US DEPARTMENT OF VETERANS AFFAIRS

OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

DEPARTMENT OF VETERANS AFFAIRS

Audit of VA's Financial Statements for Fiscal Years 2023 and 2022

Audit	23-00940-18	December 12, 2023

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Excerpts from the Department of Veterans Affairs

Fiscal Year 2023 Agency Financial Report

For the complete Department of Veterans Affairs

Fiscal Year 2023 Agency Financial Report,

please go to the following website:

https://www.va.gov/finance/afr/

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

November 15, 2023

MEMORANDUM

TO: Secretary of Veterans Affairs (00)

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

SUBJECT: Audit of VA's Financial Statements for Fiscal Years 2023 and 2022

1. The VA Office of Inspector General (OIG) contracted with the independent public accounting firm CliftonLarsonAllen LLP (CLA) to audit VA's financial statements as of September 30, 2023, and 2022, and for the fiscal years then ended. This audit is an annual requirement of the Chief Financial Officers Act of 1990. The results of CLA's audit are presented in the attached report.
2. CLA provided an unmodified opinion on VA's financial statements for fiscal year (FY) 2023 and FY 2022. CLA did, however, note material weaknesses and significant deficiencies in internal control and instances of noncompliance with laws and regulations.
3. Regarding internal control, CLA identified three material weaknesses. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. The three material weaknesses concern
   - controls over significant accounting estimates,
   - financial systems and reporting, and
   - information technology security controls.
4. CLA also identified three significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The three significant deficiencies concern
   - obligations, undelivered orders, and accrued expenses;
   - entity-level controls; and
   - loan guarantee liability.

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To: Secretary of Veterans Affairs

5. The information technology security controls material weakness has been reported for more than 10 years. All other material weaknesses and significant deficiencies have been reported by CLA since at least FY 2016, despite changes to their titles, elements, or classifications over time.
6. Regarding noncompliance with laws and regulations, CLA identified these issues:
   - Substantial noncompliance with federal financial management systems requirements and the United States Standard General Ledger at the transaction level under the Federal Financial Management Improvement Act of 1996 (FFMIA), reported in part for more than 10 years.
   - Improvements needed to fully comply with the intent of the Federal Managers' Financial Integrity Act, reported since 2015.
   - Instances of noncompliance with Title 38 of the United States Code, section 5315 wherein VA did not charge interest or administrative costs on certain delinquent payments for outstanding receivables related to the compensation, pension, and education benefit programs. Under amendments to section 5315 made by the Consolidated Appropriations Act, 2023, VA is prohibited from charging interest on indebtedness related to these programs occurring on or after December 29, 2022. Therefore, noncompliance previously reported for more than 10 years continues to be reported for debts occurring prior to that date.
   - Noncompliance with the Payment Integrity Information Act for FY 2022, previously reported by the OIG since 2012, originally as noncompliance with the Improper Payments Elimination and Recovery Act.
7. In an other-matter paragraph, CLA reported that in FY 2023, VA continued to investigate and review four potential violations of the Antideficiency Act, Title 31 of the United States Code, section 1341(a)—two carried forward from prior years and two in the current year. CLA has reported actual or potential violations of the Antideficiency Act since FY 2012.

8. CLA is responsible for the attached audit report dated November 15, 2023, and the conclusions expressed in the report. The OIG does not express opinions on VA's financial statements, internal control, or compliance with FFMIA, nor does the OIG express conclusions on VA's compliance with laws and regulations. The independent auditors will follow up on these internal control and compliance findings and evaluate the adequacy of corrective actions taken during the FY 2024 audit of VA's financial statements.

(/s/) LARRY M. REINKEMEYER
Assistant Inspector General
for Audits and Evaluations

Attachment

Section I

Independent Auditors’ Report

CliftonLarsonAllen LLP
CLAconnect.com

Independent Auditors' Report

Secretary
United States Department of Veterans Affairs

Inspector General
United States Department of Veterans Affairs

In our audits of the fiscal years 2023 and 2022 financial statements of the United States Department of Veterans Affairs (VA), we found:

- VA's financial statements as of and for the fiscal years ended September 30, 2023, and 2022, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- Three material weaknesses and three significant deficiencies for fiscal year (FY) 2023 in internal control over financial reporting based on the limited procedures we performed; and
- Four reportable noncompliance matters for FY 2023 in connection with our testing of provisions of applicable laws, regulations, contracts, and grant agreements.

The following sections discuss in more detail (1) our report on the financial statements, which includes an emphasis-of-matter paragraph related to the actuarial estimates of certain FY 2023 financial statement balances, an other-matter paragraph related to the potential violations of the Antideficiency Act (ADA), and required supplementary information (RSI)[1] and other information[2] included in the Agency Financial Report (AFR); (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements and other matters; and (4) VA's response to our findings and recommendations.

Report on the Audit of the Financial Statements

<u>Opinion</u>
We have audited the accompanying financial statements of VA, which comprise the consolidated balance sheet as of September 30, 2023, and 2022; the related consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

In our opinion, the United States Department of Veterans Affairs' financial statements referred to above present fairly, in all material respects, VA's financial position as of September 30, 2023, and 2022, and its net cost, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

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1 The RSI consists of "Management's Discussion and Analysis", "Deferred Maintenance and Repairs", "Combining Statement of Budgetary Resources", and "Land", which are included with the financial statements.
2 Other information consists of information included with the financial statements, other than the RSI and the auditors' report.

INDEPENDENT AUDITORS' REPORT (Continued)

Basis for Opinion

We conducted our audits in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of VA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 13 to the financial statements, VA continued to make assumption updates and refinements to its actuarial models for compensation and education program type estimates in FY 2023. These models are based on assumptions and data that VA determines will reflect the best estimate of the present value of future cash flows; however, due to the inherent uncertainty and variability of actuarial estimates, actual results may materially differ from model outcomes. Furthermore, there was a material change related to the Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics (PACT) Act, which was based on relatively limited data (i.e., uncertainty of future trends related to the PACT Act). Our opinion on VA's financial statements is not modified with respect to this matter.

Other Matter

In accordance with the latest OMB guidance, Bulletin 24-01 Section 8.4, the reporting requirement of potential violations of the Antideficiency Act (ADA) are limited to those that, if true, would have a material effect on the financial statements. In FY 2023, VA continues to investigate and review four potential violations of ADA, of which two were carried forward from prior years and two in the current year. Our opinion on VA's financial statements is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

VA management is responsible for (1) the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in the AFR, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) designing, implementing, and maintaining effective internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and (2) issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of financial statements conducted in accordance with *Government Auditing Standards* will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

INDEPENDENT AUDITORS' REPORT (Continued)

In performing an audit in accordance with *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements in order to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of VA's internal control over financial reporting. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

<u>Required Supplementary Information</u>
U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the RSI in accordance with *Government Auditing Standards*, which consisted of (1) inquiring of management about the methods of preparing the RSI and (2) comparing the RSI for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during the audits of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

<u>Other Information</u>
VA's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. VA management is responsible for the other information included in the AFR. The other information does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

INDEPENDENT AUDITORS' REPORT (Continued)

Report on Internal Control over Financial Reporting

In connection with our audits of VA's financial statements, we considered VA's internal control over financial reporting, consistent with our auditors' responsibilities discussed below.

Results of Our Consideration of Internal Control over Financial Reporting
Our consideration of internal control was for the limited purpose described below and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies or to express an opinion on the effectiveness of VA's internal control over financial reporting and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, during our audit, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies, described below and in Exhibit A and Exhibit B.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that even if the control operates as designed the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described below and in Exhibit A to be material weaknesses.

Controls Over Significant Accounting Estimates
The Veterans Benefits Administration (VBA) modeling activities that produce significant accounting estimates for the compensation and education programs warrant management's continued focus.

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

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below and in Exhibit B to be significant deficiencies.

INDEPENDENT AUDITORS' REPORT (Continued)

Obligations, Undelivered Orders (UDOs), and Accrued Expenses

VA continues to have weaknesses that include the lack of sufficient reconciliations and monitoring activities to validate the accuracy and completeness of balances derived from its procurement process.

Entity Level Controls

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

Loan Guarantee Liability

Noted improvements have been made regarding the internal controls with respect to the Loan Guarantee Liability estimation process, specifically regarding the oversight, documentation, and efficacy over the modeling activities. As a result of these improvements, the control deficiencies noted as remaining are being reported separately as a significant deficiency for FY 2023. However, conditions remain surrounding the accuracy and risk of misstatement in the estimate requiring corrective actions on the part of VA management.

During our FY 2023 audit, we identified deficiencies in VA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant VA management's attention. We have communicated these matters to VA management separately.

Basis for Results of Our Consideration of Internal Control over Financial Reporting

We performed our procedures related to VA's internal control over financial reporting in accordance with *Government Auditing Standards* and OMB audit guidance.

Responsibilities of Management for Internal Control over Financial Reporting

VA management is responsible for (1) designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (2) evaluating the effectiveness of internal control over financial reporting based on the criteria established under 31 U.S.C. § 3512 (c), (d) (commonly known as the Federal Managers' Financial Integrity Act (FMFIA)); and (3) providing an assurance statement on the overall effectiveness of internal control over financial reporting included in management's discussion and analysis (MD&A).

Auditors' Responsibilities for the Consideration of Internal Control over Financial Reporting

In planning and performing our audit of VA's financial statements as of and for the fiscal year ended September 30, 2023, in accordance with *Government Auditing Standards*, we considered VA's internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of VA's internal control over financial reporting or on management's assurance statement on the overall effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on VA's internal control over financial reporting or on management's assurance statement on the overall effectiveness of internal control over financial reporting. We are required to report all deficiencies that are considered to be material weaknesses or significant

INDEPENDENT AUDITORS' REPORT (Continued)

deficiencies. We did not consider or evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

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

Purpose of Report on Internal Control over Financial Reporting

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

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

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

We also performed tests of compliance with certain provisions of the Federal Financial Management Improvement Act (FFMIA). However, providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion.

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed instances of noncompliance or other matters for FY 2023, in Exhibit C, that are reportable under *Government Auditing Standards*. In addition, as described in Exhibit C, our tests of compliance with the FFMIA Section 803(a) requirements disclosed instances in which VA's financial management systems did not comply substantially with (1) federal financial management systems requirements and (2) the application of the U.S. Government Standard General Ledger (USSGL) at the transaction level. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to VA. Accordingly, we do not express such an opinion.

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

We performed our tests of compliance in accordance with *Government Auditing Standards*.

INDEPENDENT AUDITORS' REPORT (Continued)

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

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

Auditors' Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to VA that have a direct effect on the determination of material amounts and disclosures in VA's financial statements, including whether VA's financial management systems comply substantially with the FFMIA Section 803(a) requirements, and to perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to VA. We caution that noncompliance may occur and not be detected by these tests.

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

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

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of VA's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditors' Report, dated November 15, 2022. The status of prior year findings is presented in Exhibit D.

VA's Response to Audit Findings and Recommendations

Government Auditing Standards requires the auditor to perform limited procedures on VA's response to the findings and recommendations identified in our report and can be found on page 45. VA's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on the response.

(/s/) CliftonLarsonAllen LLP

Greenbelt, Maryland
November 15, 2023

EXHIBIT A
Material Weaknesses

1. Controls over Significant Accounting Estimates

Background:

VA is responsible for administering various programs that provide financial and other forms of assistance to Veterans, their dependents, and survivors. The VBA administers two large benefit programs that have significant accounting estimates and impact VA's financial statements for FY 2023, namely the compensation and education programs. The primary education benefit programs are the Post-9/11 GI Bill (Chapter 33), Veteran Readiness and Employment (VR&E, Chapter 31), Survivor's and Dependents' Educational Assistance (Chapter 35), and Montgomery GI Bill Active Duty (Chapter 30), collectively referred to as education programs.

VBA is responsible for establishing a process for preparing accounting estimates, including developing, implementing, and monitoring key controls around the activities associated with the actuarial modeling processes used for preparing those estimates. VBA's Office of Financial Management (OFM) uses complex models to estimate the present value of future benefits for the compensation and education programs, which reported a total liability of $7.3 trillion as of September 30, 2023. VBA has made progress in the development and implementation of corrective actions to mitigate financial reporting risks associated with accounting estimates for these programs, including the establishment of a formal governance structure and process, which occurred towards the end of the prior fiscal year.

Conditions:

VBA uses a variety of modeling techniques to produce the accounting estimates for their compensation and education benefit programs. As circumstances or experience changes, these models require updates and refinements. The reasonableness of those estimates is highly dependent on the relevancy, reliability, and completeness of the underlying data and the assumptions used. As noted above, although VA recently implemented an Actuarial and Benefit Liability Governance Board (ABLGB) with various responsibilities including approval and oversight related to these models, we found that VBA's control activities around these estimates require continued focus and strengthening, including improvements over the model governance process which is further described in the Significant Deficiency related to Entity Level Controls.

Improvements Needed around Modeling Activities

There were significant changes to the models and assumptions for FY 2023, and although VBA communicated some of these key changes earlier, the appropriate timing of completing and providing such supporting documentation needs improvement for the largest liability on VA's financial statements.

1. **Timing of experience studies and assumption updates –** VBA did not provide the experience studies and significant assumption updates, along with supporting documentation, until the start of the 4th quarter, when the effects of some of these studies and updates were likely material to the year-end estimate. The two largest updates in FY 2023 were related to:
   - An update to the service-connected disability ratings change assumption that projects future changes in Veterans' degree of disability rating percentages. This change resulted in an increase of $642 billion in the compensation liability.
   - The Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics (PACT) Act, which was passed in August 2022, expanded the benefits for toxic exposed Veterans, and resulted in an increase to both the compensation and certain education program liabilities of $469 billion and $2 billion, respectively.

EXHIBIT A
Material Weaknesses

2. **Documentation around PACT Act changes to the compensation and education liability**
Changes in legislation and other factors affecting future benefits may require management to make changes (i.e., updates to the projected cash flows utilized in the actuarial models to reflect recent changes affecting future benefits) to liabilities for veterans' benefits, depending on available information and timing. As experience data becomes available, further analyses are performed to ensure appropriateness and reasonableness of these types of changes. As discussed above, the PACT Act resulted in a significant increase to the compensation and education liability in FY 2023, and required many follow-up requests as the documentation was not readily available or was inadequately described. We noted the following weaknesses:

   - Inadequate detailed written description of the methodology, including, initially, the appropriateness of recording the change according to the accounting standards, to ensure consistency, transparency, and proper documentation of the process.
   - Inadequate documentation/written narrative describing the (1) inter-relationship/linkage of the tabs in the excel workbook provided, (2) initial support of the hard-coded data inputs, and (3) controls in place to ensure the data was complete and accurate (e.g., there was no documented review or evidence to support testing of the data was performed).

3. **Actual to expected analysis (including look-back) and potential need for further updates**
VBA performed actual-to-expected payment analyses on the compensation and education models, which compared the prior year model projection for the current year to the actual FY 2023 expenses, including a look-back analysis using the enhanced models, as applicable. However, some of the education programs continued to have variances that require further research and consideration for assumption updates or refinements, including whether the frequency is appropriate.

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

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

Cause:
VA's formal model governance process is still new and needs to mature with respect to (1) the timing of studies and updates with a focus on financial reporting risk and (2) developing strong documentation processes to guide and support its actuarial work.

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

EXHIBIT A
Material Weaknesses

Recommendations:

We recommend that the Assistant Secretary for Management/CFO and the VBA CFO in conjunction with the ABLGB continue to coordinate remediation efforts to strengthen control activities and improve audit readiness, including the following:

1. Strengthen the following practices by developing and implementing formal policies, processes, and procedures that support a strong framework related to risk management, financial statement audit risk, decision-making, and mechanisms for evaluating whether policies and procedures are being carried out as specified.
    - Establish an effective communication process, including regular meetings, reports, analyses, etc., that ensures and documents the ABLGB is provided with sufficient information to make informed decisions. Ensure that documentation is comprehensive, up-to-date, and readily available for proposed changes to the model's design, assumptions, and limitations, and that documentation covers the proposed testing and validation process.
    - Ensure effective model change management processes to ensure that any changes to the model are properly documented, reviewed, and tested before implementation. This should include appropriate controls and oversight including planning appropriate timing and prioritization of experience studies and changes to either assumptions or application of assumptions.
2. Continually review the assumption update schedules in the policy and procedures document and assess the reasonableness of assumptions used and document the rationale behind these assumptions.
    - Monitor the assumptions as relevant experience information becomes available. While model results are not equally sensitive to all assumptions, regular review and update of assumptions helps maintain model integrity.
3. Consider changes in conditions or programs that require further research and analysis to update the assumptions when necessary. Specifically, perform further analyses to ensure appropriateness of assumptions pertaining to recent legislative action, regulation changes, and litigation outcomes. As experience becomes available, such assumptions should be closely monitored, refined, and re-evaluated based on what data is included in the model.
4. Ensure that updated schedules consider the time needed for auditors to gain an understanding of significant changes to the models, design their audit procedures, and complete their analyses and tests.
5. Changes to the model assumptions/inputs should be clearly documented, supported, communicated, and provided in a timely manner to the auditors.
6. Conduct the appropriate analyses, review, and validation of data sources including controls to ensure the data used is complete and accurate. Specifically for the PACT Act, ensure VBA performs and documents their own testing of the data reliability of the key factors used in the methodology.
7. Continue to perform sensitivity tests to assess the impact on the estimates from the various changes in the assumptions. Based on the assumption, consider changing the degree of the variation (for example, from 25% to 10%), as appropriate.
8. Continue to perform and expand look-back analyses on the assumptions and other relevant factors used in the calculations to assess the reasonableness of the model outputs.
    - Compare estimates with subsequent results to assess the reliability of the assumptions and data used to develop estimates.
    - Perform these analyses for more than one year to identify trends and to ensure model updates are not creating larger variability in projections compared with actual expenses.
    - Identify significant variances to be investigated and researched to determine if current or new assumptions need to be further evaluated.

EXHIBIT A
Material Weaknesses

2. Financial Systems and Reporting

Background:
An agency's financial systems and reporting are essential to prepare accurate and timely financial statements. VA implemented its legacy core financial management and general ledger system, FMS, in 1992 which now has limited functionality to meet the current financial management and reporting needs. VA utilizes a system application, the Management Information Exchange (MinX) system, to consolidate general ledger activities from FMS and Integrated Financial and Acquisition Management System (iFAMS) to create financial statements for external financial reporting. The FMS process requires significant manual intervention and creates risks to the accuracy and completeness of financial reporting. VA is currently deploying iFAMS, a new core financial system, using a phased approach over a number of years. The implementation and completion of iFAMS is critical in remediating the control weaknesses associated with VA's financial system reporting capabilities.

Conditions:
The majority of VA's financial systems and reporting control weaknesses stem from the antiquated financial management system and will remain until iFAMS is fully implemented. VA continues to refine its financial reporting practices, but many of these issues have existed for years and require extensive efforts to change the current business processes. Through FY 2023, VA's financial systems and reporting issues remain in the following areas:

A. <u>Lack of FMS Reconciliations with Subsidiary Systems</u>
VA has several legacy subsidiary systems that no longer meet the financial management system requirements and do not have a two-way interface with FMS. VA does not perform comprehensive reconciliations between its feeder/subsidiary systems and FMS. The reconciliations between the subsidiary systems where the financial transactions were initiated and FMS were either not performed, partially performed, performed decentralized, or performed manually. Historically, the subsidiary systems where the financial events are initiated are not always the systems that directly feed information into FMS. Moreover, VA's accounting and financial reporting is severely hindered by system and business process limitations which continue to further exacerbate the reconciliation issues.

B. <u>Extensive Reliance on the Use of Journal Vouchers (JVs)</u>
The use of manual adjustments such as top-side entries often bypass system controls instituted for ordinary transactional processing and inherently increase the risk of introducing errors into financial reporting. Consistent with prior years, VA still records a large number of manual adjustments to prepare its financial statements. Most of these adjustments consist of "top-side" entries recorded into MinX that are subject to manual controls. Top-side entries are manual adjustments recorded outside of VA's general ledger system and are used to accurately report financial statement balances at a point in time. Each accounting period in MinX is independent, which requires numerous manual JVs to be re-entered and manual reconciliations and analyses re-performed to produce VA's quarterly financial statements and trial balances. For instance, we noted the following:

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

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2. VA continues to use an automated tool to assist with their data cleansing efforts related to prior year recoveries transactions. In FY 2023, VA recorded material adjustments to correct errors in recoveries for approximately $2.39 billion (absolute value).

C. Issues with Intragovernmental Agreements and Reconciliations

VA does not have a complete centralized repository for all active intragovernmental agreements to support and facilitate its transaction level research and reconciliation. Therefore, the accounts involving intragovernmental financial transactions, such as obligations, unfilled customer orders, and offsetting collections recorded in FMS, do not reconcile to the agreement amounts in the repository. The VA intragovernmental differences by trading partner approximated $614 million as of June 30, according to the U.S. Department of Treasury.

Criteria:

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

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

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

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

Cause:

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

Effect:

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

Recommendations:

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

1. FMS reconciliations with subsidiary systems:
   a) Perform an enterprise risk management (ERM) review that includes all of VA's

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subsidiary systems to inventory all types of VA's financial transactions and how they are initiated, interfaced, and ultimately recorded in FMS. Such an analysis can be performed in conjunction with the system modernization efforts including identifying the gaps and developing gap alternatives to address the systems that will not be part of the modernization.

b) Coordinate efforts with the Office of Information and Technology (OIT) and the relevant business offices to ensure complete and consolidated reconciliations between those subsidiary systems and the general ledger system are performed on a monthly basis.
c) Strengthen the FMS cumulative reconciliation with the subsidiary systems that includes performing complete and consolidated reconciliations between those subsidiary systems and FMS on a predetermined frequency basis (e.g., monthly) to support the accuracy and completeness of financial reporting.

2. Use of JVs:
   a) Continue to monitor the JV recording process, especially surrounding the research and review of account differences and subsequent adjustments. Focus on addressing the common root causes of these JVs in order to:
      - Take the necessary actions to reduce the volume and value of JVs, especially as part of system modernization.
      - Ensure any risks identified are considered and addressed in the system modernization efforts.
   b) Continue analysis of major accounting entries with their posting logic and attribute settings in FMS and the subsidiary ledgers used by the various business lines. Continue efforts to correct and establish missing FMS transaction posting logic to minimize the use of manual JVs. Manual JVs should be used only for unusual transactions, as a general rule (e.g., quarterly accruals, timing differences, or unusual one-time entries, etc.).
   c) For prior year recoveries:
      - Refine, if necessary, the policies and procedures to identify and adjust for any prior year recovery (PYR) errors in FMS including management's assessment of completeness that all errors are identified and removed.
      - Continue to perform an assessment to validate the transactions included in the population of PYR before recording them on the financial statements.
      - Continue to perform in-depth analyses and/or reviews of the PYR automated tool results to assess accuracy. The review should consist of selecting a predetermined sample of transactions and vouching to supporting documentation.
      - As part of the system modernization efforts, establish PYR practices and transaction codes that are consistent with USSGL when transactions occur.

3. Intragovernmental agreements and reconciliations:
   a) Ensure compliance with the reimbursable policy to provide the final agreement to the centralized repository. Continue to work to maintain and validate all intragovernmental agreements in that repository to ensure they are current and contain all the required terms and conditions. Perform an inventory review of those agreements to:
      - Determine whether balances are recorded in FMS accurately.
      - Ensure that agreements in the repository reflect an active or closed status, identify obligation amounts separately from the agreement values, and ensure that values are supported by agreements or task orders released against the agreement.
      - Automate cumulative reconciliation between the repository and the general ledger system and perform it monthly.

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b) Produce reliable subsidiary trading partner reports with details at the transaction level that can be linked to the agreement level to facilitate management's review and reconciliation with the trading partner reporting in GTAS and for the financial statements. Any corrections made as a result of the research should be documented and recorded in FMS at the transaction level.
c) Continue to strengthen VA's controls and processes as described in the Treasury Financial Manual Volume I, Part 2, Chapter 4700, Appendix 5, *Overall Intra-governmental Transactions (IGT) Processes/General Information*, revised.

3. Information Technology Security Controls

Background:

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

Our review of IT controls covered general and business process application controls across 24 selected VA medical centers, regional offices, and major data centers. We also reviewed controls over 45 selected financial and operationally significant systems and applications. As noted in prior years' audits, VA continues to have weaknesses in Configuration Management, Access Controls, Security Management, and Contingency Planning Controls designed to protect mission-critical systems from unauthorized access, alteration, or destruction.

We identified security improvements for activities and systems; however, weaknesses still persisted in FY 2023. Examples of improvements within VA's IT control environment include improvements in the system security documentation such as risk assessments, security plans, and interconnection agreements. We also noted fewer systems with issues related to inactive or dormant accounts and improvement in the identification, notification, and remediation of security incidents.

The aforementioned controls require time to mature and show evidence of their effectiveness. Additionally, controls need to be applied in a comprehensive manner to information systems across VA in order to be considered consistent and fully effective. For example, VA continues to migrate systems to cloud environments which provide vendor support for a certain subset of security controls. However, we continue to identify weaknesses in control processes related to those applications even after migration. Therefore, the implementation of security controls was inconsistent whether they are hosted at a VA data center or cloud environment. In addition, several weaknesses were identified with increased frequency in 2023 to include systems with active accounts for terminated personnel, weaknesses related to change and configuration management controls, inconsistent user account reviews, and applications with audit logging weaknesses. Accordingly, we continue to see information system security deficiencies similar in type and risk level to our findings in prior years and an overall inconsistent implementation and

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enforcement of the security program. Moving forward, VA needs to ensure a proven process is in place across the agency. VA also needs to continue to address control deficiencies that exist in other areas across all VA locations.

We continue to identify significant technical weaknesses in databases, servers, and network devices that support transmitting financial and sensitive information between VA's medical centers, regional offices, and data centers. This is a result of an inadequate application of vendor patches and outdated system software that could jeopardize the data integrity and confidentiality of VA's financial and sensitive information. VA continued to make progress in deploying current security patches and configuration updates; however, older patches and previously identified vulnerabilities related to configuration weaknesses and outdated system software continue to persist on its networks. While some progress was made in these areas, VA needs to improve timely deployment of security patches, system upgrades, and system configurations that will mitigate significant security vulnerabilities and enforce a consistent process across the enterprise that will mitigate significant security vulnerabilities. In addition, VA continues to operate key financial management systems using outdated technology that hinders mitigation of certain vulnerabilities.

Many of these weaknesses can be attributed to limitations in legacy applications and an inconsistent implementation and enforcement of an agency-wide information security program across the enterprise. Therefore, VA needs to improve its performance monitoring to ensure controls are operating as intended for all systems at all facilities. Additionally, VA must communicate security deficiencies to the appropriate personnel, who take responsibility for implementing corrective actions and ensuring those actions are taken. Our assessment of the general and application controls of VA's key IT infrastructure and financial systems identified the following conditions:

Conditions:

Configuration Management

- Systems including key databases supporting financial applications were not timely patched or securely configured to mitigate known and unknown information security vulnerabilities. The deployment of vendor patches, configuration settings, and system upgrades to mitigate the vulnerabilities were not consistently implemented across all VA facilities, systems, and network segments. Furthermore, VA did not scan all of the devices connected to its networks with credentials and therefore did not have a complete inventory of vulnerabilities. Thus, we could not verify that all VA computers undergo continuous monitoring to ensure they remain securely configured, free of technical vulnerabilities, and adequately patched.
- Key financial management systems had configuration weaknesses and outdated technology that hinders mitigation of certain vulnerabilities. While VA has purchased extended support for some of its software, we noted many instances of unsupported software that did not have extended vendor support. This has resulted in numerous unresolved security issues that expose other VA systems to possible security breaches stemming from unmitigated software vulnerabilities.
- While extensive Access Control Lists (ACLs) continue to filter network communication of the general network and medical devices, we continued to identify instances where medical systems have vulnerabilities, without appropriate segmentation controls. Not only are these systems at risk, but these vulnerabilities could potentially pose additional risk to the components behind the ACLs.

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- There were weaknesses in the process for monitoring configuration baseline standards. Specifically, not all platforms were monitored for compliance with approved baselines and baseline standards were not consistently implemented.
- The process for developing and maintaining an accurate listing of software, hardware, and component inventory was not fully implemented throughout the enterprise.
- Change management procedures for authorizing, documenting, testing, and approving system changes were not consistently implemented for networks and mission-critical systems.
- VA did not employ automated mechanisms to prevent the execution of changes to systems prior to approval and controls to detect unauthorized changes were not consistently implemented.
- Automated controls for identifying and removing prohibited software were not implemented on all Agency platforms. VA has made progress by expanding automated software monitoring and continues to work on implementing an enterprise-wide continuous monitoring solution for identifying and removing unauthorized software.

Access Controls

- Password standards were not consistently implemented and enforced across multiple VA systems, including the network domain, databases, and key financial applications. Specifically, we identified numerous service accounts that were not needed or had passwords that were not changed in over three years.
- Inconsistent reviews of user access resulted in numerous system, terminated, and inactive user accounts that were not removed timely from applications and networks. In addition, inconsistent exit clearance processes for personnel contributed to a number of separated employees with active system user accounts or accounts that were not disabled timely.
- Proper completion of user access requests was not effectively performed to eliminate conflicting roles and enforce principles of least system privilege.
- Monitoring of access for individuals with elevated application privileges was lacking within several major application's production environments.
- Network and application security event logs, which provide audit trails, were not consistently maintained, correlated and/or reviewed across all systems.

Security Management

- Security Control Assessments (SCAs) were not consistently performed for systems requiring an Authority to Operate (ATO). In addition, most SCAs were conducted by groups that were not independent of the systems they manage, and the groups did not consistently assess the effectiveness of the controls in place. Additionally, we identified systems that were given ATOs without undergoing security reviews, privacy impact assessments (PIAs), and contingency plan tests.
- Security and risk management processes were not consistently performed and documented within the IT Governance, Risk and Compliance (GRC) tool. We identified instances of controls that were not adequately documented, controls that were not assessed, and incomplete risk assessments.
- VA's system of record for background investigations was incomplete and did not contain investigation data for all employees and contractors. In addition, some personnel did not receive the proper level of investigation for their position sensitivity levels.

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- Plans of Action and Milestones (POA&Ms) were not consistently updated to incorporate all known control weaknesses such as those identified by SCAs and supporting documentation was inadequate to justify closed actions.

Contingency Planning

- Contingency Plans were not consistently tested annually in accordance with VA policy or did not undergo functional testing in the case of high and moderate impact systems.
- VA did not track system outages to their application boundaries and interdependent systems to accurately measure their performance against documented system recovery time objectives.

Criteria:

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

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

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

- Periodic assessments of risk, including the magnitude of harm that could result from the unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems that support the operations and assets of the organization;
- Policies and procedures that are based on risk assessments, cost-effectively reduce information security risks to an acceptable level and address information security throughout the life cycle of each organizational information system;
- Plans for providing adequate information security for networks, facilities, information systems, or groups of information systems, as appropriate;
- Periodic testing and evaluation of the effectiveness of information security policies, procedures, practices, and security controls to be performed with a frequency depending on risk, but at least annually;

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

Cause:
Dispersed locations, continued reorganization, and diversity of applications have impacted system owners' and management's ability to consistently and effectively remediate IT security deficiencies across the enterprise. For example, VA's complex and disparate financial system architecture has resulted in a lack of common system security controls and inconsistent maintenance of IT mission-critical systems. This inconsistency was noted for systems hosted at VA data centers as well as systems residing within cloud environments. VA also counts a significant portion of technical vulnerabilities as mitigated when assigned to POA&Ms or identified as being compliant with security baselines even though the security risks were not effectively managed or resolved. These weaknesses should not be counted as mitigated until technical or operational control measures can be enacted to remove or reduce the risk.

VA also continues to re-evaluate and shift their system and application boundary structure which has caused a lack of clarity related to control responsibility and ownership. As a result, VA continues to be challenged with an inconsistent enforcement of established policies and procedures throughout its geographically dispersed portfolio of legacy applications and newly implemented systems.

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

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

1. Implement improved mechanisms to continuously identify and remediate security deficiencies. Ensure security scans are performed with credentials on as many systems as possible and the subsequent vulnerabilities are remediated in a timely manner in accordance with VA policy timeframes.

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

3. Ensure that all baseline security configurations are appropriately monitored for compliance with established VA security standards and consistently implemented throughout the environment.

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4. Implement automated software management processes on all agency platforms where feasible and establish a whitelist policy for critical systems and platforms.
5. Implement improved change control procedures to ensure the consistent testing of system changes for VA financial applications and networks. Ensure controls to detect unauthorized changes are consistently implemented.
6. Implement improved processes to ensure compliance with VA password policy and security configuration baselines on domain controls, operating systems, databases, applications, and network devices.
7. Implement improved processes for periodic reviews of system and application accounts to ensure appropriate access rights and remove unnecessary and inactive accounts on systems and networks. Implement improved processes to ensure the proper completion of termination processes for separated personnel.
8. Implement improved processes to ensure the proper completion and retention of user access request forms that enforce principles of least system privilege.
9. Implement improved processes for monitoring system audit logs for unauthorized activities, unusual activities, and privileged functions across all systems and platforms.
10. Implement an improved continuous monitoring program including processes for independently assessing security controls and maintaining accurate data within key security documentation.
11. Strengthen processes to ensure appropriate levels of background investigations are completed, documented, and accurately tracked within VA systems used for background investigations.
12. Implement improved mechanisms to ensure system owners and information system security officers follow procedures for establishing, tracking, updating, and closing POA&Ms.
13. Ensure contingency plans for all systems and applications are updated and tested in accordance with VA requirements. Ensure system outages are tracked to corresponding system boundaries and that interdependent systems are considered for the purposes of tracking and measuring against stated recovery time objectives.

EXHIBIT B
Significant Deficiencies

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

Background:
VA uses different feeder systems to record its obligation and expenditure activities for the non-Community Care programs. The use of the various feeder systems that are not fully integrated with VA's FMS requires strong internal controls to ensure that all transactions are recorded completely, timely, and accurately. In FY 2023, we continued to identify several weaknesses that include the lack of sufficient reconciliations of its feeder/subsidiary systems to FMS and monitoring activities to validate the accuracy and completeness of balances derived from its procurement process.

Conditions:
VA continues to have weaknesses with respect to its non-Community Care program expenses and related obligations as follows:

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

VA continues to use VA Form 1358 "Obligation or Change in Obligation" (1358s) to record financial transactions related to procurement obligations. VA approved the use of 1358s for 20 different types of categories, and they are integral to the operation of some of VA's programs. In most cases, 1358s bypass the conventional procurement controls by design, in order to support program circumstances or needs. We continue to identify 1358 transactions which (1) were used for intra- and inter-agency transactions instead of a standard form for cross-agency agreements, (2) were not closely monitored and validated by management to ensure recorded obligations and accrued expenses were not overstated, and (3) had underlying data that did not reconcile to subsidiary and financial management systems. VA's obligations based on 1358s approximated $9.90 billion for the year ended September 30, 2023, of which $1.86 billion in UDOs remained outstanding at year-end.

VA continues to use a monthly auto-accrual process to liquidate obligations and record accruals for accounts payable without evidence of goods or services received. The auto-accrual process is prone to errors and cannot replace active monitoring by management to verify completeness and accuracy of the obligation and related accounts payable balances. The monitoring activities used by VA to validate accounts payable and accrued balances need to be strengthened. Additionally, VA did not adequately perform a comprehensive analysis to validate its accrual methodology for its non-Community Care activity, which resulted in significant manual adjustments of approximately $1.89 billion at June 30 and $2.35 billion at September 30 to accurately report the Accounts Payable balances. Further, a manual adjustment of approximately $515 million was recorded at year-end to accurately report UDOs.

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

- Untimely liquidation of inactive UDOs – Delays ranged from eight months to four years and seven months.

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- Untimely recording of contracts or modifications into the general ledger system (FMS).
- Obligation amounts differed between the contract or purchase order amounts and FMS.
- Procurement transactions were not recorded correctly in FMS – we identified a variety of exceptions.

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

Cause:
The information technology systems used to record VA's financial activities and events have significant system limitations that hinder its ability to accurately report the financial transactions. Further, VA is a highly decentralized organization with legacy systems, which makes uniform application and monitoring of controls more difficult.

Effect:
These conditions led to inaccurate financial reporting with respect to obligations, accrued expenses, and UDOs, which required manual adjustments to accurately report balances at September 30, 2023.

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

1. Continue efforts to develop and refine methodologies for establishing and validating non-Community Care obligations and accruals to improve financial reporting.
2. For non-Community Care programs, continue efforts to review open obligations and automated accruals for potential adjustment and to assist staff in taking timely actions. Continue efforts to reduce the use of 1358s and improve monitoring and timely liquidation of them. Develop strategies and controls to ensure the proper recording of contracts or modifications in FMS.
3. Continue to improve the periodic look-back validations; i.e., perform analyses of obligation and accrual balances reported for non-Community Care programs against subsequent activity to:
   a) Ensure accuracy of financial reporting and to maximize budgetary resources.
   b) Identify significant variances to be investigated and researched.
4. Enhance the monthly consolidated reconciliations of obligations and expenditures recorded in IFCAP, CAATS, eCMS, and FMS for all open obligations to ensure the accounting information is valid and proper.

EXHIBIT B
Significant Deficiencies

2. Entity Level Controls

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

VA's financial management structure is decentralized, with most of VA's budget authority and financial statement accounts under the operational control of its major administrations and offices. The reliability of VA's financial reporting as a whole is largely dependent on the quality of financial management at these organizations. The Assistant Secretary for Management is VA's statutory CFO, as required under the CFO Act. The VA CFO has responsibility for establishing financial policy, systems, and operating procedures for all VA financial entities; providing guidance on all aspects of financial management; and producing VA's consolidated financial reports. VA administrations and other offices are responsible for implementing those policies and producing the financial information that the VA CFO's office consolidates.

Condition:
In FY 2023, VA continues to have control weaknesses throughout the organization with respect to internal controls over financial reporting. These weaknesses are primarily attributed to a decentralized and fragmented organizational structure for financial management and reporting; the lack of an effective, comprehensive, and integrated financial management system and a challenging IT environment; and the undue reliance placed on manual processes to identify or correct errors with financial information. Further, active involvement from VA's senior leadership is required to continue moving into a more collaborative strategic structure to effectively mitigate the control weaknesses identified in this report.

A. Control Environment
VA's internal controls over financial reporting continue to evolve in certain areas, and we have observed significant steps to address material weaknesses previously identified. As part of the financial reporting control environment, VA has a CFO Council to serve as an advisory committee to the VA CFO. It includes CFOs from VA's different administrations and offices and provides a structure for coordinated action and communication. Additionally, in late FY 2022, VA also established the ABLGB to address the material weakness over significant accounting estimates. The ABLGB provides a formal governance process to ensure the reasonableness of the actuarial and benefit liability estimates associated with VBA and VHA benefit programs. However, there was a lack of a strong model governance process, specifically related to the lack of adequate written policies, processes, and procedures for decision making and model change management to ensure that any changes to the actuarial estimation models are properly documented, reviewed, and tested before implementation, as described in Material Weakness 1.

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B. Entity-Level Control Activities

The control activities of an organization are the policies, procedures, and techniques that management uses to address operational, programmatic, and financial reporting risks. These activities, including at the entity level, require sufficient and descriptive documentation that is clear and concise to ensure that the appropriate steps are executed to achieve the desired objective. In addition, active monitoring by VA at the entity level and within each business line is critical to evaluating the design and effectiveness of the internal control system. An effective monitoring system uses control activities such as regular management and supervisory reviews, reconciliation, automated tools, and other activities to identify deficiencies in need of corrective action. However, in FY 2023, we continued to identify deficiencies in control activities at the entity level as discussed in detail in Material Weaknesses 1-3, Significant Deficiency 1 and 3, and Noncompliance findings 1-2. The resolution of these longstanding weaknesses requires senior management attention and VA-wide efforts and time to ensure consistent and focused implementation of corrective actions.

Criteria:

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

The CFO Act of 1990 stipulates the following:

Sec. 902. Authority and functions of agency Chief Financial Officers, states:

"a. An agency Chief Financial Officer shall—

1. report directly to the head of the agency regarding financial management matters;
2. oversee all financial management activities relating to the programs and operations of the agency;
3. develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, which—
   - A. complies with applicable accounting principles, standards, and requirements, and internal control standards;
   - B. complies with such policies and requirements as may be prescribed by the Director of the Office of Management and Budget;
   - C. complies with any other requirements applicable to such systems; and
   - D. provides for--
     - i. complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management;
     - ii. the development and reporting of cost information;
     - iii. the integration of accounting and budgeting information; and
     - iv. the systematic measurement of performance;
4. make recommendations to the head of the agency regarding the selection of the Deputy Chief Financial Officer of the agency;
5. direct, manage, and provide policy guidance and oversight of agency financial management personnel, activities, and operations, including-
   - A. the preparation and annual revision of an agency plan to-- (i) implement the 5-year financial management plan prepared by the Director of the Office of Management and Budget under section 3512(a)(3) of this title; and (ii) comply with the requirements established under sections 3515 and subsections (e) and (f) of section 3521 of this title;

EXHIBIT B
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B. the development of agency financial management budgets;
C. the recruitment, selection, and training of personnel to carry out agency financial management functions;
D. the approval and management of agency financial management systems design or enhancement projects;
E. the implementation of agency asset management systems, including systems for cash management, credit management, debt collection, and property and inventory management and control;

6. monitor the financial execution of the budget of the agency in relation to actual expenditures and prepare and submit to the head of the agency timely performance reports."

Cause:
VA lacks a strong governance process to ensure all financial reporting risks are addressed, including the lack of formalized written policies, processes, and procedures related to control activities for model governance. Also, VA has a complex, disjointed, and legacy financial system architecture that cannot fully support financial management needs without significant manual intervention.

Effect:
The decentralized reporting structure coupled with legacy system issues presents a challenging entity level control environment. VA continues to have control deficiencies that impede its ability to process, summarize, and report reliable financial information in a timely manner. Also, VA may not fully comply with existing federal financial reporting guidelines and related laws, regulations, contracts, and grant agreements.

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

1. Continue efforts with executing a transparent, collaborative, and accountable culture across organizational components by:
   - Openly sharing information regarding issues, root causes of issues/findings, analyses, and best practices.
   - Working with responsible parties to implement corrective actions to timely address and mitigate identified issues/risks.
   - Encouraging communication and collaboration under the CFO's leadership to establish working level committees to resolve any identified accounting, financial management, and reporting issues.
   - Involving other stakeholders such as key leaders from acquisition, logistics, and asset management to collaboratively address financial management issues and develop risk mitigation strategies.
   - Providing the necessary financial management training and performance monitoring to continuously elevate the financial management capabilities and knowledge within VA.
2. Ensure that system modernization efforts address and support remediation of the material weaknesses and system deficiencies identified in this report, as well as meet all Federal system requirements.
3. Establish an effective communication process that ensures and documents the ABLGB is provided with sufficient information to make informed decisions. Ensure that

EXHIBIT B
Significant Deficiencies

documentation is comprehensive, up-to-date, and readily available for proposed changes to the model's design, assumptions, and limitations, as well as for the testing and validation process.

4. Implement effective model change management processes to ensure that any changes to the model are properly documented, reviewed, and tested before implementation. This should include appropriate controls and oversight including planning appropriate timing and prioritization of experience studies and changes to either assumptions or application of assumptions.

The model governance structure should include the appropriate components of internal control within GAO's Green Book and those specified within the criteria.

3. Loan Guarantee Liability

Background:
In our FY 2022 audit report, we reported an internal control finding with respect to the Loan Guarantee Liability within Material Weakness 1, Controls over Significant Accounting Estimates. Because of noted improvements in oversight, documentation, and efficacy over the Loan Guaranty modeling activities, we are reporting it separately in this report as a significant deficiency.

VA's Home Loan Guaranty program provides a guaranty to commercial lenders against losses from veterans' mortgage loan defaults. VBA uses excel-based, econometric models to estimate future net cash flows to be paid by VA over the life of the loans and determine the cost of these guarantees on a present value basis for budgetary and financial reporting purposes.

The Fractional Logistic Regression Model (FLRM) is a regression-based model using historical data on defaults and economic indicators to develop a default rate forecast. The Cash Flow Model applies the default rate forecast from the FLRM to loan volume data and calculates dollar amounts relating to recoveries and property expenses to project future cash flows for each policy-year of a loan's life. The outputs from the model are discounted to their present value using the Office of Management and Budget (OMB)'s Credit Subsidy Calculator (CSC) discounting tool to calculate budgeted and re-estimated subsidy rates and costs for each credit subsidy cohort. The discounted future cash flows from the cash flow model are used to estimate the Liability for Loan Guarantees (LLG) reported within VA's balance sheet within the financial statements.

Conditions:
VA should more fully evaluate and consider critical risk factors as criteria for default cost estimates. VBA does not fully and appropriately analyze, nor consider, certain critical risk factors in estimating default costs used to predict future cash flows in estimating its LLG. Specifically, VBA does not include credit scores, considered a critical and relevant borrower risk characteristic, as a variable in its default cost estimate. This determination was made based on an approach that effectively diminishes the variation and weakens the causal relationship between credit scores and foreclosure probabilities, which may result in biased estimation of the foreclosure probabilities and subsequently the LLG. Further, the value of collateral to loan balance, another critical and relevant risk factor, was not considered by VBA in their default cost estimate and therefore not utilized as criteria in calculating the LLG.

EXHIBIT B
Significant Deficiencies

VA lacks adequate monitoring of default cost risk factors and compensating controls. The simplicity of VBA's current FLRM cohort model design limits the model's ability to react to risk factors such as current or forecasted fluctuating economic conditions, unless compensating controls and adequate monitoring of such risk factors are implemented to reduce the financial reporting risk of materially misstating the LLG. VBA does not perform adequate, routine, and ongoing monitoring activities in estimating default costs with respect to forecasted international, national, or regional economic conditions that may affect the performance of the loans and ultimately the LLG. Specifically, we have determined that VBA's FLRM model under-estimates the default rates during periods of high historical actual default rates, without an adequate monitoring mechanism and compensating control to calibrate the model's results in observation of economic downturns in the forecasting horizon.

VA lacks a defined policy for model validation and verification. A sound model validation process is an essential element of model risk management and is intended to verify to management that models are performing as expected and in line with their design objectives.

Criteria:
Statement of Federal Financial Accounting Standards 2: Accounting for Direct Loans and Loan Guarantees (Issued August 23, 1993, effective for FY beginning after September 30, 1993) states:
Criteria for Default Cost Estimates – 34. "In estimating default costs, the following risk factors are considered: (1) loan performance experience; (2) current and forecasted international, national, or regional economic conditions that may affect the performance of the loans; (3) financial and other relevant characteristics of borrowers; (4) the value of collateral to loan balance; (5) changes in recoverable value of collateral; and the newly developed events that would affect the loans' performance. Improvements in methods to reestimate defaults are also considered."

The Government Accountability Office (GAO), Standards for Internal Control in the Federal Government (Green Book) states:
Principle 10 – Design Control Activities
Design of Appropriate Types of Control Activities
10.03 "Appropriate documentation of transactions and internal control
Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained."

Principle 16 – Perform Monitoring Activities
Internal Control System Monitoring
16.05 "Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions."

Federal Financial Accounting and Auditing Technical Release 6: Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act (Issued January 22, 2004, effective upon issuance) states*:*
Preparing Direct Loan and Loan Guarantee Estimates
17. "Agencies must accumulate sufficient relevant and reliable data on which to base cash flow projections. It is important to note that agencies should prepare all estimates and reestimates

EXHIBIT B
Significant Deficiencies

based upon the best available data at the time the estimates are made. Agencies should prepare and report reestimates of the credit subsidies, in accordance with SFFAS No. 2, 18, and 19, to reflect the most recent data available as discussed in the reestimate section of this technical release."

Cause:
VBA elects to calculate their estimate of discounted future cash flows, which includes over 3.5 million individual loans, using a cohort (i.e., aggregate) level model based on a strict interpretation of and reliance on an accounting standard made effective in 1993, instead of using a more critical approach to estimation, including fully exploring more current and proven methods for estimating such liabilities common in the federal community with similar loans and liabilities.

VBA has not implemented an adequate monitoring mechanism and compensating control as recommended in prior years. Instead, VBA conducted analyses without explanation as to how the analyses support whether any model calibration is required in observation of economic conditions in the forecasting horizon.

Model governance policies currently in place over VBA's modeling activities do not document and define monitoring controls over model validation and verification.

Effect:
Without a thorough and robust analysis of critical risk factors and compensating controls used in estimating default costs used to predict future cash flows, the risk of misstatement and management bias remain high, while estimation accuracy and precision remain low within the LLG estimate.

Recommendations:
We recommend that the Assistant Secretary for Management/CFO and the VBA CFO in conjunction with the ABLGB:

1. Transform to a loan-level modeling framework, utilizing the best available data, which is loan level data, as input to the default model versus at a cohort level and ensure audit readiness in the year of implementation. Include variables at the individual loan level to account for significant underwriting characteristics such as credit score, geographic house price appreciation, debt-to-income ratio, and loan-to-value ratio.

2. Until a loan-level modeling framework is developed and implemented, develop monitoring mechanism(s) and compensating control(s) for the existing cohort-level model to support whether any model calibration is required in observation of fluctuating economic conditions in the forecasting horizon.

3. Develop and document a policy for monitoring controls over model validation and verification to include but not be limited to defined purpose and goals, scope, approach, schedule, types and extent of validation activities and tasks, and specific actions that must be taken to complete individual validation activities and tasks.

EXHIBIT C
Noncompliance Findings

1. Noncompliance with FFMIA

Financial Management Systems

VA's legacy financial management system architecture is complex and disjointed, and no longer supports the stringent and demanding financial management and reporting requirements mandated by the Treasury and OMB. As discussed in Material Weaknesses 2 and 3, many of VA's legacy systems have been obsolete for several years. VA continues to be challenged in its efforts to apply consistent and proactive enforcement of established policies and procedures throughout its geographically dispersed portfolio of legacy applications and systems. Consequently, VA's financial management systems do not substantially comply with the Federal financial management systems requirements and the USSGL at the transaction level, as required by FFMIA Section 803(a). These conditions should be read in conjunction with the deficiencies reported in Exhibit A and Exhibit B, including Material Weakness 3 concerning the IT security control environment.

A. Federal Financial Management Systems Requirements

VA's core accounting system, FMS, was implemented in 1992. Since that time, Federal financial reporting requirements have become more complicated, and the level of financial information required by Congress and other oversight bodies has become increasingly demanding and complex. Some of the effects of FMS' limited functionality are described in the Material Weakness 2. Due to these limitations, VA utilizes a separate accounting system application, MinX, to consolidate general ledger activities from FMS and iFAMS to produce auditable financial statements and GTAS trial balances. Further, each accounting period in MinX is independent and thus, numerous manual JVs must be re-entered and reconciliations and analyses must be re-performed in each period to produce VA's financial statements and GTAS trial balances. FMS' functionality limitations are exacerbated due to the age of FMS.

As reported in previous years, complete and consolidated reconciliations between FMS and the following subsidiary/feeder systems were not performed throughout FY 2023:

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

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

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

  In the case of the Medical Care Collections Fund (MCCF), VistA does not provide management with the ability to effectively and efficiently monitor MCCF activities at the transaction level. In particular, although billing and collection functions have been

EXHIBIT C
Noncompliance Findings

centralized at the Consolidated Patient Accounting Centers (CPACs), CPAC personnel still cannot generate combined reports for all the facilities under their purview. Reports are generated separately for individual medical centers, which leads to inefficiencies in operations and revenue management. Further, a nationwide report at a sufficient level of detail cannot be generated. In addition, as VistA is not able to produce a consolidated accounts receivable aging report at a sufficient level of detail, management does not have the tools to properly assess the reasonableness of its allowance for loss provision or perform a retrospective analysis to ascertain the reasonableness of its allowance methodology.

- *Integrated Funds Distribution Control Point Activity, Accounting and Procurement System (IFCAP)*. IFCAP is a module within VistA that is used by VHA, contracting officers, and other VA personnel to initiate and authorize purchase requisitions for goods and services, and interfaces with the Invoice Payment Processing System (IPPS) to monitor and track vendor invoices. Transactions initiated and recorded in IFCAP cannot be centrally and completely reconciled to those in FMS or to the procurement source documentation maintained in eCMS.

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

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

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

B. <u>USSGL at the Transaction Level</u>
FMS did not substantially comply with the USSGL at the transaction level for the following:

- Certain USSGL transaction codes continue to be missing from FMS.
- FMS does not allow for 6-digit USSGL account reporting as required by the Treasury Financial Manual.
- FMS is outdated and unable to keep up with the existing Treasury reporting requirements.
  - ➢ The existing FMS posting logic does not support required Treasury account attributes established in the USSGL. In addition, mapping issues in FMS prevent accurate reporting of Federal and non-Federal attributes when a business event occurs. As a result, VA management needed to execute workarounds to compensate for FMS' system limitations. For example, the FMS chart of accounts was modified to

EXHIBIT C
Noncompliance Findings

incorporate letters and general ledger numbers in subsidiary ledger accounts to classify Federal and non-Federal (i.e., public) transactions to meet GTAS reporting requirements.

- FMS also lacks the appropriate edit checks to ensure the proper posting of intragovernmental transactions as agencies are required to include a four-digit main account code which results in significant trading partner-related adjustments as part of its GTAS submission to the Treasury.

2. Noncompliance with FMFIA

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

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

VA management continued in FY 2023 to strengthen VA Administrations' use of the Reporting Entity Internal Control Assessment (ICA) which supports the required assurances. The ICA is used to assess VA-wide entity level risk and to consolidate various on-going assessment efforts throughout VA to increase efficiency. However, we found the following areas in need of improvement in order to fully comply with the intent of FMFIA:

- VA's internal control process was unable to fully remediate recurring material weaknesses and noncompliance matters. VA believes that some of the long-standing control weaknesses with their financial systems will be addressed through their system modernization efforts.
- VA did not comply with FMFIA § 2 and FMFIA § 4 due to an internal control assessment program that is not fully developed and continued use of antiquated financial systems that do not meet federal financial management systems requirements.

3. Noncompliance with 38 USC 5315

VBA did not charge interest or administrative costs on certain delinquent payments for outstanding receivables related to the compensation, pension, and education benefit programs. Historically, VA's long-standing policy to not charge interest is based on a former VA Deputy Secretary's July 1992 instruction. In FY 2023, Congress passed legislation within Omnibus Bill § 253 which prohibits VA from charging interest and administrative costs for debts relating to certain benefits programs (loan, loan guaranty, or loan insurance program; a disability compensation program; a pension program, and an education assistance program). This remediates the noncompliance, effective December 29, 2022, for new debt that occurs on or after the date. However, it does not apply to debts occurring prior to December 29, 2022. Thus, the noncompliance remains for historic debts.

4. Noncompliance with Payment Integrity Information Act

On June 2, 2023, the VA Office of Inspector General reported that VA did not fully comply for FY 2022 with the Payment Integrity Information Act of 2019.

EXHIBIT D
Status of Prior Year Findings

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

Type of Finding	***FY 2022 Finding***	***FY 2023 Status***
Material Weakness	Controls Over Significant Accounting Estimates	Modified Repeat – See FY 2023 Material Weakness 1 to include Veterans Benefits Actuarial Liability Estimate See FY 2023 Significant Deficiency Finding 3 to include Loan Guaranty Liability[3]
Material Weakness	Financial Systems and Reporting	Modified Repeat – See FY 2023 Material Weakness Finding 2
Material Weakness	Information Technology Security Controls	Modified Repeat – See FY 2023 Material Weakness Finding 3
Significant Deficiency	Obligations, Undelivered Orders (UDOs), and Accrued Expenses	Modified Repeat – See FY 2023 Significant Deficiency Finding 1
Significant Deficiency	Entity Level Controls including CFO Organizational Structure	Modified Repeat – See FY 2023 Significant Deficiency Finding 2
Noncompliance	Noncompliance with FFMIA	Repeat – See Noncompliance Finding 1
Noncompliance	Noncompliance with FMFIA	Repeat – See Noncompliance Finding 2
Noncompliance	Noncompliance with 38 U.S.C. 5315	Repeat – See Noncompliance Finding 3
Noncompliance	Actual and Potential Violations of the Antideficiency Act	Modified – See Other Matter Paragraph
Noncompliance	Noncompliance with Improper Payments Elimination and Recovery Act	Repeat – See Noncompliance Finding 4

[3] In the FY 2022 audit report, the Loan Guaranty Liability deficiencies were included as part of the Controls over Significant Accounting Estimates material weakness. This deficiency is herein considered a significant deficiency for FY 2023.

Section II

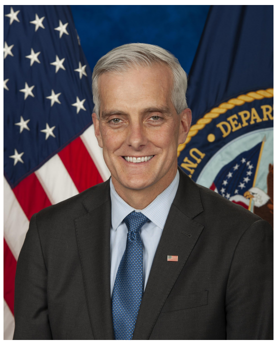
Agency Comments

- Message from VA's Secretary
- Message from VA's Chief Financial Officer

MESSAGE FROM VA'S SECRETARY

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

November 15, 2023



I am proud to present the United States Department of Veterans Affairs' (VA or the Department) Fiscal Year (FY) 2023 Agency Financial Report. This report offers financial and performance information demonstrating our commitment to fiscal transparency and responsibility as we uphold VA's mission "To fulfill President Lincoln's promise to care for those who have served in our Nation's military and for their families, caregivers and survivors."

In FY 2023, the Department continued the biggest expansion of Veteran health care and benefits in decades by implementing the Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics (PACT) Act of 2022. The law expanded VA health care and benefits for Veterans exposed to burn pits, Agent Orange and other toxic substances. Since the law's enactment in August 2022, Veterans, caregivers and survivors have filed more than one million claims for toxic exposure-related benefits under the PACT Act.

Partly due to the PACT Act, VA is delivering more care and more benefits to more Veterans, their families, caregivers and survivors than ever before. Key results as of fiscal year-end include:

- Processing over 2.2 million disability claims (PACT and non-PACT) in FY 2023 — 29% more than the prior fiscal year and surpassing last year's all-time record total of 1.7 million claims processed.
- Enrolling over 401,000 Veterans in VA health care. This number includes over 172,000 enrollees from the PACT Act population (Vietnam, Gulf War and Post-9/11 era Veterans).
- Screening over 4.6 million Veterans for toxic exposures under the PACT Act.

While I am gratified that more than one million Veterans, caregivers and survivors have applied for their hard-earned benefits to date, this is just the beginning. VA will not rest until every Veteran, caregiver and survivor gets the VA health care and benefits they deserve.

Lastly, I am pleased to announce the Department received its 25th consecutive unmodified audit opinion from independent public accounting firm CliftonLarsonAllen for the FY 2023 financial statement audit. This audit signifies that VA's financial statements are fairly presented in all material aspects. With this achievement in mind, VA continues to strive for financial management excellence, actively addressing any material weaknesses, significant deficiencies and noncompliance identified by the auditors. Detailed remediation efforts are provided in Management's Statement of Assurance beginning on page 30 of this Agency Financial Report.

Sincerely,

(/s/) Denis McDonough

MESSAGE FROM VA'S CHIEF FINANCIAL OFFICER

DEPARTMENT OF VETERANS AFFAIRS
ASSISTANT SECRETARY FOR MANAGEMENT
WASHINGTON DC 20420

November 15, 2023

In fiscal year (FY) 2023, the Department of Veterans Affairs (VA or the Department) continued to reach important milestones in providing health care services and benefits to the Nation's Veterans. One of the most significant achievements was the implementation of the historic Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics (PACT) Act of 2022, marking the largest expansion of benefits for toxic-exposed Veterans in over three decades. During FY 2023, VA processed more than 591,000 PACT Act claims and enrolled over 172,000 Veterans from the PACT Act population in health care.

Furthermore, VA has made consistent progress implementing the Integrated Financial and Acquisition Management System (iFAMS). This includes six successful deployments of iFAMS covering the National Cemetery Administration, a portion of the Veterans Benefits Administration (VBA), the Office of Management, the Office of Information and Technology, the Office of Inspector General and the Office of Acquisition, Logistics and Construction. Implementation for VBA Loan Guaranty is slated for May 2025 and the Veterans Health Administration Central Office is also currently underway.

I am delighted to share that in June 2023, the Association of Government Accountants (AGA) awarded VA its fourth consecutive Certificate of Excellence in Accountability Reporting for the Department's FY 2022 Agency Financial Report, including a prestigious AGA Best-in-Class Award. These accolades recognize VA's commitment to effective financial and performance reporting.

In addition, I am proud to announce VA received its 25th consecutive unmodified ("clean") audit opinion this year. Despite this remarkable achievement, VA still faces a number of financial management challenges. The auditors identified three material weaknesses related to controls over significant accounting estimates; financial systems and reporting; and information technology security controls. Information on the audit findings and our remediation efforts are detailed in Management's Statement of Assurance on page 30. We extend our gratitude to the Office of Inspector General and CliftonLarsonAllen LLP for their unwavering commitment to enhancing VA's fiscal accountability.

Finally, I am sincerely grateful to VA's financial community. Without their dedication, this year's accomplishments would not be possible. They consistently rise to the occasion, embodying VA's core values of integrity, commitment, advocacy, respect and excellence.

Sincerely,

(/s/) Jon J. Rychalski

Section III

Financial Statements

- Financial Statements
- Notes to the Financial Statements
- Required Supplementary Information (Unaudited)

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET *(dollars in millions)*

As of September 30,	**2023**	**2022**
Assets		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 91,627	$ 89,718
Investments, Net (Note 5)	5,575	5,297
Accounts Receivable (Note 6)	66	26
Advances and Prepayments	3,953	2,403
Total Intragovernmental	101,221	97,444
Other Than Intragovernmental		
Cash (Note 4)	3	3
Accounts Receivable, Net (Note 6)	3,995	4,316
Loans Receivable, Net (Note 7)	2,958	1,334
Inventory and Related Property (Note 8)	143	173
Property, Plant and Equipment, Net (Note 9)	32,469	30,825
Advances and Prepayments	143	78
Investments (Note 5)	140	140
Total Other Than Intragovernmental	39,851	36,869
Total Assets	**$ 141,072**	**$ 134,313**
Heritage Assets (Note 10)		
Liabilities		
Intragovernmental		
Accounts Payable	$ 137	$ 208
Debt (Note 11)	568	560
Advances from Others and Deferred Revenue	60	79
Other Liabilities (Note 15)	5,792	2,990
Total Intragovernmental	6,557	3,837
Other Than Intragovernmental		
Accounts Payable	4,307	4,988
Federal Employee and Veterans Benefits (Note 13)		
Veterans Benefits (Note 13)	7,298,107	6,139,748
Life Insurance Benefits (Note 17)	3,580	3,944
Federal Employee Benefits (Note 13)	5,735	5,385
Environmental and Disposal Liabilities (Note 14)	974	949
Loan Guarantee Liabilities (Note 7)	9,175	9,932
Advances from Others and Deferred Revenue	20	20
Other Liabilities (Note 15)	3,076	2,893
Total Other Than Intragovernmental	7,324,974	6,167,859
Total Liabilities	**$ 7,331,531**	**$ 6,171,696**
Commitments and Contingencies (Note 18)		

(Continued on next page)

CONSOLIDATED BALANCE SHEET *(dollars in millions)*

As of September 30,	2023	2022
Net Position - Unexpended Appropriations		
Funds From Dedicated Collections	$ 16	$ 16
Funds from Other than Dedicated Collections	71,280	68,149
Total Unexpended Appropriations	71,296	68,165
Net Position - Cumulative Results of Operations		
Funds From Dedicated Collections	4,914	4,517
Funds from Other than Dedicated Collections	(7,266,669)	(6,110,065)
Total Cumulative Results of Operations	**(7,261,755)**	**(6,105,548)**
Total Net Position	**(7,190,459)**	**(6,037,383)**
Total Liabilities and Net Position	**$ 141,072**	**$ 134,313**

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

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

For the Periods Ended September 30,	**2023**	**2022**
Net Program Costs By Administration		
Veterans Health Administration		
Gross Cost	$ 136,417	$ 117,799
Less Earned Revenue	(5,031)	(4,956)
Net Program Cost	131,386	112,843
Veterans Benefits Administration		
Gross Cost		
Program Costs	165,565	143,305
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	599,556	155,088
Less Earned Revenue	(567)	(523)
Net Program Cost	764,554	297,870
National Cemetery Administration		
Gross Cost	552	508
Less Earned Revenue	(1)	-
Net Program Cost	551	508
Indirect Administrative Program Costs		
Gross Cost	3,343	3,044
Less Earned Revenue	(647)	(614)
Net Program Cost	2,696	2,430
Net Program Costs by Administration Before (Gain)/Loss from Changes in Veterans Benefits Actuarial Assumptions	899,187	413,651
(Gain)/Loss from Changes in Actuarial Assumptions (Note 13)	558,773	1,526,453
Net Cost of Operations	**$ 1,457,960**	**$ 1,940,104**

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION *(dollars in millions)* **As of September 30, 2023**	**Funds from Dedicated Collections (Note 19)**	**All Other Funds**	**Consolidated Total**
Unexpended Appropriations			
Beginning Balance	$ 16	$ 68,149	$ 68,165
Appropriations Received	-	303,864	303,864
Appropriations Transferred In/Out	-	182	182
Other Adjustments	-	(457)	(457)
Appropriations Used	-	(300,458)	(300,458)
Net Change in Unexpended Appropriations	-	3,131	3,131
Total Unexpended Appropriations: Ending	16	71,280	71,296
Cumulative Results of Operations			
Beginning Balance	4,517	(6,110,065)	(6,105,548)
Appropriations Used	-	300,458	300,458
Nonexchange Revenue	-	25	25
Donations and Forfeitures of Cash and Cash Equivalents	18	-	18
Transfers In/Out Without Reimbursement	(4,073)	4,238	165
Donations and Forfeitures of Property	33	-	33
Imputed Financing	-	4,387	4,387
Other	-	(3,333)	(3,333)
Net (Cost)/Benefit of Operations (Note 21)	4,419	(1,462,379)	(1,457,960)
Net Change in Cumulative Results of Operations	397	(1,156,604)	(1,156,207)
Cumulative Results of Operations: Ending	**4,914**	**(7,266,669)**	**(7,261,755)**
Net Position	**$ 4,930**	**$ (7,195,389)**	**$ (7,190,459)**

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION *(dollars in millions)* **As of September 30, 2022**	**Funds from Dedicated Collections (Note 19)**	**All Other Funds**	**Consolidated Total**
Unexpended Appropriations			
Beginning Balance	$ 56	$ 62,020	$ 62,076
Appropriations Received	(35)	271,345	271,310
Appropriations Transferred In/Out	-	159	159
Other Adjustments	-	(697)	(697)
Appropriations Used	(5)	(264,678)	(264,683)
Total Budgetary Financing Sources	(40)	6,129	6,089
Total Unexpended Appropriations: Ending	16	68,149	68,165
Cumulative Results of Operations			
Beginning Balance	3,916	(4,433,891)	(4,429,975)
Appropriations Used	5	264,678	264,683
Nonexchange Revenue	-	23	23
Donations and Forfeitures of Cash and Cash Equivalents	17	-	17
Transfers In/Out Without Reimbursement	(3,787)	3,947	160
Donations and Forfeitures of Property	23	-	23
Imputed Financing	-	3,081	3,081
Other	-	(3,456)	(3,456)
Net (Cost)/Benefit of Operations (Note 21)	4,343	(1,944,447)	(1,940,104)
Net Change in Cumulative Results of Operations	601	(1,676,174)	(1,675,573)
Cumulative Results of Operations: Ending	**4,517**	**(6,110,065)**	**(6,105,548)**
Net Position	**$ 4,533**	**$ (6,041,916)**	**$ (6,037,383)**

COMBINED STATEMENT OF BUDGETARY RESOURCES *(dollars in millions)* **For the Period Ended September 30, 2023**	**Budgetary**	**Non-Budgetary Credit Reform Financing Account**
Budgetary Resources (Discretionary and Mandatory)		
Unobligated Balance from Prior Year Budget Authority, Net	$ 58,620	$ 10,981
Appropriations	308,030	-
Borrowing Authority	-	108
Spending Authority from Offsetting Collections	10,790	3,266
Total Budgetary Resources	**$ 377,440**	**$ 14,355**
Status of Budgetary Resources		
New Obligations and Upward Adjustments (Total)	$ 324,411	$ 3,119
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	47,327	-
Unapportioned, Unexpired Accounts	1,373	11,236
Unexpired Unobligated Balance, End of Year	48,700	11,236
Expired Unobligated Balance, End of Year	4,329	-
Unobligated Balance, End of Year (Total)	53,029	11,236
Total Status of Budgetary Resources	**$ 377,440**	**$ 14,355**
Outlays, Net, and Disbursements, Net		
Outlays, Net (Total) (Discretionary and Mandatory)	$ 305,912	
Distributed Offsetting Receipts (-)	(4,886)	
Agency Outlays, Net (Discretionary and Mandatory)	**$ 301,026**	
Disbursements, Net (Total) (Mandatory)		**$ (198)**

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

COMBINED STATEMENT OF BUDGETARY RESOURCES *(dollars in millions)* For the Period Ended September 30, 2022	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources (Discretionary and Mandatory)		
Unobligated Balance from Prior Year Budget Authority, Net	$ 52,509	$ 7,728
Appropriations	274,235	-
Borrowing Authority	-	115
Spending Authority from Offsetting Collections	9,396	5,594
Total Budgetary Resources	**$ 336,140**	**$ 13,437**
Status of Budgetary Resources		
New Obligations and Upward Adjustments (Total)	$ 283,486	$ 2,391
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	49,649	-
Unapportioned, Unexpired Accounts	533	11,046
Unexpired Unobligated Balance, End of Year	50,182	11,046
Expired Unobligated Balance, End of Year	2,472	-
Unobligated Balance, End of Year (Total)	52,654	11,046
Total Status of Budgetary Resources	**$ 336,140**	**$ 13,437**
Outlays, Net, and Disbursements, Net		
Outlays, Net (Total) (Discretionary and Mandatory)	$ 278,594	
Distributed Offsetting Receipts (-)	(4,724)	
Agency Outlays, Net (Discretionary and Mandatory)	**$ 273,870**	
Disbursements, Net (Total) (Mandatory)		**$ (3,333)**

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

VA was created as an independent agency on July 21, 1930, and was elevated to a cabinet department of the Executive Branch of the Government on March 15, 1989. The Department is organized under the Secretary, whose office includes a Deputy Secretary and a Chief of Staff. The Secretary has direct lines of authority over the Under Secretary for Health, the Under Secretary for Benefits, the Under Secretary for Memorial Affairs and the Chairman of the Board of Veterans' Appeals. In addition, a General Counsel, an Executive Director, a Chief Officer and seven Assistant Secretaries support the Deputy Secretary. The Office of Inspector General provides oversight of financial and operating activity.

B. REPORTING ENTITY

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

SFFAS No. 47, *Reporting Entity* requires information to be provided on disclosure entities and related-parties. VA has relationships with many organizations from nonprofits to special interest groups that provide support to VA and advocacy for Veterans; however, none of VA's relationships is of such significance as to warrant separate or individual disclosure.

C. BASIS OF ACCOUNTING AND PRESENTATION

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

The consolidated financial statements include the Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position, which are prepared on an accrual basis of accounting. Transactions occurring among VA components are eliminated in the consolidated financial statements. The Statement of Budgetary Resources reflects the appropriation and consumption of budget and spending authority, and other budgetary resources before eliminations. The Statement of Budgetary Resources is not consolidated but combined; therefore, elimination of intra-entity transactions is not permitted.

VA receives goods and services from other Federal entities at no cost or at a cost less than the full cost to the providing Federal entity. Consistent with SFFAS No. 55, *Amended Inter-Entity Cost Provisions*, certain costs of the providing entity that are not fully reimbursed by VA are recognized as imputed costs in the Consolidated Statements of Net Cost and are offset by imputed revenue in the Consolidated Statement of Changes in Net Position. Imputed costs and revenues relate to business-type activities, employee benefits and claims to be settled by the Treasury Judgment Fund.

Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

D. BUDGETS AND BUDGETARY ACCOUNTING

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

The Statement of Budgetary Resources reports Total Budgetary Resources, Status of Budgetary Resources and Outlays. VA's budget authorities include Appropriations, Borrowing Authority and Spending Authority from Offsetting Collections. Details by major accounts are shown in the Statement of Budgetary Resources in the Required Supplementary Information (RSI) section.

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

E. REVENUES AND OTHER FINANCING RESOURCES

VA collects revenues for exchange and nonexchange activities. Exchange revenue is an inflow of resources to VA that is recognized when earned with other Federal agencies or the public where each party to the transaction sacrifices value and receives value in return. Exchange revenues are presented on the Statement of Net Cost and are discussed further in Note 20.

Nonexchange revenue is an inflow of resources to VA that is a specifically identifiable, legally enforceable claim to cash or other assets where VA does not give value directly in exchange for the inflow of the resources. It is recognized to the extent that collection is probable and the amount is measurable. Examples include voluntary donations or payments in the form of penalties. Nonexchange revenue is presented as Other Financing Sources on the Statement of Changes in Net Position and consists primarily of Imputed Financing, Donations and Forfeitures of Property and Transfers In and Out of VA Without Reimbursement. Most of the transfers in and out are between VA funds.

F. TRANSFERRING BUDGET AUTHORITY TO OTHER AGENCIES

VA, as the transferring (parent) entity, is a party to allocation transfers with the Department of Defense (DoD), the transferee (child) entity. Generally, all financial activity related to these allocation transfers (for example, budget authority, obligations and outlays) is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations and budget apportionments are derived.

G. FUND BALANCE WITH TREASURY

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

H. INVESTMENTS

Investments are reported in Note 5 at cost, net of amortized premiums or discounts and accrued interest, and are redeemable at any time for their original purchase price. Interest rates for Treasury special securities are initially set based on average market yields for comparable Treasury issues.

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

I. ACCOUNTS RECEIVABLE

Accounts Receivable are reported in Note 6 at net realizable value, measured as the carrying amount less an allowance for loss provision or contractual adjustment for medical care, as considered necessary. Contractual adjustments are estimated for Medical Care Collection Fund receivables due from patients and insurance companies using the allowance method. The allowance is determined based on the contractual nature of the balance due and VA's historical experience with collection efforts including a rolling 12-month analysis. Uncollectible amounts are written off against the allowance for loss provision or contractual adjustment for medical care once VA determines an amount, or a portion thereof, to be uncollectible.

Overpayments to Veterans or beneficiaries are the main cause of compensation, pension and education receivables. VA is authorized by 38 U.S.C. § 5315 (amendment 2022) to charge interest and administrative costs on benefit debts similar to charges levied on other debts owed to the Federal Government. VA does not charge interest and administrative fees for such programs. In FY 2023, Congress passed legislation within Omnibus Bill § 253, which prohibits VA from charging interest and administrative costs (loan, loan guaranty or loan insurance program; a disability compensation program; a pension program and an education assistance program). This resolves the issue of not following 38 U.S.C. § 5315 and § 3717 for new debts occurring on or after December 29, 2022, for the Veterans Benefits Administration's benefit programs. However, it does not apply to debts occurring prior to December 29, 2022. In addition, in accordance with 38 U.S.C. § 1729, VA will not charge interest, administrative costs or penalties on third-party medical care receivables.

J. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

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

Reform Act, the present value of the estimated net cash flows paid by VA must be recognized as a subsidy cost in the year the loan is disbursed. Direct loans and guaranteed loans receivable are reported net of an allowance for subsidy costs at present value, and loan guarantee liabilities are reported at present value.

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

Risk factors are evaluated for each group of program loans within each year in which the loans are disbursed. Risk factors include historical loan experience, economic conditions, financial and relevant characteristics of borrowers, value of collateral to loan balance, changes in recoverable value of collateral and new events that would affect the loans' performance. A systematic methodology based on an economic model is used to project default costs by risk category. VA specifically uses a statistical model that generates time period-specific loan guarantee commitment claims rates for the Loan Guarantee Program. Actual historical experience includes actual payments, late payments, defaults, recoveries and amounts written off.

K. INVENTORY AND RELATED PROPERTY

Inventory and Related Property are comprised of inventory held for sale, operating materials and supplies, along with stockpile materials, as reported in Note 8.

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

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

Stockpile materials are strategic and critical materials held in reserve for use in national defense, conservation or national emergencies, per statutory requirements. VA stockpile materials consist of caches of pharmaceuticals and medical supplies stored at designated treatment facilities. Stockpile materials are recorded at cost and expensed when used or issued for use.

L. PROPERTY, PLANT AND EQUIPMENT

VA's PP&E consists of land, buildings, equipment, other structures, leasehold improvements, internal use software and construction work-in-process (WIP). VA has a significant construction program for medical facilities and national cemeteries. Construction project costs are recorded in construction WIP accounts. The assets are transferred to PP&E, when placed in service. Construction projects completed in multiple phases are recorded as construction WIP until the project phase is placed in service. Personal property and equipment not meeting the capitalization criteria is expensed. Buildings, equipment, other structures, leasehold improvements and software projects are capitalized if the useful life is 2 years or more. All capitalized property is depreciated on a straight-line basis and recorded at net book value as reported in Note 9. There are no restrictions on the use or convertibility of PP&E.

Asset Category	Estimated Useful Life	Capitalization Threshold
Buildings	25 to 40 years	$1 million
Equipment	5 to 20 years	$1 million
Other Structures	2 to 40 years	$1 million
Leasehold Improvements	2 to 40 years	$1 million
Internal Use Software (IUS)	Varies	$1 million

IUS costs subject to capitalization are incurred during the software development phase. The capitalized costs are amortized in accordance with the planned lifecycle established during the software planning phase. The useful life of IUS is determined on a per-project basis, no less than 2 years, and consistent with the solution's longevity as limited by legal, regulatory and/or contractual provisions.

Heritage Assets, which are part of PP&E, are properties that possess one or more of the following characteristics: historical or natural significance; cultural, educational or aesthetic importance; or significant architectural characteristics. Accounting for historic Heritage Assets allow VA to meet its responsibilities under the National Historic Preservation Act to preserve Federally owned, administered or controlled historic resources. VA's Heritage Asset inventory is reported in Note 10.

M. ADVANCES AND PREPAYMENTS

Intragovernmental advances consist primarily of payments to the U.S. Army Corps of Engineers for major construction projects. Public advances consist of payments to medical schools, grantees and beneficiaries. Advances and prepayments are reduced as services are performed.

N. ACCOUNTS PAYABLE

Accounts Payable are amounts owed by VA for goods and services received. When VA accepts title to goods, whether the goods are delivered or in transit, or incurs costs for services received, VA recognizes a liability for the unpaid amount of the goods and services. If invoices for those goods and services are not available when the financial statements are prepared, the amounts owed are estimated.

Accounts Payable primarily consist of payables to Veterans such as scheduled payments for compensation, pension and education benefits. Significant variances in Accounts Payable can occur from year to year depending on the timing of compensation and pension benefit payments.

Intragovernmental Accounts Payable consists of amounts owed to other Federal Government agencies, primarily to Department of Labor (DOL), Office of Personnel Management (OPM) and Department of Justice (DOJ). The remaining Accounts Payable consist of amounts due to the public.

O. LIFE INSURANCE BENEFITS

VA administers seven life insurance programs (the first five programs below cover Veterans who served during World Wars I and II, Korean Conflict and Vietnam War eras, and are now closed to new issues):

(1) United States Government Life Insurance (USGLI);
(2) National Service Life Insurance (NSLI);
(3) Veterans Special Life Insurance (VSLI);
(4) Veterans Reopened Insurance (VRI);
(5) Service-Disabled Veterans Insurance (S-DVI) provides insurance to Veterans who receive a service-connected disability rating;
(6) Veterans' Mortgage Life Insurance (VMLI) covers severely disabled Veterans, (VMLI is part of the Veterans' Insurance and Indemnities fund); and
(7) Veterans Affairs Life Insurance (VALife) provides insurance to Veterans who have received a service-connected disability rating.

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

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

The S-DVI and VMLI programs are designed to provide insurance coverage to disabled Veterans at standard premium rates; these programs require annual appropriations as they are not self-supporting and have no assets for investments. The S-DVI program ceased issuing new policies after December 31, 2022.

VALife was implemented on January 1, 2023. It was designed to be self-supporting, with premium collections and investment income covering claims and other disbursements.

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

The insurance reserves for USGLI, NSLI, VSLI and VRI are reported as liabilities covered by budgetary resources, while part of the S-DVI and VMLI reserves are reported as liabilities not covered by budgetary resources. As VALife is a relatively new program, some of its reserves have not been fully funded therefore are reported as liabilities not covered by budgetary resources. A downward trend in reserve liabilities for World War II and Korean War Era Veterans exists due to the declining numbers of policyholders.

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

Program	Type of Plan	Table Used	Interest Rate
USGLI	Award Installments Payable After the Certain Period	Society of Actuaries (SOA) Annuity Table a for Females	2.0%
NSLI	Permanent Plan	2001 Valuation Basic Male (VBM) Table (or cash value, if greater)	2.5%
	Modified Plan	2001 VBM Table (or cash value, if greater)	2.5%
	Paid up Additions using Dividends	2001 (VBM) Table	2.5%
	Term Policies	2001 VBM Table	2.5%
	Award Installments Payable After the Certain Period	SOA Annuity Table a for Females	2.5%
VSLI	Permanent Plan	X-18 Table	2.5%
	Paid up Additions	2001 VBM Table	3.5%
	Term Policies	2001 VBM Table	3.5%
	Award Installments Payable After the Certain Period	SOA Annuity Table a for Females	3.5%
VRI	Basic Policy	J: 2001 VBM Table (or cash value if greater)	2.5%
		JR: Varying percent of 1958 CSO Basic Table based on rating code (or cash value if greater)	2.5%
	Paid-up Additions	J: 2001 VBM Table	2.5%
		JR: 1958 CSO Basic Table	2.5%
	Award Installments Payable After the Certain Period	SOA Annuity Table a for Females	2.5%
S-DVI	Permanent Plan	1941 CSO Table	2.25%
	5-year Term Policies	Varying percent of 1941 CSO Table	2.25%
	Term Policies Renewed for Age 70 and Over	1941 CSO Table	2.25%
	Award Installments Payable After the Certain Period	SOA Annuity Table a for Females	2.25%
VMLI	Mortgage Life	450% of the 1958 CSO Basic Table	2.5%
VALife	Permanent Plan	Varying percent of 1941 CSO Table	2.5%

Policies in three of the administered programs are eligible for dividends: NSLI, VSLI and VRI. The Secretary determines annually the excess funds available for dividend payment based on an actuarial analysis of each program's claims and investment experience, compared to the mortality and interest assumptions used in that program at the end of the preceding calendar year. Dividends are declared on a calendar-year basis and paid on policy anniversary dates. Policyholders can elect to receive a cash payment; prepay premiums; repay loans; purchase paid-up insurance; or deposit the amount in an interest-bearing account. In addition, insurance dividends that are left on credit or deposited with VA accrue interest at a rate that varies by fund relative to the fund's investment portfolio earnings. For FY 2023 and FY 2022, the interest rates range from 3.50% to 2.50%.

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

Program	FY 2023 Discount Rate	FY 2022 Discount Rate
NSLI	2.5%	3.0%
VSLI	3.5%	3.5%
VRI	2.5%	3.5%

The methodology employed by VA to estimate the dividend liability reflects expected dividends to be paid by quarter using percentages that are based on the actual distribution of dividend anniversaries at the end of the prior year.

USGLI policyholders were also eligible to receive dividends. As of June 30, 2023, all USGLI policyholders had reached the program's endowment age and were paid the face amount of their respective policy, along with all dividends the policy had earned. There is no current or future dividend liability recorded for USGLI.

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

(1) Servicemembers Life Insurance Program (SGLI);

(2) Veterans Group Life Insurance Program (VGLI); and

(3) Traumatic Injury Protection Program (TSGLI).

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

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

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

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

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

P. ANNUAL LEAVE

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

Q. VETERANS BENEFITS

Veterans Benefits Liability for Compensation, Burial, Education and Veteran Readiness and Employment (VR&E) (reported in Note 13) are recognized in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government* and presented in accordance with SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates.*

COMPENSATION AND BURIAL

VA provides compensation benefits under 38 U.S.C., Part 2, Chapters 11 and 13, to Veterans who are disabled by military service-related causes. Burial benefits are provided under 38 U.S.C., Part 2, Chapter 23. These benefits are provided in recognition of a Veteran's military service. The liability for future compensation and burial payments is reported on the Balance Sheet at the present value of expected future payments and is developed on an actuarial basis. Various assumptions in the actuarial model impact the liability, such as the total number of Veterans, estimated future military separations, the number of Veterans and dependents receiving payments, discount rates, COLA, presumptive service conditions resulting in disability benefits coverage and life expectancy.

In FY 2023, VA updated the measurement procedures for actuarial benefit liability calculations for compensation and burial benefits. In FY 2022 and prior years, VA used June 30 census for the valuation and calculation of actuarial benefit liabilities. In FY 2023, VA has changed procedures to use the census population data as of the end of the prior fiscal year to perform the valuation of the actuarial benefit liabilities for the current fiscal year. This new method continues to comply with SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates.*

EDUCATION AND VR&E

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

Program Name	Authorizing Statute	Eligibility Qualifications	Benefits
Post-9/11 GI Bill (PGIB)	38 U.S.C., Chapter 33	Veterans with at least 90 days of aggregate service after September 10, 2001, individuals honorably discharged with a service-connected disability after 30 continuous days after September 10, 2001, or individuals awarded a Purple Heart on or after September 11, 2001, and honorably discharged after any amount of service. A child or surviving spouse of an active-duty service member who died in the line of duty on or after September 11, 2001 or a child or spouse to whom benefits are transferred by a qualifying Veteran or Service member.	Tuition and fees and a monthly housing allowance, yearly textbook and supplies stipend and one-time payment for relocation.
VR&E	38 U.S.C., Chapter 31	Veterans and Service members transitioning to civilian employment with service-connected disabilities and an employment handicap.	Benefits paid can include a monthly subsistence payment, tuition, books and supplies.
Survivors' & Dependents' Educational Assistance (DEA)	38 U.S.C., Chapter 35	Dependents of Veterans who are permanently and totally disabled due to a service-related condition or of Veterans who died while on active duty or as a result of a service-related condition.	Benefits are paid monthly based on course load and type of training.
Montgomery GI Bill-Active Duty (MGIB-AD)	38 U.S.C., Chapter 30	Veterans and Service members who have at least two years of active duty and have had their pay reduced by $1,200 or meet other eligibility requirements.	Benefits are paid monthly based on course load, type of training, length of service, category and college fund eligibility.

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

Estimated liabilities for the Post-9/11 GI Bill obligations in the financial statements are measured on the academic year of August 1 to July 31 and are adjusted for known material changes. Since the Post-9/11 GI Bill disenrollment assumption rates are derived on an academic year basis, the estimated liabilities are measured on an academic year basis instead of a fiscal year basis. Estimated liabilities for the VR&E, DEA and MGIB-AD are as of the September 30, 2023, based on beneficiary data as of June 30, 2023, that is adjusted for known material changes. The method used to measure the liabilities provides for consistency in the underlying relationship between discount rate and the other economic assumptions.

Periodically, a new circumstance may arise for which the existing actuarial assumptions are no longer current and updated assumptions are needed. In such circumstances, it is possible that the impact of the updated assumptions could be significant. Therefore, an actuarial experience study is necessary to evaluate the differences between assumed and actual experience over a period of time, with the goal of examining the trends related to actual experience and developing a more reasonable assumption. In these instances, VA may decide to calculate a liability for the expected impact using a best estimate calculation until an experience study can be completed. The results of these estimates, and all other projections in the actuarial valuations, are dependent on the assumptions used. Actual results may differ due to actual experience deviating from the assumptions used. Changes in valuation are treated as a change in estimate and accounted for on a prospective basis.

MEDICAL CLAIMS

The Consolidated Appropriations Act, 2021 (P.L. 116-260) authorized VA to record a community care obligation when a claim is approved for payment. VA estimates a liability to recognize the cost of services incurred but not yet paid. The projected liabilities do not include any administrative costs. Actual administrative costs incurred annually are included in the Department's Net Program Costs shown in the accompanying Statement of Net Costs.

Additional information on the Medical Claims Benefits Liability is presented in Note 13.C.

R. FEDERAL EMPLOYEE BENEFITS

WORKERS' COMPENSATION LIABILITY

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. Claims incurred for benefits for VA employees under FECA are administered by DOL and are ultimately paid by VA. The DOL pays valid claims as they occur, which are billed to VA annually.

A liability is recorded for estimated and actual future payments to be made for workers' compensation pursuant to FECA. Workers' compensation comprises two components: (1) the accrued liability, which represents claims paid by DOL on behalf of VA through the current fiscal year (reported as part of the Intragovernmental Accounts Payable), and (2) the actuarial liability for compensation cases to be paid beyond the current year, as calculated by DOL (reported in Note 13 as part of the Federal Employee and Veterans Benefits). DOL determines the actuarial liability using historical benefit payment patterns to predict future payments.

PENSION, OTHER RETIREMENT BENEFITS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

S. COMMITMENTS AND CONTINGENCIES

VA is a party in various administrative proceedings, legal actions and claims brought against it that may ultimately result in decisions, settlements or awards adverse to the Federal Government. Certain legal matters to which VA may be a named party are administered by and, in some instances, litigated by the DOJ. In some cases, the loss amount that occurs may be paid from the Judgment Fund, which is maintained by Treasury. In the opinion of VA management and legal counsel, the ultimate resolution of proceedings, actions and claims, as reported in Note 18, will not materially affect the financial position or results of VA operations.

T. APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions that may change in the future. Actual results could differ materially from the estimated amounts. The financial statements include information to assist in understanding the effect of changes in assumptions to the related information.

U. SUBSEQUENT EVENTS

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

NOTE 2. NON-ENTITY ASSETS

(dollars in millions)

As of September 30,	**2023**	**2022**
Intragovernmental		
Fund Balance with Treasury	$ 579	$ 520
Accounts Receivable	4,647	2,093
Total Intragovernmental	5,226	2,613
With the Public		
Accounts Receivable	215	103
Total Non-Entity Assets	**5,441**	**2,716**
Total Entity Assets	**135,631**	**131,597**
Total Assets	**$ 141,072**	**$ 134,313**

Non-entity assets are assets held by VA but not available to be used by VA. These relate primarily to downward re-estimates for VA's Housing Benefits Program that are due to Treasury, withheld taxes from employees (until disbursed appropriately to State and local entities) and amounts due to Treasury for collection of medical costs from Veterans.

NOTE 3. FUND BALANCE WITH TREASURY

(dollars in millions)

As of September 30,	**2023**	**2022**
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 46,131	$ 46,864
Unavailable	9,551	9,911
Obligated Balance Not Yet Disbursed	34,880	31,977
Deposit Funds	581	520
Clearing Accounts	155	116
Unavailable Receipts	329	330
Fund Balance with Treasury	**$ 91,627**	**$ 89,718**

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

NOTE 4. CASH

(dollars in millions)

As of September 30,	**2023**	**2022**
Cash		
Canteen Service	$ 2	$ 2
Agent Cashier Advance	1	1
Total Cash	**$ 3**	**$ 3**

Cash reported in the previous table is unrestricted and is held for use at the field stations. VA establishes canteen service and agent cashier disbursing funds for bona fide purposes or other emergency conditions.

NOTE 5. INVESTMENTS, NET

(dollars in millions) **As of September 30, 2023**	**Cost**	**Amortized (Premium)/ Discount**	**Interest Receivable**	**Investments, Net**
Federal Securities (Note 19)				
Special Bonds by Insurance Program				
Supervised Life Insurance Programs	$ 3,699	$ -	$ 35	$ 3,734
VRI	33	-	-	33
VALife	18	-	-	18
NSLI	832	-	6	838
USGLI	1	-	-	1
VSLI	805	-	6	811
Subtotal Special Bonds	5,388	-	47	5,435
Treasury Notes	137	2	1	140
Total	**$ 5,525**	**$ 2**	**$ 48**	**$ 5,575**
Public Securities				
Trust Certificates (Loan Guarantee)	140	-	-	140
Total	**$ 140**	**$ -**	**$ -**	**$ 140**

(dollars in millions) **As of September 30, 2022**	**Cost**	**Amortized (Premium)/ Discount**	**Interest Receivable**	**Investments, Net**
Federal Securities (Note 19)				
Special Bonds by Insurance Program				
Supervised Life Insurance Programs	$ 3,089	$ -	$ 23	$ 3,112
VRI	39	-	-	39
NSLI	1,096	-	7	1,103
USGLI	1	-	-	1
VSLI	916	-	8	924
Subtotal Special Bonds	5,141	-	38	5,179
Treasury Notes	118	(1)	1	118
Total	**$ 5,259**	**$ (1)**	**$ 39**	**$ 5,297**
Public Securities				
Trust Certificates (Loan Guarantee)	140	-	-	140
Total	**$ 140**	**$ -**	**$ -**	**$ 140**

Federal Securities, which comprise most of VA's Investments, are nonmarketable Treasury Special Bonds and Treasury Notes. Special Bonds, which mature during various years through 2038, are generally held to maturity unless needed to finance insurance claims and dividends. Amounts collected from supervised life insurance programs are invested in Special Bonds. None of the Special Bonds are reclassified as available for sale or early redemption, nor are there any permanent impairments on these investments. Treasury Notes help finance operations and events supported by the General Post Fund for the benefit of Veterans and their beneficiaries. Treasury Notes are amortized using the effective interest method, while all other Federal Securities are purchased at face value and are not amortized.

Investments for the supervised life insurance programs are also dedicated collections (see Note 19). Treasury does not set aside assets to pay future expenditures associated with Funds from

Dedicated Collections. The cash receipts collected from the public for Funds from Dedicated Collections are deposited in the Treasury and are used for general Government purposes. Treasury security investments provide authority to draw upon the Treasury for future authorized expenditures. Treasury securities held by a fund from dedicated collections are an asset of the fund and a liability of the Treasury, so they are eliminated in the consolidation of the Financial Report (FR) of the U.S. Government. When a fund from dedicated collections redeems its Treasury securities to make expenditures, Treasury will finance those expenditures in the same manner that it finances all other expenditures.

Public Securities consist of Loan Guarantee Program investments in housing trust certificates and are intended to be held to maturity. The market value of the securities does not differ from the Net Investment amount disclosed and the Public Securities do not require amortization.

NOTE 6. ACCOUNTS RECEIVABLE, NET

(dollars in millions)

As of September 30,	**2023**	**2022**
Intragovernmental Accounts Receivable	**$ 66**	**$ 26**
Public Accounts Receivable		
Medical Care	$ 4,748	$ 4,124
Contractual Adjustment and Allowance for Loss Provision	(3,016)	(2,722)
Net Medical Care	1,732	1,402
Compensation and Pension Benefits	3,020	2,384
Allowance for Loss Provision	(1,684)	(674)
Net Compensation and Pension Benefits	1,336	1,710
Education and VR&E Benefits	549	597
Allowance for Loss Provision	(278)	(405)
Net Education and VR&E Benefits	271	192
Excess Contingency Reserve Funds	375	887
Net Excess Contingency Reserve Funds	375	887
Other	702	416
Allowance for Loss Provision	(421)	(291)
Net Other	281	125
Total Accounts Receivable	9,394	8,408
Total Contractual Adjustment and Allowance for Loss Provision	(5,399)	(4,092)
Public Accounts Receivable, Net	**$ 3,995**	**$ 4,316**

Intragovernmental Accounts Receivable consist of amounts due for reimbursable agreements for services and/or goods. These amounts are considered fully collectible; therefore, no Allowance for Loss Provision is recognized.

For the VGLI insurance program, VA established a receivable in FY 2019 with Prudential to collect excess reserve totaling $3.4 billion over a period of 5 years. As of September 30, 2023, the remaining reserve balance is $375 million. The full amount of the VGLI receivable is contractually guaranteed to be received from Prudential; therefore, no Allowance for Loss Provision is recognized. Additional information on the VGLI transfers is reported in Note 17.

VA's Accounts Receivable as of September 30, 2023 and 2022, includes $383 million and $261 million, respectively, related to monitored criminal restitution orders, for which an estimate of net realizable value is currently undeterminable but considered negligible.

NOTE 7. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

VA operates the following direct loan and loan guarantee programs:

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

A. LOAN PROGRAMS

HOME LOANS

VA's Home Loan Program is the largest of the loan programs at VA. Following are the Home Loan Programs that offer loan guarantees and direct loans to Veterans, Service members and eligible surviving spouses to purchase homes and retain homeownership with favorable market terms.

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

VA operates in the broader mortgage marketplace; as a result, VA housing program is affected by overall housing market conditions. The increase in interest rates has resulted in stagnancy in the purchase and refinance of loans, as well as loan modifications.

Since the declaration of the COVID-19 pandemic, VA's Loan Guaranty Service has taken multiple steps to assist borrowers in retaining their homes. VA has a standard suite of loss mitigation tools for borrowers who are unable to make mortgage payments, which include repayment plans, special forbearance, loan modifications, compromise sale and deed-in-lieu of foreclosure. In addition, VA had special loss mitigation options to address emergent circumstances from FY 2020 to FY 2023.

INSURANCE POLICY LOANS

Veterans who are Government life insurance policyholders with permanent plan coverage or paid-up additional insurance other than VA life insurance can borrow against the cash value of their policy, creating an insurance policy direct loan. The policyholders can borrow up to the maximum of the cash surrender value of the policy or the paid-up additional insurance.

LOAN SALE GUARANTEES

VA owns REO properties as a result of VA guaranteed loans that defaulted and have gone through the foreclosure process with the mortgage servicer. VA has the option to sell the REO property to third-party REO buyers and to finance such REO sales through the origination of a direct loan. To reduce the administrative burden of servicing these loans, VA has the authority to bundle these loans and sell them to a third-party investor (Trust) pursuant to a sale agreement.

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

B. LOANS RECEIVABLE

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

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

All insurance policy loans issued since November 2, 1987 have a variable interest rate with a minimum of 5.0% and a maximum of 12.0%, and as such, interest is not accrued for loans that are guaranteed after 1988. Rate changes are tied to the 10-year constant maturity of the U.S. Treasury Securities Index and may only change on October 1, and the variable rate has been 5.0% since October 1, 2001.

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

The amount of new direct loans disbursed as of September 30, 2023 and 2022 was $51 million and $50 million, respectively.

LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY FROM DIRECT AND GUARANTEED LOANS

(dollars in millions) **As of September 30, 2023**	**Loans Receivable, Gross**	**Interest and Fees Receivable**	**Allowance for Loan Losses**	**Allowance for Subsidy Cost (Present Value)**	**Foreclosed Property**	**Value of Assets Related to Loans, Net**
Loans Obligated Prior to FY 1992 (Allowance for Loan Loss Method)						
Defaulted Guaranteed Home Loans	$ 24	$ -	$ (22)	$ -	$ -	$ 2
Loans Obligated After FY 1991 (Present Value Method)						
Direct Home Loans	303	12	-	54	4	373
Defaulted Guaranteed Home Loans	1,871	-	-	-	556	2,427
Direct Insurance Policy Loans	152	4	-	-	-	156
Total Loans Receivable	**$ 2,350**	**$ 16**	**$ (22)**	**$ 54**	**$ 560**	**$ 2,958**

(dollars in millions) **As of September 30, 2022**	**Loans Receivable, Gross**	**Interest and Fees Receivable**	**Allowance for Loan Losses**	**Allowance for Subsidy Cost (Present Value)**	**Foreclosed Property**	**Value of Assets Related to Loans, Net**
Loans Obligated Prior to FY 1992 (Allowance for Loan Loss Method)						
Defaulted Guaranteed Home Loans	$ 26	$ -	$ (22)	$ -	$ -	$ 4
Loans Obligated After FY 1991 (Present Value Method)						
Direct Home Loans*	752	14	-	69	2	837
Defaulted Guaranteed Home Loans**	4	-	-	-	332	336
Direct Insurance Policy Loans	153	4	-	-	-	157
Total Loans Receivable	**$ 935**	**$ 18**	**$ (22)**	**$ 69**	**$ 334**	**$ 1,334**

*In FY 2022, the Direct Home Loans—Loans Receivable, Gross was $311 million, rather than $752 million.

**In FY 2022, Defaulted Guaranteed Home Loans—Loans Receivable, Gross was $445 million, rather than $4 million.

The above corrections in FY 2022 are the result of claim payments that were converted to loans receivable (which represent the balance from partially Defaulted Guaranteed Home Loans) due to the Partial Claims and COVID-19 Refund Modification programs.

RECONCILIATION OF LOANS RECEIVABLE, NET

(dollars in millions)

As of September 30,	2023	2022
Beginning balance of loans receivable, net	$ 1,334	$ 817
Add loan disbursements	51	50
Less principal and interest payments received	(65)	(111)
Add claim payments converted to loans receivable	1,426	441
Add foreclosed property acquired	226	133
Less subsidy expense	(36)	(16)
Add downward reestimates	13	9
Other increase/(decrease) to the subsidy allowance	5	4
Allowance for loan and interest loss adjustments	-	4
Other non-cash reconciling items	4	3
Ending balance of loans receivable, net	**$ 2,958**	**$ 1,334**

FORECLOSED PROPERTY

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

Potential volatility in the U.S. housing market could change the estimates and assumptions used for these calculations, which may impact the amounts reported and disclosed herein. There has been no change in the methodology for calculating the amount recorded for foreclosed property and there are no restrictions on the use or disposition of foreclosed property for the periods ended September 30, 2023 and 2022.

As of September 30, 2023 and 2022, the number of residential properties in VA's inventory that have foreclosed is 3,152 and 1,998, respectively. The average holding period from the date properties are conveyed to VA until the date properties are sold was approximately 4 months for FY 2023, and 3 months for FY 2022. The number of properties for which foreclosure proceedings are in process is 27,345 and 23,370 as of September 30, 2023 and 2022, respectively.

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

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

SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES

(dollars in millions)

As of September 30,	**2023**	**2022**
Allowance balance as of October 1,	$ (69)	$ (69)
Subsidy expense for direct loans disbursed during the reporting years	1	(3)
Adjustments:		
Fees Received	-	1
Foreclosed property acquired	(6)	(6)
New Loans	3	2
Subsidy allowance amortization	(5)	(4)
Change in re-estimate approved by OMB	(13)	(9)
Total Adjustments	(21)	(16)
Ending balance of the subsidy cost allowance before re-estimates	(89)	(88)
Total subsidy re-estimates	35	19
Ending balance of the subsidy cost allowance	**$ (54)**	**$ (69)**

D. SUBSIDY EXPENSE

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

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

Direct and Guaranteed Loans Subsidy Rates	**Defaults, net of recoveries**	**Interest**	**Fees**	**All Other**	**Total Subsidy Rate**
Veterans Housing Direct Acquired Loans	12.17%	-4.91%	0.00%	0.36%	7.62%
Veterans Housing Direct Vendee Loans	0.20%	-26.05%	-2.24%	1.81%	-26.29%
Native American Housing Loans	0.00%	-23.47%	-0.50%	6.81%	-17.15%
Housing Guaranteed Loans	0.78%	0.00%	-0.70%	0.00%	0.08%

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

(dollars in millions) For the period ended September 30, 2023	Direct Home Loans	Guaranteed Home Loans	Loan Sale Guarantees	Total Subsidy Expense
Interest Differential	$ (1)	$ -	$ -	$ (1)
Defaults	2	1,110	-	1,112
Fees	-	(998)	-	(998)
Interest Rate Reestimates	23	(379)	-	(356)
Technical Reestimates	12	(4,247)	-	(4,235)
Total Subsidy Expense	**$ 36**	**$ (4,514)**	$ -	**$ (4,478)**

(dollars in millions) For the period ended September 30, 2022	Direct Home Loans	Guaranteed Home Loans	Loan Sale Guarantees	Total Subsidy Expense
Interest Differential	$ (3)	$ -	$ -	$ (3)
Defaults	-	1,652	-	1,652
Fees	-	(1,842)	-	(1,842)
Interest Rate Reestimates	16	(183)	-	(167)
Technical Reestimates	3	(1,861)	(1)	(1,859)
Total Subsidy Expense	**$ 16**	**$ (2,234)**	$ (1)	**$ (2,219)**

E. OUTSTANDING LOAN GUARANTEES

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

GUARANTEED LOANS OUTSTANDING

(dollars in millions) As of September 30, 2023	Outstanding Principal of Guaranteed Loans Made by Financial Institutions, Face Value	Amount of Outstanding Principal Guaranteed by VA
Post-FY 1991		
Home Loan Guarantees	$ 994,678	$ 250,141
Loan Sale Guarantees	-	225
Total	**$ 994,678**	**$ 250,366**

(dollars in millions) As of September 30, 2022	Outstanding Principal of Guaranteed Loans Made by Financial Institutions, Face Value	Amount of Outstanding Principal Guaranteed by VA
Post-FY 1991		
Home Loan Guarantees	$ 940,907	$ 237,300
Loan Sale Guarantees	-	275
Total	**$ 940,907**	**$ 237,575**

NEW GUARANTEED LOANS DISBURSED

(dollars in millions) **For the period ended September 30, 2023**	**Principal of Guaranteed Loans Made by Financial Institutions, Face Value**	**Amount of Outstanding Principal Guaranteed by VA**	**Number of Loans Disbursed (in standard units)**
New Guaranteed Home Loans	$ 132,198	$ 32,812	369,106

(dollars in millions) **For the period ended September 30, 2022**	**Principal of Guaranteed Loans Made by Financial Institutions, Face Value**	**Amount of Outstanding Principal Guaranteed by VA**	**Number of Loans Disbursed (in standard units)**
New Guaranteed Home Loans	$ 227,971	$ 56,830	665,469

F. LOAN GUARANTEE LIABILITIES

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

In FY 2021, VA established the COVID-19 Veterans Assistance Partial Claim Payment program (COVID-VAPCP), a temporary program to assist Veterans in resuming regular loan payments on a VA-guaranteed loan after exiting a forbearance period due to hardships directly or indirectly related to COVID-19. In addition, VA established the COVID-19 Refund Modification program for borrowers who have not been able to recover from the pandemic to the same financial income level prior to the pandemic. As a result of using updated programmatic data related to these loss mitigating programs, including updated predictions for loan guarantee claim spending and actual model claim spending and collection data in FY 2023, the subsidy expense reestimates decreased from $2.0 billion in FY 2022 to $4.6 billion in FY 2023.

(dollars in millions) **As of September 30, 2023**	**Home Loans Post-FY 1991**	**Loan Sales Post-FY 1991**	**Home Loans Pre-FY 1992**	**Total**
Loan guarantee liabilities as of October 1, 2022	$ 9,633	$ 14	$ 285	$ 9,932
Less claim payments to lenders	(1,471)	1	-	(1,470)
Add fees received	1,459	-	-	1,459
Add foreclosed property and loans acquired	1,445	-	(1)	1,444
Less subsidy expense	(4,626)	-	-	(4,626)
Add negative subsidy payments	112	-	-	112
Add upward reestimate	620	1	-	621
Add downward reestimates	1,513	1	-	1,514
Other	192	-	(3)	189
Ending balance of the loan guarantee liabilities	**$ 8,877**	**$ 17**	**$ 281**	**$ 9,175**

(dollars in millions) **As of September 30, 2022**	**Home Loans Post-FY 1991**	**Loan Sales Post-FY 1991**	**Home Loans Pre-FY 1992**	**Total**
Loan guarantee liabilities as of October 1, 2021	$ 10,569	$ 16	$ 285	$10,870
Less claim payments to lenders	(705)	(2)	-	(707)
Add fees received	2,719	-	-	2,719
Add foreclosed property and loans acquired	287	-	-	287
Less subsidy expense	(2,044)	(1)	-	(2,045)
Less negative subsidy payments	(190)	-	-	(190)
Less upward reestimate	(1,001)	-	-	(1,001)
Less downward reestimates	(162)	-	-	(162)
Other	160	1	-	161
Ending balance of the loan guarantee liabilities	**$ 9,633**	**$ 14**	**$ 285**	**$ 9,932**

G. LOAN GUARANTEE MODIFICATIONS

The subsidy cost of a modification is the difference between the net present value of the remaining estimated cash flows before and after the modification (that is, post-modification liability minus pre-modification liability), and the change in carrying amount is recognized as a gain or a loss. A reduction in the loan guarantee liability due to a modification is a savings to VA, which results in a gain being recognized; whereas, an increase reflects increased costs to VA, which results in a loss being recognized. The carrying amount of the loan guarantee liability reflects the post-modification liability balance.

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

H. ADMINISTRATIVE EXPENSE

The administrative expense for direct and guaranteed loans for the periods ended September 30, 2023 and 2022 are $250 million and $230 million, respectively.

NOTE 8. INVENTORY

(dollars in millions)

As of September 30,	2023	2022
Inventory Held for Sale	$ 18	$ 17
Operating Materials and Supplies	39	65
Stockpile Materials	86	91
Total Inventory and Related Property	**$ 143**	**$ 173**

For additional details of Inventory and Related Property, refer to Note 1.K.

NOTE 9. PROPERTY, PLANT AND EQUIPMENT, NET

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

(dollars in millions)

As of September 30, 2023	Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land	$ 559	$ -	$ 559
Buildings	42,911	(24,884)	18,027
Equipment	3,516	(2,418)	1,098
Other Structures	5,638	(3,293)	2,345
Leasehold Improvements*	1,491	(566)	925
Internal Use Software	4,856	(2,646)	2,210
Construction Work in Progress	7,305	-	7,305
Total Property, Plant and Equipment	**$ 66,276**	**$ (33,807)**	**$ 32,469**

(dollars in millions) As of September 30, 2022	Cost		Accumulated Depreciation/ Amortization		Net Book Value	
Land	$	555	$	-	$	555
Buildings		41,745		(23,690)		18,055
Equipment		3,547		(2,430)		1,117
Other Structures		5,402		(3,112)		2,290
Leasehold Improvements*		1,325		(491)		834
Internal Use Software		4,928		(2,843)		2,085
Construction Work in Progress		5,889		-		5,889
Total Property, Plant and Equipment	**$**	**63,391**	**$**	**(32,566)**	**$**	**30,825**

(dollars in millions)	2023		2022	
Property, Plant and Equipment Balance as of October 1,	$	30,825	$	29,449
Capitalized acquisitions		3,710		3,520
Dispositions		(234)		(317)
Depreciation expense		(1,853)		(1,853)
Donations		16		8
Other		5		18
Balance as of September 30	**$**	**32,469**	**$**	**30,825**

NOTE 10. HERITAGE ASSETS

Heritage Assets possess significant educational, cultural or natural characteristics. VA classifies its Heritage Assets as:

- Art collections (including artwork, archives, historic medical equipment, medals and awards, furniture, archaeological materials and photographs);
- Archaeological sites;
- Buildings (including historic hospitals, quarters, lodges, warehouses, laboratories and chapels, but excluding multi-use buildings);
- Monuments; and
- Non-buildings (including flag poles, structures, rostrums, gates and historic walls).

As of September 30, 2023, VA has 987 multi-use Heritage Assets (multi-use buildings and national cemeteries) that are included in PP&E. Multi-use Heritage Assets have both operating and historic characteristics and are used predominantly in Government operations such as administration, engineering and maintenance.

(in units) As of September 30, 2023	Beginning Balance	Increases	Decreases	Ending Balance
Archaeological Sites	10	-	-	10
Art Collections	39	-	-	39
Buildings	541	100	(78)	563
Monuments	1,415	-	(4)	1,411
Non-Buildings	1,051	-	(5)	1,046
Multi-Use Buildings in PP&E	1,147	44	(204)	987
Soldiers' Lots and Monument Sites	34	-	-	34
National Cemeteries	156	-	(1)	155
Total Heritage Assets in Units	**4,393**	**144**	**(292)**	**4,245**

(in units) **As of September 30, 2022**	Beginning Balance	Increases	Decreases	Ending Balance
Archaeological Sites	10	-	-	10
Art Collections	39	-	-	39
Buildings	548	7	(14)	541
Monuments	1,414	12	(11)	1,415
Non-Buildings	1,047	7	(3)	1,051
Multi-Use Buildings in PP&E	1,152	3	(8)	1,147
Soldiers' Lots and Monument Sites	34	-	-	34
National Cemeteries	155	1	-	156
Total Heritage Assets in Units	**4,399**	**30**	**(36)**	**4,393**

NOTE 11. DEBT

(dollars in millions)	Debt to the Treasury	Debt to the Federal Financing Bank	Total Other Debt
Other Intragovernmental Debt, October 1, 2021	$ 559	$ 4	$ 563
2022 Net Borrowing	(3)	-	(3)
Other Intragovernmental Debt, September 30, 2022	**$ 556**	**$ 4**	**$ 560**
2023 Net Borrowing	8	-	8
2023 Net Interest Payable	-	-	-
Other Intragovernmental Debt, September 30, 2023	**$ 564**	**$ 4**	**$ 568**

Debt to Treasury consists of amounts borrowed for the Direct Loan Program. Debt to the Federal Financing Bank consists of amounts borrowed for the Loan Guarantee Programs. Under both debts, VA has a 30-year term from the date of issuance with the exception of the Vocational Rehabilitation Loan Program which has a 2-year term from the date of issuance. Additionally, principal repayment is expected within 10 months from the date of issuance of debt.

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

NOTE 12. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

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

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

(dollars in millions)

As of September 30,	**2023**	**2022**
Intragovernmental		
Workers Compensation (FECA)	$ 408	$ 403
Future Funded Expense - Contract Dispute Act	119	114
Total Intragovernmental	527	517
With the Public		
Veterans Benefits Payable (Note 13)	7,298,107	6,139,748
Federal Employee Benefits Payable	5,714	5,355
Environmental and Disposal Liabilities (Note 14)	974	949
Insurance (Note 17)	1,688	1,701
Other (Note 15)	1,016	1,058
Total Liabilities Not Covered By Budgetary Resources	7,308,026	6,149,328
Total Liabilities Covered By Budgetary Resources	22,135	21,039
Total Liabilities Not Requiring Budgetary Resources	1,370	1,329
Total Liabilities	**$ 7,331,531**	**$ 6,171,696**

NOTE 13. FEDERAL EMPLOYEE AND VETERANS' BENEFITS LIABILITIES

The following table provides a breakdown of the FEVB Liabilities reported on the Balance Sheet.

(dollars in millions)

As of September 30,	**2023**	**2022**
Compensation	$ 7,084,000	$ 5,953,400
Education and VR&E	197,547	169,918
Burial	11,800	11,700
Medical Claims Benefits	4,760	4,730
Accrued Annual Leave	3,421	3,142
Workers' Compensation (FECA)	2,314	2,243
Total Federal Employee and Veterans' Benefits Liabilities	**$ 7,303,842**	**$ 6,145,133**

A. COMPENSATION AND BURIAL

VA provides compensation benefits to the following individuals:

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

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

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

VA also provides eligible wartime Veterans and/or their dependents with pension benefits if the Veteran died, is over age 65 or is totally disabled, based on annual eligibility reviews. Unlike a traditional pension program, VA pension is only available to wartime Veterans who meet a financial means test. As such, only the amounts currently due and payable are reflected as a liability on the Balance Sheet, which is consistent with Federal accounting standards. No actuarial liability is recognized for the net present value of projected future benefit payments.

ASSUMPTION USED TO CALCULATE THE VETERANS' BENEFITS LIABILITY – COMPENSATION AND BURIAL

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

1) Beneficiaries, including Veterans and survivors, currently receiving benefit payments;
2) Current Veterans and survivors, who will become future beneficiaries of the Compensation Program; and
3) An estimate of Service members (and their survivors) who gained eligibility as of the valuation date and will become future beneficiaries.

FASAB SFFAS No. 33 requires the use of a yield curve based on marketable U.S. Treasury securities to determine the discount rates used to calculate actuarial liabilities for Federal financial statements. Historical experience is the basis for expectations on future trends in marketable U.S. Treasury securities. Effective for periods beginning after September 30, 2009, SFFAS 33 requires a minimum of five periodic rates for the yield curve input and consistency in the number of historical rates used from period to period and permits the use of a single average discount rate if the resulting present value is not materially different from what would be obtained using the yield curve.

The valuation discount rate is a schedule of interest rates, comprised of the annual yield that is equivalent to the spot rate for each maturity at 6-month intervals starting with 6 months through to the end of the projection horizon. The spot rates used are the average of the Treasury Nominal Coupon Issue Treasury Yield Curve Spot Rates that are promulgated two quarters prior to the valuation date. The spot rates are produced by Treasury's Office of Economic Policy.

The single-equivalent discount rates were computed based on the average of the last 10 years of quarterly zero-coupon Treasury spot rates. The single-equivalent discount rate increased from 2.82% to 2.87% as of September 30, 2023, which decreased the liability by $89.9 billion.

The COLA rate assumption for FY 2024 changed from 2.40% (in the prior year's estimate) to 3.51% in the FY 2023 model, resulting in a $70.7 billion liability increase. The long-term COLA rate assumption, based on the intermediate assumptions published in the Social Security Administration's most recent Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, did not change from the prior year's assumption.

For the Periods Ended September 30,	2023	2022
Discount Rate, Single Equivalent	2.87%	2.82%
COLA Rate, Year 1	3.51%	8.59%
Long-Term COLA Rate	2.40%	2.40%

The single equivalent COLA rate disclosed in FY 2022 AFR was 2.67%. This rate is no longer applicable as the long-term COLA rate used in the liability estimate is a flat rate instead of a yield curve.

The actuarial liability for compensation and burial benefits as of September 30, 2023, was $7.1 trillion, which represents an increase of $1.1 trillion from the September 30, 2022, liability of $6.0 trillion. This increase was primarily the result of updates to "other assumptions" and "prior service costs from plan amendments," which together increased the liability by $1.0 trillion.

In FY 2023, VA conducted in-depth experience studies and refined several assumptions and methods within the compensation and burial model. This effort led to an overall increase of $568.6 billion in the compensation and burial liability as of September 30, 2023.

- An experience study was performed in FY 2023 to update the service-connected disability ratings change assumption using data from FY 2013 through FY 2022. The study was previously conducted in FY 2020 using data from FY 2010 to FY 2019. This assumption projects future changes in Veterans' degree of disability rating percentages. The analysis revealed increased migration to higher disability ratings over time. This change resulted in an increase of $642.1 billion in the compensation and burial liability.
- The survivor usage assumption (the probability of generating new survivor cases), the age distribution of the new survivor cases and the duration of survivor benefits were updated. These updates were based on data from FY 2018 to FY 2022, which revealed a downward trend in new survivor cases and an aging survivor population. These changes resulted in a liability decrease of $69.6 billion in the compensation liability.
- An assumption review was conducted for the retroactive benefit payment adjustment which reflects benefits that would have been paid to Veterans when they apply for them but had not received payments until their claims were approved and processed. This study considered 12 months of recurring payments and non-recuring payments that align with the current fiscal year period. The multi-year select-and-ultimate method used in prior years was replaced with a 3-year average load assumption. This change resulted in an increase of $17.0 billion in the compensation liability.

- Based on industry consensus regarding the long-term health impacts of the COVID-19 pandemic on mortality improvement, VA paused its mortality improvement assumption for four years and resumes application for FY 2024 and later. In addition, the SSA mortality assumption for survivors and dependents was updated using the SSA 2023 mortality table. The combined impact of these two changes resulted in a decrease of $60.6 billion in the compensation liability.
- A method change was implemented for the first projection year COLA rate assumption. The FY 2022 year-end valuation was based on the percentage increase in the Consumer Price Index for Urban Wage Earner and Clerical Workers (CPI-W) from the fourth fiscal quarter of the prior year (July, August and September) to the fourth fiscal quarter of the current year (with estimated CPI-W for September). For the FY 2023 year-end valuation, the assumption was based on the percentage increase in the CPI-W from the third fiscal quarter of the prior year (April, May and June) to the third fiscal quarter of the current year. This update increased the compensation and burial liability by $39.7 billion.

On August 10, 2022, the PACT Act, P.L. 117-168, was signed into law expanding and extending eligibility for VA benefits and health care for Veterans with toxic exposures and Veterans of the Vietnam, Gulf War and Post-9/11 eras.

VA reviewed the requirements for estimating the liability impact of PACT Act in accordance with SFFAS No 5, *Accounting for Liabilities of the Federal Government.* The PACT Act is the most significant expansion of benefits for toxic exposed Veterans in more than 30 years. Provisions of the PACT Act that directly impact compensation benefits include the addition of over 20 presumptive medical conditions from exposures to burn pits and other toxins. VA has also determined that the impact on the compensation liability is measurable using disability compensation claims data to establish an estimated liability impact of the PACT Act.

In FY 2023, VA assessed the impact of the PACT Act and applied certain updates to the disability compensation model. VA used monthly data detailing Veterans' compensation claims completed from FY 2020 through August 2023. Each claim was categorized as either a PACT Act claim or a non-PACT Act claim. For the 8 months from January 2023 through August 2023, the average percent of new PACT Act claims relative to all other claims was approximately 12%. Adjustments were made to reflect any differences among PACT Act claimants in their age, disability severity and disability approval rates. Consequently, a valuation assumption that reflects expected emerging experience and long-term assumptions was applied to the projected benefit payments (which span 100 years) as follows: 11% for FY 2024, 9% for FY 2025, and 7% for FY 2026 and thereafter. These modifications led to an increase of $468.7 billion as prior service costs from plan amendments to the disability compensation liability as of September 30, 2023.

As explained in the "Other Relevant Considerations in the Estimation of the Compensation, Burial, Education and VR&E liability" section, actuarial practice commonly involves the estimation of uncertain events and cash flows that will occur for many years after the valuation date. Normally, assumptions are updated after performing experience studies that use several years of data. However, the PACT Act was treated as a plan amendment, and an update to existing model assumptions is not possible with relatively limited data. Instead, the adjustment described above was developed using components of the disability compensation model, as it incorporated age and disability ratings. VA will continue to analyze the PACT Act claims in relation to all disability compensation claims to refine the PACT Act estimate.

B. EDUCATION AND VR&E BENEFIT LIABILITIES

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

(dollars in millions)

As of September 30,	2023	2022
Post-9/11	$ 116,250	$ 108,349
VR&E	20,932	19,935
DEA	59,755	40,851
MGIB-AD	610	783
Total	**$ 197,547**	**$ 169,918**

ASSUMPTIONS USED TO CALCULATE EDUCATION AND VR&E BENEFIT LIABILITIES

To calculate the present value of the education and VR&E benefit liabilities, the following discount rates are based on the average of the last 10 years of quarterly zero-coupon Treasury spot rates. The number of projection years in each model are 30 years for Post-9/11, 16 years for VR&E, 52 years for DEA and 20 years for MGIB-AD.

	2023			
	Post-9/11	**VR&E**	**DEA**	**MGIB-AD**
Discount Rate, Single Equivalent*	2.51%	2.08%	2.63%	1.71%
	2022			
	Post-9/11	**VR&E**	**DEA**	**MGIB-AD**
Discount Rate for New Enrollees**	2.38%	2.10%	2.54%	-
Discount Rate for Existing Enrollees	2.44%	1.32%	1.17%	1.47%

* Beginning in FY 2023, only the aggregate single equivalent discount rate will be disclosed. For comparability purposes, the discount rates as of September 30, 2023, for new enrollees were 2.45%, 2.14%, 2.65% and N/A, and for existing enrollees were 2.56%, 1.54%, 1.49% and 1.71% for Post-9/11, VR&E, DEA and MGIB-AD programs, respectively.

** VA does not have a separate model for future new enrollees for the MGIB-AD since the program will soon sunset. A short-term assumption is included in the current model to account for limited possible new enrollees until the program is closed to new entrants in FY 2030.

VA estimates education and VR&E benefit liabilities for Service members, Veterans and survivors on an actuarial basis. Like the compensation and burial model, the education and VR&E models use data that is specific to the population, which is not available from outside sources (for example, outside of the Federal government). These models are updated annually to reflect updated assumptions and data.

The actuarial liability for education and VR&E as of September 30, 2023, was $197.5 billion, which represents an increase of $27.6 billion from the September 30, 2022, liability of $169.9 billion. Of the $27.6 billion change, $2.1 billion was attributed to PACT Act. Consistent with the PACT Act adjustment for the disability compensation model and the estimation of uncertain events, the liability adjustment was applied to the VR&E and DEA projected benefit payments. These adjustments led to a total increase of prior service costs from plan amendments of $2.1

billion: an increase of $0.5 billion to the VR&E liability and an increase of $1.6 billion to the DEA liability.

In FY 2023, VA performed updates to Post-9/11GI Bill, VR&E and DEA liability models. Following are descriptions of significant changes to these models:

- The actuarial liability for Post-9/11 GI Bill benefits as of September 30, 2023, was $116.3 billion, which represents an increase of $7.9 billion from the September 30, 2022, liability of $108.4 billion. This increase was primarily the result of a higher amount of unused benefit entitlement than expected.
- The actuarial liability for VR&E benefits as of September 30, 2023, was $20.9 billion, which represents an increase of $1.0 billion from the September 30, 2022, liability of $19.9 billion. This increase was primarily the result of greater than expected increase in eligible beneficiaries partially offset by a change in payment related assumptions.
- The actuarial liability for DEA benefits as of September 30, 2023, was $59.8 billion, which represents an increase of $18.9 billion from the September 30, 2022, liability of $40.9 billion. This increase was primarily the result of the compensation disability ratings change assumption, as discussed above.
- Consistent with the compensation and burial model regarding the long-term health impacts of the COVID-19 pandemic on mortality improvement, VA paused their mortality improvement assumption for four years and resumes application for FY 2024 and later. This change led to a total decrease in liability of $212 million which is included in the "changes in other assumptions" line of the Reconciliation of Veterans Compensation, Burial, Education and VR&E Actuarial Liabilities table.

OTHER RELEVANT CONSIDERATIONS IN THE ESTIMATION OF THE COMPENSATION, BURIAL, EDUCATION AND VR&E LIABILITY

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

When computing the liability, VA's actuaries make assumptions about the future. There are two primary types of assumptions: economic assumptions that are used for modeling how time value of money affects the net cost estimations and demographic assumptions that are used for modeling how participants' behaviors affect the amount and timing of benefits paid. As previously noted, key economic assumptions include the interest rate and COLA, while major demographic assumptions include mortality rates, expected amount of benefit use and benefit remaining (where applicable).

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

The estimates are based on multiple assumptions that are developed through analyses of experience studies. These assumptions are updated and prioritized based on what VA has determined to be most critical to ensuring the models reflect the best estimate of present value of future cash flows. Priorities are subject to deviations as other factors affecting benefit programs may emerge requiring a re-prioritization of tasks.

The compensation, burial, education and VR&E models are updated annually to reflect updated assumptions and data. VA considers these estimates to be reasonably stated as of September 30, 2023.

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

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

(dollars in millions) **As of September 30, 2022**	**Compensation**	**Burial**	**Education and VR&E**	**Total**
Liability at October 1, 2021	$ 4,291,700	$ 10,600	$ 151,177	$ 4,453,477
Expense for the period:				
Interest on the Liability Balance*	126,600	300	3,665	130,565
Actuarial (Gain)/Loss:				
Changes in Experience (Veterans Counts, Status)*	144,600	(400)	7,399	151,599
Changes in Assumptions:				
Changes in Discount Rate Assumption	139,000	300	2,007	141,307
Changes in COLA Rate Assumption	309,100	600	1,398	311,098
Change in Other Assumptions	1,057,100	600	16,348	1,074,048
Net (Gain)/Loss from Changes in Assumptions	1,505,200	1,500	19,753	1,526,453
Prior Service Costs from Plan Amendments*	7,000	-	-	7,000
Total Expense	1,783,400	1,400	30,817	1,815,617
Less Amounts Paid*	(121,700)	(300)	(12,076)	(134,076)
Net Change in Actuarial Liability	1,661,700	1,100	18,741	1,681,541
Liability at September 30, 2022	**$ 5,953,400**	**$ 11,700**	**$ 169,918**	**$ 6,135,018**

(dollars in millions) **As of September 30, 2023**	**Compensation**	**Burial**	**Education and VR&E**	**Total**
Liability at October 1, 2022	$ 5,953,400	$ 11,700	$ 169,918	$ 6,135,018
Expense for the period:				
Interest on the Liability Balance**	167,900	300	3,986	172,186
Actuarial (Gain)/Loss:				
Changes in Experience (Veterans Counts, Status)**	86,300	(100)	24,033	110,233
Changes in Assumptions:				
Changes in Discount Rate Assumption	(89,700)	(200)	(2,460)	(92,360)
Changes in COLA Rate Assumption	70,500	200	543	71,243
Change in Other Assumptions	568,400	200	11,290	579,890
Net (Gain)/Loss from Changes in Assumptions	549,200	200	9,373	558,773
Prior Service Costs from Plan Amendments**	468,700	-	2,096	470,796
Total Expense	1,272,100	400	39,488	1,311,988
Less Amounts Paid**	(141,500)	(300)	(11,859)	(153,659)
Net Change in Actuarial Liability	1,130,600	100	27,629	1,158,329
Liability at September 30, 2023	**$ 7,084,000**	**$ 11,800**	**$ 197,547**	**$ 7,293,347**

*The sum of these changes represents Veterans' benefits actuarial cost, excluding change in actuarial assumptions on the Statement of Net Cost for FY 2022.

**The sum of these changes represents Veterans' benefits actuarial cost, excluding change in actuarial assumptions on the Statement of Net Cost for FY 2023.

C. VETERANS' BENEFITS – MEDICAL CLAIMS

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

INCURRED BUT NOT REPORTED MODEL FOR MEDICAL CLAIMS BENEFITS

To recognize a liability for services incurred but not yet paid, VA uses a standard actuarial model, which provides a framework for estimating complete versus incomplete incurred claims based on prior period claim lag patterns. The actuarial liability is developed using monthly claims paid by program and service date, eligibility and enrollment data.

D. FEDERAL EMPLOYEE BENEFITS

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

(dollars in millions)

For the Periods Ended September 30,	**2023**	**2022**
Civil Service Retirement System	$ 1,109	$ 49
Federal Employees Health Benefits	3,128	2,750
Federal Employees Group Life Insurance	8	7
Total Imputed Expenses-Employee Benefits	**$ 4,245**	**$ 2,806**

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

VA has unfunded Environmental and Disposal Liabilities in the amount of $974 million and $949 million as of September 30, 2023 and 2022, respectively. The majority of VA's unfunded Environmental and Disposal Liabilities involve asbestos removal, lead abatement, replacement of underground oil and gasoline tanks, decommissioning of waste incinerators and decontamination of equipment prior to disposal. Included in the total unfunded Environmental and Disposal Liabilities are the liabilities for the removal of friable asbestos of $190 million and $156 million, for September 30, 2023 and 2022, respectively; and the removal of nonfriable asbestos of $498 million and $525 million, for September 30, 2023 and 2022, respectively.

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

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

NOTE 15. OTHER LIABILITIES

Other Liabilities are liabilities not reported elsewhere in the Balance Sheet. They consist of funded and unfunded intragovernmental and public liabilities. In general, funded liabilities are current liabilities, while unfunded liabilities represent future financial commitments that are not funded and considered noncurrent.

(dollars in millions)

As of September 30,		**2023**		**2022**
Intragovernmental				
Other liabilities (without Reciprocals)	$	154	$	56
Liability to the General Fund of the U.S. Government and Other Non-Entity Assets		4,861		2,196
Other current liabilities- Benefit contribution payable		650		615
Other Liabilities		127		123
Total Intragovernmental		5,792		2,990
Other Than Intragovernmental				
Withholding Payable		3		2
Other Liabilities without Related Budgetary Obligations		378		262
Other Liabilities with Related Budgetary Obligations		246		251
Accrued Funded Payroll and Leave*		1,129		929
Contingent Liabilities		638		796
Contract Holdbacks		17		18
Liability for Clearing Accounts		84		116
Liability for Non-Fiduciary Deposits Funds and Undeposited		581		519
Total Other Than Intragovernmental		3,076		2,893
Total Other Liabilities	**$**	**8,868**	**$**	**5,883**

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

NOTE 16. LEASES

Operating leases consist of equipment and real property leases that are funded annually and expensed as incurred. Operating equipment leases generally consist of medical and office equipment with terms of 5 years or less and have equal payments over the lease term.

Operating real property leases generally consist of Veterans medical facilities and clinics, regional and district benefits offices and administrative facilities. For the period ended September 30, 2023, VA had 1,943 real property leases in effect consisting of approximately 30 million square feet and base annual minimum rental obligations of approximately $1.107 billion. Of the operating real property leases, VHA accounts for 87%, VBA accounts for 8% and Indirect Administrative Program offices account for 5%. Real property leases generally have lease terms ranging from 1 to 55 years. Certain leases contain renewal, termination and cancellation options. Approximately 84% of VA leases are executed directly with third-party commercial property owners (public third-party direct leases) with the remaining balance of leases executed by the General Services Administration (GSA) known as Occupancy Agreements (OAs) with VA.

VA executes OAs with GSA, which charges rental rates for space that approximates commercial rental rates for similar properties. The terms of GSA OAs vary according to whether the underlying assets are owned directly by the Federal Government or rented by GSA from third-party commercial property owners. The majority of GSA OAs are cancelable with varying periods of notice required (generally 4 to 6 months). Cancellation requires a payment of all unamortized tenant improvements and rent concessions not yet earned. GSA OAs also may be non-cancelable, where VA would be financially responsible for rent payments on vacated space until the expiration of the OA, the termination of the OA permitted under the lease terms, or until the occupancy by a replacement tenant covers the total rent obligation of VA.

VA normally occupies leased real property for the entire initial lease term without exercising cancellation and termination options. As a result, the operating lease commitment table that follows includes real property leases over the non-cancelable initial lease term.

VA's operating lease rental costs for real property rentals for the period ended September 30, 2023 and 2022 are $1.193 billion and $1.106 billion, respectively.

The following table represents VA's future payments for non-cancelable operating leases.

(dollars in millions) **For the Years Ending:**	**GSA OAs**	**Third Party Direct Leases**	**Total Real Property**
2024	$ 23	$ 664	$ 687
2025	182	624	806
2026	164	593	757
2027	121	573	694
2028	90	556	646
2029 and Thereafter (in total)	400	4,139	4,539
Total Future Lease Payments	**$ 980**	**$ 7,149**	**$ 8,129**

VA's operating lease rental costs for equipment rentals for the period ended September 30, 2023 and 2022 are $185 million and $186 million, respectively. Future non-cancelable equipment operating lease commitments are not material.

VA is a lessor of certain underutilized real estate properties within the Department under its EUL program authorized by Congress. Additional information on EULs is reported in Note 24.A.

The EUL program consists of 79 operational leases of land and/or buildings to State and local governments and the private sector. VA also has three projects with signed leases that are not yet operational as buildings are either under construction or awaiting construction. NCA's leasing of excess land and buildings at cemeteries are more fully described in Note 20.B. The rental income recognized from the EUL program is $2 million for each of the periods ended September 30, 2023 and 2022. The future rental income to be recognized over the next 5 years and thereafter approximates $70 million.

NOTE 17. LIFE INSURANCE BENEFITS

VA administers seven life insurance programs: USGLI, NSLI, VSLI, VRI, S-DVI, VMLI and VALife. As of FY 2023, the USGLI program has no remaining policy holders and does not meet thresholds for reporting in the subsequent tables; VA will continue payments of insurance proceeds to USGLI policy beneficiaries who are receiving these payments through lifetime annuities. VALife, VA's newest life insurance program, was implemented January 1, 2023.

INSURANCE LIABILITY BALANCES

(dollars in millions) **As of September 30, 2023**	**Insurance Death Benefits**	**Death Benefit Annuities**	**Disability Income & Waiver**	**Reserve Totals**
NSLI	$ 510	$ 14	$ 2	$ 526
VSLI	555	2	2	559
S-DVI	1,010	5	655	1,670
VRI	20	-	-	20
VMLI	211	-	-	211
VALife	12	-	-	12
Subtotal	2,318	21	659	2,998
Insurance Dividends Left on Credit or Deposit				389
Dividends Payable to Policy Holders				5
Unpaid Policy Claims				188
Insurance Liabilities Reported on the Balance Sheet				3,580
Less Liabilities not Covered by Budgetary Resources (Note 12)				(1,688)
Liability Covered by Budgetary Resources				**$ 1,892**

(dollars in millions) **As of September 30, 2022**	**Insurance Death Benefits**	**Death Benefit Annuities**	**Disability Income & Waiver**	**Reserve Totals**
NSLI	$ 738	$ 15	$ 3	$ 756
USGLI	-	1	-	1
VSLI	654	2	2	658
S-DVI	969	5	709	1,683
VRI	25	-	-	25
VMLI	211	-	-	211
Subtotal	2,597	23	714	3,334
Insurance Dividends Left on Credit or Deposit				463
Dividends Payable to Policy Holders				8
Unpaid Policy Claims				139
Insurance Liabilities Reported on the Balance Sheet				3,944
Less Liabilities not Covered by Budgetary Resources (Note 12)				(1,701)
Liability Covered by Budgetary Resources				**$ 2,243**

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

SCHEDULE FOR RECONCILING LIFE INSURANCE UNPAID POLICY CLAIM LIABILITY

(dollars in millions) **As of September 30, 2023**	**Unpaid Claim Liability as of October 1, 2022**	**Claims Expenses**	**Less Payments to Settle Claims**	**Ending Unpaid Claim Liability Balance**
NSLI	$ 66	$ 244	$ (228)	$ 82
VSLI	31	147	(125)	53
S-DVI	31	118	(107)	42
VRI	2	7	(6)	3
VMLI	9	30	(31)	8
Total	**$ 139**	**$ 546**	**$ (497)**	**$ 188**

(dollars in millions) **As of September 30, 2022**	**Unpaid Claim Liability as of October 1, 2021**	**Claims Expenses**	**Less Payments to Settle Claims**	**Ending Unpaid Claim Liability Balance**
NSLI	$ 74	$ 324	$ (332)	$ 66
VSLI	29	141	(139)	31
S-DVI	31	121	(121)	31
VRI	2	9	(9)	2
VMLI	7	37	(35)	9
Total	**$ 143**	**$ 632**	**$ (636)**	**$ 139**

VA supervises the administration of two life insurance programs, SGLI and VGLI. Within its revolving fund, VA holds excess funds that are not required to cover program liabilities held by Prudential but are available to support the SGLI and VGLI programs. In June 2019, the Secretary determined that $3.4 billion held by Prudential for VGLI were excess reserve funds that were no longer needed to sustain the adverse fluctuations of the program. As a result, Prudential and VA signed an agreement to transfer the excess reserves to VA over a period of five years. Through September 30, 2023, VA has received 17 installments totaling $3.0 billion.

A. CASH SURRENDER VALUE

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

VALife was implemented on January 1, 2023. The policies will begin to accrue cash value at the beginning of the third year that the policy is in force.

(dollars in millions) **As of September 30,**	**2023**	**2022**
NSLI	$ 491	$ 716
VSLI	538	631
S-DVI	816	785
VRI	19	24
Total*	**$ 1,864**	**$ 2,156**

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

B. PROGRAM COSTS, PREMIUMS COLLECTED AND APPROPRIATIONS USE

(dollars in millions) **For the Period Ended September 30, 2023**	**Program Costs**	**Premiums Collected**	**Appropriations Used**
NSLI	$ 293	$ 17	$ -
VSLI	152	9	-
S-DVI	149	60	89
VRI	7	-	-
VMLI	31	6	25
VALIFE	5	21	-
Total	**$ 637**	**$ 113**	**$ 114**

(dollars in millions) **For the Period Ended September 30, 2022**	**Program Costs**	**Premiums Collected**	**Appropriations Used**
NSLI	$ 375	$ 26	$ -
VSLI	170	9	-
S-DVI	168	66	102
VRI	10	-	-
VMLI	33	6	27
Total	**$ 756**	**$ 107**	**$ 129**

C. INSURANCE IN-FORCE

The amount of insurance in-force represents the total face amount of life insurance coverage provided by each administered and supervised program at the end of the fiscal year. It includes any paid-up additional coverage provided under these policies. The possibility that claims filed in any time period will equal the entire insurance in-force amount is remote. The supervised programs' policies and face value are not included in VA's liabilities because the risk of loss on these programs is assumed by Prudential and its reinsurers through the terms and conditions of the group policy. The following information provided under the supervised programs is unaudited.

	2023 Policies (number of policies)	2022 Policies	2023 Face Value (dollars in millions)	2022 Face Value
Supervised Programs (UNAUDITED)				
SGLI Active Duty	1,419,000	1,442,000	$ 700,983	$ 559,639
SGLI Ready Reservists	693,500	675,500	325,368	214,465
SGLI Post Separation	94,000	88,000	45,942	32,203
SGLI Family - Spouse	884,000	905,000	87,385	89,426
SGLI Family - Children	1,657,000	1,676,000	16,570	16,760
TSGLI*	-	-	211,250	211,750
VGLI	451,409	445,419	93,911	89,053
Total Supervised	5,198,909	5,231,919	$ 1,481,409	1,213,296
Administered Programs				
NSLI	44,256	63,983	550	808
VSLI	41,491	49,790	627	751
S-DVI	269,077	273,933	2,833	2,883
VRI	2,056	2,739	21	27
USGLI**	-	1	-	-
VMLI	2,226	2,311	352	323
VALIFE	24,543	-	784	-
Total Administered	383,649	392,757	$ 5,167	4,792
Total Supervised and Administered Programs	**5,582,558**	**5,624,676**	**$ 1,486,576**	**$ 1,218,088**

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

**There are no USGLI policies remaining.

D. POLICY DIVIDENDS

The Secretary determines annually the excess funds available for dividend payment. Policy dividends for FY 2023 and FY 2022 were $9 million and $13 million, respectively.

NOTE 18. COMMITMENTS AND CONTINGENCIES

VA records a contingent liability of $638 million and $796 million for FY 2023 and FY 2022, respectively, for pending legal claims where losses are determined to be probable, and the amounts can be estimated. The liability from existing medical malpractice and other tort claims is estimated using generally accepted actuarial standards and procedures. Estimates of future claim payments are discounted using a yield curve which is based on a 10-year average of quarterly zero coupon Treasury spot rates evaluated as of March 31, 2023.

(dollars in millions) For the Periods Ended September 30, 2023	Accrued Liabilities		Estimated Range of Loss Low		High	
Legal Contingencies						
Probable - Medical Malpractice and Other Torts	$	470	$	470	$	470
Probable - Non-Tort		168		168		387
Reasonably Possible - Non-Tort		-		-		-
Total	**$**	**638**	**$**	**638**	**$**	**857**

(dollars in millions) For the Periods Ended September 30, 2022	Accrued Liabilities		Estimated Range of Loss Low		High	
Legal Contingencies						
Probable - Medical Malpractice and Other Torts	$	570	$	570	$	570
Probable - Non-Tort		226		226		560
Reasonably Possible - Non-Tort		-		66		89
Total	**$**	**796**	**$**	**862**	**$**	**1,219**

As of September 30, 2023 and 2022, there are cases and claims not brought under the Federal Tort Claims Act, where there is at least a reasonable possibility that a loss may occur, for which the potential range of loss cannot be determined.

VA is involved in pending litigation regarding eligibility for Veterans with separate periods of service who qualify for both MGIB-AD and Post-9/11 GI Bill benefits to receive full benefits under both programs. Eligibility would be subject to an aggregate 48-month limit, which would increase total entitlement by an additional 12 months. In 2021, the Federal Circuit affirmed a United States Court of Appeals for Veterans Claims (CAVC) decision that held such Veterans were entitled to additional education benefits. In December 2022, the full Federal Circuit reversed the CAVC decision, holding that an individual, with multiple periods of service, who switches from MGIB to the PGIB without first exhausting MGIB benefits, is limited to a total of 36 months of MGIB and PGIB benefits. The Supreme Court heard oral arguments on November 8, 2023.

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

(dollars in millions) For the Periods Ended September 30,	2023		2022	
Fiscal Year Settlement Payments	$	154	$	279
Less Contract Dispute and “No Fear” Payments		(12)		(4)
Imputed Financing-Paid by Other Entities*	**$**	**142**	**$**	**275**

*The Imputed Financing-Paid by Other Entities in the table above, when combined with the Total Imputed Expenses –Employee Benefits reported in Note 13 reconciles to total Imputed Financing costs reported in the Consolidated Statement of Changes in Net Position.

In accordance with 38 C.F.R. § 17.36 (c), the Secretary makes an annual enrollment decision that identifies which Veterans, by priority, will be treated for that fiscal year based on funds appropriated, estimated collections, usage, the severity index of enrolled Veterans and changes in cost. While VA expects to continue to provide medical care to Veterans in future years, an estimate of this amount cannot be reasonably made. Accordingly, VA recognizes the medical care expenses in the period the medical care services are provided. For FY 2019 through FY 2023, the average medical care cost per year is $94.8 billion.

NOTE 19. FUNDS FROM DEDICATED COLLECTIONS

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

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

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

(dollars in millions)	Insurance	All Other	Total Combined	Eliminations	Total Consolidated
Balance Sheet as of September 30, 2023					
Assets					
Intragovernmental					
Fund Balance with Treasury	$ 155	$ 492	$ 647	$ -	$ 647
Investments	5,435	140	5,575	-	5,575
Accounts Receivable	-	15	15	-	15
Total Intragovernmental	**$ 5,590**	**$ 647**	**$ 6,237**	**$ -**	**$ 6,237**
Other Than Intragovernmental					
Cash	$ -	$ 2	$ 2	$ -	$ 2
Accounts Receivable, Net	379	1,565	1,944	-	1,944
Direct Loan and Loan Guarantees, Net	155	-	155	-	155
Inventory	-	18	18	-	18
Property, Plant, and Equipment	-	81	81	-	81
Total Assets	**$ 6,124**	**$ 2,313**	**$ 8,437**	**$ -**	**$ 8,437**
Liabilities					
Intragovernmental					
Accounts Payable	$ -	$ (5)	$ (5)	$ -	$ (5)
Other Liabilities	55	-	55	-	55
Total Intragovernmental Liabilities	$ 55	$ (5)	$ 50	$ -	$ 50
Other Than Intragovernmental					
Accounts Payable	$ 24	$ 41	$ 65	$ -	$ 65
Federal Employee and Veterans Benefits	3,360	-	3,360	-	3,360
Advances from Others and Deferred Revenue	17	-	17	-	17
Other Liabilities	-	15	15	-	15
Total Liabilities	**$ 3,456**	**$ 51**	**$ 3,507**	**$ -**	**$ 3,507**
Net Position					
Total Net Position	$ 2,668	$ 2,262	$ 4,930	$ -	$ 4,930
Total Liabilities and Net Position	**$ 6,124**	**$ 2,313**	**$ 8,437**	**$ -**	**$ 8,437**
Statement of Net Cost for the Period Ended September 30, 2023					
Gross Program Costs	$ 260	$ 507	$ 767	$ -	$ 767
Less Earned Revenues	283	4,903	5,186	-	5,186
Net Cost/(Benefit) of Operations	**$ (23)**	**$ (4,396)**	**$ (4,419)**	**$ -**	**$ (4,419)**
Statement of Changes in Net Position for the Period Ended September 30, 2023					
Unexpended Appropriations					
Beginning Balance	$ -	$ 16	$ 16	$ -	$ 16
Net Change in Unexpended Appropriations	-	-	-	-	-
Total Unexpended Appropriations: Ending	**-**	**16**	**16**	**-**	**16**
Cumulative Results of Operations	**2,570**	**1,947**	**4,517**	**-**	**4,517**
Budgetary and Other Financing Sources	75	(4,097)	(4,022)	-	(4,022)
Net (Cost)/Benefit of Operations	23	4,396	4,419	-	4,419
Change in Cumulative Results of Operations	**98**	**299**	**397**	**-**	**397**
Cumulative Results of Operations: Ending	**2,668**	**2,246**	**4,914**	**-**	**4,914**
Total Net Position	**$ 2,668**	**$ 2,262**	**$ 4,930**	**$ -**	**$ 4,930**

(dollars in millions)	Insurance	All Other	Total Combined	Eliminations	Total Consolidated
Balance Sheet as of September 30, 2022					
Assets					
Intragovernmental					
Fund Balance with Treasury	$ 116	$ 536	$ 652	$ -	$ 652
Investments	5,178	119	5,297	-	5,297
Accounts Receivable	-	4	4	-	4
Total Intragovernmental	**$ 5,294**	**$ 659**	**$ 5,953**	**$ -**	**$ 5,953**
Other Than Intragovernmental					
Cash	$ -	$ 2	$ 2	$ -	$ 2
Accounts Receivable, Net	889	1,247	2,136	-	2,136
Direct Loan and Loan Guarantees, Net	156	-	156	-	156
Inventory	-	17	17	-	17
Property, Plant, and Equipment	-	90	90	-	90
Total Assets	**$ 6,339**	**$ 2,015**	**$ 8,354**	**$ -**	**$ 8,354**
Liabilities					
Intragovernmental					
Accounts Payable	$ -	$ (5)	$ (5)	$ -	$ (5)
Other Liabilities	9	11	20	-	20
Total Intragovernmental Liabilities	$ 9	$ 6	$ 15	$ -	$ 15
Other Than Intragovernmental					
Accounts Payable	$ 19	$ 40	$ 59	$ -	$ 59
Federal Employee and Veterans Benefits	3,724	(3)	3,721	-	3,721
Advances from Others and Deferred Revenue	17	-	17	-	17
Other Liabilities	-	9	9	-	9
Total Liabilities	**$ 3,769**	**$ 52**	**$ 3,821**	**$ -**	**$ 3,821**
Net Position					
Total Net Position	$ 2,570	$ 1,973	$ 4,543	$ (10)	$ 4,533
Total Liabilities and Net Position	**$ 6,339**	**$ 2,025**	**$ 8,364**	**$ (10)**	**$ 8,354**
Statement of Net Cost for the Period Ended September 30, 2022					
Gross Program Costs	$ 267	$ 424	$ 691	$ -	$ 691
Less Earned Revenues	239	4,805	5,044	10	5,034
Net Cost/(Benefit) of Operations	**$ 28**	**$ (4,381)**	**$ (4,353)**	**$ (10)**	**$ (4,343)**
Statement of Changes in Net Position for the Period Ended September 30, 2022					
Unexpended Appropriations					
Beginning Balance	$ -	$ 56	$ 56	$ -	$ 56
Net Change in Unexpended Appropriations	-	(40)	(40)	-	(40)
Total Unexpended Appropriations: Ending	**-**	**16**	**16**	**-**	**16**
Cumulative Results of Operations	**$ 2,490**	**$ 1,426**	**$ 3,916**	**$ -**	**$ 3,916**
Budgetary and Other Financing Sources	108	(3,850)	(3,742)	-	(3,742)
Net (Cost)/Benefit of Operations	(28)	4,381	4,353	(10)	4,343
Change in Cumulative Results of Operations	**80**	**531**	**611**	**(10)**	**601**
Cumulative Results of Operations: Ending	**2,570**	**1,957**	**4,527**	**(10)**	**4,517**
Total Net Position	**$ 2,570**	**$ 1,973**	**$ 4,543**	**$ (10)**	**$ 4,533**

NOTE 20. EXCHANGE TRANSACTIONS

A. EXCHANGE REVENUES

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

B. PUBLIC EXCHANGE TRANSACTIONS

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

Under 38 C.F.R. § 17.101, reasonable costs are used to bill for reimbursable health care services, public workers' compensation, tort and no-fault or uninsured motorists' insurance cases. Under regulations issued pursuant to 38 U.S.C. § 1729, third-party payers may elect to pay VA's billed costs (less applicable deductible or copayment amounts) for the care and services provided to Veterans, or they may elect to pay VA an amount that it would pay to other providers for care and services in the same geographic area. Under this methodology, the billable amounts for services provided by VA represent the 80th percentile of nationwide average rates developed from commercial and Medicare statistical data by locality throughout the Nation. The statistical data is adjusted by the Consumer Price Index to account for the historical nature of the data being used. The billable amounts by service provided are developed based on the classification of services as inpatient, outpatient, professional, surgical or non-surgical. The nationwide average rates used to determine billable amounts for services provided for inpatient care are updated annually effective October 1, and nationwide average rates for billable amounts for outpatient and professional care are updated annually effective January 1. The updated charges are published by a Notice in the Federal Register and the charges are available on the VHA Office of Integrated Veteran Care website. Revenue earned but unbilled is estimated using historical average data. An allowance for contractual adjustments from insurance companies and uncollectible amounts is determined using historical average data.

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

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

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

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

VA's Loan Guarantee Program collects certain fees that are set by law authorized in 38 U.S.C. § 3729, such as loan guarantee funding fees and loan guarantee lender participation fees. A person who pays a fee for a loan guaranteed or insured after December 31, 1989, or who is exempt from payment of the fee, will have no liability to VA for any loss resulting from default except in the case of fraud, misrepresentation or bad faith. This exemption does not apply to manufactured homes under Section 3712 or to loan assumptions. Rental fees are collected on a small number of properties during the period when the property is titled to VA.

NCA has the following exchange revenue activity:

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

NOTE 21. NET PROGRAMS COSTS BY ADMINISTRATION

(dollars in millions) **For the Period Ended September 30, 2023**	**Gross Cost**	**Veterans Benefits Actuarial Cost**	**Less Earned Revenue**	**Net Program Costs**	**Gain/Loss from Changes in Actuarial Liability Assumptions**	**Total**
VETERANS HEALTH ADMINISTRATION						
0140 - Medical Community Care	$ 29,586	$ -	$ 1	$ 29,587	$ -	$ 29,587
0152 - Medical Support and Compliance	9,797	-	(63)	9,734	-	9,734
0160 - Medical Services	74,604	-	(205)	74,399	-	74,399
0162 - Medical Facilities	5,957	-	(19)	5,938	-	5,938
0167 - Information Technology	5,126	-	(160)	4,966	-	4,966
All Other Funds	13,368	-	(4,709)	8,659	-	8,659
VHA Combined Total	**138,438**	**-**	**(5,155)**	**133,283**	**$ -**	**133,283**
Intra-Entity Eliminations	(2,021)	-	124	(1,897)	-	(1,897)
VHA Consolidated Total	**$ 136,417**	**$ -**	**$ (5,031)**	**$ 131,386**	**$ -**	**$ 131,386**
VETERANS BENEFITS ADMINISTRATION						
0102 - Compensation and Pensions	$ 151,616	$ 581,300	$ -	$ 732,916	$ 549,400	$ 1,282,316
0137 - Readjustment Benefits	12,509	18,256	-	30,765	9,373	40,138
4129 - Veterans Housing Benefits Loan Guarantee Program	192	-	(192)	-	-	-
8132 - National Service Life Insurance Fund	53	-	(40)	13	-	13
0151 - General Operating Expenses	5,907	-	(2,850)	3,057	-	3,057
All Other Funds	(1,712)	-	2,669	957	-	957
VBA Combined Total	**168,565**	**599,556**	**(413)**	**767,708**	**558,773**	**1,326,481**
Intra-Entity Eliminations	(3,000)	-	(154)	(3,154)	-	(3,154)
VBA Consolidated Total	**$ 165,565**	**$ 599,556**	**$ (567)**	**$ 764,554**	**$ 558,773**	**$ 1,323,327**
NCA Combined Total	$ 565	$ -	$ (1)	$ 564	$ -	$ 564
Intra-Entity Eliminations	(13)	-	-	(13)	-	(13)
NCA Consolidated Total	**$ 552**	**$ -**	**$ (1)**	**$ 551**	**$ -**	**$ 551**
Indirect Administrative Programs						
0142 - General Administration	$ 873	$ -	$ (446)	$ 427	$ -	$ 427
1122 - Board of Veterans Appeals	253	-	-	253	-	253
4537 - Supply Fund	1,848	-	(1,815)	33	-	33
All Other Funds	1,951	-	1,613	3,564	-	3,564
Indirect Administrative Programs Combined Total	**4,925**	**-**	**(648)**	**4,277**	**-**	**4,277**
Intra-Entity Eliminations	(1,582)	-	1	(1,581)	-	(1,581)
Indirect Administrative Programs Consolidated Total	**$ 3,343**	**$ -**	**$ (647)**	**$ 2,696**	**$ -**	**$ 2,696**
Net Cost of Operations	**$ 305,877**	**$ 599,556**	**$ (6,246)**	**$ 899,187**	**$ 558,773**	**$ 1,457,960**

(dollars in millions) **For the Period Ended September 30, 2022**	**Gross Cost**	**Veterans Benefits Actuarial Cost**	**Less Earned Revenue**	**Net Program Costs**	**Gain/Loss from Changes in Actuarial Liability Assumptions**	**Total**
VETERANS HEALTH ADMINISTRATION						
0140 - Medical Community Care	$ 24,042	$ -	$ -	$ 24,042	$ -	$ 24,042
0152 - Medical Support and Compliance	8,635	-	(60)	8,575	-	8,575
0160 - Medical Services	62,652	-	(180)	62,472	-	62,472
0162 - Medical Facilities	5,423	-	(19)	5,404	-	5,404
0167 - Information Technology	5,101	-	(116)	4,985	-	4,985
All Other Funds	13,683	-	(4,805)	8,878	-	8,878
VHA Combined Total	**119,536**	**-**	**(5,180)**	**114,356**	**-**	**114,356**
Intra-Entity Eliminations	(1,737)	-	224	(1,513)	-	(1,513)
VHA Consolidated Total	**$ 117,799**	**$ -**	**$ (4,956)**	**$ 112,843**	**$ -**	**$ 112,843**
VETERANS BENEFITS ADMINISTRATION						
0102 - Compensation and Pensions	$ 130,191	$ 156,100	$ -	$ 286,291	$ 1,506,700	$ 1,792,991
0137 - Readjustment Benefits	11,664	(1,012)	-	10,652	19,753	30,405
4129 - Veterans Housing Benefits Loan Guarantee Program	159	-	(159)	-	-	-
8132 - National Service Life Insurance Fund	65	-	(63)	2	-	2
0151 - General Operating Expenses	6,982	-	(2,504)	4,478	-	4,478
All Other Funds	(2,925)	-	2,201	(724)	-	(724)
VBA Combined Total	**146,136**	**155,088**	**(525)**	**300,699**	**1,526,453**	**1,827,152**
Intra-Entity Eliminations	(2,831)	-	2	(2,829)	-	(2,829)
VBA Consolidated Total	**$ 143,305**	**$ 155,088**	**$ (523)**	**$ 297,870**	**$ 1,526,453**	**$ 1,824,323**
NCA Combined Total	**$ 523**	**$ -**	**$ -**	**$ 523**	**$ -**	**$ 523**
Intra-Entity Eliminations	(15)	-	-	(15)	-	(15)
NCA Consolidated Total	**$ 508**	**$ -**	**$ -**	**$ 508**	**$ -**	**$ 508**
Indirect Administrative Programs						
0142 - General Administration	$ 774	$ -	$ (371)	$ 403	$ -	$ 403
1122 - Board of Veterans Appeals	226	-	-	226	-	226
4537 - Supply Fund	1,685	-	(1,807)	(122)	-	(122)
All Other Funds	1,721	-	(1,651)	70	-	70
Indirect Administrative Programs Combined Total	**4,406**	**-**	**(3,829)**	**577**	**-**	**577**
Intra-Entity Eliminations	(1,362)	-	3,215	1,853	-	1,853
Indirect Administrative Programs Consolidated Total	**$ 3,044**	**$ -**	**$ (614)**	**$ 2,430**	**$ -**	**$ 2,430**
Net Cost of Operations	**$ 264,656**	**$ 155,088**	**$ (6,093)**	**$ 413,651**	**$ 1,526,453**	**$ 1,940,104**

NOTE 22. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

A. BORROWING AUTHORITY

The Home Loan Guarantee Program principal repayment is expected over a 30-year period from the date of issuance of debt. Borrowing is repaid to Treasury through the proceeds of portfolio loan collections, funding fees and the sale of loans to housing trusts. The Vocational Rehabilitation Program principal repayment is expected within 10 months from the date of issuance of debt. Loans generally have a duration of 1 year and repayment is made from offsetting collections.

	2023		2022	
(dollars in millions)	**Value**	**Interest Rate**	**Value**	**Interest Rate**
Home Loan Guarantee Program	$ 107	2.5%	$ 114	1.6%
Vocational Rehabilitation Program Direct Loans	1	0.9%	1	0.2%

B. PERMANENT INDEFINITE APPROPRIATIONS

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

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

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

The following table reflects material differences between the FY 2022 Statement of Budgetary Resources and the FY 2022 actual amounts reported in the FY 2024 President's Budget of the U.S. Government. The FY 2024 President's Budget was released in March 2023 and may be obtained from OMB or the Government Publishing Office. The Budget with the actual amounts for the current year (that is, FY 2023) is expected to be released early in the subsequent calendar year.

(dollars in millions) **FY 2022 Actual Balances per the FY 2024 Budget of the U.S Government**	**Budgetary Resources**	**New Obligations & Upward Adjustments**	**Distributed Offsetting Receipts**	**Net Outlays**
Actual Balances per the FY 2024 Budget of the U.S. Government	$ 344,973	$ 285,388	$ (737)	$ 275,254
Reconciling Items:				
Expired Unobligated Funds	2,472	-	-	-
Expired Prior Year Budget Authority	1,637	-	-	-
Medical Care Collection Fund - Copayments	-	-	(3,943)	-
Special Funds not in the U.S. Budget but in the SBR	6	-	-	2
Offsetting Differences between the U.S. Budget and the SBR	-	-	(44)	-
Non-Budgetary Financing Disbursements, net*	-	-	-	3,333
Other**	489	489	-	5
Per the FY 2022 Statement of Budgetary Resources	**$ 349,577**	**$ 285,877**	**$ (4,724)**	**$ 278,594**

*These are credit reform financing account Net Outlays.

**In FY 2022, an adjustment for $488 million was recorded in VA's financial system related to VBA's loan guarantees program. This resulted in an immaterial overstatement of Total Budgetary Resources and New Obligations in FY 2022. VA rectified this issue at the beginning of FY 2023. OMB suppressed the adjustment from the FY 2024 President's Budget to maintain consistency with actual FY 2022 activities.

D. USE OF UNOBLIGATED BALANCE OF BUDGET AUTHORITY

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

E. UNDELIVERED ORDERS AT THE END OF THE PERIOD

(dollars in millions)

As of September 30,	**2023**		**2022**	
	Paid	**Unpaid**	**Paid**	**Unpaid**
Intragovernmental Undelivered Orders	$ 3,939	$ 5,517	$ 2,483	$ 6,707
Undelivered Orders	157	21,871	-	17,477
Total Undelivered Orders	**$ 4,096**	**$ 27,388**	**$ 2,483**	**$ 24,184**

F. LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

(dollars in millions)

As of September 30,	**2023**	**2022**
Unapportioned Amounts Unavailable for Future Apportionments	$ 12,609	$ 11,579
Expired Authority	4,329	2,472
Total Unobligated Balances	**$ 16,938**	**$ 14,051**

G. CONTRIBUTED CAPITAL

For the years ended September 30, 2023 and 2022, General Post Fund donations totaled $50 million and $40 million, respectively.

H. NET ADJUSTMENTS TO UNOBLIGATED BALANCE BROUGHT FORWARD

(dollars in millions)

As of September 30,	**2023**	**2022**
Unobligated Balance, Prior Year	$ 63,700	$ 57,137
Funds Paid to Treasury	(69)	(18)
Recoveries of Prior Year Obligations	5,977	3,139
Other	(7)	(21)
Unobligated Balance from Prior Year Budget Authority, Net	**$ 69,601**	**$ 60,237**

NOTE 23. BUDGET AND ACCRUAL RECONCILIATION

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

(dollars in millions) For the Period Ended September 30, 2023	Intra-governmental	With the Public	Total
Net Operating Cost (SNC)	**$ 19,882**	**$ 1,438,078**	**$ 1,457,960**
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant, and Equipment Depreciation Expense	-	(1,853)	(1,853)
Property, Plant, and Equipment Disposal and Reevaluation	-	(234)	(234)
Cost of Goods Sold	(1,344)	(161)	(1,505)
Inventory Disposals and Reevaluations	-	(5)	(5)
Adjustment to Prior Year Credit Reform Reestimates Accrual	-	3,135	3,135
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	2,942	(437)	2,505
Loans Receivable, Net (Non-FCRA)	-	(4)	(4)
Securities and Investments	10	0	10
Other Assets	1,548	67	1,615
(Increase)/Decrease in Liabilities:			
Accounts Payable	(2,515)	351	(2,164)
Loans Guarantee Liability (Non-FCRA)/Loans Payable	-	4	4
Environmental and Disposal Liabilities	-	(25)	(25)
Federal Employee and Veteran Benefits Payable	-	(1,158,437)	(1,158,437)
Other Liabilities	77	(155)	(78)
Financing Sources:			
Imputed Cost	(4,387)	-	(4,387)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(3,669)**	**(1,157,754)**	**(1,161,423)**
Components of the Budgetary Outlays That Are Not Part of Net Cost of Operations			
Acquisition of Capital Assets	128	3,582	3,710
Acquisition of Inventory	-	1,477	1,477
Financing Sources:			
Donated Revenue	-	(18)	(18)
Transfers Out (In) without Reimbursements	(165)	-	(165)
Total Components of the Budget Outlays That Are Not Part of Net Cost of Operations	**(37)**	**5,041**	**5,004**
Miscellaneous Items			
Distributed Offsetting Receipts (-)	-	(4,886)	(4,886)
Appropriated Receipts for Trust/Special Funds	4,197	-	4,197
Other	15	159	174
Total Miscellaneous Items	**4,212**	**(4,727)**	**(515)**
Total Net Outlays			**301,026**
Agency Outlays, Net (Discretionary and Mandatory)			**301,026**

(dollars in millions) For the Period Ended September 30, 2022	Intra-governmental	With the Public	Total
Net Operating Cost (SNC)	**$ 17,292**	**$ 1,922,812**	**$ 1,940,104**
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant, and Equipment Depreciation Expense	-	(1,853)	(1,853)
Property, Plant, and Equipment Disposal and Reevaluation	-	(317)	(317)
Cost of Goods Sold	(1,173)	(160)	(1,333)
Inventory Disposals and Reevaluations	-	596	596
Adjustment to Prior Year Credit Reform Reestimates Accrual	-	5,301	5,301
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	(985)	266	(719)
Loans Receivable, Net (Non-FCRA)	-	(6)	(6)
Securities and Investments	7	-	7
Other Assets	(226)	44	(182)
(Increase)/Decrease in Liabilities:			
Accounts Payable	1,324	8,714	10,038
Federal Employee and Veteran Benefits Payable	-	(1,679,328)	(1,679,328)
Other Liabilities	(124)	1,217	1,093
Financing Sources:			
Imputed Cost	(3,081)	-	(3,081)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(4,258)**	**(1,665,526)**	**(1,669,784)**
Components of the Budgetary Outlays That Are Not Part of Net Cost of Operations			
Acquisition of Capital Assets	252	3,268	3,520
Acquisition of Inventory	(9)	482	473
Effect of Prior Year Credit Reform Subsidy Reestimates	154	-	154
Financing Sources:			
Transfers Out (In) without Reimbursements	(160)	-	(160)
Total Components of the Budget Outlays That Are Not Part of Net Cost of Operations	**237**	**3,750**	**3,987**
Miscellaneous Items			
Distributed Offsetting Receipts (-)	-	(4,724)	(4,724)
Appropriated Receipts for Trust/Special Funds	4,029	-	4,029
Other	22	236	258
Total Miscellaneous Items	**4,051**	**(4,488)**	**(437)**
Total Net Outlays			**273,870**
Agency Outlays, Net (Discretionary and Mandatory)			**273,870**

NOTE 24. PUBLIC-PRIVATE PARTNERSHIPS

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

(dollars in millions) **As of September 30, 2023**	**Actual Amount Received in FY**	**Actual Amount Paid in FY**	**Estimated Amount to be Received in Future Years**	**Estimated Amount to be Paid in Future Years**
EUL	$ 2	$ 12	$ 70	$ -
ESPC*	-	142	-	595
UESC**	-	4	-	190
Total	$ 2	$ 158	$ 70	$ 785

(dollars in millions) **As of September 30, 2022**	**Actual Amount Received in FY**	**Actual Amount Paid in FY**	**Estimated Amount to be Received in Future Years**	**Estimated Amount to be Paid in Future Years**
EUL	$ 2	$ 2	$ 72	$ -
ESPC	-	67	-	881
UESC	-	14	-	179
Total	$ 2	$ 83	$ 72	$ 1,060

*Energy Savings Performance Contract (ESPC)
**Utility Energy Service Contract (UESC)

A. ENHANCED USE LEASES

VA's EUL program allows VA to manage underutilized property through leasing arrangements with State or local governments or private sector organizations. 38 U.S.C. §§ 8161-8169, *Enhanced-Use Leases of Real Property*, as amended, authorizes VA to lease real property under VA's control or jurisdiction to other public and private entities. In return, VA is authorized to receive cash at fair value as determined by the Secretary or may enter into an EUL without receiving consideration.

Most recently, VA's EUL authority was amended by P.L. 117-168, PACT Act, which was enacted on August 10, 2022. This law broadened VA's existing EUL authority as follows: VA is now permitted to enter into EULs that provide supportive housing or enhance the use of the leased property by directly or indirectly benefitting Veterans; VA EULs are now permitted to be up to 99 years in duration; and there is no longer an expiration date on VA's EUL authority.

The majority of the existing EUL projects serve to provide safe, affordable housing for Veterans and their families. The properties are leased to developers who finance, design, develop, construct, operate, manage and maintain the property. Developers assume all financial obligations and risks associated with the private developments. Developers use various sources of financing including Federal low-income housing tax credits, grants, private and commercial loans and public issue bonds. Under some EULs governed under previous authority, VA leases back space or services under favorable terms or at reduced costs. Pursuant to 38 U.S.C. § 8162(b)(6), OMB reviews each EUL before execution to determine whether the EUL is in compliance with terms in 38 U.S.C. § 8162(b) paragraph 5. Under the EUL program, VA does not:

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

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

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

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

Benefits to VA from the EUL program include:

- Revenue in the form of lease payments;
- Cost avoidance, (that is, the value of goods or services provided by the lessees that would have otherwise been paid by VA);
- Cost savings, (that is, discounts realized on VA purchases, such as energy, office space or parking); and
- Veterans' access to an expanded range of services, including housing, job training and mental health counseling.

(dollars in millions) **As of September 30, 2023**	**Total Cumulative Funding by VA over life of Arrangement**	**Total Cumulative Funding by Private Sector over life of Arrangement**
EUL	$ 92	$ 1,728

(dollars in millions) **As of September 30, 2022**	**Total Cumulative Funding by VA over life of Arrangement**	**Total Cumulative Funding by Private Sector over life of Arrangement**
EUL	$ 80	$ 1,769

B. ENERGY SAVINGS PERFORMANCE CONTRACTS AND UTILITY ENERGY SERVICE CONTRACTS

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

Federal agencies are authorized to enter into ESPCs under National Energy Conservation Policy Act (42 U.S.C. § 8287), as amended. An ESPC is a partnership between an agency and an energy service company (ESCO) to reduce energy, water and/or related operating costs and to assist agencies with upgrading aging infrastructure, systems and equipment. Upon conducting a comprehensive audit, the ESCO designs and constructs a project that meets the agency's needs and arranges financing to pay for the project. The ESCO guarantees that the improvements will generate sufficient energy cost savings to pay for the project over the term of the contract. In case the energy savings guaranteed targets are not being met, there is a possibility that the payments can be reduced.

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

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

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

The benefits of ESPCs and UESCs include:

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

(dollars in millions) As of September 30, 2023	**Total Cumulative Funding by VA over life of Arrangement**	**Total Cumulative Funding by Private Sector over life of Arrangement**
ESPC	$ 110	$ 666
UESC	219	199
Total	**$ 329**	**$ 865**

(dollars in millions) As of September 30, 2022	Total Cumulative Funding by VA over life of Arrangement	Total Cumulative Funding by Private Sector over life of Arrangement
ESPC	$ 107	$ 646
UESC	183	199
Total	**$ 290**	**$ 845**

NOTE 25. COVID-19 ACTIVITY

In FY 2021, VA received supplemental appropriations of $17.0 billion (after rescissions) under the American Rescue Plan Act (P.L. 117-2), to provide economic assistance for Veterans and their families as a result of the COVID-19 pandemic and to supplement general purpose expenditures related to healthcare. As of September 30, 2023, VA has obligated close to 100% of ARP Act funding.

In FY 2020, VA received supplemental appropriations of $60 million under the Families First Act (P.L. 116-127) and $19.6 billion under the CARES Act (P.L. 116-136) in response to the COVID-19 pandemic. Both appropriations have been fully obligated.

NOTE 26. RECLASSIFICATION OF THE STATEMENT OF NET COST FOR THE FINANCIAL REPORT COMPILATION PROCESS

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

This note shows VA's financial statements and VA's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the FY 2022 FR can be found on Treasury's website and a copy of the FY 2023 FR will be posted to this site as soon as it is released, generally in January.

FY 2023 VA Statement of Net Cost (dollars in millions)		Dedicated Collections Combined	Dedicated Collections Elimination	Other than Dedicated Collections (with Elimination)	Elimination Between Dedicated Collections Combined & Other than Dedicated	Line Items Used to Prepare FY 2023 Government-wide Statement of Net Cost	
Financial Statement Line	Amounts					Amounts	Reclassified Financial Statement Line
Gross Costs	905,433						Non-federal Costs
		666	-	884,151	-	884,817	Non-federal Gross Cost
		666	-	884,151	-	884,817	Total Non-federal Costs
							Intragovernmental Costs
		34	-	11,101	-	11,135	Benefit Program Costs
		-	-	4,387	-	4,387	Imputed Costs
		67	-	1,937	(86)	1,918	Buy/Sell Costs
		-	-	-	-	-	Purchase of Assets
		-	-	20	-	20	Borrowing and Other Interest Expense
		-	-	3,156	-	3,156	Other Expenses (w/o Reciprocals)
		101	-	20,601	(86)	20,616	Total Intragovernmental Costs
Total Gross Costs	**905,433**	**767**	**-**	**904,752**	**(86)**	**905,433**	Total Reclassified Gross Costs
Earned Revenue	(6,246)	(4,954)	-	(558)	-	(5,512)	Non-Federal Earned Revenue
							Intragovernmental Revenue
		(63)	-	(389)	86	(366)	Buy/Sell Revenue
		-	-	-	-	-	Purchase of Assets Offset
		(169)	-	-	-	(169)	Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange)
		-	-	(199)	-	(199)	Borrowing and Other Interest Revenue
		(232)		(588)	86	(734)	Total Intragovernmental Earned Revenue
Total Earned Revenue	**(6,246)**	**(5,186)**		**(1,146)**	**86**	**(6,246)**	Total Reclassified Earned Revenue
Gain/Loss-Pension/ORB*/ OPEB** Assumptions	558,773	-	-	558,773	-	558,773	Gain/Loss on Changes in Actuarial Assumptions (Non-Federal)
Net Cost	**1,457,960**	**(4,419)**		**1,462,379**		**1,457,960**	Net Cost

*Other Retirement Benefits
**Postemployment Benefits other than Pensions

REQUIRED SUPPLEMENTARY INFORMATION

DEFERRED MAINTENANCE AND REPAIRS

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

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

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

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

(dollars in millions)

As of September 30,	**2023**	**2022**
Property, Plant, and Equipment	$ 14,781	$ 13,263
Heritage Assets	1,204	1,203
Total Deferred Maintenance and Repairs	**$ 15,985**	**$ 14,466**

COMBINING STATEMENT OF BUDGETARY RESOURCES

DEPARTMENT OF VETERANS AFFAIRS
COMBINING STATEMENT OF BUDGETARY RESOURCES
FOR THE PERIOD ENDED SEPTEMBER 30, 2023
(dollars in millions)

	Veterans Health Administration						
	0140 Medical Community Care	**0152 Medical Support**	**0160 Medical Services**	**0162 Medical Facilities**	**0167 Information Technology**	**All Other Funds**	**VHA Total**
Budgetary Resources							
Unobligated Balance from Prior Year Budget Authority, Net	$ 782	$ 912	$ 5,248	$ 1,397	$ 387	$ 13,825	$ 22,551
Appropriations	30,746	9,541	73,594	10,371	5,774	10,302	140,328
Spending Authority from Offsetting Collections	-	65	127	20	181	432	825
Total Budgetary Resources	**$ 31,528**	**$ 10,518**	**$ 78,969**	**$ 11,788**	**$ 6,342**	**$ 24,559**	**$ 163,704**
Status of Budgetary Resources							
New Obligations and Upward Adjustments	$ 29,931	$ 9,762	$ 74,354	$ 9,117	$ 5,814	$ 12,811	$ 141,789
Apportioned, Unexpired Accounts	1,396	155	3,727	2,526	295	10,355	18,454
Unapportioned, Unexpired Accounts	-	-	-	-	-	1,194	1,194
Unexpired Unobligated Balance, End of Year	1,396	155	3,727	2,526	295	11,549	19,648
Expired Unobligated Balance, End of Year	201	601	888	145	233	199	2,267
Unobligated Balance, End of Year	1,597	756	4,615	2,671	528	11,748	21,915
Total Status of Budgetary Resources	**$ 31,528**	**$ 10,518**	**$ 78,969**	**$ 11,788**	**$ 6,342**	**$ 24,559**	**$ 163,704**
Outlays, Net							
Outlays, Net	$ 29,381	$ 9,162	$71,987	$ 7,201	$ 5,394	$ 12,990	$ 136,115
Distributed Offsetting Receipts	-	-	-	-	-	(4,149)	(4,149)
Agency Outlays, Net	**$ 29,381**	**$ 9,162**	**$ 71,987**	**$ 7,201**	**$ 5,394**	**$ 8,841**	**$ 131,966**
Disbursements, Net	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

(Continued on next page)

DEPARTMENT OF VETERANS AFFAIRS
COMBINING STATEMENT OF BUDGETARY RESOURCES
FOR THE PERIOD ENDED SEPTEMBER 30, 2023
(dollars in millions)

	Veterans Benefits Administration						
	0102 Compensa-tion and Pensions	0137 Readjust-ment Benefits	4129 Veteran Housing Program	8132 Life Insurance Fund	0151 General Operating Expenses	All Other Funds	VBA Total
Budgetary Resources							
Unobligated Balance from Prior Year Budget Authority, Net	$ 19,565	$ 9,073	$ 10,898	$ -	$ 1,054	$ 4,572	$ 45,162
Appropriations	152,017	8,907	-	280	3,882	1,169	166,255
Borrowing Authority	-	-	-	-	-	108	108
Spending Authority from Offsetting Collections	-	160	3,224	4	4,125	1,596	9,109
Total Budgetary Resources	**$ 171,582**	**$ 18,140**	**$ 14,122**	**$ 284**	**$ 9,061**	**$ 7,445**	**$ 220,634**
Status of Budgetary Resources							
New Obligations and Upward Adjustments	$ 153,225	$ 12,764	$ 3,056	$ 284	$ 7,817	$ 2,651	$ 179,797
Apportioned, Unexpired Accounts	17,175	5,376	-	-	348	4,570	27,469
Unapportioned, Unexpired Accounts	-	-	11,066	-	81	207	11,354
Unexpired Unobligated Balance, End of Year	17,175	5,376	11,066	-	429	4,777	38,823
Expired Unobligated Balance, End of Year	1,182	-	-	-	815	17	2,014
Unobligated Balance, End of Year	18,357	5,376	11,066	-	1,244	4,794	40,837
Total Status of Budgetary Resources	**$ 171,582**	**$ 18,140**	**$ 14,122**	**$ 284**	**$ 9,061**	**$ 7,445**	**$ 220,634**
Outlays, Net							
Outlays, Net	$ 151,207	$ 12,446	$ -	$ 305	$ 3,606	$ 825	$ 168,389
Distributed Offsetting Receipts	-	-	-	(18)	-	(630)	(648)
Agency Outlays, Net	**$ 151,207**	**$ 12,446**	**$ -**	**$ 287**	**$ 3,606**	**$ 195**	**$ 167,741**
Disbursements, Net	**$ -**	**$ -**	**$ (187)**	**$ -**	**$ -**	**$ (11)**	**$ (198)**

(Continued on next page)

DEPARTMENT OF VETERANS AFFAIRS
COMBINING STATEMENT OF BUDGETARY RESOURCES
FOR THE PERIOD ENDED SEPTEMBER 30, 2023
(dollars in millions)

	NCA	Indirect Administrative Programs					VA
	Total	0142 General Admin	1122 Board of Veterans Appeals	4537 Supply Fund	All Other Funds	Total	TOTAL
Budgetary Resources							
Unobligated Balance from Prior Year Budget Authority, Net	$ 62	$ 89	$ 29	$ 651	$ 1,057	$ 1,826	$ 69,601
Appropriations	481	433	265	-	268	966	308,030
Borrowing Authority	-	-	-	-	-	-	108
Spending Authority from Offsetting Collections	3	461	-	2,228	1,430	4,119	14,056
Total Budgetary Resources	**$ 546**	**$ 983**	**$ 294**	**$ 2,879**	**$ 2,755**	**$ 6,911**	**$ 391,795**
Status of Budgetary Resources							
New Obligations and Upward Adjustments	$ 521	$ 915	$ 246	$ 2,172	$ 2,090	$ 5,423	$ 327,530
Apportioned, Unexpired Accounts	6	30	14	707	647	1,398	47,327
Unapportioned, Unexpired Accounts	8	10	29	-	14	53	12,609
Unexpired Unobligated Balance, End of Year	14	40	43	707	661	1,451	59,936
Expired Unobligated Balance, End of Year	11	28	5	-	4	37	4,329
Unobligated Balance, End of Year	25	68	48	707	665	1,488	64,265
Total Status of Budgetary Resources	**$ 546**	**$ 983**	**$ 294**	**$ 2,879**	**$ 2,755**	**$ 6,911**	**$ 391,795**
Outlays, Net							
Outlays, Net	$ 453	$ 451	$ 233	$ 127	$ 144	$ 955	$ 305,912
Distributed Offsetting Receipts	(2)	-	-	-	(87)	(87)	(4,886)
Agency Outlays, Net	**$ 451**	**$ 451**	**$ 233**	**$ 127**	**$ 57**	**$ 868**	**$ 301,026**
Disbursements, Net	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (198)**

LAND

VA acquires and maintains land for medical facilities, cemeteries and regional benefits offices, which support the Department's mission to provide Veteran services and benefits. The acquisition and disposal of VA's real property, including land, is primarily governed by tile 38, United States Code. When acquiring land, VA uses demographic data applicable to proposed facilities, including information on the population of Veterans to be served by the facility. To timely dispose of vacant or unneeded land, VA surveys real property under the Department's custody or control to identify parcels that are not used, underused or not being put to optimum use.

VA LAND BY PREDOMINANT USE

Land held by VA is categorized into three predominant use categories: operational, conservation and preservation and commercial in accordance with SFFAS 59, representing the land's actual use during the reporting period. The estimated acreage by each predominant use category is presented below.

Operational land is property that serves functions or activities directed toward achieving VA's mission. Most of VA's land holdings fall within this category and support activities such as clinical care and benefits provision. For more information, refer to Note 9.

Conservation and preservation land is VA property that is protected from further development in perpetuity. VA's land holdings in this category are national cemeteries, soldiers lots and monument sites. For more information, refer to Note 10.

Commercial land is property intended to generate a profit or commercial benefit. At VA, there are limited circumstances where previously underused property is leased to generate revenue that is then allocated to support VA's mission through the EUL program. For more information, refer to Note 24.

Land held for disposal or exchange are parcels that VA has deemed are no longer needed and are awaiting sale or transfer.

ESTIMATED ACREAGE BY PREDOMINANT USE

	Operational	Conservation & Preservation	Commercial	Total Estimated Acreage
Estimated Acreage				
End of Prior Year	39,364.67	-	0.13	39,364.80
End of Current Year*	16,232.18	23,558.93	0.13	39,791.24
Held for Disposal or Exchange				
End of Prior Year	202.62	-	-	202.62
End of Current Year	16.22	-	-	16.22

*In FY 2023, VA reclassified the predominant use of land for cemeteries, soldiers' lots and monument sites from 'operational' to 'conservation and preservation'.

LAND RIGHTS

VA will seek to acquire land rights either by leasing land for parking or other purpose or by acquiring permanent or temporary easements from public or private owners to support its mission. As of September 30, 2023, VA had acquired lease rights to 99 acres of property mainly for purposes of parking to support VA medical facilities. These land leases are included in VA's overall leases numbers. For more information on VA's leases, refer to Note 16.

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