct Loan Financing	3,191	2,283	1,599	(7)	86	591
4129 Guaranteed Loan Financing	6,745	2,632	3,266	139	(194)	(301)
8132 National Service Life Insurance Fund	12,352	1,780	531	1,343	1,390	1,202
All Other	5,561	3,120	1,776	287	441	1,190
Total	\$ 52,024	\$ 33,072	\$ 8,145	\$ 3,499	\$ 3,539	\$ 24,887
<u>NCA</u>						
0129 National Cemetery System	95	92	1	13	15	89
All Other	15	5	1	16	15	5
Total	\$ 110	\$ 97	\$ 2	\$ 29	\$ 30	\$ 94
<u>ADM</u>						
0151 General Operating Expenses	1,199	1,183	310	136	142	867
All Other	788	617	612	1	1	5
Total	\$ 1,987	\$ 1,800	\$ 922	\$ 137	\$ 143	\$ 872
Total of all Business Lines	\$ 75,695	\$ 54,250	\$ 9,868	\$ 7,335	\$ 7,098	\$ 44,619

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