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 2024 and 2023

| Audit | 24-00842-08 | December 10, 2024 |
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Excerpts from the Department of Veterans Affairs

Fiscal Year 2024 Agency Financial Report



**For the complete Department of Veterans Affairs**

**Fiscal Year 2024 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 20420**

November 15, 2024

**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 2024 and 2023

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, 2024, and 2023, 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 years (FYs) 2024 and 2023. 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 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

- loan guarantee liability; and
- entity-level controls.

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
   - Noncompliance with the Payment Integrity Information Act of 2019 for FY 2023, previously reported by the OIG for more than 10 years, originally as noncompliance with the Improper Payments Elimination and Recovery Act
7. CLA no longer reported instances of noncompliance with Title 38 of the United States Code, section 5315, previously reported for more than 10 years, 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. CLA reported the FY 2024 status of this FY 2023 noncompliance matter as resolved.
8. In an other-matter paragraph, CLA reported that in FY 2024, VA continued to investigate and review three potential violations of the Antideficiency Act, Title 31 of the United States Code, section 1341(a), all of which were carried forward from prior years. CLA has reported actual or potential violations of the Antideficiency Act for over 10 years.
9. CLA is responsible for the attached audit report dated November 15, 2024, 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 2025 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 2024 and 2023 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, 2024, and 2023, 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) 2024 in internal control over financial reporting based on the limited procedures we performed; and
- Three reportable noncompliance matters for FY 2024 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 2024 financial statement balances, an other matter paragraph related to the potential violations of the Antideficiency Act (ADA), and a section on 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

Opinion

We have audited the accompanying financial statements of VA, which comprise the consolidated balance sheet as of September 30, 2024, and 2023; 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, 2024, and 2023, 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.

[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. 24-02, *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, the actuarial models for compensation and education program type estimates are based on assumptions and data that VA determines will reflect the best estimate of the present value of future cash flows. Uncertainty and changes in these assumptions about future events, including participants' behaviors and economic conditions, could have a material impact on the financial statements and actual results may materially differ from model outcomes. Furthermore, the estimate related to the Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics (PACT) Act of 2022 is still fairly new and is based on relatively limited data. Specifically, VA has less than two years' data and uncertainty of future trends exists, including the impact of proposed policy updates. Our opinion on VA's financial statements is not modified with respect to this matter.

Other Matter
In FY 2024, VA continues to investigate and review three potential violations of ADA, all of which were carried forward from prior years. 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.

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. 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.

Other Information

VA's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. 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 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.

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.

Loan Guarantee Liability

Continued improvements are needed regarding the internal controls over the Loan Guarantee Liability estimation process, specifically regarding the oversight, documentation, and efficacy of the modeling activities. Conditions remain surrounding the accuracy and risk of misstatement in the estimate requiring corrective actions on the part of VA management.

Entity Level Controls

Entity level controls impact the way in which management operates and have a pervasive effect on an entity's internal control system. VA continues to have control weaknesses throughout the organization with respect to financial reporting, as described in this report.

During our FY 2024 audit, we identified deficiencies in VA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant VA management's attention. We have communicated these matters to VA management and, where appropriate, will report on them separately.

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, 2024, 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 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 2024, 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*.

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, to test 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 and other matters 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, 2023. 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 42. 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, 2024

## EXHIBIT A
## Material Weaknesses

### 1. Controls over Significant Accounting Estimates

***Background:***
The Veterans Benefits Administration (VBA) administers two large benefit programs that have significant accounting estimates and impact VA's financial statements for FY 2024, namely the compensation and education programs, which reported a total liability of $7.4 trillion as of September 30, 2024. VA 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. VA has made progress in the development and implementation of corrective actions to mitigate financial reporting risks associated with these programs, including the establishment of a formal governance structure and process, which occurred approximately two years ago.

***Conditions:***
VA uses a variety of modeling techniques to produce the accounting estimates for its 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. VA's control activities around these estimates require continued focus and strengthening. Specifically, the appropriate timing of completing and providing critical financial information, including sufficient audit evidence, and analyses needs improvement for VA's largest financial statement liability.

A. <u>Timing of Model Completion and Submission</u>
VA made progress in providing experience studies earlier than in prior years; however, the timing of the models remains mostly in the fourth quarter. Four out of the five actuarial models were provided to the auditors in the last quarter of the current fiscal year. This timeline increases the audit risk for such complex actuarial estimates.

B. <u>Documentation and Analysis Related to Legislative Adjustments</u>
When changes in legislation and other circumstances affect future benefits, the effects are recorded as adjustments to the relevant model estimates, as they are not reflected in the current valuation data within the models. In FY 2024, VA strengthened its internal control by implementing a new method to reduce these adjustments, and it also removed adjustments no longer needed for legislative effects now considered fully reflected in the experience data. This improvement resulted in several significant changes to the pre-existing legislative adjustments. However, the documentation and formal policy for handling the reduction and removal of such adjustments need improvement to include detailed procedures, analyses and testing, schedules for timely updates, and adequate explanations to support management's assertions, risk assessment, and decision-making.

C. <u>Actual-to-Projected Analyses (including look-back)</u>
VA performed actual-to-projected payment analyses on the compensation and education models, which compared the prior year's models' projected payments for the current year to the actual FY 2024 expenses, including a look-back analysis with the enhanced models, as applicable. However, these programs continued to have variances that require further research and consideration for assumption updates or refinements, including evaluating the appropriateness of the frequency. We noted the variances between the actual payments and the model projection were larger than the prior year's analyses for these programs. The larger variance could possibly become material over the long-projected future if management does not re-evaluate based on trends. In addition, the analysis for the education programs indicated that the actual payments were higher than the model's projection.

## EXHIBIT A
## Material Weaknesses

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

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:***
Actuarial models are complex and time-consuming as they require information from a variety of sources (including results of experience studies), leading to constraints on when models can be completed and provided to the auditors. In addition, data limitations, or the lack of adequate data, impact the completeness and accuracy of the data inputs, underlying assumptions, and legislative adjustments. Further, VA's risk assessment did not identify the risks related to the timing of model completions for financial reporting and the audit, as well as the need for strong documentation processes.

***Effect:***
These conditions increase the risk of material misstatements to VA's largest financial statement liability.

***Recommendations:***
We recommend that the Assistant Secretary for Management/Chief Financial Officer (CFO) and the VBA CFO in conjunction with the Actuarial and Benefit Liability Governance Board (ABLGB) and Office of Actuarial Services (OAS) continue to coordinate remediation efforts to strengthen control activities and improve audit readiness, including the following:

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.

1. As part of the risk assessment process (identifying, analyzing, and responding to risks related to achieving the defined objectives), VA should work towards delivering models earlier than the fourth quarter of the fiscal year. This supports a collaborative effort to meet OMB deadlines and provide auditors sufficient time to understand the changes to the models, accurately assess risks, design appropriate audit procedures, and avoid delays that could lead to errors in the financial statements.
    a. Ensure that changes to the models are properly documented, reviewed, and tested before implementation. This should include appropriate controls and oversight including planning appropriate timing and prioritization of experience studies, changes to either assumptions or application of assumptions, and completion of models.

2. Implement a robust, documented process to ensure appropriateness of adjustments pertaining to legislations. The documented process should ensure that as experience becomes available, such adjustments are closely monitored, refined, and re-evaluated based on what data is included in the model.

a. 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.
b. Ensure that the documentation is comprehensive, supported, up-to-date, and provided timely for changes to the model's design, assumptions, decisions, and limitations.
c. Conduct the appropriate analyses and testing of data reliability for the key factors used in the methodology, review, and validation of data sources including controls to ensure the completeness and accuracy.

3. Perform actual-to-projected 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.
   a. Compare estimates with subsequent results to assess the reliability of the assumptions and data used to develop estimates.
   b. Identify significant variances to be investigated and researched to determine if current or new assumptions need to be further evaluated.
   c. Continue to perform look-back analyses on the assumptions and other relevant factors used in the calculations to assess the reasonableness of the model outputs.

## 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 the 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 2024, 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.

## EXHIBIT A
## Material Weaknesses

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. This prevents FMS from meeting the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) reporting requirements. As a result, 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.
2. VA continues to use an automated tool to assist with their data cleansing efforts related to prior year recoveries transactions. In FY 2024, VA recorded manual adjustments to correct errors in recoveries for approximately $433 million (absolute value).

C. <u>Issues with Intragovernmental Agreements and Reconciliations</u>
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 $998 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.

**EXHIBIT A**
**Material Weaknesses**

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

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

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

1. FMS reconciliations with subsidiary systems:
   a. Perform an enterprise risk management (ERM) review that includes all of VA's subsidiary systems to inventory all types of VA's financial transactions and how they are initiated, interfaced, and ultimately recorded in FMS. Such an analysis can be performed in conjunction with the system modernization efforts including identifying the gaps and developing gap alternatives to address the systems that will not be part of the modernization.
   b. Coordinate efforts with the Office of Information and Technology (OIT) and the relevant business offices to ensure complete and consolidated reconciliations between those subsidiary systems and the general ledger system are performed on a monthly basis.
   c. Strengthen the FMS cumulative reconciliation with the subsidiary systems that includes performing complete and consolidated reconciliations between those subsidiary systems and FMS on a predetermined frequency basis (e.g., monthly) to support the accuracy and completeness of financial reporting.

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.
   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 49 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 2024. Examples of improvements within VA's IT control environment include improvements in the timeliness of vulnerability remediation and patching, enhanced data related to background investigations including for contractor staff, increased visibility of logging and monitoring tools of infrastructure systems, and increased maturity in processes supporting security documentation. We also noted fewer systems with issues related to inactive or dormant accounts and improvement in the identification, notification, and remediation of security incidents.

VA has made progress in establishing enhanced capabilities for controls for the perimeter of the network and general support systems but internal controls for VA applications continue to present risks. 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, significant application control issues such as the lack of a process for reviewing user access rights and monitoring event logs for application data were found with a high rate of prevalence among the most critical financial systems we tested. Accordingly, we continue to see information system security deficiencies similar in type and risk level to our findings in prior years and an overall inconsistent implementation and enforcement of the security program. These results continue to be prevalent among the key business and financial applications in scope of our review. Moving forward, VA needs to ensure consistent implementation of their standards and policies. 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. 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 application controls across the enterprise. Therefore, VA needs to improve its performance monitoring to ensure controls are operating as intended for all systems and applications. 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.
- 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 inventory of software, hardware, and components for each system boundary was not fully implemented throughout the enterprise.
- Change management procedures for testing system changes were not consistently implemented for critical financial applications. Additionally, we identified several instances of applications where there were inadequate or inconsistent reviews of individuals with access to source code libraries, development, and test environments.
- We noted several instances of applications that did not have consistent process in place for the review of system changes to identify unauthorized modifications.
- Automated controls for identifying and removing prohibited software were not implemented on all Agency platforms. VA has made progress by expanding automated software monitoring including the blocking of software execution on Windows endpoints and continues to work on enhancing continuous monitoring solutions for identifying and removing unauthorized software.

*Access Controls*

- Several key financial applications were identified where controls and processes related to the periodic review of user access privileges and system accounts were not in place or not performed consistently.
- 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 and retention 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.
- We noted several systems where audit logs were maintained for ad hoc investigative purposes and were not periodically monitored or alerted upon for suspicious or unexpected activity/events.
- 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.

*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.

**EXHIBIT A**
**Material Weaknesses**

- 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.
- We identified a large number of personnel who were assigned or held lower levels of background investigations than what was required for their positions. We also identified a significant number of individuals with higher level investigations who were overdue for the five-year reinvestigation requirement.
- 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 the closure of the weaknesses.

*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.
- Systems backups were not always tested consistently in accordance with VA requirements.

***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), which 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;
- 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 implemented 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.

**EXHIBIT A**
**Material Weaknesses**

3. Ensure that all baseline security configurations are appropriately monitored and consistently implemented throughout the environment.

4. Enhance existing automated software management processes on agency platforms where feasible and establish a whitelist policy for critical systems and platforms.

5. Enhance inventory control processes to ensure system components including hardware and software are tracked accurately.

6. Ensure established system change control procedures for VA financial applications and networks are consistently enforced. Ensure controls to detect unauthorized changes are consistently implemented and enforced.

7. Ensure processes for periodic reviews of user access to VA systems and applications are consistently implemented and enforced. Ensure the completion of termination processes for separated personnel.

8. Ensure the proper completion and retention of user access request forms that enforce principles of least system privilege.

9. Ensure processes for monitoring system audit logs for unauthorized activities, unusual activities, and privileged functions are consistently implemented for critical financial applications.

10. Ensure compliance with VA password policy and security configuration baselines on domain controls, operating systems, databases, applications, and network devices.

11. Implement an improved continuous monitoring program including processes for independently assessing security controls and maintaining accurate data within key security documentation.

12. Strengthen processes to ensure appropriate levels of background investigations are completed, documented, and periodically performed in accordance with policy.

13. Implement improved mechanisms to ensure system owners and information system security officers follow procedures for closing POA&Ms with sufficient and relevant documentation.

14. 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 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 2024, 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 $9.35 billion as of June 30, 2024, with $3.63 billion remaining outstanding for the year ended September 30, 2024.

Further, 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 at the transaction level to verify completeness and accuracy of the obligation and related accounts payable balances. The monitoring activities used by VA to validate accounts payable and accrued balances need to be strengthened. VA made adjustments of $2.03 billion at June 30 and $2.32 billion at September 30 to accurately report the accounts payable balances. In addition, a manual adjustment of approximately $458 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 seven months to three years and one month.
- 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, 2024.

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

1. 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.

2. For non-Community Care programs, continue efforts to review open obligations and automated accruals for potential adjustment to assist staff in taking timely actions and to improve monitoring, timely liquidation, and support/use of 1358s. In addition, develop strategies and controls to ensure the proper recording of contracts or modifications in FMS.

3. Continue to improve periodic monitoring activities, e.g., perform analyses of obligation and accrual balances at the transaction level 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, researched, and corrected.

**2. Loan Guarantee Liability**

***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 the Home Loan Guaranty program with an estimated liability of $7.32 billion as of September 30, 2024.

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.

VA launched the Veterans Affairs Servicing Purchase (VASP) program on May 31, 2024, to help veterans who were experiencing financial hardship to avoid foreclosure and stay in their homes. VA uses its existing authorities under 38 U.S.C. 3720 and 3732 to acquire the entire loan balance from private lenders and modifies the loan to a more affordable monthly mortgage payment for the affected veterans.

***Conditions:***
VA implemented the ABLGB in late FY 2022 with various responsibilities including approval and oversight related to the models used for home loan program. 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.

VA should 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. Excluding credit scores based on a faulty analysis 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.

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 confirm to management that models are performing as expected and in line with their design objectives. VA did not adequately describe the methodology used to calculate the re-estimates, and the model workbook lacked descriptive detail. VA recorded an increase of $4.96 billion in re-estimates to the LLG – a more than 50 percent change from the $9.2 billion reported at the end of the prior year, September 30, 2023.

In addition, we noted the following weaknesses surrounding VA's consideration of the VASP program with respect to the LLG estimate:

- VA did not have an adequate detailed written description of the methodology, including the appropriateness of recording the impact of $5 billion in loan guarantee modifications decreasing the LLG, to ensure consistency, transparency, and proper documentation of the process.

**EXHIBIT B**
**Significant Deficiencies**

- VA did not have an adequate written explanation of the VASP model spreadsheet for the following: (1) the inter-relationship/linkage of the tabs in the Excel workbook provided, (2) 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).

***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 (6) newly developed events that would affect the loans' performance. Improvements in methods to re-estimate defaults are also considered."

*The Government Accountability Office (GAO), Standards for Internal Control in the Federal Government (Green Book)* states on p. 48, "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." The Green Book further states on p. 65, "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), paragraph 17, states, "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 re-estimates based upon the best available data at the time the estimates are made. Agencies should prepare and report re-estimates of the credit subsidies, in accordance with SFFAS No. 2, 18, and 19, to reflect the most recent data available as discussed in the re-estimate 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 from the current cohort level approach, utilizing the best available data, which is loan level data, 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: a 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.

4. Ensure adequate and comprehensive documentation is updated or prepared to describe new or changed methodologies, clearly document underlying rationales and analyses to support annual financial re-estimates and explain supporting calculations.

**3. Entity Level Controls**

***Background:***
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. 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.

Entity level controls are controls that have a pervasive effect on an entity's internal control system and may pertain to multiple components. VA's entity level controls need improvement, and its internal controls system for financial reporting should be structured to address the risks posed by this decentralized organization.

## EXHIBIT B
## Significant Deficiencies

***Condition:***
In FY 2024, VA continues to have control weaknesses throughout the organization with respect to internal controls over financial reporting. Entity level controls should be designed to mitigate these known weaknesses. We note the following areas for improvement in entity level controls.

A. Control Environment – CFO Council
The VA established the CFO Council to serve as an advisory committee to the VA CFO to address longstanding financial management control weaknesses. It includes CFOs from VA's different administrations and offices and provides a structure for coordinated action and communication. We found that even though the CFO Council's minutes demonstrated collaboration at the entity level, those minutes also indicated that the analyses and data presented could be more robust or meaningful to support review and follow up action. In addition, the CFO Council could be more proactive in assessing financial reporting risk to the entity, monitoring results of operations and various oversight activities, and assigning action plans. Therefore, the CFO Council, along with the monthly meetings, is not fully effective as an entity level control, and should be improved.

B. Risk Assessments – Controls Over Program Changes
In late FY 2022, VA 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. The ABLGB meets on a monthly basis or as necessary with the CFO as the Chair, the VBA CFO as Vice Chair, and other key personnel from VBA and VHA as voting members.

The ABLGB is still maturing and has not fully implemented all components of internal control based on discussions with management, review of the minutes, and other audit procedures. During FY 2024, CLA continued to identify weaknesses with respect to the documentation and testing of VA's processes for significant accounting estimates. Specifically, in FY 2024, we noted the following:

1. The ABLGB approved significant changes to several pre-existing legislative adjustments that were included with the compensation actuarial model and also approved significant modifications to the home loan guaranty model, but it did not ensure that the changes were properly documented, reviewed, and tested before the impact of the changes were recorded in the financial statements.

2. In addition, VA did not provide the information for the new VASP program until near the end of FY 2024. The lack of documentation and testing was also not fully aligned with the ABLGB's manual, which requires "thorough documentation of proposed changes, analysis of information provided by OAS [Office of Actuarial Services], validation procedures, and regulatory compliance checks. It aims to ensure the accuracy, reliability, and transparency of actuarial models changes while managing associated risks."

Prior to approval of any changes, the ABLGB should have required sufficient documentation and analysis for its decision; updated policies, procedures, and pro forma reports to support implementation of the changes to the legislative adjustments and the modification related to VASP; and a plan to mitigate any risk to the financial statement audit.

## EXHIBIT B
## Significant Deficiencies

C. IT Processing and Controls – IT Infrastructure

An effective entity-wide IT infrastructure for VA must link information technologies, computing resources, and shared efforts from different administrations and offices.

From an entity-level control perspective, VA's IT infrastructure is challenging and depends on significant manual intervention. As already described, VA's IT infrastructure is disjointed and complex and requires enterprise level coordination and controls to ensure financial information produced from different source systems are accurate and complete for financial reporting. As reported in Material Weakness 2 and 3 and the noncompliance finding with respect to the FFMIA, VA's IT infrastructure has significant deficiencies; and it therefore has a pervasive effect on VA's internal control system for financial management and reporting.

Implementation of the new financial accounting system, iFAMS, is challenging. We have observed the complexities around conversion of funds from one system to another. In addition, the reporting of financial information from both iFAMS and FMS requires extra coordination and efforts from administrations and offices to ensure financial information is accurate, complete, and reliable for financial reporting. VA is also relying on the iFAMS implementation to resolve Material Weakness 2 on Financial Systems and Reporting, although the ability of iFAMS to address the deficiencies will not be demonstrated until larger components transition. The timeframe to implement iFAMS means that IT infrastructure weaknesses will continue to exist for the foreseeable future.

VA's specific system challenges, taken together, represent an overall entity-level control deficiency. Material Weakness 2 and 3 provide the supporting evidence. We highlight the entity-level control aspect of the IT infrastructure weakness in this significant deficiency.

***Criteria:***

See OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* criteria in Material Weakness 1.

The Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government* (also known as the Green Book), defines entity-level controls as controls that have a pervasive effect on an entity's internal control system. Entity-level controls may include controls related to the entity's risk assessment process, control environment, service organizations, management override, and monitoring. Because internal control is a part of management's overall responsibility, the five components are discussed in the context of the management of the entity. However, everyone in the entity has a responsibility for internal control. According to the Green Book, the oversight body should oversee the entity's internal control system. Management should establish an organizational structure, assign responsibility and delegate authority to achieve the entity's objectives. Management should evaluate performance and hold individuals accountable for their internal control responsibilities. Management, with oversight by an oversight body, sets objectives to meet the entity's mission, strategic plan, and goals and requirements of applicable laws and regulations.

In addition, management completes and documents corrective actions to remediate internal control deficiencies on a timely basis. These corrective actions include resolution of audit findings. Depending on the nature of the deficiency, either the oversight body or management oversees the prompt remediation of deficiencies by communicating the corrective actions to the appropriate level of the organizational structure and delegating authority for completing corrective actions to appropriate personnel. The audit resolution process begins when audit or other review results are reported to management and is completed only after action has been taken that (1) corrects identified deficiencies, (2) produces improvements, or (3) demonstrates that the findings and recommendations do not warrant management action. Management, with oversight from the oversight body, monitors the status of remediation efforts so that they are completed on a timely basis.

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."

***Cause:***

VA has a complex, disjointed, and legacy financial system architecture that cannot fully support financial management needs without significant manual intervention and has not adequately designed and placed the appropriate controls in operation to remediate the financial reporting risks associated with a decentralized reporting structure. In addition, VA lacks a strong governance process over its modelling activities with respect to adequate written policies, processes, and procedures in place related to control activities.

***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:
   a. Openly sharing information regarding issues, root causes of issues/findings, analyses, and best practices.

   b. Working with responsible parties to implement corrective actions to timely address and mitigate identified issues/risks.
   c. Encouraging communication and collaboration under the CFO's leadership to establish working level committees to resolve any identified accounting, financial management, and financial reporting issues.
   d. Involving other stakeholders such as key leaders from acquisition, logistics, and asset management to collaboratively address financial management issues and develop risk mitigation strategies.
   e. Providing the necessary financial management training and performance monitoring to continuously elevate the financial management capabilities and knowledge within VA.
   f. Strengthening the CFO Council and the ABLGB processes to ensure risks are identified and actively addressed.
   g. Ensuring changes to significant processes such as modelling activities are adequately planned and documented and any resulting risks to the successful and timely completion of the financial statement audit are identified and addressed.

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

3. Implement policy that ensures the administrations, other components, and the Office of Management are monitoring and discussing changes to programs and assessing the effect on the financial statements.

4. Perform adequate oversight to ensure appropriate actions are taken by management in response to program changes. This includes identifying and assessing risks related to complete and accurate documentation of key financial information to support the financial statement audit and redesigning or reprioritizing processes accordingly to reduce the risk to timely completion of the audit.

5. Ensure the governance structure for VA's significant models include the appropriate components of internal control within GAO's Green Book and those specified within the criteria.

## 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 2024:

- *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; that is, 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. We noted discrepancies between information in eCMS and information generated from other source systems such as IFCAP.

- *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 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)
- Enterprise Management of Payments, Workload, and Reporting (eMPWR)
- 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 potential 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 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 functionality 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 2024 to strengthen the 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 Payment Integrity Information Act**

On May 23, 2024, the VA Office of Inspector General reported that VA did not fully comply for FY 2023 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 2023 Finding* | *FY 2024 Status* |
|---|---|---|
| Material Weakness | Controls Over Significant Accounting Estimates | Modified Repeat – See FY 2024 Material Weakness 1 |
| Material Weakness | Financial Systems and Reporting | Repeat – See FY 2024 Material Weakness Finding 2 |
| Material Weakness | Information Technology Security Controls | Modified Repeat – See FY 2024 Material Weakness Finding 3 |
| Significant Deficiency | Obligations, Undelivered Orders (UDOs), and Accrued Expenses | Repeat – See FY 2024 Significant Deficiency Finding 1 |
| Significant Deficiency | Entity Level Controls | Modified Repeat – See FY 2024 Significant Deficiency Finding 3 |
| Significant Deficiency | Loan Guarantee Liability | Modified Repeat – See FY 2024 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 | Resolved |
| Noncompliance | Noncompliance with Payment Integrity Information Act | Repeat – See Noncompliance Finding 3 |

# Section II

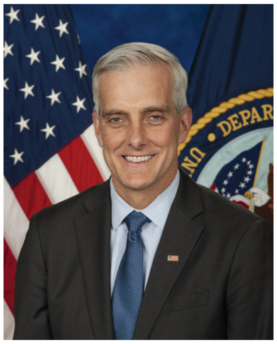
## Agency Comments

- 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, 2024



On behalf of the dedicated employees who work tirelessly to serve the Nation's Veterans, I am privileged to present the United States Department of Veterans Affairs' (VA or the Department) Fiscal Year (FY) 2024 Agency Financial Report (AFR). 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."

The Department maintained our steadfast focus on implementing the Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics (PACT) Act of 2022. Partly due to the PACT Act, VA is delivering care and benefits to more Veterans, their families, caregivers, and survivors than ever before. This year, VA supported over 350,000 Veterans who have enrolled in VA health care under the PACT Act and screened 1.2 million Veterans for toxic exposures. VA also increased claims processing efficiency by fast-tracking claims decisions resulting in nearly 1.1 million PACT Act claims completed in FY 2024.

In FY 2024, VA also launched the VA Servicing Purchase (VASP) program, helping Veterans experiencing severe financial hardship avoid foreclosure and stay in their homes. The program will minimize foreclosures and future redefaults on Veteran-owned homes through long-term payment relief. VA anticipates that VASP will result in a government subsidy spending reduction, making it beneficial for Veterans and taxpayers alike.

Veterans deserve world-class health care facilities, but the median VA hospital was constructed nearly 60 years ago. Our FY 2024 budget included a significant investment of $4.1 billion for construction to begin restoring VA's aging infrastructure and providing Veterans with state-of-the-art health care facilities, as well as a $5 billion investment in medical care funding for non-recurring maintenance to improve medical facility infrastructure.

Lastly, I am pleased to announce the Department received its 26th consecutive unmodified audit opinion from independent public accounting firm CliftonLarsonAllen for the FY 2024 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 the Management's Statement of Assurance on page 29 of this AFR.

I could not be prouder of our various teams across VA who have delivered more care and benefits this year than ever before, regardless of whether they work directly or indirectly with the Nation's Veterans. I especially offer my sincerest gratitude to VA's finance community who helps to ensure our stewardship over taxpayer dollars and without whom this AFR would not be possible.

Sincerely,

(/s/) Denis McDonough

## MESSAGE FROM VA'S CHIEF FINANCIAL OFFICER

**DEPARTMENT OF VETERANS AFFAIRS**
**ASSISTANT SECRETARY FOR MANAGEMENT**
**WASHINGTON DC 20420**

November 15, 2024

In fiscal year (FY) 2024, the Department of Veterans Affairs (VA or the Department) continues to make significant strides in our mission to provide health, education, disability, funerary, and financial benefits to Veterans and their beneficiaries. Notably, VA continues to implement the Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics (PACT) Act by executing over $20.8 billion to support health care and benefits for Veterans exposed to environmental hazards during military service.

VA also continued to prioritize modernization of the accounting system while ensuring uninterrupted service to Veterans and their beneficiaries. Preparation is currently underway to implement the Integrated Financial and Acquisition Management System (iFAMS) for the Veterans Benefits Administration Loan Guaranty program in 2025. Concurrently, VA is also preparing to implement iFAMS for the Veterans Health Administration (VHA), one of the most significant rollouts in terms of transaction volume and dollar amount. The VHA transition to iFAMS will also involve migrating most users from VA's legacy system to iFAMS. VHA's Central Office will serve as the pilot for the VHA migration efforts beginning in late 2025.

In February 2024, we were thrilled to host an in-person Financial Management Leadership Training event to over 600 attendees from VA's financial community. This event enhanced participants' knowledge, skills, and abilities to support the future of VA financial management and further remediate audit findings.

I am also delighted to share that in June 2024, the Association of Government Accountants (AGA) awarded VA its fifth consecutive Certificate of Excellence in Accountability Reporting for the Department's FY 2023 Agency Financial Report, including a prestigious AGA Best-in-Class Award. These accolades recognize VA's dedication to transparent financial and performance reporting.

Additionally, I am proud to announce VA received its 26th consecutive unmodified ("clean") audit opinion this year. Despite this remarkable achievement, VA continues to face multiple 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 the Management's Statement of Assurance on page 29. We are grateful to the Office of Inspector General and CliftonLarsonAllen LLP for their steadfast commitment to improve VA's fiscal accountability.

Finally, I would like to express my sincere gratitude to VA's financial community, without whom our success would not be possible. They work together every day to overcome challenges while maintaining a positive outlook to help ensure that we can fulfill our mission to serve Veterans and their families.

Sincerely,

(/s/) Edward J. Murray
Acting

## 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,** | **2024** | **2023** |
|---|---|---|
| **Assets** | | |
| Intragovernmental | | |
| Fund Balance With Treasury (Note 3) | $ 89,492 | $ 91,627 |
| Investments, Net (Note 5) | 5,736 | 5,575 |
| Accounts Receivable (Note 6) | 76 | 66 |
| Advances and Prepayments | 3,038 | 3,953 |
| Total Intragovernmental | 98,342 | 101,221 |
| Other Than Intragovernmental | | |
| Cash (Note 4) | 2 | 3 |
| Accounts Receivable, Net (Note 6) | 3,971 | 3,995 |
| Loans Receivable, Net (Note 7) | 2,994 | 2,958 |
| Inventory and Related Property (Note 8) | 239 | 143 |
| Property, Plant, and Equipment, Net (Note 9) | 36,448 | 32,469 |
| Advances and Prepayments | 118 | 143 |
| Investments (Note 5) | 140 | 140 |
| Total Other Than Intragovernmental | 43,912 | 39,851 |
| **Total Assets** | **$ 142,254** | **$ 141,072** |
| Heritage Assets (Note 10) | | |
| **Liabilities** | | |
| Intragovernmental | | |
| Accounts Payable | $ 190 | $ 137 |
| Debt (Note 11) | 963 | 568 |
| Advances From Others and Deferred Revenue | 68 | 60 |
| Other Liabilities (Note 15) | 5,623 | 5,792 |
| Total Intragovernmental | 6,844 | 6,557 |
| Other Than Intragovernmental | | |
| Accounts Payable | 19,572 | 4,307 |
| Federal Employee, Salary, Leave, and Benefits Payable (Note 13) | 5,026 | 4,550 |
| Veterans Benefits and Actuarial Federal Employees Compensation Act (FECA) Liability (Note 13) | | |
| Veterans Benefits and Actuarial FECA Liability (Note 13) | 7,429,632 | 7,300,421 |
| Life Insurance Benefits (Note 17) | 3,176 | 3,580 |
| Environmental and Disposal Liabilities (Note 14) | 852 | 974 |
| Loan Guarantee Liabilities (Note 7) | 7,320 | 9,175 |
| Advances From Others and Deferred Revenue | 24 | 20 |
| Other Liabilities (Note 15) | 4,209 | 1,947 |
| Total Other Than Intragovernmental | 7,469,811 | 7,324,974 |
| **Total Liabilities** | **$ 7,476,655** | **$ 7,331,531** |
| Commitments and Contingencies (Note 18) | | |

**(Continued on next page)**

**CONSOLIDATED BALANCE SHEET** *(dollars in millions)*

| **As of September 30,** | **2024** | **2023** |
|---|---|---|
| **Net Position - Unexpended Appropriations** | | |
| Funds From Dedicated Collections | $ 16 | $ 16 |
| Funds From Other Than Dedicated Collections | 51,250 | 71,280 |
| **Total Unexpended Appropriations** | 51,266 | 71,296 |
| **Net Position - Cumulative Results of Operations** | | |
| Funds From Dedicated Collections | 5,843 | 4,914 |
| Funds From Other Than Dedicated Collections | (7,391,510) | (7,266,669) |
| **Total Cumulative Results of Operations** | **(7,385,667)** | **(7,261,755)** |
| **Total Net Position** | **(7,334,401)** | **(7,190,459)** |
| **Total Liabilities and Net Position** | **$ 142,254** | **$ 141,072** |

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,** | **2024** | **2023** |
|---|---|---|
| **Net Program Costs By Administration** | | |
| Veterans Health Administration | | |
| Gross Cost | $ 156,246 | $ 136,417 |
| Less Earned Revenue | (5,358) | (5,031) |
| Net Program Cost | 150,888 | 131,386 |
| Veterans Benefits Administration | | |
| Gross Cost | | |
| Program Costs | 192,907 | 165,565 |
| Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13) | 166,294 | 599,556 |
| Less Earned Revenue | (979) | (567) |
| Net Program Cost | 358,222 | 764,554 |
| National Cemetery Administration | | |
| Gross Cost | 604 | 552 |
| Less Earned Revenue | - | (1) |
| Net Program Cost | 604 | 551 |
| Indirect Administrative Program Costs | | |
| Gross Cost | 3,886 | 3,343 |
| Less Earned Revenue | (575) | (647) |
| Net Program Cost | 3,311 | 2,696 |
| Net Program Costs by Administration Before (Gain)/Loss from Changes in Veterans Benefits Actuarial Assumptions | 513,025 | 899,187 |
| (Gain)/Loss from Changes in Actuarial Assumptions (Note 13) | (37,778) | 558,773 |
| **Net Cost of Operations** | **$ 475,247** | **$ 1,457,960** |

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

| **CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION** *(dollars in millions)* **For the Period Ended September 30, 2024** | **Funds from Dedicated Collections (Note 19)** | **All Other Funds** | **Consolidated Total** |
|---|---|---|---|
| **Unexpended Appropriations** | | | |
| Beginning Balance | $ 16 | $ 71,280 | $ 71,296 |
| Appropriations Received | - | 341,075 | 341,075 |
| Appropriations Transferred In/Out | - | (671) | (671) |
| Other Adjustments | - | (10,539) | (10,539) |
| Appropriations Used | - | (349,895) | (349,895) |
| Net Change in Unexpended Appropriations | - | (20,030) | (20,030) |
| **Total Unexpended Appropriations: Ending** | 16 | 51,250 | 51,266 |
| **Cumulative Results of Operations** | | | |
| Beginning Balance | 4,914 | (7,266,669) | (7,261,755) |
| Appropriations Used | - | 349,895 | 349,895 |
| Nonexchange Revenue | - | 17 | 17 |
| Donations and Forfeitures of Cash and Cash Equivalents | 17 | - | 17 |
| Transfers In/Out Without Reimbursement | (3,738) | 4,769 | 1,031 |
| Donations and Forfeitures of Property | 38 | - | 38 |
| Imputed Financing | - | 5,713 | 5,713 |
| Other | - | (5,376) | (5,376) |
| Net (Cost)/Benefit of Operations (Note 21) | 4,612 | (479,859) | (475,247) |
| Net Change in Cumulative Results of Operations | 929 | (124,841) | (123,912) |
| **Total Cumulative Results of Operations: Ending** | **5,843** | **(7,391,510)** | **(7,385,667)** |
| **Net Position** | **$ 5,859** | **$ (7,340,260)** | **$ (7,334,401)** |

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

| **CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION** *(dollars in millions)* **For the Period Ended 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) |
| Total Budgetary Financing Sources | - | 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) |
| **Total 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.

| **COMBINED STATEMENT OF BUDGETARY RESOURCES**<br>*(dollars in millions)*<br>**For the Period Ended September 30, 2024** | **Budgetary** | **Non-Budgetary Credit Reform Financing Account** |
|---|---|---|
| **Budgetary Resources (Discretionary and Mandatory)** | | |
| Unobligated Balance from Prior Year Budget Authority, Net | $ 58,723 | $ 10,974 |
| Appropriations | 334,743 | 20 |
| Borrowing Authority | - | 523 |
| Spending Authority from Offsetting Collections | 12,363 | 4,779 |
| **Total Budgetary Resources** | **$ 405,829** | **$ 16,296** |
| | | |
| **Status of Budgetary Resources** | | |
| New Obligations and Upward Adjustments (Total) | $ 367,900 | $ 7,357 |
| Unobligated Balance, End of Year: | | |
| Apportioned, Unexpired Accounts | 28,518 | - |
| Exempt from Apportionment, Unexpired Accounts | - | - |
| Unapportioned, Unexpired Accounts | 4,219 | 8,939 |
| Unexpired Unobligated Balance, End of Year | 32,737 | 8,939 |
| Expired Unobligated Balance, End of Year | 5,192 | - |
| Unobligated Balance, End of Year (Total) | 37,929 | 8,939 |
| **Total Status of Budgetary Resources** | **$ 405,829** | **$ 16,296** |
| | | |
| **Outlays, Net, and Disbursements, Net** | | |
| Outlays, Net (Total) (Discretionary and Mandatory) | $ 334,433 | |
| Distributed Offsetting Receipts (-) | (9,429) | |
| **Agency Outlays, Net (Discretionary and Mandatory)** | **$ 325,004** | |
| **Disbursements, Net (Total) (Mandatory)** | | **$ 2,543** |

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

| COMBINED STATEMENT OF BUDGETARY RESOURCES<br>*(dollars in millions)*<br>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 | - |
| Exempt from Apportionment, Unexpired Accounts | - | - |
| 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.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1. REPORTING ENTITY AND 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 OIG 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 are 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.

In FY 2024, the VA Balance Sheet presentation is modified in accordance with OMB Circular No. A-136, *Financial Reporting Requirements*, as revised. Adherence to this guidance results in the aggregation of certain line items and title changes of other line items.

The title changes include the caption Veterans Benefits and Actuarial Federal Employees Compensation Act (FECA) Liability replacing Federal Employee and Veterans Benefits, and the line item labeled Veterans Benefits and Actuarial FECA Liability replacing Veterans Benefits.

As a result of required reclassifications, a new line Federal Employee Salary, Leave, and Benefits Payable was established to include Unfunded Leave and Employers Contributions Payable, both reclassified from Federal Employee Benefits, including Accrued Salaries and Wages, Accrued Funded Annual Leave, and Accrued Funded Payroll and Leave, all reclassified from Other Than Intragovernmental Other Liabilities.

Prior period amounts are updated to align with the presentation of current year amounts.

## 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. The allowance is determined based on the contractual nature of the current balance due and historical experience with collections including a rolling 12-month analysis. Contractual adjustments are estimated for Medical Care Collection Fund receivables due from patients and insurance companies using the allowance method.

Overpayments to Veterans or beneficiaries are the main cause of compensation, pension, and education receivables. Allowances on these receivables are determined based on historical experience with collection efforts during the prior fiscal year. Even though VA was previously 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 has not charged 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 on a 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 based on 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. Stockpile materials consist of caches of pharmaceuticals and medical supplies stored at designated treatment facilities. These 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 two 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 |

VA capitalizes right-to-use lease assets and corresponding lease liabilities for leases that meet or exceed its lease capitalization threshold. In FY 2024, VA recognized all right-to-use leases with unserviced, annual rent that met or exceeded $3.6 million. Right-to-use lease assets are amortized over the life of the lease. See Note 16 for further discussion.

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

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. 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 USGLI program is also self-supporting, but was declared paid-up in 1983, at which time it stopped collecting premiums. There are no policyholders remaining in this program, but annuity payments continue to be made to beneficiaries.

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 and 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% |

| Program | Type of Plan | Table Used | Interest Rate |
|---|---|---|---|
| | 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, NSLI, VSLI, and VRI, are eligible for dividends. 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 2024 and FY 2023, the interest rates range from 3.50% to 1.00%.

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 2024 Discount Rate | FY 2023 Discount Rate |
|---|---|---|
| NSLI | 2.5% | 2.5% |
| VSLI | 3.5% | 3.5% |
| VRI | 2.5% | 2.5% |

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. All USGLI policyholders have reached the program's endowment age and have been paid the face amount of their respective policy along with all earned dividends. 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 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 and are reported as unfunded leave (reported in Note 13).

## Q. VETERANS BENEFITS

The Veterans Benefits Liability for Compensation, Burial, Education, and Veteran Readiness and Employment (VR&E) (reported in Note 13) is 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.*

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 No. 33 requires a minimum of five periodic rates for the yield curve input, 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.

## 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.

VA uses 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.

## 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.<br><br>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. |

| Program Name | Authorizing Statute | Eligibility Qualifications | Benefits |
|---|---|---|---|
| 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 benefit and usage assumptions, the number of Veterans and dependents receiving payments, and discount rates impact 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 measured as of September 30, 2024, based on beneficiary data as of the end of the prior fiscal year.

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 Veterans Benefits and Actuarial FECA Liability). 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 plans' requirements.

## S. LEASE LIABILITIES

In FY 2024, VA recognized right-to-use lease assets and corresponding liabilities in accordance with SFFAS No. 54: *Leases*, as amended. Right-to-use lease assets are recorded as part of Property, Plant and Equipment and the corresponding liability is recorded in Other Than Intragovernmental Other Liabilities. VA's capitalization threshold for right-to-use lease assets and liabilities is for leases that meet or exceed annual unserviced rent of $3.6 million. Leases below the lease capitalization threshold are immaterial and expensed. VA applied the lease capitalization threshold to its portfolio of existing leases as a prospective change in accounting principle, as of October 1, 2023. For new leases, VA's lease capitalization threshold is applied when a lease becomes operational. The adoption of SFFAS No. 54 impacts Property, Plant, and Equipment (Note 9), Liabilities Not Covered By Budgetary Resources (Note 12), Other Liabilities (Note 15), Leases (Note 16), and the Budget and Accrual Reconciliation (Note 23).

In accordance with SFFAS No. 54, VA expenses all intragovernmental leases and leases with terms 24 months or less. In accordance with SFFAS No. 62: Transitional Amendment to SFFAS No. 54, VA elected to apply the accommodation for contracts or agreements that contain both lease components and non-lease components, such as service components, and serve a primary purpose attributable to the non-lease components. The election applies to contracts and agreements existing as of October 1, 2023, and/or those subsequently entered into or modified on or prior to September 30, 2026. Contracts or agreements meeting the criteria are accounted for as non-lease contracts or agreements for their remaining term, unless they are subsequently modified after September 30, 2026, the end of the accommodation period.

### T. 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 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.

### U. USE OF 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.

### V. 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,** | **2024** | **2023** |
|---|---|---|
| Intragovernmental | | |
| Fund Balance With Treasury | $ 576 | $ 579 |
| Accounts Receivable | 4,486 | 4,647 |
| Total Intragovernmental | 5,062 | 5,226 |
| Other Than Intragovernmental | | |
| Accounts Receivable | 153 | 215 |
| **Total Non-Entity Assets** | **5,215** | **5,441** |
| **Total Entity Assets** | **137,039** | **135,631** |
| **Total Assets** | **$ 142,254** | **$ 141,072** |

Non-entity assets are assets held by VA, but not available to be used by VA. These relate primarily to 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,** | **2024** | **2023** |
|---|---|---|
| Status of Fund Balance With Treasury | | |
| Unobligated Balance | | |
| Available | $ 28,026 | $ 46,131 |
| Unavailable | 8,741 | 9,551 |
| Obligated Balance Not Yet Disbursed | 51,482 | 34,880 |
| Deposit Funds | 579 | 581 |
| Clearing Accounts | 173 | 155 |
| Unavailable Receipts | 491 | 329 |
| **Fund Balance With Treasury** | **$ 89,492** | **$ 91,627** |

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,** | **2024** | **2023** |
|---|---|---|
| Cash | | |
| Canteen Service | $ 1 | $ 2 |
| Agent Cashier Advance | 1 | 1 |
| **Total Cash** | **$ 2** | **$ 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)*<br>**As of September 30, 2024** | **Cost** | **Amortized (Premium)/ Discount** | **Interest Receivable** | **Investments, Net** |
|---|---|---|---|---|
| Intragovernmental Securities (Note 19) | | | | |
| Special Bonds by Insurance Program | | | | |
| Supervised Life Insurance Programs | $ 4,225 | $ - | $ 42 | $ 4,267 |
| VRI | 25 | - | - | 25 |
| VALife | 64 | - | 1 | 65 |
| NSLI | 586 | - | 4 | 590 |
| USGLI | 1 | - | - | 1 |
| VSLI | 663 | - | 5 | 668 |
| Subtotal Special Bonds | 5,564 | - | 52 | 5,616 |
| Treasury Notes | 119 | - | 1 | 120 |
| **Total** | **$ 5,683** | **$ -** | **$ 53** | **$ 5,736** |
| | | | | |
| Other Than Intragovernmental Securities | | | | |
| Trust Certificates (Loan Guarantee) | 140 | - | - | 140 |
| **Total** | **$ 140** | **$ -** | **$ -** | **$ 140** |

| *(dollars in millions)*<br>**As of September 30, 2023** | **Cost** | **Amortized (Premium)/ Discount** | **Interest Receivable** | **Investments, Net** |
|---|---|---|---|---|
| Intragovernmental 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** |
| | | | | |
| Other Than Intragovernmental Securities | | | | |
| Trust Certificates (Loan Guarantee) | 140 | - | - | 140 |
| **Total** | **$ 140** | **$ -** | **$ -** | **$ 140** |

Intragovernmental Securities, which comprise most of VA's Investments, are nonmarketable Treasury Special Bonds and Treasury Notes. Special Bonds, which mature during various years through 2039, 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 Intragovernmental 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.

Other than Intragovernmental 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 Other than Intragovernmental Securities do not require amortization.

## NOTE 6. ACCOUNTS RECEIVABLE, NET

*(dollars in millions)*

| **As of September 30,** | **2024** | **2023** |
|---|---|---|
| **Intragovernmental Accounts Receivable** | **$ 76** | **$ 66** |
| Public Accounts Receivable | | |
| Medical Care | $ 6,332 | $ 4,748 |
| Contractual Adjustment and Allowance for Loss Provision | (3,975) | (3,016) |
| Net Medical Care | 2,357 | 1,732 |
| Compensation and Pension Benefits | 2,563 | 3,020 |
| Allowance for Loss Provision | (1,295) | (1,684) |
| Net Compensation and Pension Benefits | 1,268 | 1,336 |
| Education and VR&E Benefits | 480 | 549 |
| Allowance for Loss Provision | (265) | (278) |
| Net Education and VR&E Benefits | 215 | 271 |
| Excess Contingency Reserve Funds | - | 375 |
| Net Excess Contingency Reserve Funds | - | 375 |
| Other | 584 | 702 |
| Allowance for Loss Provision | (453) | (421) |
| Net Other | 131 | 281 |
| Total Accounts Receivable | 9,959 | 9,394 |
| Total Contractual Adjustment and Allowance for Loss Provision | (5,988) | (5,399) |
| **Public Accounts Receivable, Net** | **$ 3,971** | **$ 3,995** |

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 with Prudential to collect excess reserve totaling $3.4 billion over a period of five years. As of September 30, 2024, this VGLI receivable has been collected in-full. Additional information on the VGLI transfers is reported in Note 17.

VA's Accounts Receivable as of September 30, 2024 and 2023, includes $404 million and $383 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.

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. These programs have ended at September 30, 2024.

On May 31, 2024, VA launched a new program — the VASP program — to help Veterans experiencing severe financial hardship avoid foreclosure and stay in their homes. VA purchases the Veteran's modified loan from mortgage servicers to reach an affordable monthly mortgage payment. VA uses existing authorities under 38 U.S.C. §§ 3732 and 3720 to acquire these loans. In addition, there is a targeted pause on foreclosures through December 31, 2024, which gives servicers time to implement this new program.

### 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%. 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 and newly acquired direct loans disbursed as of September 30, 2024 and 2023, was $456 million and $51 million, respectively. The increase is primarily due to newly acquired direct loans disbursed through the VASP program.

## LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY FROM DIRECT AND GUARANTEED LOANS

| *(dollars in millions)* **As of September 30, 2024** | **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 | $ 21 | $ - | $ (19) | $ - | $ - | $ 2 |
| Loans Obligated After FY 1991 (Present Value Method) | | | | | | |
| Direct Home Loans | 634 | 10 | - | 104 | 2 | 750 |
| Defaulted Guaranteed Home Loans | 1,822 | - | - | - | 261 | 2,083 |
| Direct Insurance Policy Loans | 155 | 4 | - | - | - | 159 |
| **Total Loans Receivable** | **$ 2,632** | **$ 14** | **$ (19)** | **$ 104** | **$ 263** | **$ 2,994** |

| *(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** |

### RECONCILIATION OF LOANS RECEIVABLE, NET

*(dollars in millions)*

| **As of September 30,** | **2024** | **2023** |
|---|---|---|
| Beginning balance of loans receivable, net | $ 2,958 | $ 1,334 |
| Loan disbursements | 456 | 51 |
| Principal and interest payments received | (177) | (65) |
| Claim payments converted to loans receivable | - | 1,426 |
| Foreclosed property acquired | - | 226 |
| Sale of foreclosed property | (297) | - |
| Subsidy expense/Add negative subsidy | 1,062 | (36) |
| Upward reestimates/Add downward reestimates | 21 | 13 |
| Other increase/(decrease) to the subsidy allowance | 6 | 5 |
| Other changes to the loan modifications | (1,096) | - |
| Allowance for loan interest loss adjustments | 3 | - |
| Other non-cash reconciling items | 58 | 4 |
| **Ending balance of loans receivable, net** | **$ 2,994** | **$ 2,958** |

### 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, 2024 and 2023.

As of September 30, 2024 and 2023, the number of residential properties in VA's inventory that have foreclosed is 1,370 and 3,152, respectively. The average holding period from the date properties are conveyed to VA until the date properties are sold was approximately four months for FY 2024 and FY2023. The number of properties for which foreclosure proceedings are in process is 15,362 and 27,345 as of September 30, 2024 and 2023, 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. VA anticipated acquiring $5.7 billion in loan guarantees in FY 2024 through the VASP program and recorded a subsidy modification collection of $1.096 billion for the direct loan financing account in April 2024. As of September 2024, VA acquired significantly less than the anticipated amount for VASP. In addition, VA recorded a negative subsidy re-estimate in the amount of $1.109 billion for direct loans.

## SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES

| *(dollars in millions)* **As of September 30,** | **2024** | **2023** |
|---|---|---|
| Allowance balance as of October 1, | $ (54) | $ (69) |
| Subsidy expense for direct loans disbursed during the reporting years | 47 | 1 |
| Adjustments: | | |
| Loan Modifications | 1,096 | - |
| Foreclosed property acquired | 342 | (6) |
| New Loans | (399) | 3 |
| Subsidy allowance amortization | (6) | (5) |
| Change in re-estimate approved by OMB | (21) | (13) |
| Total Adjustments | 1,012 | (21) |
| Ending balance of the subsidy cost allowance before re-estimates | 1,005 | (89) |
| Total subsidy re-estimates | (1,109) | 35 |
| **Ending balance of the subsidy cost allowance** | **$ (104)** | **$ (54)** |

## 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 | 8.25% | 4.21% | 0.00% | -0.47% | 11.99% |
| Veterans Housing Direct Vendee Loans | 0.02% | -26.08% | -2.20% | 0.33% | -27.93% |
| Native American Direct Loans | 0.00% | -27.82% | -0.47% | 8.02% | -20.26% |
| Housing Guaranteed Loans | 0.89% | 0.00% | -0.93% | 0.00% | -0.03% |

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

| *(dollars in millions)* For the period ended September 30, 2024 | Direct Home Loans | Guaranteed Home Loans | Loan Sale Guarantees | Total Subsidy Expense |
|---|---|---|---|---|
| Interest Differential | $ 14 | $ - | $ - | $ 14 |
| Defaults | 33 | 1,195 | - | 1,228 |
| Fees | - | (1,242) | - | (1,242) |
| Interest Rate Reestimates | (43) | (342) | 1 | (384) |
| Technical Reestimates | (1,066) | (2,307) | - | (3,373) |
| **Total Subsidy Expense** | **$ (1,062)** | **$ (2,696)** | $ 1 | **$ (3,757)** |

| *(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)** |

## 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, 2024 | Outstanding Principal of Guaranteed Loans Made by Financial Institutions, Face Value | Amount of Outstanding Principal Guaranteed by VA |
|---|---|---|
| Post-FY 1991 | | |
| Home Loan Guarantees | $ 1,040,796 | $ 261,566 |
| Loan Sale Guarantees | - | 186 |
| **Total** | **$ 1,040,796** | **$ 261,752** |

| *(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** |

### NEW GUARANTEED LOANS DISBURSED

| *(dollars in millions)* For the period ended September 30, 2024 | 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 | $ 138,167 | $ 34,675 | 372,743 |

| *(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 |

## F. LOAN GUARANTEE LIABILITIES

The liability on the guaranteed loans is based on 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.

Each year, VA recalculates its estimated long-term future cash flows from guaranteeing loans. This is actuarial in nature and is calculated on a net present value basis. In the following year, the subsidy required from the reestimates are reassessed for budgetary purposes. The difference between the accrued liability from the actuarial reestimate and the amount approved by OMB arises from differing assumptions used in estimating the loan guarantee liability and those used in preparing VA's budget requests. The budget estimates approved by OMB are reflected in VA's apportionment.

| *(dollars in millions)*<br>**As of September 30, 2024** | **Home Loans Post-FY 1991** | **Loan Sales Post-FY 1991** | **Home Loans Pre-FY 1992** | **Total** |
|---|---|---|---|---|
| Loan guarantee liabilities as of October 1, 2023 | $ 8,877 | $ 17 | $ 281 | $ 9,175 |
| Claim payments to lenders | (378) | - | - | (378) |
| Fees received | 1,304 | - | - | 1,304 |
| Foreclosed property and loans acquired | 38 | - | 3 | 41 |
| Subsidy Expense | (2,648) | - | - | (2,648) |
| Negative subsidy payments | (47) | - | - | (47) |
| Upward reestimate | 476 | (5) | - | 471 |
| Downward reestimates | 4,485 | - | - | 4,485 |
| Loan guarantee modifications | (5,027) | - | - | (5,027) |
| Other | (46) | - | (10) | (56) |
| **Ending balance of the loan guarantee liabilities** | **$ 7,034** | **$ 12** | **$ 274** | **$ 7,320** |

| *(dollars in millions)*<br>**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 |
| Claim payments to lenders | (1,471) | 1 | - | (1,470) |
| Fees received | 1,459 | - | - | 1,459 |
| Foreclosed property and loans acquired | 1,445 | - | (1) | 1,444 |
| Subsidy Expense | (4,626) | - | - | (4,626) |
| Negative subsidy payments | 112 | - | - | 112 |
| Upward reestimates | 620 | 1 | - | 621 |
| Downward reestimates | 1,513 | 1 | - | 1,514 |
| Other | 192 | - | (3) | 189 |
| **Ending balance of the loan guarantee liabilities** | **$ 8,877** | **$ 17** | **$ 281** | **$ 9,175** |

## G. LOAN GUARANTEE MODIFICATIONS

FASAB SFFAS No. 2 defines a modification as a federal government action, including new legislation or administrative action, that directly or indirectly alters the estimated subsidy cost and the present value of loan guarantees. Per VA's baseline model estimate, VA anticipates a modification savings of $5.03 billion in FY 2024. The modification is expected to align the loan guarantee program spending estimates to the VASP policy.

## H. ADMINISTRATIVE EXPENSE

The administrative expense for direct and guaranteed loans for the periods ended September 30, 2024 and 2023, are $318 million and $250 million, respectively.

## NOTE 8. INVENTORY

| *(dollars in millions)*<br>**As of September 30,** | **2024** | **2023** |
|---|---|---|
| Inventory Held for Sale | $ 19 | $ 18 |
| Operating Materials and Supplies | 102 | 39 |
| Stockpile Materials | 118 | 86 |
| **Total Inventory and Related Property** | **$ 239** | **$ 143** |

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)*<br>**As of September 30, 2024** | **Cost** | **Accumulated Depreciation/ Amortization** | **Net Book Value** |
|---|---|---|---|
| Land | $ 573 | $ - | $ 573 |
| Buildings | 44,304 | (26,093) | 18,211 |
| Equipment | 3,428 | (2,381) | 1,047 |
| Other Structures | 5,806 | (3,481) | 2,325 |
| Leasehold Improvements | 1,824 | (650) | 1,174 |
| Internal Use Software | 4,878 | (2,826) | 2,052 |
| Construction Work in Progress | 9,097 | - | 9,097 |
| Right to Use Lease Assets | 2,127 | (158) | 1,969 |
| **Total Property, Plant, and Equipment** | **$ 72,037** | **$ (35,589)** | **$ 36,448** |

| *(dollars in millions)*<br>**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)* | **2024** | **2023** |
|---|---|---|
| Property, Plant, and Equipment Balance as of October 1, (unadjusted) | $ 32,469 | $ 30,825 |
| Effects of Implementation of SFFAS No. 54 | 1,778 | - |
| Property Plant, and Equipment Balance as of October 1, (adjusted) | 34,247 | 30,825 |
| Capitalized acquisitions | 4,100 | 3,710 |
| Right-to-use Lease Assets, Current Year Activity | 350 | - |
| Amortization of Right-to-use Lease Assets | (158) | - |
| Dispositions | (174) | (234) |
| Depreciation expense | (1,923) | (1,853) |
| Donations | - | 16 |
| Other | 6 | 5 |
| **Balance as of September 30** | **$ 36,448** | **$ 32,469** |

## 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, 2024, VA has 1,228 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, 2024** | **Beginning Balance** | **Increases** | **Decreases** | **Ending Balance** |
|---|---|---|---|---|
| Archaeological Sites | 10 | - | - | 10 |
| Art Collections | 39 | - | - | 39 |
| Buildings | 563 | 45 | (33) | 575 |
| Monuments | 1,411 | 3 | (1) | 1,413 |
| Non-Buildings | 1,046 | 1 | (5) | 1,042 |
| Multi-Use Buildings in PP&E | 987 | 128 | (42) | 1,073 |
| Soldiers’ Lots and Monument Sites | 34 | 1 | - | 35 |
| National Cemeteries | 155 | - | - | 155 |
| **Total Heritage Assets in Units** | **4,245** | **178** | **(81)** | **4,342** |

| *(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** |

## NOTE 11. DEBT

| *(dollars in millions)* **As of September 30, 2024** | **Beginning Balance** | **Net Borrowing** | **Ending Balance** |
|---|---|---|---|
| Source of Debt (Intragovernmental) | | | |
| Debt Owed to: | | | |
| Federal Financing Bank (FFB) | $ 4 | $ - | $ 4 |
| Treasury other than the FFB | 564 | 395 | 959 |
| **Total Debt** | **$ 568** | **$ 395** | **$ 963** |

| *(dollars in millions)* **As of September 30, 2023** | **Beginning Balance** | **Net Borrowing** | **Ending Balance** |
|---|---|---|---|
| Source of Debt (Intragovernmental) | | | |
| Debt Owed to: | | | |
| Federal Financing Bank (FFB) | $ 4 | $ - | $ 4 |
| Treasury other than the FFB | 556 | 8 | 564 |
| **Total Debt** | **$ 560** | **$ 8** | **$ 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 except for 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,** | **2024** | **2023** |
|---|---|---|
| Intragovernmental | | |
| Workers Compensation (FECA) | $ 441 | $ 408 |
| Future Funded Expense - Contract Dispute Act | 94 | 119 |
| Total Intragovernmental | 535 | 527 |
| Total Other Than Intragovernmental | | |
| Veterans Benefits and Actuarial FECA Liability (Note 13) | 7,429,632 | 7,300,421 |
| Unfunded Leave (Note 13) | 3,706 | 3,400 |
| Environmental and Disposal Liabilities (Note 14) | 852 | 974 |
| Insurance (Note 17) | 1,611 | 1,688 |
| Other (Note 15) | 3,141 | 1,016 |
| Total Liabilities Not Covered By Budgetary Resources | 7,439,477 | 7,308,026 |
| Total Liabilities Covered By Budgetary Resources | 35,881 | 22,135 |
| Total Liabilities Not Requiring Budgetary Resources | 1,297 | 1,370 |
| **Total Liabilities** | **$ 7,476,655** | **$ 7,331,531** |

## NOTE 13. FEDERAL EMPLOYEE AND VETERANS BENEFITS LIABILITIES

The following table provides a breakdown of the Veterans Benefits and Actuarial FECA Liability reported on the Balance Sheet.

*(dollars in millions)*

| **As of September 30,** | **2024** | **2023** |
|---|---|---|
| Compensation | $ 7,198,500 | $ 7,084,000 |
| Education and VR&E | 212,463 | 197,547 |
| Burial | 10,900 | 11,800 |
| Medical Claims Benefits | 5,420 | 4,760 |
| Actuarial FECA Liability | 2,349 | 2,314 |
| **Total Veterans Benefits and Actuarial FECA Liability** | **$ 7,429,632** | **$ 7,300,421** |

## A. COMPENSATION AND BURIAL

VA provides Disability Compensation (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.

### ASSUMPTIONS USED TO CALCULATE THE VETERANS BENEFITS LIABILITY – COMPENSATION AND BURIAL

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

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

The actuarial liability for Compensation and Burial benefits as of September 30, 2024, was $7.2 trillion. This represents an increase of $0.1 trillion from the September 30, 2023, liability of $7.1 trillion.

The Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions increased by $147.3 billion. The increase was primarily the result of “interest on the liability” of $201.1 billion and “changes in experience” of $104.1 billion, offset by expected “amounts paid” of $176.5 billion. The primary drivers of the liability increase due to “changes in experience” are experience changes from beneficiary counts, average benefit payment amounts, and adjustments to prior year assumptions related to the PACT Act experience.

In FY 2023, the impact on the Compensation liability from the PACT Act was recognized as “prior service costs from plan amendments.” The PACT Act was enacted in August 2022, and some of the experience data related to the PACT Act is now included in the regular updates to the Compensation model. In FY 2024, VA identified the portion of the liability impact related to the PACT Act that is part of experience as well as the portion not yet in the experience data (expected emerging experience). The model's assumption that reflects expected emerging experience and long-term assumptions was applied to the projected future aggregate benefit payments as follows: 7% for FY 2025, and 5% for FY 2026 and thereafter. In FY 2023, VA projected 9% for FY 2025, and 7% for FY 2026 and thereafter. The difference represents the experience contained in the valuation data.

Furthermore, there was a liability increase of $18.6 billion in "prior service costs from plan amendments" due to multiple plan and rulemaking changes, including: an increase of $15.5 billion for changes to the VA disability ratings manual (VASRD) for digestive issues, and an increase of $3.1 billion for exceptions to applying the bilateral factor and rulemaking changes around the character of discharge.

The Gain/Loss from Changes in Actuarial Assumptions decreased by $33.7 billion. In FY 2024, VA updated certain assumptions within the Compensation and Burial model that led to a liability increase of $8.8 billion in "changes in other assumptions" as of September 30, 2024. They include:

- Updated mortality rates for Survivors and non-disabled Veterans; and
- Updated and consolidated miscellaneous data loads (e.g., overpayments, incarceration withholdings, suspended benefits, severance and separation benefits, and spina bifida payments).

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 2.87% to 2.97% as of September 30, 2024, which decreased the Compensation and Burial liability by $96.5 billion.

The COLA rate assumption for FY 2025 changed from 2.4% (in the prior year's estimate) to 3.19% in the FY 2024 model, resulting in a liability increase of $54.0 billion. The long-term COLA rate assumption, based on the intermediate assumptions published in the Social Security Administration's (SSA) 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, | 2024 | 2023 |
|---|---|---|
| Discount Rate, Single Equivalent | 2.97% | 2.87% |
| COLA Rate, Year 1 | 3.19% | 3.51% |
| Long-Term COLA Rate | 2.40% | 2.40% |

## 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, | 2024 | 2023 |
|---|---|---|
| Post-9/11 | $ 124,177 | $ 116,250 |
| VR&E | 26,081 | 20,932 |
| DEA | 61,594 | 59,755 |
| MGIB-AD | 611 | 610 |
| **Total** | **$ 212,463** | **$ 197,547** |

### 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, 52 years for VR&E, 52 years for DEA, and 20 years for MGIB-AD. In FY 2023, the VR&E projection year was 16 years.

| | 2024 | | | |
|---|---|---|---|---|
| | **Post-9/11** | **VR&E** | **DEA** | **MGIB-AD** |
| Discount Rate, Single Equivalent | 2.64% | 2.55% | 2.71% | 2.05% |
| | **2023** | | | |
| | **Post-9/11** | **VR&E** | **DEA** | **MGIB-AD** |
| Discount Rate, Single Equivalent | 2.51% | 2.08% | 2.63% | 1.71% |

VA estimates Education and VR&E benefit liabilities for Servicemembers, Veterans, and Survivors on an actuarial basis. Like the Compensation and Burial model, the Education and VR&E models use data that are 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, 2024, was $212.4 billion. This represents an increase of $14.9 billion from the September 30, 2023, liability of $197.5 billion. In addition, unlike the Compensation and Burial model, the change made to the PACT Act assumption for the VR&E and DEA models are included in “changes in other assumptions” because the adjustment to future enrollee projected cash flow was changed from a phased-in approach to a constant percentage load beginning in the first projection year. The PACT Act doesn’t apply to the MGIB-AD and Post-9/11 GI Bill models because they are not dependent on disability status.

In FY 2024, VA performed updates to Post-9/11GI Bill, VR&E, and DEA liability models. Significant changes to these models are described below:

- The actuarial liability for Post-9/11 GI Bill benefits as of September 30, 2024, was $124.2 billion. This represents an increase of $7.9 billion from the September 30, 2023, liability of $116.3 billion. This increase was primarily the result of "changes in experience" due to changes in beneficiary counts and benefit amounts, offset by "amounts paid."
- The actuarial liability for VR&E benefits as of September 30, 2024, was $26.1 billion. This represents an increase of $5.2 billion from the September 30, 2023, liability of $20.9 billion. This increase was primarily the result of "changes in experience" due to a greater than expected increase in eligible beneficiaries, offset by a decrease in "changes in other assumptions" which was primarily driven by an updated study of transition rates, updates to enrollment rates, and other related model assumptions. The PACT Act assumption applied to the projected cash flows for future new enrollees was updated and resulted in a liability increase of $0.5 billion.
- The actuarial liability for DEA benefits as of September 30, 2024, was $61.6 billion. This represents an increase of $1.8 billion from the September 30, 2023, liability of $59.8 billion. This increase was primarily the result of "interest on the liability" and "changes in experience." An update to the PACT Act assumption which is applied to the projected cash flows for future new enrollees resulted in a liability increase of $2.2 billion.

On April 16, 2024, the Supreme Court issued a decision in a case that potentially impacts individuals with multiple periods of active-duty service who are entitled to MGIB-AD benefits under one period of service and Post-9/11 GI Bill benefits under another period of service, and whether they are entitled to a combined total of 36 months of benefits (which was VA's prior interpretation of the governing statutes) or 36 months of benefits under each program subject to the 48-month aggregate cap. The Supreme Court determined that the latter entitlement subject to the 48-month rule applies in this scenario. VA is currently assessing the effect of this decision on benefits entitlement and needs additional data and analysis to develop a measurable estimate in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*. VA plans to incorporate the impact of the Supreme Court decision into experience studies in fiscal year 2025.

### OTHER RELEVANT CONSIDERATIONS FOR THE ESTIMATION OF THE COMPENSATION, BURIAL, EDUCATION, AND VR&E LIABILITIES

VA programs are unlike any other in the Federal Government or commercial environment. As such, to develop the estimates VA uses certain data that are 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 the time value of money affects the net cost estimates and demographic assumptions that are used for modeling how participants' behaviors affect the amount and timing of benefit payments. As previously noted, key economic assumptions include the interest rate and COLA, while major demographic assumptions include mortality rates, expected level of benefit usage and remaining benefits (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 to Survivors, the projection period for the Compensation and Burial model is 100 years. 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 the model for certain assumption changes, 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 reassessment of priorities.

It is also important to note that the provisions of the PACT Act are relatively new, and VA is still assessing its scope and impacts to the estimated liability. While VA has incorporated the PACT Act into the Compensation, DEA, and VR&E models, the estimate may change in future years due to proposed policy updates that include shifts in application approval rates and the expansion of eligible locations among other factors.

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, 2024.

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)*<br>**As of September 30, 2024** | **Compensation** | **Burial** | **Education and VR&E** | **Total** |
|---|---|---|---|---|
| Liability at October 1, 2023 | $ 7,084,000 | $ 11,800 | $ 197,547 | $ 7,293,347 |
| Expense for the period: | | | | |
| Interest on the Liability Balance* | 200,800 | 300 | 4,787 | 205,887 |
| Actuarial (Gain)/Loss: | | | | |
| Changes in Experience (Veterans Counts, Status)* | 105,000 | (900) | 26,178 | 130,278 |
| Changes in Assumptions: | | | | |
| Changes in Discount Rate Assumption | (96,400) | (100) | (2,625) | (99,125) |
| Changes in COLA Rate Assumption | 53,900 | 100 | 427 | 54,427 |
| Changes in Other Assumptions | 8,800 | - | (1,880) | 6,920 |
| Net (Gain)/Loss from Changes in Assumptions | (33,700) | - | (4,078) | (37,778) |
| Prior Service Costs from Plan Amendments* | 18,600 | - | 314 | 18,914 |
| Total Expense | 290,700 | (600) | 27,201 | 317,301 |
| Less Amounts Paid* | (176,200) | (300) | (12,285) | (188,785) |
| Net Change in Actuarial Liability | 114,500 | (900) | 14,916 | 128,516 |
| **Liability at September 30, 2024** | **$ 7,198,500** | **$ 10,900** | **$ 212,463** | **$ 7,421,863** |

*(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 |
| Changes 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 2024.

** 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

Federal Employee Salary, Leave, and Benefits Payable Liabilities include accrued salaries, wages, and funded annual leave, and sick leave that have been earned but are unpaid, as well as unpaid leave that any employee is entitled to upon separation and that will be funded by future years' budgetary resources. In addition, it includes the employer portion of payroll taxes and benefit contributions, such as retirement, health, and life insurance for covered employees.

*(dollars in millions)*

| As of September 30, | 2024 | 2023 |
|---|---|---|
| Unfunded Leave | $ 3,706 | $ 3,400 |
| Accrued Funded Payroll and Leave | 1,303 | 1,129 |
| Employer Contributions and Payroll Taxes Payable | 17 | 21 |
| **Total Federal Employee Salary, Leave, and Benefits Payable** | **$ 5,026** | **$ 4,550** |

VA generates costs related to employee benefit plans that include retirement, health insurance and life insurance benefit plans. OPM is responsible for the management and accounting of such plans and passes the expense, known as imputed cost, on to VA.

*(dollars in millions)*

| For the Periods Ended September 30, | 2024 | 2023 |
|---|---|---|
| Civil Service Retirement System | $ 2,260 | $ 1,109 |
| Federal Employees Health Benefits | 3,330 | 3,128 |
| Federal Employees Group Life Insurance | 9 | 8 |
| **Total Imputed Expenses-Employee Benefits** | **$ 5,599** | **$ 4,245** |

## NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

VA has unfunded Environmental and Disposal Liabilities in the amount of $852 million and $974 million as of September 30, 2024 and 2023, 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 $200 million and $190 million, for September 30, 2024 and 2023, respectively; and the removal of nonfriable asbestos of $496 million and $498 million, for September 30, 2024 and 2023, 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,** | **2024** | **2023** |
|---|---|---|
| Intragovernmental | | |
| Other Liabilities (Without Reciprocals) | $ 135 | $ 154 |
| Liability to the General Fund of the U.S. Government and Other Non-Entity Assets | 4,640 | 4,861 |
| Other Current Liabilities - Benefit Contribution Payable | 746 | 650 |
| Other Liabilities | 102 | 127 |
| Total Intragovernmental | 5,623 | 5,792 |
| | | |
| Other Than Intragovernmental | | |
| Withholding Payable | 1 | 3 |
| Other Liabilities Without Related Budgetary Obligations | 445 | 378 |
| Other Liabilities With Related Budgetary Obligations | 317 | 246 |
| Contingent Liabilities | 690 | 638 |
| Contract Holdbacks | 16 | 17 |
| Liability for Clearing Accounts | 156 | 84 |
| Liability for Non-Fiduciary Deposits Funds and Undeposited | 578 | 581 |
| Lease Liability Without Budgetary Obligations* | 2,006 | - |
| Total Other Than Intragovernmental | 4,209 | 1,947 |
| **Total Other Liabilities** | **$ 9,832** | **$ 7,739** |

*In accordance with SFFAS 54 which became effective fiscal year 2024, the unfunded liability is accounted for prospectively. This amount represents the future funded portion of the present value of the future lease payments.

## NOTE 16. LEASES

VA's intragovernmental leases consist of occupancy agreements (OAs) for real property rental from General Services Agency (GSA) and vehicle rentals from GSA. For OAs, GSA charges rental rates for space that approximates commercial rental rates for similar properties. The terms of GSA OAs vary according to whether the underlying assets are owned directly by the Federal Government or rented by GSA from third-party commercial property owners. Some GSA OAs can be cancellable with varying periods of notice required (generally four to six months). Cancellation requires a payment of all unamortized tenant improvements and rent concessions not yet earned. GSA OAs may also be non-cancellable, where VA would be financially responsible for rent payments on vacated space until the expiration of the OA, the termination of the OA permitted under the lease terms, or until the occupancy by a replacement tenant covers VA's total rent obligation. VA's lease expense for OAs for the period ended September 30, 2024, is $252 million. In addition to real property rental from GSA, VA also rents vehicles from GSA to provide transportation services to Veterans and for employees' official business. GSA charges rental rates based on monthly lease and mileage charges, published in a GSA bulletin. Monthly lease and mileage charges include all maintenance and fuel expenses. Vehicle rental agreements are cancellable by either VA or GSA subject to a reuse of leased vehicles clause. VA's lease expense for vehicles with GSA for the period ended September 30, 2024, is $157 million.

VA's significant other than intragovernmental real property (right-to-use) lease portfolio primarily includes leases for Veterans medical facilities and clinics, where VA rents real property directly from third-party commercial property owners through GSA delegated authority. Real property leases for medical facilities and clinics with third-party commercial property owners have initial lease terms of 15 to 20 years. VA normally occupies the leased real property for the entire initial lease term without exercising termination rights that become available in the latter parts of the lease term.

Other than intragovernmental leases that are greater than 24 months are reported as part of Other Liabilities (Note 15) at present value of the future lease payments. The lease liability as of September 30, 2024, is also reported as part of Liabilities Not Covered by Budgetary Resources (Note 12). The present value is calculated using the Treasury rates for notes and bonds that have similar durations as the lease terms. The rates used for the period ended September 30, 2024, ranged from 4.21% to 6%. VA's lease interest expense for the period ended September 30, 2024, is $92 million. VA's leased asset amortization expense for the period ended September 30, 2024, is $158 million.

The following table represents future payments due for leases with other than intragovernmental entities reported as a liability on the Balance Sheet.

*(dollars in millions)*

| For the year ended September 30, 2024 | Principal | Interest | Total |
|---|---|---|---|
| 2025 | $ 136 | $ 95 | $ 231 |
| 2026 | 139 | 88 | 227 |
| 2027 | 139 | 81 | 220 |
| 2028 | 146 | 75 | 221 |
| 2029 | 153 | 67 | 220 |
| 2030 – 2034 | 722 | 230 | 952 |
| 2035 – 2039 | 399 | 88 | 487 |
| 2040 – 2044 | 172 | 17 | 189 |
| **Total** | **$ 2,006** | **$ 741** | **$ 2,747** |

VA's EUL program allows VA to manage underutilized property through leasing arrangements with state or local governments or private sector organizations that provide benefits to Veterans through expanded access to a range of services, including housing, job training, and mental health counseling. Most of VA's current EUL projects exist to provide safe and affordable housing to Veterans and their families. VA frequently enters into EUL arrangements as the lessor, under which VA receives immaterial or no consideration, as authorized by 38 U.S.C. § 8161-8169. VA is not entitled to, nor does it recognize private sector investment into EULs as revenue. When implementing SFFAS No. 54, VA reexamined the leasing arrangements established through the EUL program. In FY 2024, VA does not have any EUL arrangements, where VA is the lessor, that meet the right-to-use lease criteria established by SFFAS No. 54.

## 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.

### INSURANCE LIABILITY BALANCES

| *(dollars in millions)* **As of September 30, 2024** | **Insurance Death Benefits** | **Death Benefit Annuities** | **Disability Income & Waiver** | **Reserve Totals** |
|---|---|---|---|---|
| NSLI | $ 326 | $ 13 | $ 1 | $ 340 |
| VSLI | 448 | 1 | 1 | 450 |
| S-DVI | 1,017 | 5 | 595 | 1,617 |
| VRI | 14 | - | - | 14 |
| VMLI | 208 | - | - | 208 |
| VALife | 70 | - | - | 70 |
| Subtotal | 2,083 | 19 | 597 | 2,699 |
| Insurance Dividends Left on Credit or Deposit | | | | 301 |
| Dividends Payable to Policy Holders | | | | 3 |
| Unpaid Policy Claims | | | | 173 |
| Insurance Liabilities Reported on the Balance Sheet | | | | 3,176 |
| Less Liabilities not Covered by Budgetary Resources (Note 12) | | | | (1,611) |
| **Liability Covered by Budgetary Resources** | | | | **$ 1,565** |

| *(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** |

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, 2024** | **Unpaid Claim Liability as of October 1, 2023** | **Claims Expenses** | **Less Payments to Settle Claims** | **Ending Unpaid Claim Liability Balance** |
|---|---|---|---|---|
| NSLI | $ 82 | $ 132 | $ (146) | $ 68 |
| VSLI | 53 | 112 | (115) | 50 |
| S-DVI | 42 | 121 | (117) | 46 |
| VRI | 3 | 4 | (5) | 2 |
| VMLI | 8 | 31 | (32) | 7 |
| **Total** | **$ 188** | **$ 400** | **$ (415)** | **$ 173** |

| *(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** |

VA supervises the administration of two life insurance programs, SGLI and VGLI, which are administered by Prudential. Prudential holds reserves needed for claims and administration while the group policy is in effect. Further, a contingency reserve is used to account for adverse fluctuations in claims under the policy, as required by law. These reserves are maintained in Prudential's financial records since the risk of loss is assumed by Prudential and its reinsurers. 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. The contingency reserve held by Prudential for SGLI is currently above its target range. VA is assessing and will undertake the appropriate actions to transfer the SGLI contingency reserve balance to VA as excess funds in FY 2025. 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. As of September 30, 2024, VA had received the entire $3.4 billion over 20 installment payments.

## 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)*<br>**As of September 30,** | **2024** | **2023** |
|---|---|---|
| NSLI | $ 313 | $ 491 |
| VSLI | 429 | 538 |
| S-DVI | 831 | 816 |
| VRI | 13 | 19 |
| **Total*** | **$ 1,586** | **$ 1,864** |

*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)*<br>**For the Period Ended September 30, 2024** | **Program Costs** | **Premiums Collected** | **Appropriations Used** |
|---|---|---|---|
| NSLI | $ 218 | $ 8 | $ - |
| VSLI | 135 | 6 | - |
| S-DVI | 159 | 61 | 109 |
| VRI | 7 | - | - |
| VMLI | 33 | 4 | 29 |
| VALIFE | 8 | 60 | - |
| **Total** | **$ 560** | **$ 139** | **$ 138** |

| *(dollars in millions)*<br>**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** |

## 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.

| | 2024 Policies (number of policies) | 2023 Policies | 2024 Face Value (dollars in millions) | 2023 Face Value |
|---|---|---|---|---|
| Supervised Programs (UNAUDITED) | | | | |
| SGLI Active Duty | 1,386,000 | 1,419,000 | $ 680,687 | $ 700,983 |
| SGLI Ready Reservists | 686,500 | 693,500 | 310,428 | 325,368 |
| SGLI Post Separation | 84,000 | 94,000 | 40,396 | 45,942 |
| SGLI Family – Spouse | 875,000 | 884,000 | 86,548 | 87,385 |
| SGLI Family – Children | 1,616,000 | 1,657,000 | 16,160 | 16,570 |
| TSGLI* | - | - | 207,250 | 211,250 |
| VGLI | 453,774 | 451,409 | 98,685 | 93,911 |
| Total Supervised | 5,101,274 | 5,198,909 | $ 1,440,154 | $ 1,481,409 |
| | | | | |
| Administered Programs | | | | |
| NSLI | 28,248 | 44,256 | $ 349 | $ 550 |
| VSLI | 32,595 | 41,491 | 498 | 627 |
| S-DVI | 255,737 | 269,077 | 2,693 | 2,833 |
| VRI | 1,458 | 2,056 | 15 | 21 |
| VMLI | 2,155 | 2,226 | 346 | 352 |
| VALIFE | 45,700 | 24,543 | 1,454 | 784 |
| Total Administered | 365,893 | 383,649 | $ 5,355 | $ 5,167 |
| | | | | |
| **Total Supervised and Administered Programs** | **5,467,167** | **5,582,558** | **$ 1,445,509** | **$ 1,486,576** |

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

## D. POLICY DIVIDENDS

The Secretary determines annually the excess funds available for dividend payment. Policy dividends for FY 2024 and FY 2023 were $5 million and $9 million, respectively.

## NOTE 18. COMMITMENTS AND CONTINGENCIES

VA records a contingent liability of $690 million and $638 million for FY 2024 and FY 2023, 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, 2024.

| *(dollars in millions)* | Accrued | Estimated Range of Loss | |
|---|---|---|---|
| **For the Period Ended September 30, 2024** | **Liabilities** | **Low** | **High** |
| Legal Contingencies | | | |
| Probable - Medical Malpractice and Other Torts | $ 468 | $ 468 | $ 468 |
| Probable - Non-Tort | 222 | 222 | 282 |
| **Total** | **$ 690** | **$ 690** | **$ 750** |

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

As of September 30, 2024 and 2023, there are cases and claims not brought under the Federal Tort Claims Act, where there is at least a reasonable possibility that a loss may occur, for which the potential range of loss cannot be determined.

In one case, VA is in the process of implementing the Supreme Court's decision regarding eligibility for Veterans with separate periods of service who qualify for both MGIB and Post-9/11 GI Bill (PGIB) 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, a United States Court of Appeals for the Federal Circuit panel 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 Federal Circuit full court reversed the CAVC decision, holding that an individual, with multiple periods of service who switches from MGIB to PGIB without first exhausting MGIB benefits is limited to a total of 36 months of MGIB and PGIB benefits. In April 2024, the Supreme Court reversed the Federal Circuit, holding that Veterans with separate periods of service who qualify for both MGIB and PGIB benefits may receive full benefits under both programs, subject to an aggregate 48-month benefits cap.

In another case, VA is involved in a class action in the Federal district court of California related to the 388-acre West Los Angeles VA Campus ("West LA Campus"). This lawsuit alleges that certain Veterans have been discriminated against by a failure of VA to provide housing benefits and that various land use agreements do not comply with the terms of the West LA Leasing Act of 2016. On September 6, 2024, the court entered a post-trial opinion in favor of the plaintiffs on all claims and granted an injunctive relief. The relief measures include building housing units, voiding land-use agreements, and appointing a court monitor, among other things, which are being determined over a series of hearings that are still in progress. On October 25, 2024, VA's notice of appeal was filed in the district court. On October 30, 2024, VA filed an immediate administrative stay and partial stay pending appeal. In the event VA does not obtain appellate relief, policy changes will be implemented to align with the court's ruling.

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** | **2024** | **2023** |
|---|---|---|
| Fiscal Year Settlement Payments | $ 128 | $ 154 |
| Less Contract Dispute and "No Fear" Payments | (14) | (12) |
| **Imputed Financing-Paid by Other Entities*** | **$ 114** | **$ 142** |

*The Imputed Financing-Paid by Other Entities in the table above, when combined with the Total Imputed Expenses for 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 2020 through FY 2024, the average medical care cost per year is $102.6 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 |
| 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 | Other Funds From Dedicated Collections | Total Funds From Dedicated Collections (Combined) | Eliminations Between Funds From Dedicated Collections | Total Funds From Dedicated Collections (Consolidated) |
|---|---|---|---|---|---|
| **Balance Sheet as of September 30, 2024** | | | | | |
| Assets | | | | | |
| Intragovernmental | | | | | |
| Fund Balance With Treasury | $ 167 | $ 678 | $ 845 | $ - | $ 845 |
| Investments | 5,616 | 120 | 5,736 | - | 5,736 |
| Accounts Receivable | - | 11 | 11 | - | 11 |
| **Total Intragovernmental** | **$ 5,783** | **$ 809** | **$ 6,592** | **$ -** | **$ 6,592** |
| Other Than Intragovernmental | | | | | |
| Cash | $ - | $ 1 | $ 1 | $ - | $ 1 |
| Accounts Receivable, Net | 5 | 2,094 | 2,099 | - | 2,099 |
| Direct Loan and Loan Guarantees, Net | 158 | - | 158 | - | 158 |
| Inventory | - | 19 | 19 | - | 19 |
| Property, Plant, and Equipment | - | 70 | 70 | - | 70 |
| **Total Assets** | **$ 5,946** | **$ 2,993** | **$ 8,939** | **$ -** | **$ 8,939** |
| Liabilities | | | | | |
| Intragovernmental | | | | | |
| Accounts Payable | $ - | $ (6) | $ (6) | $ - | $ (6) |
| Other Liabilities | 43 | - | 43 | - | 43 |
| Total Intragovernmental Liabilities | $ 43 | $ (6) | $ 37 | $ - | $ 37 |
| Other Than Intragovernmental | | | | | |
| Accounts Payable | $ 24 | $ 25 | $ 49 | $ - | $ 49 |
| Federal Employee Salary, Leave, and Benefits Payable | - | 10 | 10 | - | 10 |
| Veterans Benefits and Actuarial (FECA) Liability | 2,961 | - | 2,961 | - | 2,961 |
| Advances From Others and Deferred Revenue | 22 | - | 22 | - | 22 |
| Other Liabilities | - | 1 | 1 | - | 1 |
| **Total Liabilities** | **$ 3,050** | **$ 30** | **$ 3,080** | **$ -** | **$ 3,080** |
| Net Position | | | | | |
| Total Net Position | $ 2,896 | $ 2,963 | $ 5,859 | $ - | $ 5,859 |
| **Total Liabilities and Net Position** | **$ 5,946** | **$ 2,993** | **$ 8,939** | **$ -** | **$ 8,939** |
| **Statement of Net Cost as of September 30, 2024** | | | | | |
| Gross Program Costs | $ 228 | $ 606 | $ 834 | $ - | $ 834 |
| Less Earned Revenues | 347 | 5,099 | 5,446 | - | 5,446 |
| **Net Cost/(Benefit) of Operations** | **$ (119)** | **$ (4,493)** | **$ (4,612)** | **$ -** | **$ (4,612)** |
| **Statement of Changes in Net Position as of September 30, 2024** | | | | | |
| **Unexpended Appropriations Beginning Balance** | $ - | $ 16 | $ 16 | $ - | $ 16 |
| Net Change in Unexpended Appropriations | - | - | - | - | - |
| **Total Unexpended Appropriations: Ending** | **-** | **16** | **16** | **-** | **16** |
| **Cumulative Results of Operations** | **$ 2,668** | **$ 2,246** | **$ 4,914** | **$ -** | **$ 4,914** |
| Budgetary and Other Financing Sources | 109 | (3,792) | (3,683) | - | (3,683) |
| Net (Cost)/Benefit of Operations | 119 | 4,493 | 4,612 | - | 4,612 |
| **Change in Cumulative Results of Operations** | **228** | **701** | **929** | **-** | **929** |
| **Cumulative Results of Operations: Ending** | **2,896** | **2,947** | **5,843** | **-** | **5,843** |
| **Total Net Position** | **$ 2,896** | **$ 2,963** | **$ 5,859** | **$ -** | **$ 5,859** |

| *(dollars in millions)* | Insurance | Other Funds From Dedicated Collections | Total Funds From Dedicated Collections (Combined) | Eliminations Between Funds From Dedicated Collections | Total Funds From Dedicated Collections (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 Salary, Leave, and Benefits Payable | - | 13 | 13 | - | 13 |
| Veterans Benefits and Actuarial (FECA) Liability | 3,360 | - | 3,360 | - | 3,360 |
| Advances From Others and Deferred Revenue | 17 | - | 17 | - | 17 |
| Other Liabilities | - | 2 | 2 | - | 2 |
| **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 as of 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 as of 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** |

## 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 also has the following exchange revenue activities:

- Lodge leases with not-for-profit groups and employees for historic preservation, office space, or temporary housing. Lessees are generally responsible for lodge upkeep, utilities, insurance, minor repairs, and other maintenance costs.
- Vacant land leases for agricultural farming, private business use, and for use by local community-based entities. Based on the agreement terms, lessees pay rent monthly or annually.
- Annual fees from commercial entities for easements to access land.

Because VA receives immaterial revenue from the NCA lodge, vacant land, and easement arrangements described above, VA does not recognize lease receivables or unearned revenue for these leasing arrangements.

## NOTE 21. NET PROGRAMS COSTS BY ADMINISTRATION

| *(dollars in millions)* **For the Period Ended September 30, 2024** | **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 | $ 32,149 | $ - | $ - | $ 32,149 | $ - | $ 32,149 |
| 0152 - Medical Support and Compliance | 11,102 | - | (63) | 11,039 | - | 11,039 |
| 0160 - Medical Services | 74,143 | - | (233) | 73,910 | - | 73,910 |
| 0162 - Medical Facilities | 6,945 | - | (22) | 6,923 | - | 6,923 |
| 0167 - Information Technology | 6,677 | - | (168) | 6,509 | - | 6,509 |
| All Other Funds | 27,548 | - | (5,133) | 22,415 | - | 22,415 |
| **VHA Combined Total** | **158,564** | **-** | **(5,619)** | **152,945** | **-** | **152,945** |
| Intra-Entity Eliminations | (2,318) | - | 261 | (2,057) | - | (2,057) |
| **VHA Consolidated Total** | **$ 156,246** | **$ -** | **$ (5,358)** | **$ 150,888** | **$ -** | **$ 150,888** |
| **VETERANS BENEFITS ADMINISTRATION** | | | | | | |
| 0102 - Compensation and Pensions | $ 176,795 | $ 147,300 | $ - | $ 324,095 | $ (33,700) | $ 290,395 |
| 0137 - Readjustment Benefits | 14,325 | 18,994 | - | 33,319 | (4,078) | 29,241 |
| 4129 - Veterans Housing Benefits Loan Guarantee Program | 195 | - | (195) | - | - | - |
| 8132 - National Service Life Insurance Fund | 31 | - | (28) | 3 | - | 3 |
| 0151 - General Operating Expenses | 8,840 | - | (5,131) | 3,709 | - | 3,709 |
| All Other Funds | (1,846) | - | (756) | (2,602) | - | (2,602) |
| **VBA Combined Total** | **198,340** | **166,294** | **(6,110)** | **358,524** | **(37,778)** | **320,746** |
| Intra-Entity Eliminations | (5,433) | - | 5,131 | (302) | - | (302) |
| **VBA Consolidated Total** | **$ 192,907** | **$ 166,294** | **$ (979)** | **$ 358,222** | **$ (37,778)** | **$ 320,444** |
| **NCA Combined Total** | $ 622 | $ - | $ - | $ 622 | $ | $ 622 |
| Intra-Entity Eliminations | (18) | - | - | (18) | | (18) |
| **NCA Consolidated Total** | **$ 604** | **$ -** | **$ -** | **$ 604** | **$** | **$ 604** |
| **Indirect Administrative Programs** | | | | | | |
| 0142 - General Administration | $ 1,001 | $ - | $ (480) | $ 521 | $ - | $ 521 |
| 1122 - Board of Veterans Appeals | 294 | - | - | 294 | - | 294 |
| 4537 - Supply Fund | 2,020 | - | (2,134) | (114) | - | (114) |
| All Other Funds | 2,304 | - | (2,071) | 233 | - | 233 |
| **Indirect Administrative Programs Combined Total** | **5,619** | **-** | **(4,685)** | **934** | **-** | **934** |
| Intra-Entity Eliminations | (1,733) | - | 4,110 | 2,377 | - | 2,377 |
| **Indirect Administrative Programs Consolidated Total** | **$ 3,886** | **$ -** | **$ (575)** | **$ 3,311** | **$ -** | **$ 3,311** |
| **Net Cost of Operations** | **$ 353,643** | **$ 166,294** | **$ (6,912)** | **$ 513,025** | **$ (37,778)** | **$ 475,247** |

| *(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** |

## 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 ten months from the date of issuance of debt. Loans generally have a duration of one year and repayment is made from offsetting collections.

| | 2024 | | 2023 | |
|---|---|---|---|---|
| *(dollars in millions)* | **Value** | **Interest Rate** | **Value** | **Interest Rate** |
| Home Loan Guarantee Program | $ 523 | 4.00% | $ 107 | 2.50% |
| Vocational Rehabilitation Program Direct Loans | $ - | 4.50% | $ 1 | 0.90% |

### B. PERMANENT INDEFINITE APPROPRIATIONS

VA has three 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, (2) The Native American Veteran Direct Loan Program account covers all subsidy re-estimate costs, and (3) The Vocational Rehabilitation Loan Program account 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 2023 Statement of Budgetary Resources and the FY 2023 actual amounts reported in the FY 2025 President's Budget of the U.S. Government. The FY 2025 President's Budget was released in March 2024 and may be obtained from OMB or the Government Publishing Office. The Budget with the actual amounts for the current year (that is, FY 2024) is expected to be released early in the subsequent calendar year.

| *(dollars in millions)* **FY 2023 Actual Balances per the FY 2025 Budget of the U.S. Government** | **Total Budgetary Resources** | **New Obligations & Upward Adjustments** | **Distributed Offsetting Receipts** | **Net Outlays** |
|---|---|---|---|---|
| Actual Balances per the FY 2025 Budget of the U.S. Government | $ 385,578 | $ 327,524 | $ (716) | $ 305,706 |
| Reconciling Items: | | | | |
| Expired Unobligated Funds | 4,329 | - | - | - |
| Expired Prior Year Budget Authority | 1,884 | - | - | - |
| Medical Care Collection Fund - Copayments | - | - | (4,131) | - |
| Special Funds not in the U.S. Budget but in the SBR | 7 | - | - | 1 |
| Offsetting Differences between the U.S. Budget and the SBR | - | - | (37) | - |
| Non-Budgetary Financing Disbursements, Net* | - | - | - | 198 |
| Other | (3) | 6 | (2) | 7 |
| **Per the FY 2023 Statement of Budgetary Resources** | **$ 391,795** | **$ 327,530** | **$ (4,886)** | **$ 305,912** |

*These are credit reform financing account net outlays.

## D. USE OF UNOBLIGATED BALANCE OF BUDGET AUTHORITY

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

## E. UNDELIVERED ORDERS AT THE END OF THE PERIOD

| *(dollars in millions)* **As of September 30,** | **2024** | | **2023** | |
|---|---|---|---|---|
| | **Paid** | **Unpaid** | **Paid** | **Unpaid** |
| Intragovernmental Undelivered Orders | $ 3,031 | $ 5,154 | $ 3,939 | $ 5,517 |
| Undelivered Orders | 123 | 21,847 | 157 | 21,871 |
| **Total Undelivered Orders** | **$ 3,154** | **$ 27,001** | **$ 4,096** | **$ 27,388** |

### F. LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

*(dollars in millions)*

| As of September 30, | 2024 | 2023 |
|---|---|---|
| Unapportioned Amounts Unavailable for Future Apportionments | $ 13,158 | $ 12,609 |
| Expired Authority | 5,192 | 4,329 |
| **Total Unobligated Balances** | **$ 18,350** | **$ 16,938** |

### G. CONTRIBUTED CAPITAL

For the years ended September 30, 2024 and 2023, General Post Fund donations totaled $55 million and $50 million, respectively.

### H. NET ADJUSTMENTS TO UNOBLIGATED BALANCE BROUGHT FORWARD

*(dollars in millions)*

| As of September 30, | 2024 | 2023 |
|---|---|---|
| Unobligated Balance, Prior Year | $ 64,265 | $ 63,700 |
| Funds Paid to Treasury | (269) | (69) |
| Recoveries of Prior Year Obligations | 5,697 | 5,977 |
| Other | 4 | (7) |
| **Unobligated Balance from Prior Year Budget Authority, Net** | **$ 69,697** | **$ 69,601** |

## 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 Operating 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 Operating Cost and Net Outlays.

| *(dollars in millions)* **For the Period Ended September 30, 2024** | **Intra-governmental** | **Other Than Intra-governmental** | **Total** |
|---|---|---|---|
| **Net Operating Cost (SNC)** | **$ 23,601** | **$ 451,646** | **$ 475,247** |
| **Components of Net Operating Cost Not Part of the Budget Outlays** | | | |
| Property, Plant, and Equipment Depreciation Expense | - | (1,923) | (1,923) |
| Property, Plant, and Equipment Disposals and Reevaluations | - | (174) | (174) |
| Lessee Lease Amortization | - | (158) | (158) |
| Cost of Goods Sold | (1,434) | (160) | (1,594) |
| Adjustment to Prior Year Credit Reform Reestimates Accrual | - | 4,401 | 4,401 |
| Gains/Losses on All Other Investments | - | 156 | 156 |
| Increase/(Decrease) in Assets: | | | |
| Accounts Receivable, Net | 1,485 | 42 | 1,527 |
| Loans Receivable, Net (Non-FCRA) | - | 3 | 3 |
| Securities and Investments | 3 | - | 3 |
| Other Assets | (916) | (28) | (944) |
| (Increase)/Decrease in Liabilities: | | | |
| Accounts Payable | 99 | (15,205) | (15,106) |
| Environmental and Disposal Liabilities | - | 122 | 122 |
| Federal Employee Salary, Leave, and Benefits Payable | - | (401) | (401) |
| Veterans Benefits and Actuarial FECA Liability | - | (129,211) | (129,211) |
| Life Insurance Benefits Payable | - | 404 | 404 |
| Other Liabilities | (2,046) | (192) | (2,238) |
| Financing Sources: | | | |
| Imputed Cost | (5,713) | - | (5,713) |
| **Total Components of Net Operating Cost Not Part of the Budget Outlays** | **(8,522)** | **(142,324)** | **(150,846)** |
| **Components of the Budgetary Outlays That Are Not Part of Net Cost of Operations** | | | |
| Acquisition of Capital Assets | 283 | 3,817 | 4,100 |
| Payments Against Lease Liabilities | - | 121 | 121 |
| Acquisition of Inventory | - | 1,686 | 1,686 |
| Financing Sources: | | | |
| Donated Revenue | - | (16) | (16) |
| Transfers Out (In) Without Reimbursements | (5,234) | - | (5,234) |
| **Total Components of the Budget Outlays That Are Not Part of Net Cost of Operations** | **(4,951)** | **5,608** | **657** |
| **Miscellaneous Items** | | | |
| Distributed Offsetting Receipts (-) | - | (9,429) | (9,429) |
| Non-Entity Activity | 5,234 | - | 5,234 |
| Appropriated Receipts for Trust/Special Funds | 4,063 | - | 4,063 |
| Other | 11 | 67 | 78 |
| **Total Miscellaneous Items** | **9,308** | **(9,362)** | **(54)** |
| **Total Net Outlays** | **$ 19,436** | **$ 305,568** | **$ 325,004** |
| **Agency Outlays, Net (Discretionary and Mandatory)** | | | **$ 325,004** |

| *(dollars in millions)* **For the Period Ended September 30, 2023** | **Intra-governmental** | **Other Than Intra-governmental** | **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 | - | 10 |
| Other Assets | 1,548 | 67 | 1,615 |
| (Increase)/Decrease in Liabilities: | | | |
| Accounts Payable | 142 | 351 | 493 |
| Loans Guarantee Liability (Non-FCRA)/Loans Payable | - | 4 | 4 |
| Environmental and Disposal Liabilities | - | (25) | (25) |
| Federal Employee Salary, Leave, and Benefits Payable | - | (571) | (571) |
| Veterans Benefits and Actuarial FECA Liability | - | (1,158,429) | (1,158,429) |
| Life Insurance Benefits Payable | - | 364 | 364 |
| Other Liabilities | (2,580) | 44 | (2,536) |
| 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** | **$ 20,388** | **$ 280,638** | **$ 301,026** |
| **Agency Outlays, Net (Discretionary and Mandatory)** | | | **$ 301,026** |

## 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 tables below.

VA's EUL program allows VA to manage underutilized property through leasing arrangements with state or local governments or private sector organizations, with the property otherwise being unused, abandoned, sold, or demolished in the absence of the EUL arrangement. As part of the EUL program, a private sector party and/or VA can provide capital to enhance an underutilized building or land, but VA is not entitled to, nor does it recognize, private sector investment into EULs as revenue. Based on the conclusive risk characteristics established in SFFAS No. 49, VA determined that EULs meet the definition of a P3. However, VA determined the disclosure amounts associated with EULs is quantitatively and qualitatively immaterial to the financial statement as a whole. In addition, the potential risk of loss to VA is remote. In the event of default, noncompliance, or nonperformance by the lessee, VA does not owe or pay any fees, costs, expenses, or penalties, and the lessee bears all risk. Further, in implementing SFFAS No. 54, VA examined the leasing arrangements under the EUL program, including the criteria established in SFFAS No. 54 and determined EUL arrangements are immaterial to VA's financial statements.

### A. ENERGY SAVINGS PERFORMANCE CONTRACTS (ESPC) AND UTILITY ENERGY SERVICE CONTRACTS (UESC)

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, 2024** | **Actual Amount Paid in FY** | **Estimated Amount to be Paid over Expected Life** | **Total Cumulative Funding by VA over life of Arrangement** | **Total Cumulative Funding by Private Sector over life of Arrangement** |
|---|---|---|---|---|
| ESPC | $ 29 | $ 589 | $ 117 | $ 676 |
| UESC | 7 | 301 | 243 | 320 |
| **Total** | **$ 36** | **$ 890** | **$ 360** | **$ 996** |

| *(dollars in millions)* **As of September 30, 2023** | **Actual Amount Paid in FY** | **Estimated Amount to be Paid over Expected Life** | **Total Cumulative Funding by VA over life of Arrangement** | **Total Cumulative Funding by Private Sector over life of Arrangement** |
|---|---|---|---|---|
| ESPC | $ 142 | $ 595 | $ 110 | $ 666 |
| UESC | 4 | 190 | 219 | 199 |
| **Total** | **$ 146** | **$ 785** | **$ 329** | **$ 865** |

## NOTE 25. RECLASSIFICATION OF THE STATEMENT OF NET COST AND STATEMENT OF CHANGES IN NET POSITION FOR THE FINANCIAL REPORT COMPILATION PROCESS

To prepare the FR of the U.S. Government, Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by 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 and Reclassified Statement of Changes in Net Position for each agency. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements.

This note shows VA's financial statements and VA's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the FY 2023 FR can be found on Treasury's website and a copy of the FY 2024 FR will be posted to this site as soon as it is released, generally in January.

| **FY 2024 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 2024 Government-wide Statement of Net Cost** | |
|---|---|---|---|---|---|---|---|
| Financial Statement Line | Amounts | | | | | Amounts | Reclassified Financial Statement Line |
| Gross Costs | 519,937 | | | | | | Non-federal Costs |
| | | 732 | - | 494,519 | - | 495,251 | Non-federal Gross Cost |
| | | 732 | - | 494,519 | - | 495,251 | Total Non-federal Costs |
| | | | | | | | Intragovernmental Costs |
| | | 37 | - | 12,594 | - | 12,631 | Benefit Program Costs |
| | | - | - | 5,713 | - | 5,713 | Imputed Costs |
| | | 65 | - | 2,546 | (103) | 2,508 | Buy/Sell Costs |
| | | - | - | 19 | - | 19 | Purchase of Assets |
| | | - | - | 210 | - | 210 | Borrowing and Other Interest Expense |
| | | - | - | 3,605 | - | 3,605 | Other Expenses (w/o Reciprocals) |
| | | 102 | - | 24,687 | (103) | 24,686 | Total Intragovernmental Costs |
| Total Gross Costs | **519,937** | **834** | **-** | **519,206** | **(103)** | **519,937** | Total Reclassified Gross Costs |
| Earned Revenue | (6,912) | (5,198) | - | (629) | - | (5,827) | Non-Federal Earned Revenue |
| | | | | | | | Intragovernmental Revenue |
| | | (41) | - | (498) | 103 | (436) | Buy/Sell Revenue |
| | | - | - | (19) | - | (19) | Purchase of Assets Offset |
| | | (207) | - | - | - | (207) | Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange) |
| | | - | - | (423) | - | (423) | Borrowing and Other Interest Revenue |
| | | (248) | - | (940) | 103 | (1,085) | Total Intragovernmental Earned Revenue |
| Total Earned Revenue | **(6,912)** | **(5,446)** | **-** | **(1,569)** | **103** | **(6,912)** | Total Reclassified Earned Revenue |
| Gain/Loss-Pension/ORB*/ OPEB** Assumptions | (37,778) | - | - | (37,778) | - | (37,778) | Gain/Loss on Changes in Actuarial Assumptions (Non-Federal) |
| Net Cost | **475,247** | **(4,612)** | **-** | **479,859** | **-** | **475,247** | Net Cost |

*Other Retirement Benefits
**Postemployment Benefits other than Pensions

| **FY 2024 VA Statement of Changes in Net Position (dollars in millions)** | | **Line Items Used to Prepare FY 2024 Government-wide Statement of Changes in Net Position** | |
|---|---|---|---|
| Financial Statement Line | Amounts | Amounts | Reclassified Financial Statement Line |
| **UNEXPENDED APPROPRIATIONS** | | | |
| Beginning Balance | 71,296 | 71,296 | Net Position, Beginning of Period |
| Appropriations Received | 341,075 | 330,536 | Appropriations Received as Adjusted |
| Other Adjustments | (10,539) | | Appropriations Received as Adjusted |
| Appropriations Transferred In/Out | (671) | (671) | Non-Expenditure Transfers-In/Out of Unexpended Appropriations and Financing Sources (Federal) |
| Appropriations Used | (349,895) | (349,895) | Appropriations Used (Federal) |
| Net Change in Unexpended Appropriations | (20,030) | (20,030) | Net Change in Unexpended Appropriations |
| **Total Unexpended Appropriations: Ending** | **51,266** | **51,266** | **Total Unexpended Appropriations: Ending** |
| **CUMULATIVE RESULTS OF OPERATIONS** | | | |
| Beginning Balance | (7,261,755) | (7,261,755) | Net Position, Beginning of Period |
| Appropriations Used | 349,895 | 349,895 | Appropriations Expended |
| Non-Exchange Revenues | 17 | 17 | Collections Transferred into a TAS Other Than the General Fund of the U.S. Government - Nonexchange |
| Donations and Forfeitures of Cash and Cash Equivalents | 17 | 55 | Other Taxes and Receipts (Non-Federal) |
| Donations and Forfeitures of Property | 38 | | |
| Transfers In/Out Without Reimbursements | 1,031 | 870 | Non-Expenditure Transfers-In/Out of Unexpended Appropriations and Financing Sources |
| | | 161 | Expenditure Transfers-In/Out of Financing Sources |
| Other | (5,376) | (5,586) | Non-Entity Custodial Collections Transferred to the General Fund |
| | | 210 | Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund |
| Imputed Financing | 5,713 | 5,713 | Imputed Financing Sources (Federal) |
| Net Cost of Operations | (475,247) | (475,247) | Reclassified Net Cost of Operations |
| Net Change | (123,912) | (123,912) | Net Change |
| **Total Cumulative Results of Operations: Ending** | **(7,385,667)** | **(7,385,667)** | **Total Cumulative Results of Operations: Ending** |
| **Net Position** | **(7,334,401)** | **(7,334,401)** | **Net Position** |

# REQUIRED SUPPLEMENTAL 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,** | **2024** | **2023** |
|---|---|---|
| Property, Plant, and Equipment | $ 16,177 | $ 14,781 |
| Heritage Assets | 1,268 | 1,204 |
| **Total Deferred Maintenance and Repairs** | **$ 17,445** | **$ 15,985** |

## COMBINING STATEMENT OF BUDGETARY RESOURCES

**DEPARTMENT OF VETERANS AFFAIRS**
**COMBINING STATEMENT OF BUDGETARY RESOURCES**
**FOR THE PERIOD ENDED SEPTEMBER 30, 2024**
(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 | $ 1,919 | $ 897 | $ 6,023 | $ 3,017 | $ 598 | $ 12,848 | $ 25,302 |
| Appropriations | 30,890 | 10,719 | 71,842 | 9,009 | 6,378 | 24,595 | 153,433 |
| Spending Authority from Offsetting Collections | - | 63 | 148 | 23 | 167 | 495 | 896 |
| **Total Budgetary Resources** | **$ 32,809** | **$ 11,679** | **$ 78,013** | **$ 12,049** | **$ 7,143** | **$ 37,938** | **$ 179,631** |
| **Status of Budgetary Resources** | | | | | | | |
| New Obligations and Upward Adjustments | $ 31,785 | $ 10,707 | $ 71,469 | $ 9,294 | $ 6,844 | $ 25,344 | $ 155,443 |
| Apportioned, Unexpired Accounts | 617 | 351 | 5,157 | 2,666 | 98 | 8,095 | 16,984 |
| Unapportioned, Unexpired Accounts | - | - | - | - | - | 4,210 | 4,210 |
| Unexpired Unobligated Balance, End of Year | 617 | 351 | 5,157 | 2,666 | 98 | 12,305 | 21,194 |
| Expired Unobligated Balance, End of Year | 407 | 621 | 1,387 | 89 | 201 | 289 | 2,994 |
| Unobligated Balance, End of Year | 1,024 | 972 | 6,544 | 2,755 | 299 | 12,594 | 24,188 |
| **Total Status of Budgetary Resources** | **$ 32,809** | **$ 11,679** | **$ 78,013** | **$ 12,049** | **$ 7,143** | **$ 37,938** | **$ 179,631** |
| **Outlays, Net** | | | | | | | |
| Outlays, Net | $ 31,389 | $ 10,372 | $ 70,485 | $ 8,885 | $ 6,111 | $ 24,440 | $ 151,682 |
| Distributed Offsetting Receipts | - | - | - | - | - | (4,027) | (4,027) |
| **Agency Outlays, Net** | **$ 31,389** | **$ 10,372** | **$ 70,485** | **$ 8,885** | **$ 6,111** | **$ 20,413** | **$ 147,655** |
| **Disbursements, Net** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |

**(Continued on next page)**

**DEPARTMENT OF VETERANS AFFAIRS**
**COMBINING STATEMENT OF BUDGETARY RESOURCES**
**FOR THE PERIOD ENDED SEPTEMBER 30, 2024**
(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 | $ 19,436 | $ 5,554 | $ 10,917 | $ - | $ 2,028 | $ 4,695 | $ 42,630 |
| Appropriations | 164,136 | 9,424 | 21 | 211 | 3,868 | 2,091 | 179,751 |
| Borrowing Authority | - | - | 60 | - | - | 463 | 523 |
| Spending Authority from Offsetting Collections | - | 160 | 3,365 | 7 | 5,193 | 3,069 | 11,794 |
| **Total Budgetary Resources** | **$ 183,572** | **$ 15,138** | **$ 14,363** | **$ 218** | **$ 11,089** | **$ 10,318** | **$ 234,698** |
| **Status of Budgetary Resources** | | | | | | | |
| New Obligations and Upward Adjustments | $ 177,918 | $ 14,449 | $ 6,690 | $ 218 | $ 10,128 | $ 4,036 | $ 213,439 |
| Apportioned, Unexpired Accounts | 4,409 | 689 | - | - | 114 | 4,975 | 10,187 |
| Unapportioned, Unexpired Accounts | - | - | 7,673 | - | - | 1,271 | 8,944 |
| Unexpired Unobligated Balance, End of Year | 4,409 | 689 | 7,673 | - | 114 | 6,246 | 19,131 |
| Expired Unobligated Balance, End of Year | 1,245 | - | - | - | 847 | 36 | 2,128 |
| Unobligated Balance, End of Year | 5,654 | 689 | 7,673 | - | 961 | 6,282 | 21,259 |
| **Total Status of Budgetary Resources** | **$ 183,572** | **$ 15,138** | **$ 14,363** | **$ 218** | **$ 11,089** | **$ 10,318** | **$ 234,698** |
| **Outlays, Net** | | | | | | | |
| Outlays, Net | $ 161,232 | $ 13,400 | $ - | $ 278 | $ 5,025 | $ 1,590 | $ 181,525 |
| Distributed Offsetting Receipts | - | - | - | (9) | - | (5,274) | (5,283) |
| **Agency Outlays, Net** | **$ 161,232** | **$ 13,400** | **$ -** | **$ 269** | **$ 5,025** | **$ (3,684)** | **$ 176,242** |
| **Disbursements, Net** | **$ -** | **$ -** | **$ 3,262** | **$ -** | **$ -** | **$ (719)** | **$ 2,543** |

**(Continued on next page)**

**DEPARTMENT OF VETERANS AFFAIRS**
**COMBINING STATEMENT OF BUDGETARY RESOURCES**
**FOR THE PERIOD ENDED SEPTEMBER 30, 2024**
(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 | $ 50 | $ 126 | $ 49 | $ 804 | $ 736 | $ 1,715 | $ 69,697 |
| Appropriations | 540 | 471 | 272 | - | 296 | 1,039 | 334,763 |
| Borrowing Authority | - | - | - | - | - | - | 523 |
| Spending Authority from Offsetting Collections | 3 | 496 | - | 2,075 | 1,878 | 4,449 | 17,142 |
| **Total Budgetary Resources** | **$ 593** | **$ 1,093** | **$ 321** | **$ 2,879** | **$ 2,910** | **$ 7,203** | **$ 422,125** |
| **Status of Budgetary Resources** | | | | | | | |
| New Obligations and Upward Adjustments | $ 550 | $ 1,009 | $ 282 | $ 2,205 | $ 2,329 | $ 5,825 | $ 375,257 |
| Apportioned, Unexpired Accounts | 34 | 44 | 21 | 674 | 574 | 1,313 | 28,518 |
| Unapportioned, Unexpired Accounts | - | - | - | - | 4 | 4 | 13,158 |
| Unexpired Unobligated Balance, End of Year | 34 | 44 | 21 | 674 | 578 | 1,317 | 41,676 |
| Expired Unobligated Balance, End of Year | 9 | 40 | 18 | - | 3 | 61 | 5,192 |
| Unobligated Balance, End of Year | 43 | 84 | 39 | 674 | 581 | 1,378 | 46,868 |
| **Total Status of Budgetary Resources** | **$ 593** | **$ 1,093** | **$ 321** | **$ 2,879** | **$ 2,910** | **$ 7,203** | **$ 422,125** |
| **Outlays, Net** | | | | | | | |
| Outlays, Net | $ 524 | $ 415 | $ 275 | $ (122) | $ 134 | $ 702 | $ 334,433 |
| Distributed Offsetting Receipts | (1) | - | - | - | (118) | (118) | (9,429) |
| **Agency Outlays, Net** | **$ 523** | **$ 415** | **$ 275** | **$ (122)** | **$ 16** | **$ 584** | **$ 325,004** |
| **Disbursements, Net** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ 2,543** |

## 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 No. 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 | 16,232.18 | 23,558.93 | 0.13 | 39,791.24 |
| End of Current Year | 15,814.90 | 23,558.93 | 0.13 | 39,373.96 |
| **Held for Disposal or Exchange** | | | | |
| End of Prior Year | 16.22 | - | - | 16.22 |
| End of Current Year | 14.50 | - | - | 14.50 |

## 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, 2024, VA held lease rights to 9.73 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.

# Report Distribution

## VA Distribution

Office of the Secretary
Veterans Benefits Administration
Veterans Health Administration
National Cemetery Administration
Assistant Secretaries
Office of General Counsel
Office of Acquisition, Logistics, and Construction
Board of Veterans’ Appeals

## Non-VA Distribution

House Committee on Veterans’ Affairs
House Appropriations Subcommittee on Military Construction, Veterans Affairs, and Related Agencies
House Committee on Oversight and Accountability
Senate Committee on Veterans’ Affairs
Senate Appropriations Subcommittee on Military Construction, Veterans Affairs, and Related Agencies
Senate Committee on Homeland Security and Governmental Affairs
National Veterans Service Organizations
Government Accountability Office
Office of Management and Budget

**OIG reports are available at www.va.gov/oig.**