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**THE SECRETARY OF VETERANS AFFAIRS  
WASHINGTON**

November 15, 2012

To the President of the United States, President of the Senate, President Pro Tempore of the Senate, and Speaker of the House of Representatives:

I am pleased to submit the *Department of Veterans Affairs (VA) 2012 Performance and Accountability Report*. This report highlights our accomplishments in improving the timeliness, accessibility, and quality of health care and benefits service delivery that our Veterans have earned through their sacrifice and service.

This past year VA has made progress for Veterans and the American people. On the path to ending Veteran homelessness by 2015, we assisted more than 37,000 homeless Veterans in acquiring permanent housing through our collaborative partnership with the Department of Housing and Urban Development. We processed more than 1 million disability claims for the third year in a row in a concerted effort to eliminate the claims processing backlog by 2015, and increased the national accuracy rate for pension maintenance claims to 98 percent. VA's provision of telehealth-based clinical services has grown by 66 percent in the last two years increasing access to care for rural Veteran patients. Veterans continue to increase their use of eBenefits to access VA information and services with over 2 million Veterans using the tool. We also continued to increase access to burial benefits through funding the establishment of four new State Veterans Cemeteries. VA continued to make progress in improving information security, resulting in a more comprehensive security program to better protect sensitive information.

VA's major initiatives are successfully transitioning to sustainment and have been a part of our core programs since 2009, and we received our 14<sup>th</sup> consecutive unqualified (clean) audit opinion on our consolidated financial statements. As stated in my "Statement of Assurance" and Part I, VA has assessed the reliability and completeness of financial data and actions the agency is taking to resolve its one material weakness. Within Part II, performance reliability is reported on each key measure individually in the section prior to the performance measures tables.

Our work continues on the key challenges facing the Department and our strategies to address them. We will continue to improve the quality of our programs and service delivery, optimize our efficiency, and exceed the expectations of Veterans, their families, and survivors.

We are focused on transforming VA into a 21<sup>st</sup> century organization focused on increasing Veterans' access to VA healthcare and services, ending the backlog in compensation claims, and ending Veteran homelessness—both in 2015—to fulfill our Nation's enduring commitment to Veterans. We hold ourselves to the same high standards of performance that the Nation and its Veterans do. The linkage between our goals, objectives, strategies, and programs has never been clearer, and our employees' performance is evaluated carefully against the Department's plans.

Every VA employee is charged to be an advocate for Veterans. We are all committed to providing Veterans and their families with the very best healthcare and services. The Nation has depended on our Veterans, and VA's employees want Veterans to know they can depend on VA.

Sincerely,

A handwritten signature in black ink, appearing to read "Eric K. Shinseki", is positioned above the printed name.

Eric K. Shinseki



## Executive Summary

### Introduction

In 2012, with more than \$138 billion in obligations and approximately 294,087 full-time equivalent employees, VA took numerous actions that helped improve the quality of life for America's Veterans and their families. Our major achievements are summarized below.

### Implementing Agency Priority Goals (APG)

VA has three Agency Priority Goals (APGs) that continue to serve as a platform to transform VA into a 21<sup>st</sup> century organization that is people-centric, results-driven, and forward-looking. Each APG is designed to solve a key problem facing the Department and/or the Veterans we serve. Information on how well VA is doing on specific APG's begins on page I-69.

### Medical Services: *Delivering High-Quality Health Care*

In 2012, VA maintained the largest integrated health care system in America. Throughout the year, VA implemented new innovative practices to improve Veterans' access to health care, such as telemedicine and mobile clinics, to provide care to more than 6 million unique patients. Our commitment to delivering timely, high-quality health care to America's Veterans while controlling costs, remains a top priority.

Key performance results for 2012 include:

- Patient Access: 95 percent of primary care appointments were completed within 14 days of desired appointment date.
- Quality of Health Care: VA continues to improve performance on nationally recognized industry standards such as the Clinical Practice Guidelines Index (CPGI) and the Prevention Index (PI). Compared to last

year's ratings, the CPGI increased from 91 percent to 94 percent and PI increased from 92 percent to 94 percent.

- Rural Health: In addition to continuing to support new rural sites of care, VA supported telehealth demonstration projects, expansion of rural home based primary care, rural Veteran outreach, Project Access Received Closer to Home (ARCH), rural clergy training and a new interdisciplinary program to develop rural provider training and education sites for residents, nursing and allied health students.
- Suicide Hotline and Suicide Prevention: As a result of further expansion and development of the Veterans Crisis Line, more than 650,000 people have called the crisis line and over 440,000 of these callers identified themselves as Veterans or family members or friends of Veterans. There have been more than 23,000 rescues of actively suicidal Veterans, and local community rescue services were dispatched to assist them. An online chat service was initiated in July 2009. Since then, over 65,000 "chatters" have worked with VA counselors on a one-on-one basis. The Veterans Health Administration (VHA) has over 54,000 Facebook fans and more than 15,000 Twitter followers. VA monitors Facebook for Veterans who express suicidal thoughts, and we reach out and contact them directly to get help when needed.
- Homeless Veterans: Program enhancements under the Eliminate Veteran Homelessness Initiative will ensure the provision of housing, health care, benefits, employment, and residential stability with the goal of reducing the number of homeless Veterans to functional zero by



2015. The intent is for every Veteran to have access to a safe, stable environment, and that capacity will be sufficient so that no Veteran should be unsheltered. In FY 2012, 119,878 Veterans were served by VA Health Care for Homeless Veterans outreach initiatives, an increase of more than 21 percent from fiscal year 2011. In partnership with the Department of Housing and Urban Development (HUD), a total of 37,350 Veterans had permanent housing through the HUD-VA Supportive Housing (HUD-VASH) Program as of September 30, 2012. These Veterans were also provided with dedicated case managers and access to high-quality VA health care. This fiscal year, the total number of Veterans who obtained housing as of September 30 in HUD-VASH was 14,313 while 17,136 additional Veterans obtained housing with assistance from our other homeless programs during that same time period.

Telehealth Programs: VA's Telehealth programs continue to be the largest and most sophisticated in the Nation. In 2012, VA specific telehealth applications: clinical video telehealth (CVT), home telehealth (HT) and store and forward telehealth (SFT) provided care from 150 VA Medical Centers (VAMCs) and 750 Community Based Outpatient Clinics (CBOCs) to 497,342 patients, care that amounted to 1,429,424 telehealth-based episodes of care. VA achieved a 31 percent expansion in the HT services it provides in support of non-institutional care, chronic management, acute care management and health promotion/disease prevention, services delivered to 119,535 Veterans with medical and mental health conditions, enabling these Veterans to live independently in their own homes and local communities. VA has seen a 39 percent expansion in 2012 in the number of Veteran patients receiving care via CVT-based telemental health services that supported 76,817 Veterans who received 217,975 telemental health consultations that took place

between 146 VA Medical Centers and 531 Community Based Outpatient Clinics. Telemental health enables Veteran patients to receive services in their local communities, reducing the need for both patients and clinicians to travel, with travel-associated cost savings of \$34.45 per consultation. VA's provisions of Telehealth-based clinic services have grown by 42 percent, thereby increasing access to care for rural Veteran patients and reducing avoidable travel. Telehealth services for the care of Veterans continue to expand in size and scope supporting new services that provide teleradiology, teledermatology, telepathology, audiology clinic support, tele-intensive care and women's health services.

#### Graduate Medical Education (GME)

Enhancement: In 2012, the National Academic Affiliations Advisory Council held its inaugural meeting. This federally chartered advisory committee will advise the Secretary of Veterans Affairs and the Under Secretary for Health on matters affecting VA academic affiliations and will recommend methods for enhancement of these critical relationships.

### **Benefits: Ensuring a High Quality of Life After Military Service**

In 2011, VA received over 1.3 million claims for disability benefits and processed more than 1,032,000 of these claims. As of September 2012, VA received 1,080,342 claims for disability benefits and processed 1,044,207 claims. Throughout 2012, VA achieved a number of significant positive performance results in the benefits delivery area:

- Agent Orange/Nehmer Claims Processed: Since the publication of the regulation establishing three new presumptive conditions in 2010, the Veterans Benefits Administration (VBA) has completed nearly 250,000 claims.



- Joint VA/Department of Defense (DoD) Integrated Disability Evaluation System (IDES) Program: VA and DoD worked together to increase the number of IDES sites from 48 to 139 in 2011, expanding IDES worldwide for 100 percent of Servicemembers referred for evaluation for medical discharge or retirement. IDES simplifies the process for disabled Servicemembers transitioning to Veteran status, improves the consistency of disability ratings, and improves customer satisfaction. An IDES claim is completed in an average of 397 days— compared to 540 days in the legacy system. Since the inception of the IDES pilot in 2007, more than 56,000 Service members have been referred into the program, and more than 28,000 Service members are currently enrolled. VA and DoD continue to work together to improve IDES processing and timeliness.
- Seamless Transition: VA received more than 61,000 pre-discharge claims in 2011 through the Benefits Delivery at Discharge (BDD) and the Quick Start (QS) programs. Through July 2012, VA received nearly 42,000 pre-discharge claims. BDD and QS allow Servicemembers to apply for VA disability benefits while still on active duty.
- Quality: VA improved national compensation entitlement (rating) accuracy from 83 percent to 86 percent in 2012 on a 12 month cumulative basis. Accuracy for the first 7 months of 2012 is 87 percent.
- Insurance: VA issued life insurance policies to over 44,000 Veterans and separating Servicemembers, many of whom are disabled and would not have been able to purchase life insurance in the commercial insurance industry due to their impaired insurability resulting from military service.
- Education: VA provided education benefits to approximately 944,300 students in 2012. The number of students receiving education benefits continues to increase since the

implementation of the Post-9/11 GI Bill, with claims completed increasing 7 percent over the 2011 level to approximately 3.85 million in 2012.

- Vocational Rehabilitation and Employment: VA rehabilitated over 9,800 Veterans in 2012, providing more than 7,900 of them with the required tools and skills needed to obtain and maintain career employment. More than 1,800 Veterans were provided with assistance in gaining independence in daily living.
- Housing: In 2012, VA guaranteed approximately 539,884 loans to Veterans. Of these, 201,866 were for the purchase of a home and 338,018 were for the refinance of a home loan. In 2012, VA also provided 1,205 Specially Adapted Housing grants to severely disabled Veterans and Servicemembers to construct an adapted dwelling or modify an existing one to meet their special needs.

### **Burials and Memorials: *Honoring Veterans for Sacrifices on Behalf of the Nation***

VA honors the service and sacrifices of America's Veterans through the construction and maintenance of national, State, and Tribal cemeteries as national shrines, by furnishing headstones, markers and medallions for the graves of Veterans buried in private cemeteries, and providing Presidential Memorial Certificates (PMCs) to honor the service of deceased American Veterans.

Key performance results for 2012 are as follows:

More Veterans Served by Burial Option: 89.6 percent of Veterans are served by a burial option within a reasonable distance (75 miles) of their residence - up from 89.0 percent in 2011. This increase resulted from the opening



of four new State Veterans cemeteries funded through the VA Veterans Cemetery Grants Program, which now serve Veterans in the areas of Corpus Christi, Texas; Fort Polk, Louisiana; Charleston, West Virginia; and Birdeye, Arkansas.

- **Timeliness:** VA achieved an 89 percent threshold of the proportion of graves in national cemeteries marked within 60 days of interment.
- **Quality:** 99 percent of survey respondents rated national cemetery appearance as "excellent." 91 percent of survey respondents also rated the quality of headstones or markers received from VA as "excellent."

### **Finance: Ensuring Proper Stewardship of Taxpayer Dollars**

VA is extremely proud to have obtained an unqualified audit opinion on its financial statements for the 14<sup>th</sup> consecutive year. VA has worked diligently on remediating its one remaining material weakness, "Information Technology (IT) Security Controls," and has made significant progress; however, this will remain a material weakness in 2013. The auditor also reported one significant deficiency, "Undelivered Orders" as a partial repeat condition and re-titled it from "Accrued Operating Expenses." The Department has taken corrective actions sufficient to address the reasonable estimation of the accrued operating expenses portion of unpaid obligations and therefore accrued operating expenses have been removed from the significant deficiency for this year. The Department has also taken corrective actions sufficient to eliminate one other significant deficiency, "Loan Guaranty Reporting," previously cited last year.

In 2012, VA continued to use Recovery Act funds to improve its medical facilities and national cemeteries, as well as to provide grants

for State nursing homes and domiciliary facilities. Following the successful obligation in July 2010 of 100 percent of VA's Recovery Act funds (totaling \$1.8 billion, including one time payments to Veterans), VA concentrated efforts during 2012 to increase outlays. As of September 2012, VA has made outlays totaling \$1.7 billion (96 percent) of Recovery Act funds.

Executive Order 13589 dated November 15, 2011 directed agencies to cut waste in administrative spending by 20 percent and identify opportunities to promote efficient and effective spending in specific areas; travel, IT devices (inventories, usage, and controls,) printing, executive fleet, supplies and materials, and promotional item use and purchases. With the exception of Management Support Contracts, the Administrations and Staff Offices have the flexibility to take reductions across the categories of Travel, Supplies and Materials, and Printing, as determined best for their organization. VA developed and executed a plan to reduce the cost associated with activities covered in the order. VA monitors spending monthly and reports status 30 days after the close of each quarter to OMB. In 2012, VA exceeded its spending reduction target of \$173.4 million by an additional \$69 million.

Executive Order 13589 dated November 15, 2011 directed agencies to cut waste in spending and identify opportunities to promote efficient and effective spending in specific areas; travel, IT devices (inventories, usage, and controls,) printing, executive fleet, supplies and materials, and promotional item use and purchases. With the exception of Management Support Contracts, the Administrations and Staff Offices have the flexibility to take reductions across the categories of Travel, Supplies and Materials, and Printing, as determined best for their organization. VA developed and executed a plan to reduce the cost associated with



activities covered in the order. The reduction to be taken in these areas was defined as 20 percent below VA's 2012 budget request, to be accomplished in 2012 and 2013. VA monitors spending monthly and reports status 30 days after the close of each quarter to OMB. In 2012, VA exceeded its spending reduction target of \$173.4 million by an additional \$69 million.



## Major Accomplishments

### Homelessness

According to *The 2011 Point-in-Time Estimates of Homelessness: Supplement to the Annual Homeless Assessment Report*, 67,495 Veterans were homeless in the United States on a single night in January 2011. This is a decline in homelessness among Veterans by nearly 12 percent since the January 2010 Point-in-Time (PIT) count. VA's goal is to reduce the homeless Veteran population to less than 59,000 to be counted in the January 2012 PIT, 47,000 to be counted in the January 2013 PIT, and 35,000 to be counted in the January 2014 PIT. The PIT estimate offers a snapshot of homelessness on a single night of both sheltered and unsheltered homeless populations. Sheltered Veterans are most often found in emergency shelters or transitional housing, while unsheltered Veterans are most often living on the streets, in cars, or in abandoned buildings.

### Integrated Electronic Health Record

The integrated Electronic Health Record (iEHR) program is a collaborative partnership between VA and DoD to develop a joint, common, modern health care information system. In 2012, a clinical and business-focused governance process was established under the Informatics Clinical Advisory Board to identify and sequence the 50+ planned iEHR capabilities. By doing so, VA and DoD are able to establish a schedule, identify, and request support for developing iEHR from top subject matter experts in their respective fields. This ensures informed clinical presence in key decision making. Additionally, six iEHR capabilities have begun development. Hampton Roads and San Antonio have been identified as pilot sites for several infrastructure, user interface, laboratory and immunizations capabilities with the James A. Lovell Federal Health Care Center selected for pharmacy capability.

### Support for Caregivers

VA has continued its successful implementation of the Caregiver Support Program. As of August 2012, 5,645 Family Caregivers received stipends and additional benefits, including health insurance coverage and mental health treatment. VA has also expanded services and programming to Family Caregivers of Veterans of all eras including a Web site dedicated to Family Caregivers ([www.caregiver.va.gov](http://www.caregiver.va.gov)) that continues to receive more than 1,000 hits a day, a Caregiver Support Line that has received more than 47,000 calls since it opened on February 1, 2011, a Peer Support Mentoring Program, and additional training and education programs for Family Caregivers.

### Rural Health

VA expended \$250 million to support projects designed to increase access and quality of care for rural and highly rural Veterans. These projects included rural expansion of Home Based Primary Care and Mental Health Services; provider support in new rural clinics; telehealth projects; contract care through Project ARCH, and new outreach efforts to contact, enroll and educate rural Veterans about their VA benefits. VA partnered with Academic Affiliations to develop and issue a RFP to develop and implement interdisciplinary rural health training and education programs at five VA sites for residents, nursing, and allied health students.

### Telehealth and Videoconferencing

VA's Telehealth programs continue to be the largest and most sophisticated in the Nation. In 2012 497,342 Veteran patients received 1,429,424 telehealth-based episodes of care delivered from 150 VA Medical Centers (VAMCs) and 750 Community Based Outpatient Clinics (CBOCs). VA has achieved a 31 percent expansion in home telehealth services; 42 percent expansion in clinic-based telehealth



services; 39 percent expansion in the number of Veterans (76,817) receiving clinical video telemental health from 146 VA Medical Centers and 531 Community Based Outpatient Clinics. These services support Veteran patients in their local communities and reduce the need for both patients and clinicians to travel. Telehealth services for the care of Veterans continue to expand in size and scope supporting new services that provide teleradiology, teledermatology, telepathology, audiology clinic support, tele-intensive care and women's health services.

#### **Blue Button®**

VHA made Blue Button® available to Veterans who choose to get care outside of VA by actively engaging in the "Blue Button® for All Americans" contest, reaching out to health plans, and collaborating with other federal agencies including Medicare and Tricare. Over 100 million Americans, including Veterans and their families, can now access their health data through Blue Button®. What started on My HealtheVet now appears on the patient portals of nearly a third of all physicians in America and the Web sites of more than half of the country's acute care hospitals. Major health plans have added Blue Button® to their Web sites, including Aetna, Blue Cross and United Health.

#### **How VA is using IT to Improve Access and Claims Processing**

VBA has embarked on a wide-scale Transformation Plan to achieve new efficiencies, greater effectiveness, improved quality and consistency through a series of initiatives that incorporate an integrated approach to people, process, and technology solutions.

One major initiative, Disability Benefits Questionnaires (DBQ), involves streamlined forms designed to capture medical information that Veterans can provide to private doctors as

an evidence gathering tool to expedite their claims decisions. This resulted in more timely rating decisions, fewer duplicated examinations, a reduced need for VA examinations, and a potential to improve rating accuracy.

The Veterans Benefits Management System (VBMS) is working to reduce the touch time for Veterans Service Representatives processing claims as well as automating some of the process, eventually leading to a reduction in processing times. eFolders in VBMS will increase business processing flexibility which will reduce the claims processing times by facilitating a better distribution of work.

VBMS is live in 10 VBA Regional Offices with two being pilot offices. VBMS successfully released enhanced functionality including paperless processing, rating, and development sections of the application. VBMS continues to progress on future functionality for automatic letter generation and rating calculators.

VONAPP Direct Connect (VDC) is making improvements with VA Form 21-686c Application for Dependency and VA Form 21-674 School Attendance Report. The applications for dependency, VA Forms 21-686c and 21-674, were made available electronically with an online guided interview process that automatically completes the forms, establishes a claim, allows the veteran to upload evidence and save the claim information in VA corporate records.

The application for compensation, VA form 21-526EZ, was replaced with a guided online interview process that automatically completes the form, establishes the claim, allows the Veteran to upload evidence and create disability contentions in our development system. It also saves all claim information in the VA system of records.



The Veterans Relationship Management (VRM) Initiative embodies a robust Customer Relationship Management (CRM) to include a Unified Desktop, Identity, and Access Management, Knowledge Management, VONAPP Direct Connect, Self Service, and Member Service. VRM CRM is currently in pilot phases in VBA National Call Centers as well as Pension Centers. CRM tools provide an integrated view of Veterans' benefits and beneficiaries' claims and payment, and personal information.

VA implemented the second phase of the pilot study for the Private Medical Records (PMR) initiative. The PMR initiative utilizes the services of a contractor to obtain private medical records associated with Veterans Compensation and/or Pension claims. The private medical records obtained are scanned into VBA's Virtual VA document repository (VVA). To date, there have been more than 2.1 million pages scanned.

The Compensation and Pension Records Interchange (CAPRI) has disabled the print functionality for VBA Regional Office personnel. CAPRI records are now incorporated into the VVA. To date, over 52 million pages have been stored into VVA from this effort.

### **Veterans Benefits Management System (VBMS)**

VA is using IT to improve claims processing by replacing current, paper-intensive processes with a Web-based, electronic claims processing system complemented by improved business processes. VA is implementing a 21st Century electronic claims processing system—the Veterans Benefits Management System (VBMS) as part of the overall VBA Claims Transformation Plan.

The following progress was made during 2012 on VBMS:

- Expanded VBMS to additional Regional Offices (ROs): Deployed to Fort Harrison and Wichita ROs to align with VBA's transformation efforts.
- Developed and Deployed New Functionality: Delivered additional claim establishment, development and rating functionality.
- Developed Robust Training, Change Management, and Communications Capabilities: Developed resources to support national deployment.

### **Veterans Relationship Management (VRM)**

VRM is improving the customer service experience as well as increasing access to information via eBenefits to both Veterans and Veterans Service Officers. Improvements made to the eBenefits portal allow the Veteran to easily obtain the status of submitted claims, identify required claims information, and update personal information.

The VRM initiative is using information technology to enhance secure access points for Veterans and stakeholders and to improve customer service, accuracy and transparency of data. Key accomplishments include:

- Expanding self-service features available via the eBenefits portal
- Piloting the ability to apply for compensation by answering guided interview questions via VONAPP Direct Connect
- Piloting Customer Relationship Management (CRM) in seven VBA Call Centers and at the Pension Call Center
- Improving telephone services when communicating with VA including National and Skills routing, Call Recording, etc., across VBA Call Centers.
- September 2012– over 3.2 million visits
- Used by Servicemembers & Veterans in over 25 countries



- Servicemembers are now required to get eBenefits account shortly after accession
- 12 Consecutive Quarterly Releases since October 2009 with over 47 self service features
- Over 1,937,021 million registered users since October 2009
- As of September 30, 2012 there are over 2 million registered users

Major milestones:

- OMPF (DD214) – 164,305 generated to date - Released December 2009
- Claim Status Views – Over 11.6 million views to date - released April 2010
- Home Loan COE – 145,555 generated to date - released April 2010
- Letter Generator – 1,211,868 generated to date - released January 2011

### GI Bill

VBA's long-term strategy to implement the Post-9/11 GI Bill is the development of an end-to-end information technology solution that utilizes rules-based, industry standard technologies to modernize the delivery of education benefits. Through July 2012, six phases of the Long Term Solution (LTS) have been deployed, including several releases of functionality required to implement changes to the Post-9/11 GI Bill. On September 24, 2012, end-to-end automation of selected Post-9/11 GI Bill supplemental claims was activated in the LTS. This new automation has processed 2,500 or more claims each day. We expect end-to-end automation will give us efficiencies in increasing claims processing volume which will improve our overall claims processing timeliness.

### Veterans Retraining Assistance Program (VRAP)

On July 1, 2012, VA successfully implemented Section 211 of Public Law 112-56, the VOW to Hire Heroes Act of 2011 Veterans Retraining Assistance Program (VRAP), which provides retraining assistance to eligible unemployed Veterans. Eligible Veterans will receive the Montgomery GI Bill-Active Duty (chapter 30) full-time benefit rate for up to 12 months.

### Housing

Despite challenges in the nationwide mortgage industry, the VA Home Loan program continued to maintain the foreclosure and seriously delinquent rates in the mortgage industry (for the last 17 and 14 quarters, respectively) through the last quarter of data available (Q2 CY 2012). In these categories, VA-guaranteed loans achieved lower rates than even prime loans. This strong performance can be attributed to VA's practice of making contact with borrowers early in the default process to ensure they have every possible chance to save their home. Through August 2012, VA helped 81.4 percent of borrowers in serious default to retain their home or avoid foreclosure (over 57,000 borrowers total).

### Insurance

The right to convert Servicemembers' Group Life Insurance (SGLI) to Veterans' Group Life Insurance (VGLI) is an important feature of the SGLI program, especially for disabled Servicemembers leaving service who may have difficulty obtaining life insurance from the private sector. VA established a specialized work unit devoted to outreach to recently separated disabled Servicemembers who are uninsurable due to their service-connected disabilities. In 2012, new technology and streamlined case review techniques were implemented, resulting in an average 147 percent increase in the number of cases processed per month.



### **Integrated Disability Evaluation System (IDES)**

IDES is a collaborative VA and DoD program designed to improve the process for Servicemembers who face potential medical separation or medical retirement. IDES provides wounded, ill or injured Servicemembers fair determinations on their fitness for continued military service and, if separated, expeditious payment of VA benefits. By using a single set of physical examinations, and a single-source disability evaluation, IDES eliminates much of the duplication of the legacy system, which required Veterans who received medical discharges to undergo a separate process with VA after leaving service. To reach more of the Servicemembers participating in the IDES program, VA has expanded its presence from 21 to 139 sites worldwide. In 2011, VBA dedicated 4 times more FTE than typical to process “regular” claims -- decreasing the VA-managed wait times from 186 to 104 days.

In February 2012, VA and DoD signed a memorandum of understanding for the purpose of providing Vocational Rehabilitation and Employment (VR&E) services at the earliest opportunity to active duty Servicemembers. These services include a comprehensive evaluation to determine abilities, skills, and interests for employment; development of a rehabilitation plan of training and other needed assistance and case management. By physically placing VR&E counselors at IDES locations, quality and timeliness of benefits delivery will improve by beginning the process of developing a new career that is uniquely appropriate for each individual’s desires and abilities during the transition process.

### **VetSuccess on Campus**

The “VetSuccess on Campus” program provides on-campus support to student-Veterans to assist in the pursuit and successful completion

of educational and career goals. The program currently is located on 32 college campuses, serving approximately 32,000 Veteran students. Services include career and academic counseling, adjustment counseling to resolve problems interfering with completion of education programs, referrals for medical and mental health treatment, benefits assistance, job readiness, and placement assistance.

### **VOW to Hire Heroes Act of 2011**

In 2012, VA implemented the provisions of Public Law 112-56, the VOW to Hire Heroes Act of 2011, that extended, and expanded eligibility for certain services under Chapter 31. In January 2012, policy was issued and training provided to increase job prospects for Veterans who need assistance with direct job placement. VA may now pay an incentive to employers to hire or train Veterans participating in a VR&E program even when the Veteran has not yet completed a training program under Chapter 31. In February 2012, policy was issued and training provided to assist VR&E staff to serve severely injured active duty military members earlier in their transition to civilian life. Under the law, these individuals will have automatic eligibility to VR&E services until December 31, 2014. In May 2012, policy was issued and training provided to allow unemployed Veterans who previously completed a Chapter 31 program and have exhausted unemployment benefits to receive an additional 12 months of vocational rehabilitation services. These additional benefits will increase employment opportunities for these Veterans.

VA has conducted extensive outreach to inform Veterans, Servicemembers and other stakeholders of the provisions of the new law and the availability of these expanded benefits. VA has established a Web page dedicated to providing the most current information and directions for how to apply for these services. (<http://www.benefits.va.gov/VOW/>)



### **VetSuccess.gov**

VetSuccess.gov is a one-stop shop for employment and transition resources for all Veterans. The Web site has been integrated with eBenefits, allowing Veterans receiving other VA benefits to access employment information through VetSuccess.gov seamlessly. At the close of FY 2012, a total of 170,889 Veterans and 4,686 employers have registered on VetSuccess.gov. The new users added in 2012 represent an 87 percent increase in Veteran registrants and a 125 percent increase in employer registrants since 2011. A total of 30,992 jobs have been posted to the site to-date. The new jobs added to the site in 2012 are a 106 percent increase over 2011.

### **Increasing Access**

In 2012 the National Cemetery Administration (NCA) continued working to increase and improve Veterans' access to a burial option in a national, State, or Tribal Veterans cemetery through various strategies:

Developing five new national cemeteries that will serve more than 500,000 currently unserved Veterans in the areas of Central East Florida; Tallahassee, Florida; Western New York; Omaha, Nebraska; and, Southern Colorado. Establishing columbaria cemetery facilities close to the Veteran population in large urban areas where the existing national cemetery is located has proven to be a barrier to burial and visitation. These Urban Initiative facilities will be located in New York, New York; Los Angeles, California; San Francisco, California; Chicago, Illinois; and Indianapolis, Indiana.

Establishing National Veterans Burial Grounds through a Rural Veterans Burial Initiative to improve access to a burial option for Veterans who reside in sparsely populated areas where access to a national or State Veterans cemetery does not exist. New National Veterans Burial Grounds will be located within existing public or

private cemeteries and operated by NCA in Maine, Wisconsin, North Dakota, Montana, Wyoming, Nevada, Idaho and Utah.

### **Tribal Cemeteries**

VA approved its fourth grant to establish a Veterans cemetery on tribal trust lands in 2012, as authorized in P. L. 109-461. The \$6 million grant was awarded to the Oglala Sioux Tribe for construction of a Veterans cemetery on the Pine Ridge Reservation in Kyle, South Dakota. Of the initial three grants for Tribal Veteran cemeteries awarded in 2011, two began construction and one was dedicated in 2012. In total, five new Veterans cemeteries were dedicated in 2012, four State and one Tribal.

### **Assisting Homeless Veterans**

NCA has implemented a Homeless Veterans Apprentice Program in collaboration with the Veterans Health Administration and the VA Learning University. This program will create paid employment positions as Cemetery Caretakers for up to 20 homeless Veterans each year who are enrolled in VA's Homeless Veterans Initiative Programs around the country. Apprentices who successfully complete 12 months of competency based training will be offered permanent full time employment at a national cemetery. Successful participants will receive a Certificate of Competency which can also be used to support employment applications in the private sector.

### **VLER**

Virtual Lifetime Electronic Record (VLER) is a multi-faceted business and technology initiative that includes a portfolio of health benefits, personnel, and administrative information sharing capabilities. It provides Veterans, Servicemembers, their families, care givers, and service providers with a single source of information for health and benefits in a way that is secure and is authorized by the Veteran or Servicemember. VLER has impacted



thousands of Veterans and Servicemembers, including our most severely wounded, ill, and injured, by:

- Piloting health information exchange through Nationwide Health Information Network (NWHIN) at 13 sites nationwide
- Sharing over 3 million Veteran and service member medical records through Bidirectional Health Information Exchange (BHIE) and Clinical Health Data Repository (CHDR)
- Allowing Veterans to authorize and direct VA to share personal information through Veterans Authorizations and Preferences (VAP)
- Automating collection of medical information in Disability Benefits Questionnaires (DBQs) to facilitate disability claims processing
- Automating information management and sharing between DoD and VA to support the Federal Recovery Coordinator Program and Integrated Disability Evaluation System
- Enabling information sharing between VA and HUD to serve homeless Veterans.

#### **Data Security**

VA continued to make progress in improving its information security posture in 2012. This has resulted in a more comprehensive security program that better protects sensitive information. In 2012, VA aggressively implemented the Continuous Readiness in Information Security Program (CRISP) program which has resulted in significant improvement in remediation of many of the information security deficiencies associated with its information security program with special emphasis on those which contributed to its material weakness in information technology security controls. In 2012, VA has either initiated or completed enterprise-wide actions addressing security management, segregation

of duties, access controls, contingency planning, and configuration management. VA has also completed implementation of its Visibility to the Desktop and Visibility to the Server Initiatives which will assist in the timely identification and remediation of new vulnerabilities which all systems face daily.

#### **Outreach through Social Media (Facebook, Twitter, and VA's Blog)**

VA is a leader in social media. Over the past year, VA implemented Facebook pages for every VA medical center, where VA reaches over 109,000 Veterans, their family members, and dependents at a local level. The Department also uses Twitter to reach over 121,000 Vets every day. VA also provides photos and videos to Veterans, highlighting issues and events important to Veterans. Flickr and YouTube has been accessed a combined 2.5 million times since its adoption at VA in 2009. VA also reaches Veterans in new and unprecedented ways; The VA Office of Public and Intergovernmental Affairs staff writers have been featured in Time, the New York Times, and the Atlantic drawing attention to important issues facing Veterans today including mental health, the GI Bill and employment. VA also uses its blog VAntage Point to communicate key issues that the Department addresses for Veterans. VA continues to lean forward to be more transparent and communicative with our nation's Veterans and their families.

#### **National Veterans Small Business Conference**

The centerpiece of the National Veterans Small Business Conference was planned to connect small business owners with procurement decision makers from federal agencies and private industries. Over 400 training and business requirement sessions were held and direct and on-line networking opportunities were provided with senior government procurement decision makers from across the country. It was also an opportunity to meet,



dine, network, share ideas, discuss business requirements, forecast contract needs and vision for contracting with the VA, other federal agencies, and private agencies within a particular industry.

Results of this successful event included:

- Over 3,700 attendees took advantage of 115 Small Business training sessions
- 1605 Veteran owned small business representatives were able to discuss their capabilities with more than 800 government participants at 1876 networking roundtable sessions
- Government procurement decision makers provided their business requirements in 283 sessions with Veteran Owned Small Business Owners. 49 Senior VA leaders participated in roundtables with Veteran owned small businesses.
- Participants made more than 49,400 digital contacts using technology that enabled them to collect profile data to facilitate future connections.

### **Pro-Veteran Legislation**

Throughout 2012, the Office of Congressional and Legislative Affairs (OCLA) pro-actively supported the development of pro-Veteran legislation.

OCLA coordinated and prepared VA leadership and subject matter experts to participate in over 72 hearings on matters of concern to Congress. OCLA also coordinated and supported over 688 information briefs to Congress and 66 congressional oversight visits to VA facilities throughout the country.

As VA's liaison with the Government Accountability Office (GAO), OCLA coordinated over 43 entrance and 41 exit conferences and VA's review of over 65 GAO draft reports.

### **Construction Review Council**

In April 2012, Secretary Shinseki established the Construction Review Council (CRC) to oversee the Department's development and execution of its real property capital asset programs. The CRC reviewed briefings on the current processes for major construction, minor construction, leases and the non-recurring maintenance programs. Actual projects are presented as case studies to review the effectiveness and efficiency of the processes and procedures on VA's most visible projects. VA has undertaken substantial initiatives to advance timely delivery of first-rate facilities to better serve our Nation's Veterans.

### **Supplier Relationship Transformation Initiative**

OALC held Industry Day Forums and Supplier Relationship Transformation Forums in order to attain facilitated feedback on VA acquisition processes from suppliers, vendors and contractors in addition to awareness of the acquisition process and new projects. As part of the VA enterprise transformation, this initiative strives to transform its supply chain management process by achieving an environment of Perfect Order Fulfillment.

### **Transformation Twenty-One Total Technology**

The Transformation Twenty-One Total Technology (T4) multiple award, indefinite delivery, indefinite quantity (IDIQ) contracts are composed of fifteen 5-year IDIQ contracts with a program ceiling of \$12 billion. T4 initiative provides VA by leveraging VA's buying power for a broad range of information technology and telecommunication services. T4 significantly contributed toward mitigating GAO high-risk areas.

### **Strategic Acquisition Center**

The Strategic Acquisition Center (SAC) was established as part of the implementation of the Acquisition Transformation Model to consolidate and integrate acquisition functions throughout the Department. To support this



initiative, an integrated product team with several of our major internal customers, including the Veterans Health Administration (VHA), has been established to review current processes and utilizing spend analysis and market research methodology to identify and facilitate strategic sourcing initiatives and opportunities during the acquisition process. In support of its customers Department-wide, the SAC is putting into place enterprise-wide, multiple-award requirements contract vehicles further mitigating GAO high-risk areas.

#### **Warriors to Workforce (W2W) Program**

OALC implemented the Warriors to Workforce (W2W) Program. The W2W is a 3-year program designed to prepare wounded Veterans for a successful transition into a career as a contract specialist. At program completion, these Veterans are infused into the Federal workforce as GS-1102-11 contract specialists.

#### **Program Management (PM) Fellows Program**

OALC also implemented the Program Management (PM) Fellows Program, an accelerated professional development initiative for aspiring mission critical program managers. The program is designed to enhance PM performance within VA by accelerating the development of technical PM, general business, and leadership skills within a specific career field. The program utilizes five on-the-job-training periods throughout its duration. Reinforcement of classroom training through on-the-job training accelerates PM Fellows through the learning curve, more rapidly developing their PM skill-sets.

#### **Hiring Veterans**

The Office of Human Resources and Administration at VA established the Veterans Employment Services Office (VESO) to focus on the recruitment, retention, and reintegration of qualified Veterans into VA's workforce. VA employs over 102,000 Veterans. Its VA for VETs

provides online tools, and career coaches to facilitate Veteran career readiness. VESO developed a hiring model that combines established special hiring authorities with Veteran career readiness activities and shortens the federal hiring process from several months to several days. Currently, VESO sponsors large-scale hiring events that connect hundreds of public and private sector employers with thousands of Veteran job seekers.

#### **Telework**

VA considers telework to be an effective alternative work arrangement that benefits managers, employees, the Department, and, ultimately, the Nation's Veterans. The total number of teleworkers rose from 4,669 documented teleworkers in 2009 to over 35,000 in 2012. Teleworking allows over 11 percent (35,000) of VA employees to work from an approved alternative workplace setting for all or part of their regular tour of duty and/or work week. Subject to position suitability, employee eligibility, and supervisory permission, telework is a voluntary, mutually agreed-upon option for VA employees. As a human capital management tool, telework may be used to attract, recruit, and retain the best employees. Teleworking at alternate facilities usually equates to less in-office interruptions, resulting in increased productivity and faster service to the Veteran customers. Additionally, telework may be used as a reasonable accommodation for individuals having disabilities that affect mobility or pose related challenges. It also helps employers retain top-performing employees who are seeking work-life balance of a reduced commute, decreased stress level, and increased job satisfaction. Overall, telework within VA facilitates a smooth and continuous transition of institutional knowledge, technical competencies, and employment of the "best of the best" employees to better serve the Nation's Veterans.



### **Exercise, Training and Evaluation**

In April 2012, VA published Directive 0324 Test, Training, Exercise, and Evaluation (TTE &E) Program. This directive establishes Department-wide policy and responsibilities for the VA TTE &E Program, in accordance with National Security Presidential Directive 51/Homeland Security Presidential Directive 20 Presidential Policy Directive 8 and the National Preparedness Goal's established interagency exercise and evaluation guidance under the National Exercise Program (NEP). The TTE&E Program enhances VA emergency management programs by identifying gaps and risks, developing training capabilities, and improving organizational coordination and communications.

#### **Exercise**

In June 2012, the Office of Operations, Security and Preparedness (OSP) led the Department in two NEP exercises, National Level Exercise (NLE) 2012 and Eagle Horizon (EH) 2012, with a planning scenario of a cyber attack. VA exercised NLE 12 at VA Central Office (VACO) with the Integrated Operations Center (as the fusion point), the VA Network Security Operations Center and VA's Administrations and Staff Offices emergency management personnel. During the EH 2012 exercise, VA employed its Emergency Relocation Group (ERG) to its Continuity of Operations site, on the basis of VACO being uninhabitable, to continue the Department's Primary Mission Essential Function and Mission Essential Functions at the headquarters level. VA senior leadership fully participated and helped to identify areas of improvement from each exercise.

As a result of the EH 2012 External Evaluation, VA's Continuity Preparedness increased by 25 percent since EH 2010. Every other year (even years), the Department of Homeland Security (DHS) conducts an evaluation of Departments and Agencies continuity programs, and reports the results to the White House National

Security Staff through the Readiness Reporting System (RRS), utilizing the DHS developed Continuity Evaluation Tool (CET) criteria. Within the CET, there are 14 continuity elements to evaluate. During EH 2012, and DHS's evaluation of VA Continuity, 14 elements (or 202 task questions) were evaluated. VA scored 100 percent in the upper range and 84 percent fully achieved the stated continuity element.

#### **Training**

In August 2012, VA increased training completion from 30 percent (October 2011) to 73 percent for the Emergency Relocation Group (ERG), which contains approximately 200 VA Central Office (VACO) employees. OSP accomplished many notable achievements in the realm of training by instituting this training system. Additionally, OSP highlights the following accomplishments:

- Partnered with the Federal Emergency Management Agency to assist in the development of IS-450 Emergency Preparedness for Federal Employees. OSP used this course to educate and train VA Senior Leaders of emergency management principles.
- In April 2012, the VA National Incident Management System Implementation Plan signed and implemented, in accordance with Homeland Security Presidential Directive (HSPD) 5, Management of Domestic Incidents, Federal Continuity Directive 1, Federal Executive Branch National Continuity Program and Requirements; and other related directives and guidance.

#### **Issuance of Personal Identity Verification (PIV) Credentials and Compliance with Homeland Security Presidential Directive 12 (HSPD-12)**

VA achieved steady state in the issuance of Personal Identity Verification (PIV) credentials to VA employees, contractors, and affiliates.



During 2012, VA achieved full compliance with HSPD-12 for PIV credential issuance.

In accordance with direction from the Office of Management and Budget (OMB), VA began using the VA PIV credential to authenticate access to the VA information technology network. The use of the PIV credential to access the VA network will enable VA to enhance the security of Veterans and VA data, reduce the potential for identity fraud, and assist in protecting personal privacy.

VA completed assessment and accreditation of 100% of VA PIV credential issuance facilities in 2012. All 204 of the VA PIV credential issuance facilities received authority to operate or interim authority to operate in accordance with Federal Information Processing Standards (FIPS) and guidelines published by the National Institute for Security and Technology (NIST).

**VA/DoD Collaboration** In 2012, the Office of Policy and Planning successfully planned and coordinated the merging of the VA/DoD Senior Oversight Committee (SOC) with the VA/DoD Joint Executive Committee (JEC) to provide for the more effective oversight of VA/DoD collaboration and cooperation issues.

#### **VA Center for Faith-based and Neighborhood Partnerships (CFBNP)**

The Center for Faith-Based and Neighborhood Partnership's achieved significant accomplishments via collaborative events with the White House Office of Faith-based and Neighborhood Partnerships conferences entitled "Connecting Communities for the Common Good Conferences" (CCCGC) along with the Centers at 12 other Federal Agencies. For fiscal years 2011 and 2012, CFBNP participated in five White House CCCGC. Local VA Staff presents VA's program and services information to faith-based and community organizations at these conferences. The

objective is for the organizations to disseminate this information to Veterans, their families, survivors and caregivers, and collaborate with local VA staff to assist Veterans to obtain their benefits.

#### **Women Veterans Task Force**

Secretary Shinseki called for a Women Veterans Task Force to develop a comprehensive VA action plan that will focus on resolving critical issues facing women Veterans. A 2012 report —*Strategies for Serving Our Women Veterans*— was drafted and addresses specific cross-departmental activities in support of women Veterans' programs. The report addresses gaps in services to women Veterans in four areas: (1) VA's capacity to provide consistent coordinated access to comprehensive services and benefits; (2) personal privacy, dignity, security, and respect; (3) collaboration within VA and among external resources in employment and career development; and (4) ensuring sufficient and actionable data to deliver quality benefits and services.

#### **Women Veterans Health**

VA trained nearly 1,500 providers through its flagship National Women's Health Mini-Residency Program, one of many training opportunities for VA clinicians to sharpen their women's health skills. The training ranges from traditional lectures with direct instruction to online and audio courses. Several courses target physicians, physician assistants, and nurse practitioners; other courses have sections geared toward wider audiences, including nurses, pharmacists, social workers, and psychologists. VA's Employee Education System and VHA's Simulation Learning Education and Research Network partnered closely with Women's Health Education to develop the courses.



### **Going Green**

By year's end, over 90 megawatts of renewable power for VA facilities (including solar, wind, geothermal and combined heat and power systems) were operating, under construction, or awarded, an increase of 28 percent from 2011. About 52 percent of VA's fleet of over 16,500 vehicles is now alternatively fueled. Nine VA facilities are operating and evaluating a total of 26 new plug-in electric vehicles delivered this year under GSA's electric vehicle pilot program. VA completed a field pilot of the "Green Routine" initiative, designed to engage facility-level VA employees in greening activities. These and other green accomplishments lead to operational efficiencies that allow VA to better care for our Nation's Veterans and their families.

Initiative on AAPI and VA will continue on-going dialogue with stakeholders from the AAPI communities.

### **The Office of Survivors Assistance (OSA)**

OSA continued to expand upon previously established relationships and develop new collaborative partnerships to include the U.S. Navy, the U.S. Marine Corps, faith-based and community organizations, and Veterans Service Organizations. OSA also took on the responsibility of preparing condolence letters for survivors of the fallen.

### **Center for Minority Veterans**

#### **Asian American and Pacific Islanders (AAPI)**

**Roundtable.** On January 31, 2012, the Center for Minority Veterans provided key assistance to the Office of the Secretary in conducting this outreach activity. This roundtable was a concerted effort to make clear that issues affecting the over 300,000 AAPI Veterans are of great importance. Hosted by the Secretary of Veterans Affairs, the roundtable gathered high-level VA officials, other federal leaders, and community advocates in discussions on the subjects of access to health care, access to benefits, data collection, and outreach. As a direct result of this meeting, key relationships were established. Staff from the White House



## VA Online: *Fast and Easy Access to Information*

The table below provides links to several Web sites that provide information for and about Veterans.

<b><i>What Information Do You Need?</i></b>	<b><i>Web Site</i></b>
<b><i>VA's Home Page</i></b>	<a href="http://www.va.gov/">http://www.va.gov/</a>
<b><i>VA's PAR Submission and Strategic Plans</i></b>	<a href="http://www.va.gov/performance">www.va.gov/performance</a>
<b><i>VA's Budget Submission</i></b>	<a href="http://www.va.gov/budget/products.asp">http://www.va.gov/budget/products.asp</a>
<b><i>Health Care in VA</i></b>	<a href="http://www1.va.gov/health/index.asp">www1.va.gov/health/index.asp</a>
<b><i>Managing My Health as a Veteran</i></b>	<a href="http://www.myhealth.va.gov">www.myhealth.va.gov</a>
<b><i>Medical Research in VA</i></b>	<a href="http://www.research.va.gov">www.research.va.gov</a>
<b><i>Clinical Training Opportunities and Education Affiliates</i></b>	<a href="http://www.va.gov/oaa">www.va.gov/oaa</a>
<b><i>Employment</i></b>	<a href="http://www.vetsuccess.gov">www.vetsuccess.gov</a>
<b><i>My Benefits</i></b>	<a href="http://www.ebenefits.va.gov">www.ebenefits.va.gov</a>
<b><i>Vow to Hire Heroes</i></b>	<a href="http://www.benefits.va.gov/vow">www.benefits.va.gov/vow</a>
<b><i>Burial and Memorial Benefits for Veterans</i></b>	<a href="http://www.cem.va.gov">www.cem.va.gov</a>
<b><i>Opportunities for Veteran-Owned Small Businesses</i></b>	<a href="http://www.vetbiz.gov">www.vetbiz.gov</a>
<b><i>Minority Veterans</i></b>	<a href="http://www.va.gov/centerforminorityVeterans/">www.va.gov/centerforminorityVeterans/</a>
<b><i>Women Veterans</i></b>	<a href="http://www.va.gov/womenvet">www.va.gov/womenvet</a>
<b><i>Survivors Assistance</i></b>	<a href="http://www.va.gov/survivors">www.va.gov/survivors</a>
<b><i>Operations, Security and Preparedness</i></b>	<a href="http://www.osp.va.gov">www.osp.va.gov</a>
<b><i>Recently Published VA Regulations</i></b>	<a href="http://www.va.gov/VA_Regulations">www.va.gov/VA_Regulations</a>
<b><i>Federal Legislation Concerning Veterans</i></b>	<a href="http://www.va.gov/oca/Vet_Legis.asp">www.va.gov/oca/Vet_Legis.asp</a>



<b><i>What Information Do You Need?</i></b>	<b><i>Web Site</i></b>
<b><i>VA's Social Media Sites</i></b>	<a href="http://www.va.gov/opa/SocialMedia.asp">http://www.va.gov/opa/SocialMedia.asp</a>
<b><i>Human Resources and Administration</i></b>	<a href="http://vacareers.va.gov/veterans">http://vacareers.va.gov/veterans</a>
<b><i>Reports, Surveys, or Statistics Regarding the Veteran Population</i></b>	<a href="http://www.va.gov/vetdata/">www.va.gov/vetdata/</a>
<b><i>Freedom of Information Act</i></b>	<a href="http://www.foia.va.gov/">http://www.foia.va.gov/</a>
<b><i>Privacy Policy Information</i></b>	<a href="http://www.va.gov/privacy/">http://www.va.gov/privacy/</a>
<b><i>VA Directives and Handbooks</i></b>	<a href="http://www.va.gov/vapubs/">http://www.va.gov/vapubs/</a>
<b><i>Green VA</i></b>	<a href="http://www.green.va.gov">www.green.va.gov</a>
<b><i>Center for Faith-based and Neighborhood Partnerships</i></b>	<a href="http://www.va.gov/cfbnpartnerships/">http://www.va.gov/cfbnpartnerships/</a>
<b><i>Homelessness Info</i></b>	<a href="http://www.va.gov/homeless/">http://www.va.gov/homeless/</a>



# 2012 Performance and Accountability Report

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**Notes:** <sup>(1)</sup> In this report, with the exception of table and chart titles, references to years (e.g., 2008, 2012) are fiscal years unless stated otherwise. <sup>(2)</sup> Questions about the report should be directed to VA’s Office of Performance Management at **202-461-7389**.



<b>Performance Scorecard</b>							
<b>Key Performance Measures</b> <small>(page references)</small>	<b>2011 Recap</b>		<b>2012 Recap</b>				
	<b>Targets</b>	<b>Results</b>	<b>Targets</b>	<b>Results</b>	<b>Target Achieved?</b>		<b>Improved From 2011?</b>
					<b>Yes</b>	<b>No</b>	<b>Yes/No/Same</b>
<b>Veterans Health Administration</b>							
Prevention Index V	93%	92%	<b>93%</b>	<b>94%</b>	Yes		Yes
Clinical Practice Guidelines Index IV	92%	91%	<b>92%</b>	<b>94%</b>	Yes		Yes
Non-institutional, long-term care average daily census	109,256	95,092	<b>113,254</b>	<b>*103,757</b>		No	Yes
Percent of new primary care appointments completed within 14 days of the desired date for the appointment	N/Av	N/Av	<b>83%</b>	<b>*90%</b>	Yes		Not applicable
Percent of established primary care appointments completed within 14 days of the desired date for the appointment	N/Av	N/Av	<b>94%</b>	<b>*95%</b>	Yes		Not applicable
Percent of new specialty care appointments completed within 14 days of the desired date for the appointment	N/Av	N/Av	<b>84%</b>	<b>*90%</b>	Yes		Not applicable
Percent of established specialty care appointments completed within 14 days of the desired date for the appointment	N/Av	N/Av	<b>95%</b>	<b>*96%</b>	Yes		Not applicable
Percent of patients rating VA health care as 9 or 10 (on a scale from 0 to 10):							
- Inpatient	65%	64%	<b>65%</b>	<b>*64%</b>		No	Same
- Outpatient	57%	55%	<b>58%</b>	<b>*55%</b>		No	Same
Percent of milestones completed leading to the use of genomic testing to inform the course of care (prevention, diagnosis, or treatment) of patients with mental illness (including PTSD, schizophrenia, and mood disorders)	35%	35%	<b>45%</b>	<b>43%</b>		No	Yes

Color coding for 2012 Results  
● Target Achieved  
● Target Missed - Small Extent  
● Target Missed - Great Extent

Notes: \* Indicates partial or estimated actual data.



## Performance Scorecard

Color coding for 2012 Results

- Target Achieved
- Target Missed - Small Extent
- Target Missed - Great Extent

Key Performance Measures (page references)	2011 Recap		2012 Recap			
	Targets	Results	Targets	Results	Target Achieved?	Improved From 2011?
<b>Veterans Benefits Administration</b>						
National accuracy rate – pension maintenance claims	95%	97%	97%	*98%	Yes	Yes
National accuracy rate – compensation entitlement claims	90%	84%	87%	*86%	No	Yes
Percent of Compensation & Pension pending inventory that is more than 125 days old	60%	60%	60%	*66%	No	Yes
Percentage of pension maintenance claims pending inventory that is more than 90 days old	N/Av	N/Av	Baseline	*68%		Not applicable
Average days to complete Education claims						
Original claims	23	24	23	31	No	No
Supplemental claims	12	12	12	17	No	No
Rehabilitation Rate (General)	77%	77%*	77%	77%	Yes	same
Default Resolution Rate	73.0%	83.0%	81.0%	80.9%	No	No
Rate of high client satisfaction ratings on Insurance services delivered	95%	95%	95%	95%	Yes	same



Performance Scorecard							
Key Performance Measures (page references)	2011 Recap		2012 Recap				
	Targets	Results	Targets	Results	Target Achieved?		Improved From 2011? Yes/No/Same
					Yes	No	
	Color coding for 2012 Results: <span style="color: green;">●</span> Target Achieved <span style="color: yellow;">●</span> Target Missed - Small Extent <span style="color: pink;">●</span> Target Missed - Great Extent						
<b>National Cemetery Administration</b>							
Percent of graves in national cemeteries marked within 60 days of interment	95%	93%	95%	89%		No	No
Percent of applications for headstones and markers that are processed within 20 days for the graves of Veterans who are not buried in national cemeteries	90%	93%	90%	88%		No	No
Percent of Veterans served by a burial option within a reasonable distance (75 miles) of their residence (pp.	89%	89%	90%	90%	Yes		Yes
Percent of respondents who rate the quality of service provided by the national cemeteries as excellent	97%	95%	98%	96%		No	Yes
Percent of respondents who rate national cemetery appearance as excellent	99%	98%	99%	99%	Yes		Yes

Notes: \* Indicates partial or estimated actual data.



## Department Overview

### Our Mission: *What We Are Here to Do*

**To fulfill President Lincoln's promise – " To care for him who shall have borne the battle, and for his widow, and his orphan" – by serving and honoring the men and women who are America's Veterans.**

President Lincoln's immortal words – delivered in his Second Inaugural Address more than 140 years ago – describe better than any others the mission of the Department of Veterans Affairs (VA). We care for Veterans, their families, and survivors – men and women who have responded when their Nation needed help. Our mission is clear-cut, direct, and historically significant. It is a mission that every employee is proud to fulfill.

VA fulfills these words by providing world-class benefits and services to the millions of men and women who have served this country with honor in the military. President Lincoln's words guide the efforts of all VA employees who are committed to providing the best medical care, benefits, social support, and lasting memorials that Veterans and their dependents deserve in recognition of Veterans' service to this Nation.

### Our Programs: *What We Do*

#### Veterans Health Administration

##### Providing Medical Care

VA operates the largest direct health care delivery system in America. In this context, VA meets the health care needs of America's Veterans by providing a broad range of primary care, specialized care, and related medical and social support services. VA focuses on providing health care services that are uniquely related to Veterans' health or special needs. VA is also the Nation's largest provider of health care education and training for physician residents and other health care trainees. These education and training programs are designed to help ensure an adequate supply of clinical care providers for Veterans and the Nation.

**Web:** <http://www1.va.gov/health/index.asp>

##### Conducting Veteran-Centered Research -

VA advances medical research and development in ways that support Veterans' needs by pursuing medical research in areas that most directly address the diseases and conditions that affect Veterans.

Shared VA medical research findings contribute to the public good by improving the Nation's overall knowledge of disease and disability.

**Web:** <http://www.research.va.gov>



## Veterans Benefits Administration

### Delivering Compensation Benefits

The Compensation program provides monthly payments and ancillary benefits to Veterans in accordance with rates specified by law, in recognition of the average potential loss of earning capacity caused by a disability or disease incurred in or aggravated during active military service.

This program also provides monthly payments, as specified by law, to surviving spouses, dependent children, and dependent parents in recognition of the economic loss caused by the Veteran's death during active military service or, subsequent to discharge from military service, as a result of a service-connected disability.

**Web:** [www.vba.va.gov/bln/21/compensation/](http://www.vba.va.gov/bln/21/compensation/)

### Providing Pension Benefits

Pension benefits are monthly payments, specified by law, provided to Veterans with nonservice-connected disabilities who served in a time of war. Veterans must meet specific income limitations and must be permanently and totally disabled or must have reached the age of 65. This program also provides monthly payments, as specified by law, to income-eligible surviving spouses and dependent children of deceased wartime Veterans who die as a result of a disability unrelated to military service.

**Web:** [www.vba.va.gov/bln/21/pension/](http://www.vba.va.gov/bln/21/pension/)

### Providing Fiduciary Services

Fiduciary services are provided to Veterans and beneficiaries, who, because of injury, disease, infirmities of age, or they are minor children, are unable to manage their financial affairs. This program provides for a selected fiduciary, normally a family member or caregiver, to manage the beneficiary's financial affairs to ensure all of his or her debts are paid.

Additionally, through the fiduciary program, periodic visits are conducted with beneficiaries to ensure they are being properly cared for.

**Web:**

<http://www.vba.va.gov/bln/21/Fiduciary/>

### Providing Educational Opportunities

VA's education programs provide eligible Veterans, Servicemembers, Reservists, survivors, and dependents the opportunity to achieve their educational or vocational goals. Education programs also assist the Armed Forces in their recruitment and retention efforts, and help Veterans in their readjusting to civilian life.

These benefits serve to enhance the Nation's competitiveness through the development of a better educated and more productive workforce. VA administers a number of education programs, including the Montgomery GI Bill, the Post-9/11 GI Bill, and a new education program, the Veterans Retraining Assistance Program (VRAP), which provides financial support to individuals between 35 and 60 years old, to Veterans who are unemployed and are not eligible for other VA education benefits. VRAP training programs must begin on or after July 1, 2012, and the authority to make payments ends on March 31, 2014.

**Web:** [www.gibill.va.gov](http://www.gibill.va.gov)

### Delivering Vocational Rehabilitation and Employment Services

VA's Vocational Rehabilitation and Employment program provides services to Servicemembers and Veterans with service-connected disabilities to assist them with obtaining suitable career employment, maintaining employment, and/or achieving independence in daily living.

This program offers services that include vocational and personal adjustment counseling, financial aid, job assistance, job readiness and placement services, and referrals for medical and dental treatment to help each eligible



Servicemember or Veteran reach his or her vocational rehabilitation goal.

This program also provides services to enhance an individual's opportunity to obtain career employment through training. VA pays the costs of tuition, fees, books, supplies, equipment, and, if needed, special services. VA also provides a monthly benefit allowance to help with living expenses.

**Web:** <http://www.vba.va.gov/bln/vre/index.htm>

#### **Providing Educational and Vocational Counseling (Chapter 36)**

VA's Vocational Rehabilitation and Employment program administers the Educational and Vocational Counseling (Chapter 36) benefit to transitioning Servicemembers and current beneficiaries and new Veterans eligible under all Education chapters. The counseling services may include career decision making for civilian and military occupations, assistance with choosing an appropriate civilian occupation and developing a training program, selection of an academic facility, and academic and adjustment counseling to resolve barriers that impede success in training and/or employment.

#### **Promoting Home Ownership**

VA's Loan Guaranty program helps eligible Veterans, active duty personnel, surviving spouses, and members of the Reserves and National Guard in purchasing homes. VA also assists these borrowers in retaining their homes through joint servicing efforts with VA-guaranteed loan servicers via foreclosure avoidance services. In addition, VA offers Specially Adaptive Housing grants to Veterans and Servicemembers who have certain service-connected disabilities for the purpose of constructing an adapted dwelling or modifying an existing one to meet their special needs.

The Loan Guaranty program also provides direct loans to Native American Veterans living on Federal trust land and offers some loans to the public when buying homes owned by VA as a result of foreclosure.

**Web:** <http://www.homeloans.va.gov>

#### **Meeting Insurance Needs**

VA's Insurance program provides Servicemembers and their families with universally available life insurance (automatically issued to all Servicemembers and their families without underwriting), as well as traumatic injury protection insurance for Servicemembers. It also provides the option for the continuation of insurance coverage after a Servicemember's separation from service. The program continues to provide life insurance coverage to WWII and Korean War-era Veterans, and to Veterans who have lost or impaired insurability resulting from military service and therefore cannot obtain commercial insurance at standard (healthy) rates. In total, the program insures 6.9 million Veterans, Servicemembers, and their families.

Insurance coverage is made available in reasonable amounts and at premium rates comparable to those offered by commercial companies. The program ensures a competitive, secure rate of return on investments held on behalf of the insured.

**Web:** <http://www.insurance.va.gov>



## **National Cemetery Administration**

### **Delivering Burial Services to Veterans**

Primarily through the National Cemetery Administration (NCA), VA honors Veterans and their families with final resting places in national shrine cemeteries and with lasting tributes that commemorate their service and sacrifice to our Nation.

**Web:** <http://www.cem.va.gov>

### **Staff Offices**

The Department's staff offices are critical to VA's ability to deliver services to Veterans in a cost-effective manner. These offices provide a variety of services including information technology, human resources management, financial management, acquisition, and facilities management.



## Our Programs: *Where We Are Located*

VA provides medical care, benefits, and burial services throughout the Nation. Shown below is a depiction of VA's geographical locations as of March 30, 2012. The map identifies 152 Medical Centers, 300 Vet Centers, 817 Community-based Outpatient Clinics (CBOC), 133 VA Community Living Centers, 6 Independent Output Clinics, 98 Residential Rehabilitation Centers, 222 National and State Cemeteries, and 56 Regional Offices.



\* Although State Veterans Cemeteries are included on the above map, they are not VA facilities per se. VA provides grants for the establishment of State-operated cemeteries, which provide a burial and memorial benefit to Veterans.



## Our Programs: *Who We Serve*

As described on the previous pages, VA programs and services are as varied as the Veterans and family members we serve. VA's commitment to those who have "borne the battle" continues. The chart below describes how many participants are being served by VA.

Program	Year-to-Year Comparison		
	2011 Participants <sup>(1)</sup>	2012 Participants <sup>(1)</sup>	Percent Change
<b>Medical Care</b>			
Unique Patients	6,166,200	*6,333,100	2.7%
<b>Compensation</b>			
Veterans	3,354,700	3,534,457	4%
Survivors/Children	355,500	365,220	3%
<b>Pension</b>			
Veterans	313,700	313,870	.054%
Survivors	202,000	206,688	2.32%
<b>Education<sup>(2)(3)</sup></b>			
Veterans/Servicemembers	663,000	660,800	-0.3%
Reservists	92,500	79,400	-14.2%
Survivors/Dependents	168,400	204,000	21.1%
<b>Vocational Rehabilitation<sup>(2)</sup></b>			
Program Participants	106,300	114,281	7.5%
<b>Housing</b>			
Loans Guaranteed	357,600	539,900	51.0%
Specially Adapted Housing (SAH) Grants Approved	1,235	1,205	-2.4%
<b>Insurance</b>			
Veterans	1,367,800	1,328,696	-2.9%
Servicemembers/Reservists	2,417,500	2,387,500	-1.2%
Spouses/Dependent Children	3,284,000	3,202,000	-2.5%
<b>Burial</b>			
Interments	117,400	118,200	0.7%
Graves Maintained	3,147,400	3,226,500	2.5%
Headstones/Markers (Processed)	372,700	354,600	-4.9%
Presidential Memorial Certificates	779,700	719,100	-7.8%

<sup>(1)</sup> Whole numbers, rounded to nearest hundred.

<sup>(2)</sup> Figures represent 12-month rolling data through September.

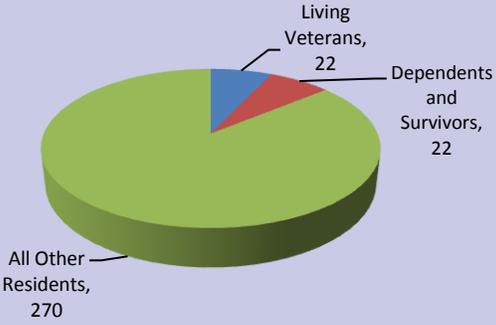
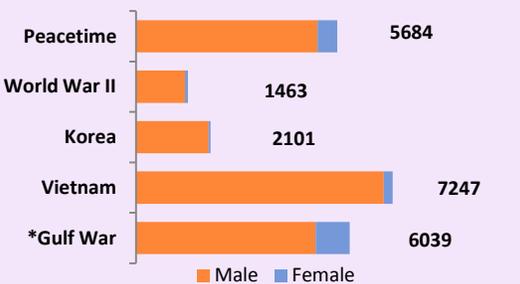
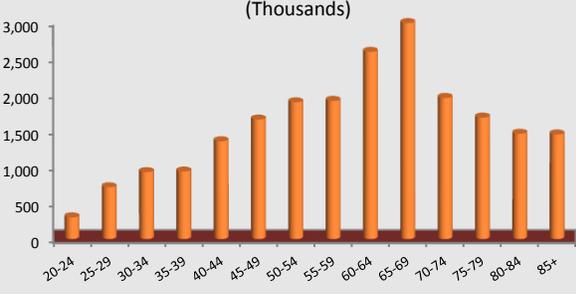
<sup>(3)</sup> Does not represent unique participants. Some participants trained under more than one education program.

\*VHA's 2012 number is an estimate.



## America's Veterans: A Demographic Profile

Beginning with our Nation's struggle for freedom more than 2 centuries ago, approximately 45 million men and women have served this country during wartime periods. The charts below provide various social and demographic information on today's Veteran population.

Data	Analysis																														
<p><b>Veteran Population Compared to Total U.S. Population</b> (Millions)</p>  <table border="1"> <caption>Veteran Population Compared to Total U.S. Population (Millions)</caption> <thead> <tr> <th>Category</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>All Other Residents</td> <td>270</td> </tr> <tr> <td>Living Veterans</td> <td>22</td> </tr> <tr> <td>Dependents and Survivors</td> <td>22</td> </tr> </tbody> </table>	Category	Value	All Other Residents	270	Living Veterans	22	Dependents and Survivors	22	<ul style="list-style-type: none"> <li>There are about 21.8* million living U.S. Veterans, 9 percent of whom are women. The percentage of women Veterans is expected to increase over time given the increased role of women in the Armed Forces.</li> <li>There are an estimated 22 million dependents (spouses and dependent children) of living Veterans and survivors of deceased Veterans.</li> <li>Together, Veterans, dependents, and survivors make up about 14 percent of America's population.</li> </ul> <p>* Pie chart shows number of Veterans living in the United States proper.</p>																						
Category	Value																														
All Other Residents	270																														
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<p><b>Veteran Population by Period of Service*</b> (Thousands)</p>  <table border="1"> <caption>Veteran Population by Period of Service* (Thousands)</caption> <thead> <tr> <th>Period</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Peacetime</td> <td>5684</td> </tr> <tr> <td>World War II</td> <td>1463</td> </tr> <tr> <td>Korea</td> <td>2101</td> </tr> <tr> <td>Vietnam</td> <td>7247</td> </tr> <tr> <td>*Gulf War</td> <td>6039</td> </tr> </tbody> </table> <p>*The Gulf War figures include Veterans who have served in Operation Iraqi Freedom and/or Operation Enduring Freedom.</p>	Period	Total	Peacetime	5684	World War II	1463	Korea	2101	Vietnam	7247	*Gulf War	6039	<ul style="list-style-type: none"> <li>Over 16 million (74 percent) of America's Veterans served during at least one wartime period. *(The sum of period of service will exceed number of all Veterans because Veterans who served in multiple periods are shown in each period.)</li> <li>Vietnam Era Veterans account for the largest segment of the Veteran population.</li> <li>About 78 percent of all women Veterans served during the post-Vietnam Era compared to 40 percent of men.</li> <li>By 2021, the number of women Veterans enrolled in VA's health care system is expected to increase by 45 percent to 854,775 compared to an estimated 588,600 in 2012. (Enrollment projections for women Veterans have been revised to reflect gender-specific adjustments to modeling factors. VA still expects significant growth in the enrollment of women Veterans.)</li> </ul>																		
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<p><b>Age Distribution of the Veteran Population By 5-Year Age Groups</b> (Thousands)</p>  <table border="1"> <caption>Age Distribution of the Veteran Population By 5-Year Age Groups (Thousands)</caption> <thead> <tr> <th>Age Group</th> <th>Population (Thousands)</th> </tr> </thead> <tbody> <tr><td>20-24</td><td>~400</td></tr> <tr><td>25-29</td><td>~800</td></tr> <tr><td>30-34</td><td>~1000</td></tr> <tr><td>35-39</td><td>~1000</td></tr> <tr><td>40-44</td><td>~1400</td></tr> <tr><td>45-49</td><td>~1700</td></tr> <tr><td>50-54</td><td>~2000</td></tr> <tr><td>55-59</td><td>~2000</td></tr> <tr><td>60-64</td><td>~2600</td></tr> <tr><td>65-69</td><td>~3000</td></tr> <tr><td>70-74</td><td>~2000</td></tr> <tr><td>75-79</td><td>~1700</td></tr> <tr><td>80-84</td><td>~1500</td></tr> <tr><td>85+</td><td>~1500</td></tr> </tbody> </table>	Age Group	Population (Thousands)	20-24	~400	25-29	~800	30-34	~1000	35-39	~1000	40-44	~1400	45-49	~1700	50-54	~2000	55-59	~2000	60-64	~2600	65-69	~3000	70-74	~2000	75-79	~1700	80-84	~1500	85+	~1500	<ul style="list-style-type: none"> <li>As of September 2012, the median age of all living Veterans was 62 years.</li> <li>Men's median age was 63; women's 49.</li> <li>The number of Veterans 85 and older totaled about 1,447,000, compared to 164,000 in 1990.</li> <li>By 2021, the number of Veterans 65 and older enrolled in VA's health care system is expected to increase by 22 percent to 4,212,000 compared to an estimated 3,462,000 in 2012.</li> </ul>
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## Data

See Annex #1 for Graphic

## Analysis

- Veterans in just three States – California, Texas, and Florida – comprised almost 24 percent of the total number of Veterans living in the U.S.
- The three next largest States in terms of Veteran population are Pennsylvania, New York, and Ohio. These States account for over 12 percent of the total number of Veterans living in the U.S.
- Together, these six States account for about 36 percent of the total Veteran population.
- Between April 1, 2000 and September 30, 2012, the total Veteran population decreased by 18 percent. The Veteran population increased in Alaska, Virginia, Nevada and Georgia while decreasing by more than 30 percent in Connecticut, Massachusetts, New York, Rhode Island and New Jersey.

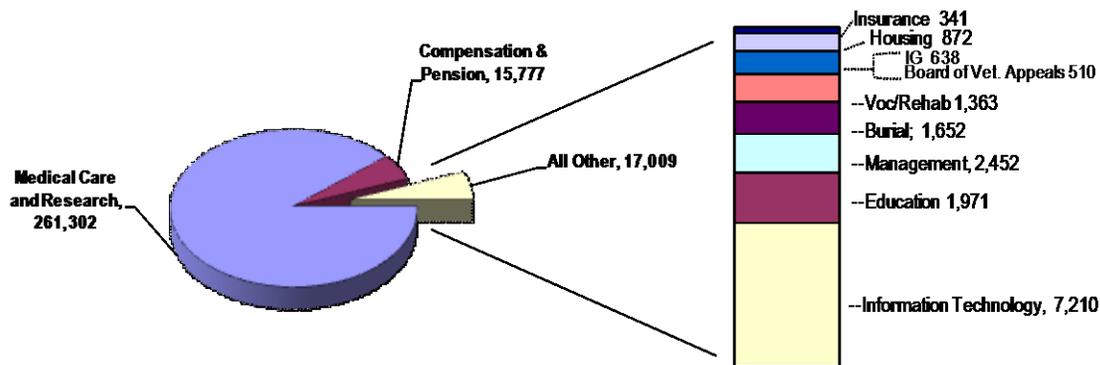


## Resources: Our People

As of September 30, 2012 the Department employed about 294,087 full-time equivalent (FTE) employees nationwide. The charts below show the distribution of full-time equivalent employees by program area.

As shown below, more than 264,000 FTE support VA's health care system, one of the largest in the world. Of the remaining FTE, approximately 20,351 are involved with providing compensation and pension as well as other benefits to Veterans and their families. About 1700 provide burial and memorial services for Veterans and their eligible spouses and children, and about 10,820, located primarily in the Washington, DC area, provide policy, administrative, information technology, and management support to the programs.

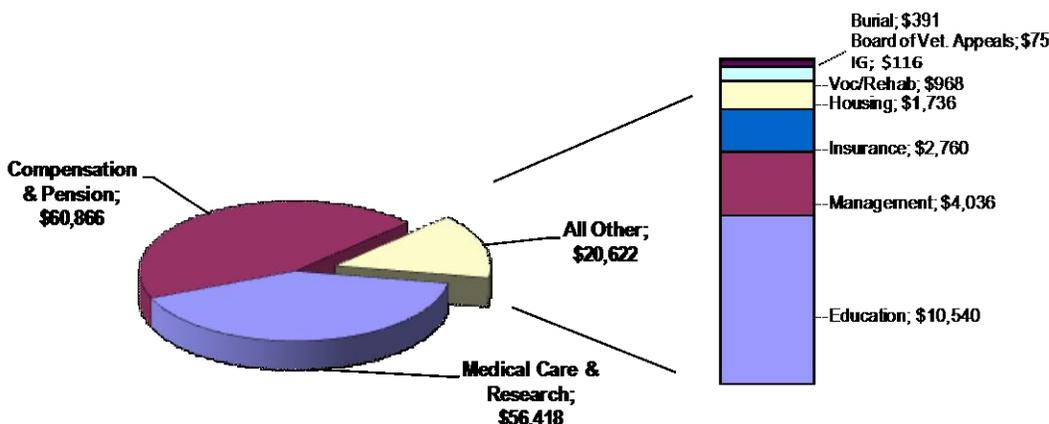
**Number of Full-Time Equivalent Employees**  
as of September 30, 2012



## Resources: Our Budget

In 2012 VA obligated approximately \$138 billion.\* Approximately 97percent of total funding went directly to Veterans in the form of monthly payments of benefits or for direct services such as medical care. The depictions below show how VA spent the funds with which it was entrusted.

**FY 2012 Obligations**  
(\$ Millions)

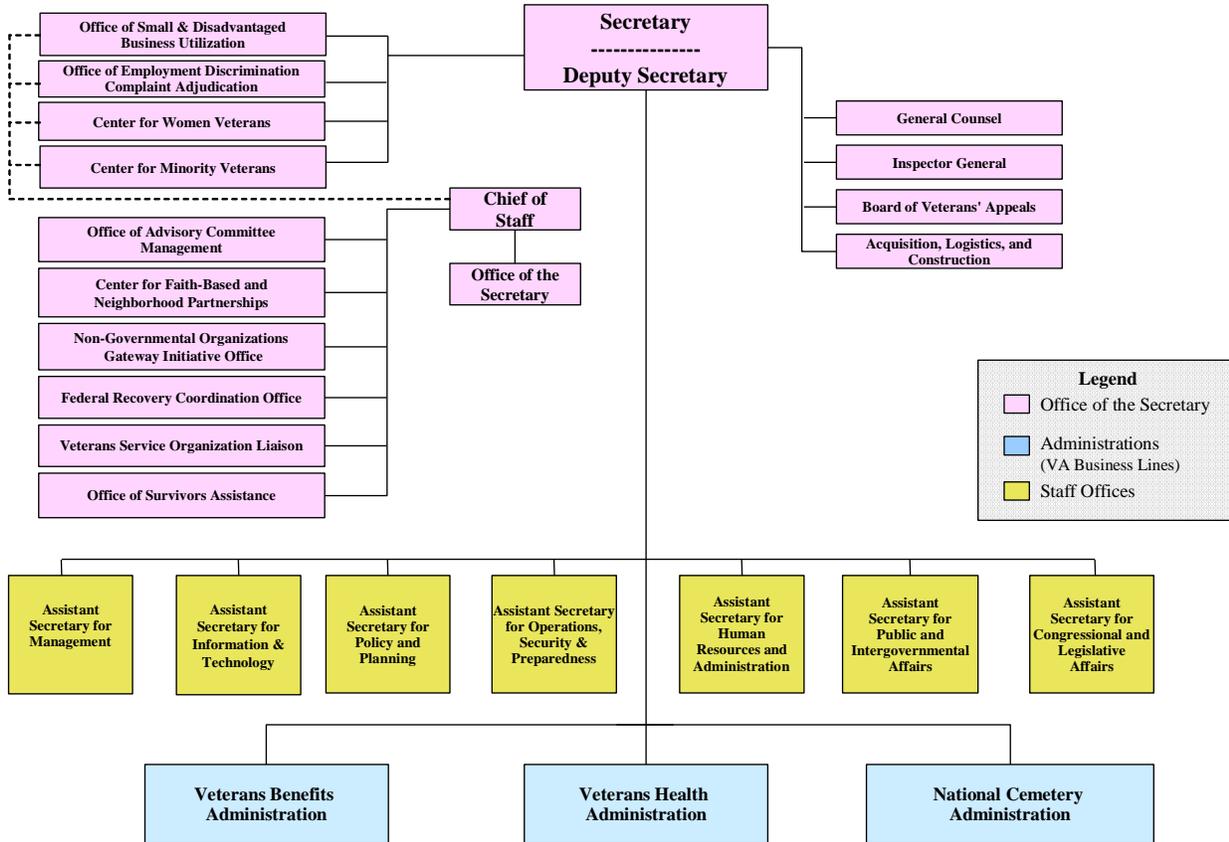


\* The obligation information shown above does not tie to the Obligations Incurred amounts shown in the Financial Statements of Part III. The difference includes but is not limited to the fact that adjustments to prior-year expired funds are netted with Obligations Incurred in the Financial Statements.



## Our Organization

# Department of Veterans Affairs





## Leadership and Governance

VA senior leadership makes policy decisions through various internal governing bodies. Four of the most critical are described below together with key actions they undertook in 2012.

Governance	Major 2012 Actions
<b>VA Executive Board</b>	
<p><b><u>Membership</u></b></p> <p>The VA Executive Board (VAEB) is chaired by the Secretary and includes VA’s Deputy Secretary; Chief of Staff; Under Secretaries for Health, Benefits, and Memorial Affairs; Assistant Secretaries; General Counsel; and the Chair of the Board of Veterans’ Appeals.</p> <p><b><u>Purpose</u></b></p> <p>The VAEB is the Department’s most senior management decisionmaking forum. VAEB reviews, discusses, and, through the decisions of the Secretary, provides direction on Departmental policy, strategic direction, resource allocation, and performance in key areas.</p>	<p>The VAEB reviewed the following:</p> <ul style="list-style-type: none"> <li>• VA Quadrennial Strategic Planning Cycle</li> <li>• Center for Innovation at VA</li> <li>• Enterprise Risk Management in VA</li> <li>• 2014 Internal Budget</li> </ul> <p>*Members of the VAEB also review briefings through the Executive Leadership Board and one-on-one meetings with VA’s Deputy Secretary and Chief of Staff.</p>
<b>Strategic Management Council</b>	
<p><b><u>Membership</u></b></p> <p>The Strategic Management Council (SMC) is chaired by the Deputy Secretary and includes VA’s Assistant Secretaries; the Deputy Under Secretaries for Health, Benefits, and Memorial Affairs; the General Counsel; Chair of the Board of Veterans’ Appeals; and the Chief of Staff.</p> <p><b><u>Purpose</u></b></p> <p>The SMC serves as a collaborative and deliberative body that provides oversight and guidance on key strategic and operational issues that are likely to require action by VA decision-makers.</p>	<p>The SMC reviewed the following:</p> <ul style="list-style-type: none"> <li>• VA Quadrennial Strategic Planning Cycle</li> <li>• Center for Innovation at VA</li> <li>• Enterprise Risk Management in VA</li> <li>• 2014 Internal Budget</li> </ul>



Governance	Major 2012 Actions
<b>Senior Review Group</b>	
<p><b><u>Membership</u></b></p> <p>The Senior Review Group (SRG) is chaired by the VA Chief of Staff and includes VA's Principal Deputy Assistant Secretaries; the Chiefs of Staff for Health, Benefits, and Memorial Affairs; the Deputy General Counsel; and the Vice Chair for the Board of Veterans' Appeals.</p> <p><b><u>Purpose</u></b></p> <p>The SRG serves as a collaborative and deliberative body that provides oversight and guidance on key strategic and operational issues, and makes recommendations on issues that should be considered as part of VA's governance process. Some governance meetings were conducted jointly in 2012 as SRG/SMC meetings.</p>	<p>The SRG reviewed the following:</p> <ul style="list-style-type: none"><li>• VA Telework Program</li><li>• 2013 Strategic Capital Investment Planning (SCIP)</li><li>• VBA Transformation Plan</li><li>• VA Green Management Program</li><li>• Developing VA Leaders – Leadership VA</li><li>• Corporate Executive Development Board Task Force</li><li>• Asset Management Compliance Audit</li><li>• Senior Executive Performance Management</li><li>• Enterprise Risk Management in VA</li><li>• Continuous Readiness in Information Security Program</li><li>• Women Veterans Task Force</li><li>• VA Functional Organizational Manual Task Force</li><li>• VetPop</li><li>• 2014 Internal Budget</li></ul>



Governance	Major 2012 Actions
<b>Operational Management Review</b>	
<p style="text-align: center;"><b><u>Membership</u></b></p> <p>The Operational Management Review (OMR) is chaired by the Deputy Secretary. Attendees include the Executive Sponsor and Senior Program Managers for the Department’s Major Initiatives and represent the key supporting organizations, the Assistant Secretaries for the Offices of Information Technology (OIT), Human Resources and Administration (HRA), and Acquisition, Logistics, and Coordination (OALC).</p> <p style="text-align: center;"><b><u>Purpose</u></b></p> <p>The OMR is a performance management process that oversees the execution of the Department’s Major Initiatives. The Executive Sponsor and Senior Program Managers for the Department’s Major Initiatives present their actual vs. planned status in regards to Cost, Schedule and Performance. The focus is on issue resolution. In addition, an overarching purpose of this monthly forum is to build VA’s capabilities and cross-Departmental coordination to promote and sustain long-term, effective execution.</p>	<p>Major actions achieved during 2012 included the following:</p> <ul style="list-style-type: none"> <li>• Developed and approved Sustainment and Transition Plans for all Major Initiatives. The plans will ensure that the capabilities developed by the major initiatives are incorporated into and sustained into ongoing VA operations. Eleven of the sixteen Major Initiatives were approved to transition to sustainment by the end of 2012.</li> <li>• Organized 16 major initiatives into Health, Benefits, and Corporate Portfolios to enable improved integration and decision-making between related work efforts. Implemented the Integrated Health Operating Plan as a pilot of a business capability focused portfolio.</li> <li>• Implemented a configuration management process for ensuring coordination of changes in procurement actions between OALC and OIT.</li> <li>• Streamlined performance reporting to allow more focus on problem solving and risk and issue management.</li> <li>• Through the collaboration of ePMO, VHA and OIT, VA implemented a prioritization process to inform budget decision making for the 2013 and 2014 IT budgets.</li> <li>• Through the collective efforts of the Department’s Enterprise Program Management Office (ePMO) and the Office of Acquisition, Logistics, and Construction (OALC), there was coordinated collaboration to support the Major Initiatives with the timely development of actionable acquisition packages, all of which were actionable by the required deadline.</li> <li>• Held a Major Initiative Summit that promoted integration across all Major Initiatives and established framework for identifying common services for VA-wide development.</li> </ul>



## Performance Overview

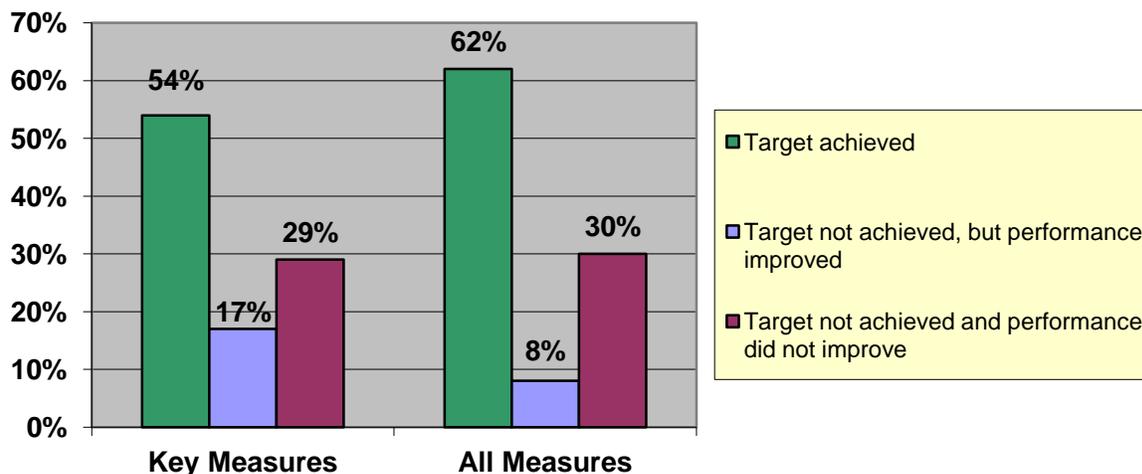
### Purpose of This Report

VA's 2012 Performance and Accountability Report (PAR) describes VA's accomplishments and progress during 2012 toward fulfilling its mission. The report is designed to enable Department management, our stakeholders, and our employees to assess VA's program and financial performance as compared to its goals and to use this information to make necessary assessments and improvements.

### 2012 Performance — A Department-Level Summary

**Key Measures — Continuity and Type:** Key measures are those that measure mission-critical activities. As of 2012, 17 of VA's 24 key measures have been in place for at least 5 years. This provides the Department's leadership with the ability to track significant performance trends over time and to make strategic adjustments when necessary.

**Performance Results: Key vs. All Measures:** The chart below shows how well VA performed in meeting its performance targets. As shown, VA achieved the target for 54 percent of its key measures and 62 percent of all measures. In addition, for key measures, 17 percent of the targets were not achieved, but performance improved. Further details on performance are provided in Part II.





### Cost to Achieve Performance Goals – For 9 Selected Measures

The following tables provide an estimate of costs devoted to achieve performance goals. However, as a continuing part of the Department’s overall effort to better identify resources required to achieve a certain level of performance, we also show estimated costs to achieve a level of performance (i.e., a result) for nine *measures*.

Measure	Fiscal Year 2012		
	Performance		Estimated Cost (Obligations) (\$ in Millions)
	Target	Result	
<b>Non-Institutional, Long-term Care Average Daily Census (ADC)</b>	113,254	104,445	\$1,509.3
<b>Impact of Result on the Veteran</b>	Increasing the number of Veterans receiving Home and Community-Based Care (HCBC) services provides Veterans with an opportunity to improve the quality of their lives. HCBC promotes independent physical, mental, and social functioning of Veterans in the least restrictive settings and enables Veterans to remain in their own homes and communities for as long as possible.		
<b>How VA Uses Performance Data</b>	VA uses the data to project the need for services, evaluate existing services, identify specific services* that may need to be added or expanded to meet identified needs and promote access to required services. In addition, the data are used to establish VISN targets and evaluate VISN performance in meeting their respective ADC targets. ADC targets were added as a mandatory measure in the Network Directors Performance Plan in 2012.  *Services currently available include the following: Home Based Primary Care, Purchased Skilled Home Care, Homemaker/Home Health Aide, Community Adult Day Health care, VA Adult Day Health care, Home Respite, Home Hospice, Care Coordination/Home Telehealth, and, where present, Spinal Cord Home Health care and Medical Foster Home Care.		
<b>2012 Program and Cost Efficiencies Implemented</b>	Mindful of our need to control costs, VA has embarked on a number of activities to minimize costs and efficiently utilize resources to include: using Medicare benchmark rates as maximum rates for home health care services, improved communication between Non-Institutional Care (NIC) Programs and business office staff to ensure accurate billing and payments, and the incorporation of VA NIC programs into the Enrollee Health Care Projection Model (EHCPM).		



Measure	Fiscal Year 2012		
	Performance		Estimated Cost (Obligations) (\$ in Millions)
	Target	Result	
Percent of milestones completed leading to the use of genomic testing to inform the course of care (prevention, diagnosis, or treatment) of patients with mental illness (including PTS, schizophrenia, and mood disorders)	45%	43%	\$6.2
Impact of Result on the Veteran	As of 2012, more than 30 percent of the Veterans needed for the study have been enrolled. Blood sample analysis is scheduled to begin at the end of 2012. Additionally, data analyses are completed. The plan will be to characterize functional impairments related to the blood-based genetic analyses, and determine clinical implications as a result. This type of new information will provide important details to better understand both disorders.		
How VA Uses Performance Data	Once the study is completed, genetic variants that contribute to functional disability associated with bipolar illness and schizophrenia can be identified. In addition, the study will assess the relationship between the characteristics of functional disability and the genetics that influence the likelihood of succumbing to mental illness. The impact of the information to be generated in this study may provide details that could identify new treatments. For example, if a particular impairment were related to a genetic difference, then a specific drug might be found to be helpful for that impairment. Alternatively, the functional impairment might be used to assess progress towards recovery via different treatment methods.		
2012 Program and Cost Efficiencies Implemented	As of the end of FY 2012, more than 30 percent of the Veteran participants needed for this innovative multi-site study have been enrolled. Blood sample analysis is scheduled to begin at the end of calendar year 2012. Additionally, data analyses are planned to begin after blood analyses are completed. The goal is to characterize functional impairments related to the blood-based genetic analyses, and determine clinical implications as a result. This type of new information will provide important details to better understand schizophrenia and bipolar illness.		



Measure	Fiscal Year 2012		
	Performance		Estimated Cost (Obligations) (\$ in Millions)
	Target	Result	
Percent of headstones and/or markers in national cemeteries that are at the proper height and alignment	71%	69%	\$34.0
Percent of headstones, markers, and niche covers that are clean and free of debris or objectionable accumulations	83%	82%	
Percent of gravesites that have grades that are level and blend with adjacent grade levels	90%	93%	
Impact of Result on the Veteran	National cemeteries carry expectations of appearance that set them apart from private cemeteries. Our Nation's Veterans have earned the appreciation and respect not only of their friends and families, but also of the entire country and our allies. VA's cemeteries reflect this appreciation and respect.		
How VA Uses Performance Data	VA uses these data to identify areas where improvements in appearance are needed. Data are broken out by individual cemetery. Best practices are shared with cemeteries that are having difficulty.		
2012 Program and Cost Efficiencies Implemented	VA has implemented an analytical approach that quantitatively determines the performance of each national cemetery with respect to these measures and the number of gravesite repairs required to improve performance. This approach has been instrumental in ensuring that funding for national shrine projects is targeted to those cemeteries with the great need for improvement.		
Percent of Veterans served by a burial option within a reasonable distance (75 miles) of their residence	89.6%	89.6%	\$15.0
Impact of Result on the Veteran	<p>By the end of 2012, over 19 million Veterans and their families had reasonable access to a burial option.</p> <p>One of VA's primary objectives is to ensure that the burial needs of Veterans and eligible family members are met. Having reasonable access to this benefit is integral to realizing this objective.</p>		



Measure	Fiscal Year 2012		
	Performance		Estimated Cost (Obligations) (\$ in Millions)
	Target	Result	
<b>How VA Uses Performance Data</b> <i>(Veterans served...cont'd)</i>	VA analyzes census data to determine areas of the country that have the greatest number of Veterans not currently served by a burial option.  This information is used in planning for new national cemeteries and for gravesite expansion projects to extend the service life of existing national cemeteries, as well as in prioritizing funding requests for State and Tribal Veterans Cemetery grants.		
<b>2012 Program and Cost Efficiencies Implemented</b>	VA locates new national cemeteries in areas of the country with the largest concentration of unserved Veterans. Grants for new national cemeteries are prioritized by the number of currently unserved Veterans who will be served by the new cemetery. This enables VA to maximize the provision of burial benefits at new national and state cemeteries.		
<b>Vocational Rehabilitation Rate (General)</b>	77%	77%	\$118.6
<b>Impact of Result on the Veteran</b>	A "rehabilitated" Veteran is one who successfully completes the rehabilitation program plan and is equipped with the required skills and tools needed to obtain and maintain suitable employment or gain independence in daily living.		



Measure	Fiscal Year 2012		
	Performance		Estimated Cost (Obligations) (\$ in Millions)
	Target	Result	
<p><b>How VA Uses Performance Data</b></p> <p>VA leadership uses the rehabilitation rate to assess the performance of vocational rehabilitation counselors, counseling psychologists, VR&amp;E officers, and regional office directors as well as the overall effectiveness of the program and services provided.</p> <p>To improve performance in this area, VA leadership continues to place an increased emphasis on developing a culture that is forward looking, results driven, and Veteran-centric.</p> <p>Therefore, within the context of the above-cited tenets, VBA leadership has identified several areas of emphasis:</p> <ul style="list-style-type: none"> <li>• Providing services to enable Veterans to continue to complete the program and become career employed.</li> <li>• Enhance the VetSuccess.gov Web site because it provides Veterans with a VA employment portal that employers can use to match skilled Veterans with employer staffing needs.</li> <li>• Continue to sponsor career fairs geared toward today's Veteran to provide exposure to employers seeking to hire Veterans.</li> <li>• Train Vocational Rehabilitation Counselors and Employment Coordinators in the best methods for preparing and placing Veterans in careers.</li> </ul> <p>For detailed information on how this measure is calculated, please see the definitions section in Part IV.</p>			
<p><b>2012 Program and Cost Efficiencies Implemented</b></p> <p>Despite the high unemployment rate, the rehabilitation rate improved to 77 percent in 2012. VR&amp;E has been able to assist Veterans with service-connected disabilities obtain and maintain employment by increasing automation to replace paper processes and implementing business process reengineering practices. This reduced the administrative burden on Vocational Rehabilitation Counselors. In 2012, the average Veteran was rehabilitated in a technical, managerial, or professional job, averaging a starting salary of approximately \$39,000 per year.</p>			
<p><b>Number of Disbursements/FTE (Insurance)</b></p>	1,750	1,775	\$8.3
<p><b>Impact of Result on the Veteran</b></p>	An increased number of disbursements per full-time equivalent (FTE) indicates efficiency in processing, resulting in lower administrative program cost, which is paid for primarily by policy holder premiums.		
<p><b>How VA Uses Performance Data</b></p>	VA leadership uses the number of disbursements per FTE to assess the efficiency of processing Insurance disbursements and to adjust the number of FTE for processing disbursements as necessary to meet performance targets.		



Measure	Fiscal Year 2012		
	Performance		Estimated Cost (Obligations) (\$ in Millions)
	Target	Result	
<b>2012 Program and Cost Efficiencies Implemented</b>	Disbursements, which are loans, cash surrenders, and death claims awards, are considered the most important service provided by the Insurance Program to Veterans and their beneficiaries. The most significant factor impacting the efficiency in processing disbursements is the continued utilization of a paperless electronic workflow system. This allows employees to process work in a timely and efficient manner. In 2012, Insurance monitored workload fluctuations and adjusted the number of FTE dedicated to processing disbursements.		
<b>National Accuracy Rate – Pension Maintenance Claims</b>	<b>97%</b>	<b>98%</b>	<b>\$66.1</b>
<b>Impact of Result on the Veteran</b>	<p>Despite increased workload, VA has continued to improve its accuracy rate in pension maintenance work, thereby ensuring that those Veterans and survivors most in need of financial resources receive the correct benefit.</p> <p>The importance of making timely payments to Veterans for pension claims is critical to helping them meet their financial need in order to maintain their standard of living.</p>		
<b>How VA Uses Performance Data</b>	<p>VA leadership is committed to increasing the accuracy of rating decisions. Based on 2012 performance results, VA expanded the four-tiered quality assurance program to improve its accuracy rate for compensation and pension claims:</p> <ul style="list-style-type: none"> <li>• <u>Tier One</u> - Accuracy; expanding the STAR staff to increase review sampling.</li> <li>• <u>Tier Two</u> - Oversight; expanding site visit staff and review of internal controls.</li> <li>• <u>Tier Three</u> - Special focus reviews; review of Appeals Management Center decisions, and providing review of administrative error decisions over \$25,000</li> <li>• <u>Tier Four</u> - Consistency; expanding rating data analyses and increasing the focus on disability decision consistency reviews.</li> </ul> <p>Additionally, VA continues to implement its skill certification testing program. In 2012, VA certified an additional 2,464 claims processors as fully proficient in their positions. From its inception in 2004, more than 7,900 employees have been certified.</p>		



Measure	Fiscal Year 2012		
	Performance		Estimated Cost (Obligations) (\$ in Millions)
	Target	Result	
2012 Program and Cost Efficiencies Implemented	VA has successfully maintained the accuracy of pension maintenance claims at 98 percent for 2012. The Pension Management Centers (PMCs) accomplished this despite increases in both maintenance workload and survivors' claims. Contributing to the sustained rate of high quality, the PMCs have improved the quality and consistency of their training as a way to ensure that employees possess the unique skills required to process maintenance claims.		



## Performance Summaries by Program

The Department's most important 2012 achievements as well as its current challenges are summarized below.

### Most Important Achievements

**VHA Advances Skills of Mental Health Providers** – VHA Trained over 4,000 of its VHA mental health providers in one or more evidence-based psychotherapies for PTSD and/or other mental health conditions to assure that Veterans are offered evidence-based care from highly-skilled mental health providers. In addition, due to VHA's expansion of Telemental health for mental health conditions, Veterans can receive the same level of excellent, evidence-based care regardless of location or proximity to a VA Medical Center.

**VA is Leading the Way in Polytrauma Treatment** – VA revamped and expanded Polytrauma care for severely injured Veterans and Servicemembers by signing a \$52 million construction contract for a new polytrauma center in Tampa, Florida; building a new facility in San Antonio, Texas, and continuing to operate state-of-the-art major polytrauma centers in Minneapolis, Minnesota, Richmond, Virginia; and Palo Alto, California, with 97 related facilities to care for Veterans and Servicemembers closer to their homes.

**VA OEF/OIF Care Management Team** – Under VA's Operation Enduring Freedom and Operation Iraqi Freedom (OEF/OIF) Care Management Program, each VA Medical Center has an OEF/OIF Care Management team in place to coordinate patient care activities and ensure that Service members and Veterans are receiving patient-centered, integrated care and benefits. Over 49,000 OEF/OIF Servicemembers and Veterans are receiving case management services, including over 6,000 severely injured.

### **Veteran's Retraining Assistance Program (VRAP)**

VA successfully implemented the Veterans Retraining Assistance Program for certain unemployed Veterans effective July 1, 2012, as required by the law.

A 90-day pilot e-mail campaign was conducted to raise awareness about the Veterans Retraining Assistance Program (VRAP). E-mails went to individuals who previously contacted VA about the GI Bill and to those who signed up to receive notifications. Those whose email address we had on record or signed-up for the campaign received up to four emails. The campaign directed the individuals to the VRAP website, provided information about the program, and encouraged individuals to apply. Approximately 800,000 e-mails were sent with an open rate of 25.74 percent, double the average rate for similar campaigns.

### **GI Bill Implementation**

VA deployed additional releases of VA's new IT system. This new automation feature has processed 2,500 or more claims each day, which equates to about 25 percent of all supplemental claims.



Additionally, approximately 30 percent of supplemental claims are partially automated, reducing the time required to complete them. We expect end-to-end automation will give us efficiencies in increasing claims processing volume, which will improve our overall claims processing timeliness.

### **Integrated Disability Evaluation System (IDES)**

In February 2012, VA and DoD signed a memorandum of understanding for the purpose of providing Vocational Rehabilitation and Employment (VR&E) services at the earliest opportunity to active duty Servicemembers. These services include a comprehensive evaluation to determine abilities, skills, and interests for employment; development of a rehabilitation plan of training and other needed assistance, and case management. By physically placing VR&E counselors at IDES locations, quality and timeliness of benefits delivery will improve by beginning the process of developing a new career that is uniquely appropriate for each individual's desires and abilities during the transition process. The 110 FTE budgeted for 2012 was based on more than 12,000 Servicemembers that would process through the Physical Evaluation Board, and would provide VR&E services to Servicemembers at IDES sites with 200 or more participants per year. Three key impact performance measures targeted by this initiative are:

- 100% of all Servicemembers referred to Physical Evaluation Board (PEB) phase of IDES meet with a Vocational Rehabilitation Counselor (VRC) prior to discharge
- 67% of Servicemembers in PEB seen by a VRC apply for Chapter 31 benefits
- VR&E staff and services available at every IDES site on a full or itinerant basis

### **VetSuccess on Campus**

The "VetSuccess on Campus" program provides on-campus support to student-Veterans to assist in the pursuit and successful completion of educational and career goals. The Department of Education indicates beneficiaries that utilized VA education benefits in 2011 numbered a little over 90,000. Those Veterans, dependents and active duty Servicemembers are the potential client base for VetSuccess on Campus. The program helps ensure Veteran students can overcome barriers, adjust to campus life after combat, overcome academic deficiencies, and build confidence to succeed in academic studies. The program currently is located at 32 college campuses, serving approximately 32,000 Veteran students. Services provided include career and academic counseling, adjustment counseling to resolve problems interfering with completion of education programs, referrals for medical and mental health treatment, benefits assistance, and job readiness, and placement assistance. The program is expected to serve approximately 80,000 Student-Veterans in 2013.

### **VetSuccess.gov**

VetSuccess.gov is a one-stop shop for employment and transition resources for all Veterans. The website has been integrated with eBenefits, allowing Veterans receiving other VA benefits to access employment information through VetSuccess.gov seamlessly. At the close of the third quarter 2012, a total of 146,670 Veterans and 3,917 employers have registered on VetSuccess.gov. The new users added in 2012 represent a 40 percent increase in Veteran registrants and a 71 percent increase in employer registrants since 2011. A total of 24,091 jobs have been posted to the site to date. The new jobs added to the site in 2012 are an 81percent increase over 2011.



### **VBA Claims Transformation**

- VA implemented VA Form 21-526 EZ, Veterans Application for Compensation, through VONAPP Direct Connect (VDC). This enhancement gives Veterans the ability to file claims through the eBenefits Website and releases automatic notification letters and email reminders.
- In 2012, VBA continued the transformation of the training curriculum for new claims processors. Students are immersed in the practical application of procedures while in a centralized training environment. Subject matter experts from across the country provide guidance to the students and ensure the quality of the work produced. Students return to their home office with the ability to work more than one case a day unassisted at a quality level of 94 percent or more.

### **Servicemembers' Group Life Insurance Improvements**

The right to convert Servicemembers' Group Life Insurance (SGLI) to Veterans' Group Life Insurance (VGLI) is an important feature of the SGLI program, especially for disabled Servicemembers leaving service who may have difficulty obtaining life insurance from the private sector due to service-connected disabilities. VA established a specialized work unit devoted to outreach to those recently separated disabled Servicemembers who are uninsurable due to their service-connected disabilities. In 2012, VBA implemented new technology and streamlined case review techniques, resulting in an average 147 percent increase in the number of cases processed per month.

### **Increasing Access to a Burial Option**

NCA began implementation of its Rural Veterans Burial Initiative to establish National Veterans Burial Grounds to improve access to a burial option for Veterans who reside in sparsely populated areas where access to a national or state Veterans cemetery does not exist. New National Veterans Burial Grounds will be located within existing public or private cemeteries and operated by the National Cemetery Administration and will provide a burial option to nearly 144,000 Veterans in Maine, Wisconsin, North Dakota, Montana, Wyoming, Nevada, Idaho and Utah.

### **Eliminating Veteran Homelessness**

NCA has implemented a Homeless Veterans Apprentice Program in collaboration with the Veterans Health Administration and the VA Learning University. This program will create paid employment positions as Cemetery Caretakers for up to 20 homeless Veterans each year who are enrolled in VA's Homeless Veterans Initiative Programs around the country. Apprentices who successfully complete 12 months of competency based training will be offered permanent full time employment at a national cemetery. Successful participants will receive a Certificate of Competency which can also be used to support employment applications in the private sector.

### **Enterprise Program Management Transition Initiatives**

OPP's Enterprise Program Management Office transitioned eleven Major Initiatives into the operations of the Department for long-term viability and service delivery to Veterans, including:

- Systems to Drive Performance (STDP)
- Improve Veteran Mental Health (IVMH)
- Research and Development (R&D)
- Enhance Veteran Experience and Access to Healthcare (EVEAH)



- Healthcare Efficiency (HCE)
- Health Informatics (Hi2)
- GI Bill
- Human Capital Improvement Plan (HCIP)
- Preparedness (PREP)
- Strategic Capital Improvement Plan (SCIP)
- New Models of Care (NMOC)

### **VA/DoD Collaboration**

The Office of Policy and Planning's Office of VA/DoD Collaboration coordinated the implementation and execution of the Integrated Disability Evaluation System (IDES), developed and lead 23 program reviews of VA IDES performance metrics with VA Chief of Staff, participated in 8 joint IDES performance metric reviews with Army Vice Chief of Staff and VA Chief of Staff, and participated in 8 joint IDES performance metric reviews with Navy Bureau of Medicine and Surgery. Additionally, the office lead weekly telephone conferences with OSD and the Military Departments discussing IDES performance, accompanied OSD P&R on 5 IDES Site Reviews, and accompanied Army Inspector General on 2 IDES Site Reviews.

### **Updated VetPop Model**

OPP's Office of Data Governance and Analysis completed a newly re-designed VetPop model for 2010 – 2040 to project Veteran population by county to be used as input to Veterans Health Administration's Health Care Projection Model and estimates Veteran deaths for National Cemetery Administration planning activities.

### **Personnel Security and Identity Management**

The following accomplishments were achieved in 2012:

- VA achieved steady state in the issuance of Personal Identity Verification (PIV) credentials to VA employees, contractors, and affiliates. During FY12, VA achieved full compliance with HSPD-12 for PIV credential issuance.
- In accordance with direction from the Office of Management and Budget (OMB), VA began using the VA PIV credential to authenticate access to the VA information technology network. The use of the PIV credential to access the VA network will enable VA to enhance the security of Veterans and VA data, reduce the potential for identity fraud, and assist in protecting personal privacy.
- VA completed assessment and accreditation of 100% of VA PIV credential issuance facilities in FY12. All 204 of the VA PIV credential issuance facilities received authority to operate or interim authority to operate in accordance with Federal Information Processing Standards (FIPS) and guidelines published by the National Institute for Security and Technology (NIST).

### **Emergency Management**

The Office of Operations, Security, and Preparedness Geospatial Information System (GIS) team collaboratively working with Office of Information and Technology, is taking VA to a new level of data performance, with geography recognized as integral to gaining a full understanding of issues



and to developing solutions in the delivery of health care, benefits and services to America's Veterans. The use of GIS will create the dawning of location intelligence, within the VA, thus vastly improving its ability to look at the "what, when, where, why and how" in the story of its operations and management. This location intelligence will give the VA new opportunities to make improvements in its delivery of health care, benefits and services to America's Veterans.

- In 2012, OSP led VA in the design and implementation of the enterprise GIS (eGIS) architecture and framework known as the geospatial business intelligence service line (GeoBISL). OSP GIS team, in partnership with the Corporate Data Warehouse (CDW) created and implemented the enterprise GIS. The VA corporate level Geospatial Databases (VA GeoDATA) is based on facility location and cover assets and people. The product uses geospatial analysis as a business intelligence tool to analyze and report of VA data. OSP designed, built, and put into production VA's Integrated Operations Center IOC Common Operating Picture COP Interactive map, VAIOC MAP. VAIOC MAP is a web mapping platform available to VA leadership for situational awareness of current VA status, threats, and incidents affecting VA operational status. Additionally, the GIS team developed the VA (Intranet) GeoPortal ([maps.va.gov](http://maps.va.gov)) allowing discovery and access to all enterprise GIS data, services, products and interactive viewers, including a GeoCoding service that enables VA data owners to GeoReference their data, which enables them to place that data on the map.
- In July 2012, OSP increased IOC staffing of Watch Officers by 25 percent. The increase of staff enhances VA's capability for fusions, predictive analysis, and timely recommendations to VA Senior leadership.
- In September 2012, the construction of VA's Senior Management Center (SMC) was 90% complete. This center is VA's Reconstitution Planning Site. This site is approximately 8,000 square feet of Continuity of Operations, workspace and communications capability. Within 24 hours of an infrastructure-related emergency at VA Central Office, the Reconstitution Planning Team will initiate and coordinate operations to salvage, restore, and recover essential headquarter functions.

#### **Veteran-Owned Small Business Conference**

VA hosted the National Veterans Small Business Conference in Detroit, Michigan in June. Over 400 training and business requirement sessions were held and direct and on-line networking opportunities were provided with senior government procurement decision makers from across the country. It was also an opportunity to meet, network, share ideas, discuss business requirements, forecast contract needs and vision for contracting with VA, other federal agencies, and private agencies within a particular industry.

#### **Congressional and Legislative Affairs**

VA achieved the following during 2012:

- Improved relations with Congress by improving responsiveness and communicating more effectively.



- Sustained transformational reorganization that balanced work portfolios and improved communications and responsiveness with Congress. This resulted in a reduced office personnel turnover during the year.
- Supported more than 72 hearings and conducted over 688 congressional briefings, including educational seminars.
- Supported over 66 congressional oversight visits to VA facilities throughout the Nation.
- Supported an average of 50 ongoing Government Accountability Office (GAO) analyses and coordinated 43 entrance conferences, 41 exit conferences, and the Department’s responses to 65 GAO draft reports.
- Fielded over 11,210 telephone inquiries and processed over 6,267 letters in support of constituent casework.
- Supported over 52 Advisory Committee meetings.

VA achieved full operational capability of its congressional knowledge management system that provides a database to catalog the Department’s congressional activities.

**The Office of Information and Technology (OIT):**

VA achieved the following in 2012:

- **Most Wired and Most Wired for Small and Rural Healthcare Systems**  
Regions 3 and 4 consisting of all VA medical facilities in VISNs 1 through 11 and V21 were recently named “Most Wired” in the July 2012 issue of “Hospitals and Health Networks” magazine. This designation highlights the leveraging of Information Technology in the delivery of care. Also mentioned were specific VA sites such as Asheville, Battle Creek, Beckley, Detroit, Hampton, Indianapolis, Palo Alto, Richmond, Saginaw, Salem, San Francisco, Washington, DC, and White River Junction. The Charleston VA Medical Center has also been recognized as the nation’s Most Wired for Small and Rural healthcare systems.
- **National Service Desk**  
OIT established the National Service Desk (NSD) to increase Tier One customer support efficiencies across the agency. This effort establishes a Single Point of Contact with the goal of assisting our customers in getting back to the business of supporting the Veteran. The NSD has realigned 15 out of 19 known Service Desks into this unified Service Desk. The NSD has acquired an enterprise IT Service Management toolset which will be rolled out in 2013, replacing 12 existing systems. They are also rolling out a single Automated Call Distributor, adding to the enhancement of the customer experience through the use of a SINGLE phone number. The single process for Tier 1 support has been developed and trained to the Service Desk Technicians. The NSD has been actively involved in the PIV Only Access Enforcement pilot and project, Visibility to Everything, on-boarded over 60 sites which has increased call volume, and the NSD continues to support more customers with limited resources.
- **Service Line Regional Model**  
The Service Delivery and Engineering service implemented and began staffing the Regional Service Line Model structure in IT Regions 1 – 4 to provide more advanced technical solutions and improved support. Specific outcomes include the ability to provide service and support elite virtual teams of IT specialists, independent of geographical location. By providing all sites in a



given region, positive outcomes in service are attainable such as higher system availability and strengthened disaster recovery postures for mission critical systems such as Exchange, WAN, and Vista Systems. The technical challenges we face are complex and the problems that crop up can be daunting; the new service line structure helps overcome these challenges, and the increased standardization of processes and equipment has resulted in improved operational efficiencies. Service Lines will enable Service Delivery and Engineering to achieve a fully functional service support and delivery model that is responsive to customer requirements and leverages technology in the delivery of service to our Nation's Veterans.

- **Continuous Readiness in Information Security Program (CRISP)**

CRISP was founded in 2012 to serve as the new operating model for protecting VA sensitive information. Increased cyber threats as well as those seeking to exploit sensitive VA information could lead to Veterans suffering consequences such as exposure or loss of Personal Identifying Information (PII). In Q2 2012, CRISP efforts covered 5 major areas, to include Security Management, Contingency Planning, Configuration Management, Segregation of Duties and Access Controls. To better strengthen and govern the practices safeguarding VA information systems, each of the areas had underlying milestones to resolve or remediate long standing issues or vulnerabilities. The overall plan for CRISP was comprised of 2000+ discrete tasks and was fully achieved at the end of a 60-day sprint schedule.

- Virtual Lifetime Electronic Record (VLER) provides standards based information sharing capability for Veterans and Servicemembers. VLER has implemented key enabling technology in 2011 and 2012 that has impacted thousands including our most severely wounded, ill, and injured by:

- Allowing Veterans to authorize and direct VA to release specific medical information through the use of the Veterans Authorization and Preference (VAP) core service.
- Automating the collection of medical information in Disability Benefits Questionnaires DBQs to facilitate disability claims processing time and errors.

- In October 2011, the Office of Information and Technology (OIT) established the Project Management Accountability System (PMAS) Business Office (PBO) which supports the Department of Veterans Affairs' (VA's) implementation of PMAS. PMAS is VA's disciplined approach to information technology (IT) development and capability delivery. It establishes a discipline that ensures the customer, IT project team, vendors and all stakeholders engaged in a project are focused on a single mission – delivering functionality on time. PMAS radically improves access to key information in accurate and close-to-real-time manner and enhances effective service delivery and cost savings for VA, Veterans, and taxpayers. Ultimately, PMAS improves VA's ability to expediently deliver benefits to Veterans and places vital tools into the hands of those who serve them.

- In May 2012, a Working Integrated Project Team (WIPT), composed of government and contract subject matter experts, continued to strengthen the PMAS Dashboard. This WIPT will guide future PMAS Dashboard enhancements including the ability to interface with multiple VA financial and contracting systems to capture project obligations and



expenditures. This past year PBO began utilizing the data in the PMAS Dashboard to conduct predictive analysis to determine whether Product Development had sufficient project managers to run its projects in 2013.

- A more disciplined approach of program/project monitoring was established and expanded this year. In addition to Integrated Baseline Reviews (IBR) conducted by the CIO for all major programs and investments: 1) OIT conducts OMB standard TechStats for projects that miss schedule or scope objectives; 2) OIT's PBO conducts an automated review of all projects schedule performance weekly; and, 3) OIT's PBO conducts ad hoc surveys to determine performance trends, indicating future requirements such as resource requirements. The PBO also defined and depicted the end-to end PMAS Life Cycle. In addition, in order to add definition to its risk management process, the PBO created and implemented the concepts for Green Flags and Yellow Flags.
- To mandate the use of PMAS across VA, OIT's PBO created and submitted the inaugural version of the PMAS Directive, which is in its final review cycle before formal approval. In addition, to improved its use as an enterprise resource, the PBO published the PMAS Guide 4.0.
- In a move to standardize project naming and numbering, PBO extended the Enterprise Project Structure (EPS) numbering convention from Product Development (PD) to all of OIT. The EPS serves as the authoritative source for both numbering and naming within OIT.
- This past year PMAS received an Honorable Mention for the Government Computer News (GCN) Award for Outstanding Information Technology Achievement in government for 2012.
- OIT has developed and deployed more than 300 hundred IT application increments. Some of the most significant include:
  - Homeless Management Information System (HMIS): HMIS receives homeless Veteran data from various systems around the country and aids the VA Homeless Program Office by providing a complete picture of benefits provided to homeless Veterans which is key in attaining the Secretary's objective of ending Veteran homelessness in 5 years.
  - Veteran Benefits Management System (VBMS): VBMS has deployed 27 releases since 2010. The latest release, VBMS 3.0, integrates VBMS Core, VBMS-Rating, and VBMS-Correspondence. VBMS now provides more accurate rating decisions, brokers workflow capability among Regional Offices, integrates correspondence generation, and grants Veterans Service Organizations (VSOs) that currently have VA access the ability to view and search VBMS.
  - Automation of the GI Bill Chapter 33 Long Term Solution: Delivered an increasingly capable GI Bill Chapter 33 Long Term Solution to speed up the processing of Chapter 33 claims. Veterans Relationship Management: Released eBenefits 4.0, which expanded existing self-service features such as providing the Veterans the ability to view the status of their benefit requests by logging in with their DS Logon through their smart phone, access their Post-9/11 GI Bill Enrollment Status and enhanced Claims Status features, and view their VA Payment



- History, as well as increased Web access. Expanded eBenefits usage adding 1.74 million users since October 2009.
- Veterans Relationship Management: VA and DOD successfully linked 13 million VA identities so that interoperability between the two agencies is facilitated at the Veteran and beneficiary record level, key to successful electronic interactions between the two agencies.
  - Virtual Lifetime Electronic Record: Deployed Nationwide Health Information (NwHIN) Increment 1, as well as NwHIN Adapter 4.1, which enables secure sharing of Veteran electronic health information between VA, Department of Defense, and private partners, ensuring up-to-date health information for Veterans wherever they receive care.
  - Transform Human Capital Investment Plan: Launched VA for Vets Website portal, case management system, and career center to assist Veterans seeking employment at VA. VA for Vets includes a Resume Builder, Job Search, Assessment Tools, and Military Skills Translator, and is integrated with VA Careers, USAJOBS and eBenefits.

### **Information Security**

- Embarked on a cultural transformation with respect to protecting VA's information, through the Continuous Readiness in Information Security Program (CRISP) - a new operating model for protecting VA information and systems.
- Eliminated the threat of data breaches from stolen or lost laptops through encryption. Was proactive against threats to all Windows-based, networked systems, allowing for VA visibility into 380,000 end-user machines and ultimately ensuring that the information systems used in outreach and advocacy efforts run seamlessly without interruption.
- Provided continuous around-the-clock monitoring of VA's network through the VA Network and Security Operations Center (VA-NSOC) – protecting, responding to, and reporting threats. VA-NSOC examines more than 1.29 billion Web requests per day and prevents 1.7 million viruses a year from infecting the VA network.
- Increased outreach to VA employees and contractors to enhance the level of information security awareness throughout VA through mandatory training, monthly security brown bag lunches, the annual Information Protection Awareness Week during which OIT interacted with more than 3,000 VA staff members at more than 200 locations, and through VA's identity theft prevention campaign—More Than a Number—which raised awareness among VA employees of the threat posed by identity theft.

### **Enhanced-Use Lease Agreements:**

VA continues to make aggressive use of its enhance-use leasing (EUL) authority to support the Department's initiative to eliminate Veteran homelessness by 2015 and to repurpose and divest underutilized and vacant buildings and land through innovative, long-term public/private partnerships. This effort, under the auspices of the building Utilization Review and Repurposing (BURR) initiative, identifies buildings and land suitable for repurposing as affordable supportive housing with priority placement for Veterans. VA executed 40 EULs between September and December 2011 – many as a direct result of the BURR initiative. Together, these 40 EULs resulted in the repurposing of more than 600 acres and more than 200 buildings worth of underutilized VA capital assets – in addition to the more than 4,000 units of affordable housing with priority preference for Veterans thereby created.



VA also executed a lease amendment in July 2012 to expand the Battle Creek, Michigan EUL project by an additional 100 units of homeless housing.

### **Real Property Management**

VA's real property and capital infrastructure plays an integral role in delivering services and benefits to Veterans. The ability to effectively manage our portfolio of capital assets allows VA to provide care and benefits in a safe and secure environment, in the right locations to meet Veterans' needs.

VA took the following actions in regards to real property management during 2012. While many of these are back office process enhancements, they result in improving VA's ability to effectively manage its robust portfolio in support of delivering benefits and service to Veterans:

- Completed disposal or reuse actions for approximately 275 assets, accounting for more than 2.2 million Square Feet and over 580 acres of vacant and underutilized property.
- Enhanced the Capital Asset Inventory (CAI) system to include improved data validation, cleaner data entry screens, and enhanced reporting features to assist field users in maintaining their real property inventory.
- Provided system upgrades to CAI, the Capital Asset Management System Business Intelligence (CAMS-BI) system, and the Strategic Capital Investment Planning (SCIP) Automation Tool (SAT) to enhance functionality and improve analysis capabilities, including better integration between systems.
- Executed full space analysis for the Veterans Health Administration, using updated workload projections and current inventory as of the end of 2011, in support of the annual SCIP process.
- Implemented an electronic collaboration tool for managing compliance of EULs in the steady state (operational) phase of their lifecycle. Collaboration tool will be used in support of new Handbook and Directive 7454, Enhanced-Use Leasing Post Transaction, with improved controls and processes for monitoring compliance of EULs.

### **Strategic Capital Investment Planning (SCIP)**

The Strategic Capital Investment Planning (SCIP) process is an innovative Department-wide process designed to improve the delivery of services and benefits to Veterans, their families, and their survivors, within the safest and most secure infrastructure possible by addressing VA's most critical needs first; investing wisely in VA's future; and significantly improving the efficiency of VA's far reaching and wide-range of activities.

VA took the following actions in support of capital investment planning:

- Completed its second full SCIP process with results published in the 2013 budget process. This process helps to ensure critical infrastructure issues are being addressed.
- Implemented enhancements to the SCIP Automation Tool (SAT), consisting of a fully integrated action plan, business case, and scoring modules, and implemented numerous process improvements resulting from lessons learned in the initial SCIP cycle.



The 2014 SCIP process scored over 1,300 business cases, resulting in a prioritized list of capital projects and a preliminary long-range action plan to support the development of the 2014 capital budget.

### **Green Management Program**

VA's Green Management activities result in careful stewardship of energy, environmental, and fleet resources reduce the Department's costs and thereby allowing more of VA resources to be provided for direct service to Veterans.

VA continues to invest in projects that improve our internal capacity to serve Veterans, enhance security and emergency response, and prove good stewardship of taxpayer resources through:

- Increasing the number of alternatively fueled stations at VA Medical Centers
- Pioneering the use of 26 electric vehicles
- Increasing renewably generated electricity to 85 megawatts
- Piloting Green Routine programs to reduce the environmental footprint at three locations, and continuing to add sustainable certifications to buildings in the VA portfolio.

### **Electronic Contract Management System (eCMS)**

The Electronic Contract Management System (eCMS) manages all VA acquisitions anticipated to exceed \$25,000 improving VA's capability to assess strategic sourcing opportunities and better leveraging its purchasing power. Its use is mandated. Since OALC's Enterprise Acquisition Service implemented compliance audits in 2012, usage compliance rate improved month to month. The compliance rate for contracting personnel use of eCMS has improved from an initial 17 percent in 2008 to 77percent in 2012.

To more quickly identify strengths and weaknesses in VA Federal Procurement Data System (FPDS) data capture and reporting, an independent verification and validation (IV&V) contractor began providing monthly reports of FPDS accuracy metrics in 2012. The 2012 FPDS accuracy trend points to improved data quality for this year compared to last year. The final accuracy figure for 2012 will be available at the conclusion of September; however, the current cumulative FPDS accuracy value is 88percent which indicates a positive trend for data quality.

OALC has worked closely with the Office of Small and Disadvantaged Business utilization to improve contracting officer's documentation of offeror representation and certification of Veteran-owned small business status.

### **VA Facilities Management Transformation Initiative**

The VA Facilities Management Transformation Initiative, in part, resulted in the development and implementation of an integrated master schedule (IMS) for all major constructions projects, which integrated all phases of the project design and construction. Moreover, projects that received funding in prior years will have benefit of a truncated IMS based on where it is in the planning, design, or construction process to produce state-of-the-art facilities.

Major construction of the new Medical Center in Las Vegas, Nevada was completed, and the facility was dedicated on August 6, 2012, and opened to serve Veterans on August 14, 2012.



OALC acquired approximately 250 acres of land in Tallahassee, Florida, to establish a new National Cemetery, on August 14, 2012. The project will support VA's goal to reduce the unserved Veterans in a 75 mile radius from 170,000 to 80,000 Veterans.

### **Video Teleconferencing**

Video Teleconference (VTC) Hearings: BVA increased the percentage of hearings conducted by VTC to 40 percent in 2012, as compared with 29.5 percent in 2011, and BVA further expanded its VTC capabilities to remote sites, including Guam. BVA also created an informational flyer to advertise the advantages of VTC, which is available online and include VBA mailings to appellants. In addition, the Board completed its migration to a Digital Audio Recording System which has eliminated the reliance on audio cassette recordings for BVA hearings and has improved the timeliness of hearing transcription.

### **Homeless Veterans Initiative**

According to *The 2011 Point-in-Time Estimates of Homelessness: Supplement to the Annual Homeless Assessment Report*, 67,495 Veterans were homeless in the United States on a single night in January 2011. This is a decline in homelessness among Veterans by nearly 12 percent since the January 2010 Point-in-Time count.

- The total number of Department of Housing and Urban Development –VA Supportive Housing (HUD-VASH) vouchers provided to house homeless Veterans and their families increased by approximately 10,500 in Fiscal Year 2012. As of September 30, 2012, 37,350 previously homeless Veterans were housed through a HUD-VASH Housing Choice voucher.
- -VA funded over 400 additional positions in 2012 to provide the needed supportive case management services in HUD-VASH to assist Veterans in securing and maintaining permanent housing.
- The Supportive Services for Veterans Families (SSVF) Program provided services to over 35,000 participants, including 21,300 Veterans and 13,700 family members by the end of September 2012. Of the 21,300 Veterans served by the SSVF Program, 15 percent were women, and 16 percent were OIF/OEF/OND Veterans. This represents a more than 62 percent increase over the total number of Veterans (22,000) the SSVF Program was projected to serve for all of 2012.
- In October 2011, VA launched a national outreach initiative to increase awareness of VA services for Veterans who are homeless or at risk of homelessness. Calls to the National Call Center for Homeless Veterans (NCCHV), 1-877-4AID-VET, increased dramatically as a result of the outreach initiative. As of September 2012, 129,437 calls were received by the NCCHV. An online chat service for homeless Veterans was also implemented in March 2010, and as of September 2012, 11,639 chats occurred.

### **National Veterans Sports Programs and Special Events:**

- Provided a monthly assistance allowance to 98 Veterans training for the U.S. Paralympic Team with 16 Veterans competing in the 2012 Paralympics Games in London, as well as activating all Paralympic sport categories.
- Awarded \$7.5 million in grants to the U.S. Olympic Committee (USOC) and its partners to provide more than 16,000 Veterans with the opportunity to engage in adaptive sports in their communities.
- Developed new adaptive sports Web site and on-line outreach and training capabilities providing new tools and resources to Veterans, clinicians and family members.



- With the USOC, co-hosted the first-ever Rehabilitative Adaptive Sports Training Conference which trained 50 VA officials and clinicians from every VISN to establish rehabilitative adaptive sport programs.
- Awarded \$300,000 in grants to the USOC to co-sponsor the 2012 Warrior Games, along with DOD, and co-sponsor the Paralympic Leadership Conference, which also trained an additional 30 VA clinicians to enable Paralympic and adaptive sport initiatives.
- Conducted VA's six national rehabilitative programs – including hosting the largest number of Veterans (800) to ever participate in the National Veterans Golden Age Games.
- Partnered with national Paralympic sports authorities, such as BlazeSports America (Boccia), USA Fencing, National Wheelchair Basketball Association, U.S. Association of Blind Athletes (Goalball), and U.S. Tennis Association, to encompass Paralympic grant and allowance, special event, and other VA rehabilitative sport programs.
- Conducted innovative outreach activities and events supporting further rehabilitative sport partnerships, such as the January 2012 event with USA Hockey and the Buffalo VAMC.
- Implemented comprehensive planning and review procedures with DOD counterparts to synergize Paralympic and adaptive sport programs and maximize rehabilitative opportunities for disabled Veterans and Servicemembers, enhancing DOD/VA Recovery Care Continuum.
- Created and implemented comprehensive VA and USOC Paralympic grant and allowance management and monitoring programs and tools including on-line systems, to vastly improve processes and meet program mandates.

### **Intergovernmental Affairs**

- The Secretary of Veterans Affairs signed a Memorandum of Understanding (MOU) with the National Association of State Directors of Veterans Affairs in order to recognize and enhance the partnership between these 2 entities. Both organizations share a common mission to serve America's Veterans, their families, and survivors. State, local and tribal governments provide billions of dollars annually for benefits and services to Veterans. State and tribal governments provide complementary services to benefits provided by VA through the State and Tribal Cemetery Grant Program and the State Veterans Home Program. The Secretary also signed an MOU with the US Chamber of Commerce's Hiring Our Heroes to raise awareness of the value of hiring Veterans and ensuring Veterans and transitioning Servicemembers obtain meaningful civilian employment. The MOUs coordinated outreach activities with VA to provide services, benefits, job opportunities, and other assistance for Veterans and their dependents.
- Intergovernmental Affairs continues to work with and to form and improve relationships and communications with associations representing state and local governments, elected officials, and tribal governments. This ensures these governing entities are aware of services and benefits VA provides to Veterans. The state and local governments assist VA in ensuring the Veterans in their jurisdiction are also aware of the services and benefits they are entitled to.
- In order to increase access to health care, promote economic sustainability through access to benefits, scholarship and program opportunities, and implement the VA tribal consultation plan, the Office of Tribal Government Relations facilitated listening sessions, consultations, and training sessions with tribal government officials. OTGR participated in Indian Health Service/VA MOU work



groups to focus on increasing collaboration between the two agencies to increase access for American Indians to VA services and benefits.

### **Tribal Government Relations**

In January 2011 the Director of the Office of Tribal Government Relations was hired. In September 2011, VA recruited, selected and hired 4 Tribal Government Relations Specialist assigned to work with 565 federally recognized tribal governments located in 4 regions in order to increase access to health care, promote economic sustainability through access to benefits, scholarship and program opportunities, and implement the VA tribal consultation policy plan. These actions were taken to ensure Veterans in Indian Country will continue to receive VA benefits to services and remain a visible Veteran population.

- Facilitated listening sessions, consultations, and training sessions
- Participated in Indian Health Service/VA Memorandum of Understanding work groups which focused on increasing collaboration between the two agencies to increase access
- Engaged in a series of interagency and intergovernmental dialogue sessions with tribal officials, state, federal and non-profit entities focusing on identifying challenges facing American Indian and Alaska Native Veterans living in Indian Country.
- Completed request for proposal scope of work for strategic outreach plan designed to reach Veterans in rural Alaska.

### **Regulations Management:**

- VA completed regulations in a timely manner: completing proposed and final rules in less than 22.4 months, and final rules not subject to public comment in less than 10.8 months, with actual performance averaging 19.9 months and 7.3 months, respectively.
- VA published some important regulations for America's Veterans and their families, including regulations that improved VA's ability to share medical information with DoD; improved health care services for women Veterans; secured total disability for Veterans suffering with the progressive and fatal disease amyotrophic lateral sclerosis (ALS); provided mortgage holders with more options to avoid foreclosures by Veterans; extended the period for recognizing disabilities associated with undiagnosed illnesses and medically unexplained chronic multi-symptom illnesses; implemented new authority to provide grants for Tribal Organizations' Veterans cemeteries, and for certain parents of Veterans who died in training or combat to be buried with their Veteran; provided in-home video telehealth care without copayments; and extended small business certifications for Veterans.

VA Continued to make substantial progress on VA's Regulation Rewrite Project by consolidating 20 previously published proposed rules into a comprehensive rule for final public comment. Obtaining final public comments on VA's new regulations will constitute a major step toward completing this major 10-year effort to reorganize and rewrite all of VA's compensation and pension regulations so that Veterans and VA adjudicators can more easily find them, read and understand them, and apply them to their circumstances. The reorganized regulations are arranged more logically, are more suitable for automated processing, incorporate over 100 statutory changes and court decisions, and will clarify over 400 ambiguities found in the current regulations.



### **Employing Veterans and Telework**

In 2012, the Office of Human Resources and Administration (HRA) of the Department of Veterans Affairs was able to track two major important achievements relating to our Hiring Veterans and Telework programs. These major achievements are listed in the bulleted statements immediately below.

Additional HRA accomplishments can be found at this site:

<http://www.va.gov/OHRM/docs/PAR-HRA-Accomplishments.doc>.

- VA reached a milestone of employing over 102,000 Veterans by July 2012
- VA has reached a mark of about 11 percent of its employee population eligible to telework due to vigorous efforts to enhance eligibility to participate in this program

### **Center for Minority Veterans**

The Center for Minority Veterans (CMV) and the Advisory Committee on Minority Veterans advocated for a VHA Office of Minority Health for the past two years. In 2012, the Director of the CMV served as a VA representative on the Department of Health and Human Services interagency work group for the National Partnership for Action Plan to End Health Disparities. Ongoing collaboration facilitated in the establishment of the Office of Health Equity.

In January 2012, VA hosted an Asian Americans and Pacific Islanders (AAPI) roundtable. This roundtable was a concerted effort to make clear that the issues affecting the over 300,000 AAPI Veterans are of great importance. Hosted by the Secretary of Veterans Affairs and coordinated by the CMV and the Office of Diversity and Inclusion ODI, the roundtable gathered high-level Veterans Affairs officials, other federal leaders, and community advocates in discussions on the subjects of access to health care, access to benefits, data collection, and outreach. The CMV has maintained contact with the staff of the White House Initiative on Asian Americans and Pacific Islanders (WHIAAPI) since the conclusion of the January roundtable. This continued collaboration is focused on providing information on VA benefits and services to AAPI community stakeholders.

### **Center for Women's Veterans**

The Director, Center for Women Veterans (CWV) served as Vice-chair of the Women Veterans Task Force. Implementation of the Task Force's recommended strategies and internal Operating Plan will set VA's course for serving women Veterans--for the next four years—from planning to programming, to budgeting, to education and training. The CWV will serve as the lead office for the Department-wide Women Veterans Program Initiative.

The CWV hosted and provided support to two meetings and one site visit of VA's Advisory Committee on Women Veterans--an expert panel that significantly advises and guides VA's efforts to identify and address the ever changing needs of women Veterans.

The CWV, in partnership with the VA Learning University, developed a training module, "Serving Women Veterans e-Learning Course" for VA employee new hires and current VA employees, to raise awareness of their responsibility to treat women Veterans with dignity and respect.



The CWV staff led or participated in over 100 collaborative meetings and outreach events, and had over 250,000 hits to its Web site.

#### **Office of Survivors Assistance**

The Office of Survivors Assistance (OSA) serves as a resource regarding benefits and services provided by VA to Survivors and their dependents. OSA also ensures that surviving spouses, children and parents have knowledge of and access to benefits and services for which they may be eligible under the law.

- OSA participated in 60 outreach events with other Federal agencies, State and local governments, VSOs, faith-based and community organizations, nonprofit and private sector organizations, and other stakeholders to achieve common goals and facilitates the delivery of information and services about survivor benefits in 2012, up from 36 in 2011.
- OSA provided outreach materials to 66 organizations, up from 32 in 2011.
- Included as part of its outreach efforts, OSA distributed 18,400 Quick Series and 12,825 Outreach Brochures to internal and external organizations.
- OSA continued leveraging technology and had positive results from 2011 to include: Unique visits = 14.39% to 228,859 (2011 - 200,859); Page visits = 9.73% to 347,144 (2011 - 316,144); and Email Contacts = 26.71% to 2,457 (2011 - 1,939)
- OSA provided a briefing to Senate and House Veterans Affairs Committee Staffers in 2012.

#### **Center for Faith-Based And Neighborhood Partnerships**

The VA Center for Faith-based and Neighborhood Partnerships (CFBNP) develops partnerships with and provides relevant information to faith, nonprofit and community organizations to expand their participation in VA programs and increase their knowledge of VA services, in order to meet the needs of our Veterans, their families, survivors, and caregivers.

- Annually, the VA CFBNP in collaboration with the VBA VR&E Service and the Regional Office (RO) of the host city, co-hosts four regional Veterans Roundtables for faith-based, nonprofit, and community leaders, and organizations. In 2012, the first Rural Roundtable was hosted in Daleville, Alabama, a rural city outside of Montgomery, Alabama.
- VA CFBNP participated in 89 outreach events in 2012 with faith-based, non-profit, and community organizations and leaders.
- VA CFBNP presented and provided outreach materials at seven faith-based denominational conferences, conventions, and convocations in 2012.
- VA CFBNP participated in five outreach events convened by the White House Faith-based and Neighborhood Partnerships events entitled "Connecting Communities for the Common Good Conferences". Twelve other Federal Agency CFBNP participated also.
- VA CFBNP along with several other VACO program and staff offices collaborated with Douglass Memorial United Methodist Church to organize and stand up Veterans Women Resource Centers in the District of Columbia, Maryland and Virginia.



- VA CFBNP participated in five training conferences with faith-based, community and academic partners from across the nation. These training conferences provided information, knowledge on the following topics: bridging Chaplaincy and mental health, reducing community reintegration barriers for returning Servicemembers and their families, and Chaplaincy and ethics.

## Challenges

### Improve Timely Access to Mental Health Care

- While VHA continues to excel in screening individuals for PTSD, depression and substance abuse, VHA has recognized the need to improve timely access to care for Veterans who seek mental health treatment. To assist in improving access, VHA has committed to hiring an additional 1,600 mental health professionals by June 30, 2013 to further address the patient demand for mental health care. Specifically, VHA anticipates that the additional 1,600 mental health professionals will improve access to psychotherapy for OEF/OIF Veterans with PTSD and access to timely mental health appointments for new and established mental health patients. VHA's commitment to improve mental health access will be reflected through improved performance on these access measures.
- There are many different methods of treating PTSD and Mental Health (MH) has made significant strides in providing quality care to Veterans with PTSD. With the recognition that almost a third of new OEF/OIF/OND Veterans seeking treatment in the VA meet diagnostic criteria for PTSD, MH has worked to meet this demand by increasing its mental health care budget by 39% since 2009 and hiring more than 3,500 mental health professionals. In addition to rollout trainings in evidence-based psychotherapies for PTSD that have reached over 4,500 VA staff, MH has worked to put systems in place that provide the necessary administrative support to deliver these treatments. MH tracks a variety of measures related to PTSD care for OEF/OIF/OND Veterans. One such measure is the "percent of OEF/OIF Veterans with a primary diagnosis of PTSD who receive a minimum of 8 psychotherapy sessions within a 14-week period." This measure applies to the approximate 1/3 of Veterans who are offered evidence based psychotherapy for PTSD that actually begin such therapy. It is important to note that not all Veterans will initially engage in a full course of evidence based psychotherapy, sometimes for appropriate or understandable reasons. For example, some Veterans may not be psychologically ready to engage in a full course of exposure-based psychotherapy for PTSD and may start out with a briefer course of psychotherapy to build coping skills. Other Veterans may initially receive evidence-based pharmacotherapies. Veterans may also receive adjunctive therapies such as therapies to improve sleep (such as Cognitive Behavioral Therapy for Insomnia), Complementary and Alternative Medicine (CAM) therapies, or family therapy as part of the their treatment plan. Additionally, some Veterans may choose to receive care in the Vet Centers rather than at the medical centers. Since Vet Centers do not keep encounter data or enter records in an electronic record system, such treatment – while very appropriate – cannot be captured in the numerator or denominator of this measure.



### **Disability Claims Processing**

VA continues to explore new ways to ensure the accuracy of the benefit decisions it makes for Veterans and claimants. Looking forward, VA will review quality on an individual issue basis, while comparing the accuracy of decisions to that of the current claim-based review process. This change in the evaluation process will provide drill-down information to identify training needs and specific areas where guidance from VA Central Office is needed. While advantages to this new process are great, more consistent guidance to national and local reviewers will be needed to ensure uniformity of quality reviews.

VA has also continued to experience challenges with regards to the volume of work and complexity of conditions claimed.

Additionally, the claims received are more complex and include a larger number of issues claimed. This has increased the level of effort required for each case, thus increasing the number of hours spent processing each claim.

Since 2001, the demand for benefits and services from Veterans, dependents and survivors has steadily increased. The growth in the number of Veterans filing for and receiving benefits results in increased follow-on work. This includes award adjustments due to dependency changes; requests for ancillary benefits such as automobile grants, clothing allowances and specially adapted housing grants; requests for eligibility certifications for use in determining entitlement to benefits and services from other agencies; program reviews; and appeals when a Veteran disagrees with one or more parts of VA's determination.

VA is forecasting that the growth in disability claims volume will likely occur over the next several years. Over the next few years, VA expects new and subsequent claims from Servicemembers returning from war, and Veterans seeking service connection for complications of serious injuries characteristic of the recent mid-east conflicts, such as traumatic brain injury. There are also known new requirements which currently include "Nehmer II" claims in 2013 and claims for Peripheral Neuropathy in 2014.

### **The VA Insurance Program**

In order to address anticipated retirements of senior staff and potential loss of institutional knowledge, VA is proactively developing a systematic approach in order to ensure that in the future, there will be a sufficient number of individuals who are highly trained in all the fundamental aspects of the Insurance Program. This approach includes utilizing a succession planning model that identifies mission critical positions and future needs for these positions. We are developing enhanced training for these positions that addresses existing knowledge gaps and incorporates institutional knowledge.

### **Land Acquisition for New Cemeteries:**

In August 2008, VA completed an independent and comprehensive program evaluation of the full array of burial benefits and services that the Department provides to Veterans and their families in accordance with 38 U.S.C. 527. The evaluation was performed by ICF International to provide VA with an objective assessment of the extent to which VA's program of burial benefits has reached its stated goals and the impact that this program has had on the lives of Veterans and their families.



VA has used this study as a starting point to develop new burial policies. Based on the new policies, five new national cemeteries will be built, thus increasing the percent of Veterans served by a burial option. VA will also build five "Urban Initiative" sites, which will provide improved access to a burial option for Veterans in several densely populated areas where travel time to an existing national cemetery has been shown to be a barrier.

VA has also implemented a Rural Veterans Burial Initiative to improve access to Veterans in rural areas of the country in which it is unlikely that a new national or State Veterans cemetery will be built. Under this initiative, VA will build eight new National Veterans Burial Grounds. These will be located on small lots within existing public or private cemeteries and operated by the National Cemetery Administration. National Burial Veterans Grounds will serve Veterans in Maine, Wisconsin, North Dakota, Montana, Wyoming, Nevada, Idaho and Utah.

Finding suitable land for these new cemeteries, urban facilities, and rural burial grounds is a challenge. Potential sites must be large enough to meet current and future burial needs of Veterans and their families. Location, liens and encumbrances, and environmental concerns are other important factors. NCA has identified potentially suitable properties for all five new national cemeteries and all five Urban Initiative sites and is working to identify suitable sites for National Veterans Burial Grounds.

#### **Gravesite Accountability**

In October 2011, NCA directed a system-wide audit of the entire inventory of gravesites within the national cemetery system, following the discovery of markers that were offset one gravesite in a burial section of Fort Sam Houston National Cemetery in San Antonio, Texas. The error resulted during contractor work to raise, realign, and reset headstones, a frequent practice at national cemeteries. Phase I of the audit, which addressed 1.5 million gravesites and was completed in 2012, confirmed that the vast majority of work accomplished during "raise and realign" projects at 92 VA national cemeteries was accomplished accurately and according to contract. NCA is taking corrective actions when errors are identified.

This self-initiated and comprehensive audit of all 3.1 million gravesites in VA's 131 national cemeteries will confirm the proper location of all headstones and markers. NCA anticipates completing Phase II of the audit, which will encompass the remaining 1.6 million gravesites, by the end of calendar year 2012.

#### **Capital Asset Management and Investment**

- Significant progress has been made over the last five years in reducing VA's vacant inventory (23% reduction); however what remains in VA's inventory to be disposed of present challenges. Many remaining assets are either in such poor condition that environmental remediation must be completed before the asset can be demolished or are designated historical such that while we have no mission need for the asset. However, VA remains committed to ensuring the appropriate management of existing assets and disposing assets when possible.
- Real Property remains a GAO high risk area across federal government and multiple initiatives aimed at reducing costs and footprint associated with real property have been launched. As of



the end of Quarter 3 of 2012, VA has realized over \$82 million in cost savings and avoidance through real property disposal, space management, sustainability, and innovation initiatives.

- VA's capital infrastructure is large and aging, with over 160 M Square Feet and an average building age of roughly 57 years. SCIP allows VA to better understand and communicate the key gap areas and provides a data driven, long-term plan to meet established performance goals in order to modernize and right-size the VA inventory; however, the scope of the problem remains a challenge.

### **Integrating The Electronic Contract Management System (eCMS) with Other Enterprise Financial Systems**

VA expends \$10 billion annually on supplies and services. To increase managerial visibility, transparency, and more effective stewardship of acquisitions nationwide, OALC mandated the use of the Electronic Contract Management System (eCMS) to track procurement processes. Moreover, OALC has begun the process of integrating eCMS with other enterprise financial systems to minimize and where possible, eliminate duplicative data entry while streamlining the procurement process. The process is divided in three phases with full roll-out expected in early 2014, contingent upon the success of prior phases.

### **Meeting Small Business Goals on Major Construction and Leasing Projects**

Due to the size and complexity of the projects, OALC's major construction and lease programs have challenges meeting small business goals. OALC establishes small business goals for all major construction program awards and will continue to work with the prime contractors to meet those goals.

### **Improving Requirements Development and Budget Formulation in the Major Construction Projects**

Currently, developing requirements and formulating budgets for construction occurs too early in the process before significant information affecting project requirements, scope, and budget has been assembled. Therefore, OALC will need to revise the planning/design/construction model to facilitate project planning and 35 percent design completion prior to budget submission. The new process will integrate planning, acquisition, design management and construction management into a matrix, project-focused team utilizing standardized, repeatable processes and procedures to increase the speed to delivery and quality of major construction projects.

### **Homeless Veterans Challenges**

- Because of the aggressive recruitment of mental health professionals through the Department of Veterans Affairs (VA), recruiting and the desired number of HUD-VASH case managers for the HUD-VASH program may be challenging in some parts of the United States.
- As a result of the challenging US economy, it may be difficult for VA staff to assist homeless Veterans in identifying full-time employment opportunities.
- The Point in Time (PIT) estimate of homelessness provides a snapshot of homelessness on a single night of both sheltered and unsheltered homeless persons. It is typically undertaken during the last week of January of each year. The PIT estimate is one of the primary resources for monitoring the effectiveness of VA's efforts to end homelessness among Veterans; however, it is imperfect. First, counting people who are not always easy to identify as homeless has inherent challenges. Second



processing data from the PIT is time consuming which results in a lag between the time when data is collected and published. Third, counts of unsheltered persons are only required in odd numbered years, so the unsheltered counts are imputed for many locations every other year. This results in data reliability concerns in even numbered years. As a result of those challenges, the PIT alone cannot be used to gauge the effectiveness of this initiative. Therefore, to continuously monitor and improve the effectiveness of VA's efforts to end homelessness among Veterans VA must use the PIT in conjunction with internal data sources.

**Office of National Veterans Sports Programs and Special Events:**

- As a new program, the U.S. Paralympics Integrated Adaptive Sport Program achieved many objectives at National, Regional, and Community-Based levels, but the grant programs still had deficiencies identified such as high personnel costs, insufficient outreach development, and deficiencies in grant program monitoring at the VA and USOC levels. During the year, extensive efforts were accomplished in new grant management and monitoring processes and automation, increased efficiency as highlighted through a reduction of USOC personnel costs by 47 percent and a 73 percent increase in Olympic Opportunity Fund grant funds between the FY2011 and FY2012 grants, and creation of a wide range of outreach programs to Veterans, the Paralympic and adaptive sport communities, VA clinicians, and the general public. However, the Government Accountability Office conducted an assessment of the Paralympic program, identified significant deficiencies, and provided recommendations for improvement in 2013. Further work remains in comprehensive reengineering of grant implementation and monitoring programs to meet GAO recommendations.

**Regulation Rewrite Project**

The Office of the General Counsel is responsible for completing the reorganization and redrafting of VA's compensation and pension regulations, and will be assisting the Veterans Benefit Administration (VBA) in their effort to rewrite all of VA's Schedule for Rating Disabilities. Both projects require substantial time and resources dedicated to researching, updating, rewriting, and coordinating policy issues. Implementation of the new compensation regulations will necessitate changes to VA manuals and training materials and will require instruction for both VA employees and Veteran Service Organizations (VSOs). In order to preclude massive remands of claims in progress, VA will need to continue to apply the old regulations to existing claims until they are completed. Implementation of both projects will need to be integrated with VA's Claims Transformation Initiative in order to avoid conflicts that could increase, rather than reduce, VA's claims backlog.

**Telework**

Many positions within the VA are more direct-service related and are not suitable for telework. Barriers to success of maintenance and/or progressive employee participation in this program are:

- Meeting expectations of in-office participation while at an off-site locale
- Gaining access to agency resources from an off-site locale
- Establishing right balance of on-site and telework schedule on a long-standing basis

**Enhanced Veteran Demographic Data**

Enhanced demographic data on individual/unique Veteran users of VA benefits and services is being developed to meet the needs of a more diverse Veteran population. Currently, VA databases can only



identify race/ethnicity data on approximately 45% of current unique users. Only approximately one-third of the Veterans population utilizes VA benefits.

- Targeted outreach to minority Veterans is needed to address lack of awareness of VA programs
- Inability to validate concerns expressed by minority Veterans due to lack of demographic data.

#### **Develop Innovative Outreach Strategies**

The Office of Survivors Assistance sees the opportunity to work with the Office of Policy and Planning to implement internal capacities to collect and analyze demographic information on Survivors and dependents to develop data-driven decisions in developing innovative and targeted outreach efforts strategies.

#### **Increase Follow-up with Faith- Based and Community Organizations**

VA's Center for Faith-Based and Neighborhood Partnership's (CFBNPs) challenge is to increase follow-up and engagement with faith-based and community organizations to post outreach events. Post outreach engagement with faith-based and community organizations is essential in order to establish a process that will ensure transformational engagement to provide continuous support to Veterans, their families, survivors and caregivers. If CFBNP had VA human resources (staff) at VA regional offices, medical centers and CBOCs across the nation, then a transformational engagement process would provide the faith-based and community organizations across the Nations with designated VA subject matter experts to provide transformational engagement to faith-based and community organizations. Adding this dimension in the outreach process will provide assurance that Veterans, their families, survivors and caregiver will receive information on VA programs and services to assist with their respective needs.



## HOMELESSNESS (AGENCY PRIORITY GOAL)

### Problem Being Addressed

### 2012 Actions and Progress

In 2011, homeless population estimates noted that approximately 67,495 Veterans were homeless in the United States on a single night.

Single male Veterans are disproportionately represented among the homeless population. Based on the most recent data available, at any given time approximately 14 percent of the homeless adult population are Veterans. Veterans comprise roughly 9.6 percent of the total adult population of the United States.

VA is the Nation's largest single provider of homeless treatment and benefits assistance services to homeless Veterans and Veterans at risk of homelessness. In 2012, approximately 176,641 unique Veterans were served in VA's continuum of homeless programs. VA's plan to eliminate homelessness among Veterans focuses on the prevention of homelessness, permanent supportive housing, mental health and substance use treatment, and education and employment assistance.

- The total number of Department of Housing and Urban Development –VA Supportive Housing (HUD-VASH) vouchers provided to house homeless Veterans and their families increased by approximately 10,500 in fiscal year 2012. As of September 30, 2012, 37,350 previously homeless Veterans were housed through use of HUD-VASH Housing Choice vouchers. This fiscal year, the total number of Veterans who obtained housing as of September 30, 2012, in HUD-VASH was 13,157, while 17, 136 additional Veterans obtained housing with assistance from other VA Homeless Programs during the same time period.
- VA funded over 400 additional positions in 2012 to provide the needed supportive case management services in HUD-VASH to assist Veterans in securing and maintaining permanent housing.
- The Supportive Services for Veteran Families (SSVF) Program awards grants to private non-profit organizations and consumer cooperatives to enable them to prevent Veterans from becoming homeless and rapidly re-house those Veterans who become homeless. SSVF provided services to over 28,000 participants, including 16,600 Veterans and 12,000 family members by the end of July 2012. Of the 16,600 Veterans served by the SSVF Program, 15 percent were women, and 16 percent were OIF/OEF/OND Veterans. This represents a more than 27 percent increase over the total number of Veterans (22,000) the SSVF Program was projected to serve for all of 2012.
- VA continues to foster interagency collaboration with the U.S. Interagency Council on Homelessness; the Departments of Housing and Urban Development, Labor, Education, Health and Human Services, and Justice; and others.
- In October 2011, VA launched a national outreach initiative to increase awareness of VA services for Veterans who are homeless and at risk of homelessness. Calls to the National Call Center for Homeless Veterans (NCCHV), 1-877-4AID-VET, increased dramatically as a result of the outreach initiative. As of July 2012, 107,750 calls were received by the NCCHV, a 107 percent increase since July 2011. A chat line was also implemented in March 2010, and as of July 2012, 9,345 chats occurred.
- Through public/private ventures using VA's enhanced-use leasing authority and underutilized real property, non-VA organizations will build and operate on VA property permanent and transitional housing for homeless Veterans and Veterans at risk of homelessness.



<b>VBA ACCESS (AGENCY PRIORITY GOAL)</b>	
<b>Problem Being Addressed</b>	<b>2012 Actions and Progress</b>
<ul style="list-style-type: none"> <li>• Improved awareness of Department of Veterans Affairs (VA) services and benefits by Veterans, Servicemembers, and eligible beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>• Both performance measures which support the 2012 Access Agency Priority Goal of increasing eBenefits registered user base have been exceeded. These measures are:                             <ul style="list-style-type: none"> <li>○ Increasing the number of letters generated by clients via eBenefits</li> <li>○ Increasing the number of page views (per quarter) of Compensation and Pension claims status accessed by clients via eBenefits</li> </ul> </li> <li>• Single sign-on technology has been deployed allowing seamless access between eBenefits, MyHeatheVet and TRICARE Online.</li> <li>• 11 consecutive quarterly releases since October 2009 have produced over 45 self-service features within the eBenefits portal</li> <li>• Servicemembers are now required to get an account shortly after accession</li> <li>• Over 1.8 million registered users since launch in October 2009</li> <li>• Used by Servicemembers &amp; Veterans in over 25 countries</li> <li>• Over 2 million visits in June 2012</li> <li>• Over 110,000 users given access to eBenefits in July 2012 -the most successful month in 2012</li> </ul>



**VBA BACKLOG (AGENCY PRIORITY GOAL)**

Problem Being Addressed	2012 Actions and Progress
<p>Reducing the length of time it takes to process compensation and pension rating-related claims is an integral part of VA's mission to serve Veterans by providing all possible benefits under the law to eligible claimants in a timely, accurate, and compassionate manner.</p> <p>VA seeks to eliminate the disability claims backlog in 2015 and ensure that no Veteran has to wait more than 125 days for a high quality decision.</p>	<ul style="list-style-type: none"> <li>• To achieve processing efficiencies that will enable VA to reduce the claims backlog and improve decision quality, VA is employing a synchronized and integrated transformation strategy that incorporates people, processes, and technology initiatives.</li> <li>• VA is organizing its work force into segmented processing lanes and "case management" teams, managing work in the most efficient, effective ways possible and leveraging proven automated workflow tools. This new "process model" was deployed to 16 Regional Offices during 2012.</li> <li>• VBA is implementing the Veterans Benefits Management System (VBMS), a paperless IT claims processing system. VBMS is currently deployed as a pilot in four Regional Offices, and full deployment is planned for the first quarter of 2014.</li> <li>• VBA implemented Quality Review Teams in all Regional Offices in 2012, in order to improve the accuracy of VBA rating decisions.</li> <li>• Standardized VA examination questionnaires were deployed to all Regional Offices to ensure that accurate medical evidence necessary in the disability evaluation process is obtained from both VA and private medical examiners.</li> <li>• VA is coordinating a major interagency effort to simplify data exchange with our counterparts in the Defense Finance and Accounting Service, the Department of Defense, the Social Security Administration, the Internal Revenue Service, and the Department of Labor to ensure simplified and seamless sharing of digital information.</li> </ul>



## Performance Shortfall Analysis

Shown below (sorted by Program) are brief explanations of the reasons for significant deviations between actual and planned performance for those measures where there were significant shortfalls. Also provided are resolution strategies that are being implemented to ensure goal achievement in the future. These results are coded "red" in the measures tables beginning on page II-65

Veterans Health Administration		
Measure	Target	Result
Percent of OEF/OIF Veterans with a primary diagnosis of PTSD who receive a minimum of 8 psychotherapy sessions within a 14-week period	20%	15% (R)
<b>Causes</b>	<ul style="list-style-type: none"> <li>• This metric involves a highly complex set of rules. Work on the rules and the resulting formal definitions for this metric were not completed until late in November 2011 and there was also a delay in capturing and posting the initial data. Facilities did not obtain performance results until close to the end of the 2<sup>nd</sup> quarter of 2012. As the facilities were unaware of their performance on this metric for almost two full quarters of the fiscal year, they were at a disadvantage to address changes needed to overcome less than optimal performance.</li> <li>• Facilities identified the need for a case finder to assist them in locating Veterans requiring psychotherapy sessions under the metric. A preliminary case finder was developed and tested by the field, but was not available to all for use until the middle of the 3<sup>rd</sup> quarter of 2012.</li> <li>• In 2012, this metric was changed to a rolling 12-month metric whereby Veterans qualify for the numerator 12 months prior to the reporting period. Sites were often not able to provide services to Veterans who fell into the denominator 12 months prior to the month in which the numerator was captured. In these cases, the window of opportunity for treatment under the metric had either already passed or was very near completion.</li> </ul>	



<b>Veterans Health Administration.</b>			
	Measure	Target	Result
<b>Resolution Strategies</b> (1st Quarter, 2013)	<ul style="list-style-type: none"> <li>• VHA facilities all have the current definitions of this metric. The definition of the numerator and denominator of the metric will not be significantly different in 2013. VA Central Office (VACO) will communicate final definitions of the metric for 2013 by the end of the 4<sup>th</sup> quarter of 2012.</li> <li>• VACO notified all VISNs regarding a case-finder that can be used by the facilities to better track Veterans who fall into this measure. VACO will remind facilities of this case finder during monthly mental health (MH) performance measure calls. While initial education will be complete by the end of the 1<sup>st</sup> quarter of 2013, ongoing education will continue throughout the fiscal year and the case finder will continue to be updated.</li> <li>• VHA will continue to have monthly conference calls about the MH performance measures. VHA will have one call per quarter focused on this metric. Calls will address both technical aspects of the metric, as well as best practices. Prior to the end of the 1<sup>st</sup> quarter of 2013, an initial call will provide details regarding the metric, including definitions, intent, scoring, etc. There will also be ongoing educational conference calls provided on a regular basis throughout the year.</li> <li>• VACO will continue to monitor performance on this metric. Sites remaining significantly below the target at the end of the 1<sup>st</sup> quarter of 2013 will be expected to provide a specific action plan related to this metric and technical assistance will be provided.</li> </ul>		



Veterans Health Administration.		
Measure	Target	Result
Percent of clinic “no shows” and “after appointment cancellations” for OEF/OIF Veterans	12%	21% (R)
<b>Causes</b>	<ul style="list-style-type: none"> <li>The 2010 OEF/OIF Missed Opportunity (MO) data is no longer accessible, therefore inhibiting the ability to further examine that data and the data methodology used. Historical results are only available back to October 1, 2010.</li> <li>However, we know that MO rates for OEF/OIF Veterans are now nearly 22percent, and that this is almost double the national average for all Veterans (just under 13 percent now).</li> </ul>	
<b>Resolution Strategies</b> (1st Quarter, 2013)	<p>In response to this, the VA Pittsburgh Healthcare System Veterans Engineering Resource Center has undertaken a gap analysis study to focus on determining the causes of this higher MO rate among OEF/OIF Veterans using funding from the Office of Systems Redesign and Improvement as part of the National Initiative to Reduce Missed Opportunities.</p> <p>The data gathering phase of this study is underway using a methodology to:</p> <ol style="list-style-type: none"> <li>1) Identify Veteran expectations</li> <li>2) Identify Veteran experiences</li> <li>3) Identify management perceptions</li> <li>4) Evaluate service standards</li> <li>5) Evaluate Veteran communications</li> <li>6) Evaluate reasons for no-shows among this group of Veterans. This information will then be used to develop targeted missed opportunity reduction strategies for OEF/OIF Veterans.</li> </ol> <p>Since the discovery that OEF/OIF Veterans have a missed opportunity rate nearly twice the national average for all Veterans, it is clear that they are a group that will require special focus and extra effort on the part of VHA to make an improvement in this area. Once the population-specific factors can be discovered and analyzed, we will better know how to target strategies to this group to reduce the MO rate.</p>	



Veterans Health Administration		
Measure	Target	Result
Percent of NonVA claims paid in 30 days	95%	80% (R)
Causes	<ul style="list-style-type: none"> <li>• VAMC and VISN Claims Processing Units focused on processing new incoming claims in order to address customer service issues while allowing the volume of the inventory aged over 30 days (backlog) to grow. The processing of aged inventory has a direct negative impact on facilities' ability to meet the performance metric.</li> <li>• Due to implementation of Medicare Pricing methodology, and since VHA did not have the software solution available to assign Medicare pricing, VAMC and VISN Claims Processing Units were required to manually print and mail claims to the contracted Medicare pricing agent. Eventually, sites were able to manually input data into a web-based portal. This process added several days to the time needed to process a claim. The printing and mailing process took up to 10 additional days per claim.</li> <li>• VAMC and VISN Claims Processing Units do not utilize a standardized approach to utilizing the Fee Basis Claims System (FBCS) software in the most efficient fashion. Some facilities were not processing all required claims in FBCS since FBCS does not have the capability to process all types of Non-VA claims, such as bowel and bladder claims, contract nursing home claims, some types of handwritten claims, etc. Those claims not processed in FBCS tend to take longer due to the manual processes required.</li> </ul>	



Veterans Health Administration.		
Measure	Target	Result
<p><b>Resolution Strategies</b> (1st Quarter, 2013)</p>	<ul style="list-style-type: none"> <li>• The National Non-VA Care Program Office and Program Oversight and Integrity have begun to monitor the volume of aged inventory for each facility on a weekly basis. This measure is monitored by both the facility and CBO pre and post site visit or training event. This metric is also used as a factor for determining new site visit schedules.</li> <li>• Finalization of Patch 12 in FBCS and continuous updates with the FBCS Medicare Pricing Accuracy has eliminated the need for a third party Medicare pricing agent. VAMC and VISN Claims Processing Units are no longer required to mail claims for pricing or manually enter any information in a web-based portal. All Medicare pricing can be completed within FBCS.</li> <li>• In order to adopt proven best practices within FBCS and to take advantage of economies of scale, the National Non-VA Care Program Office has partnered with VA-CASE in a nationwide effort to train and implement FBCS Optimized Processes. Lowest performing VISNs will be targeted for earlier deployment. A “champion” facility will be identified in each VISN and will serve as the focal point for a “train the trainer” approach.</li> <li>• Based on Percent of Non-VA Claims Paid in 30 days, the Aged Inventory, and VSSC claims payment timeliness, the bottom performing 30 facilities were identified. The National Non-VA Care Program Office will provide a Performance Improvement Team Site Assessment Visit to identify deficiencies and will work with the facility to complete corrective action plans and implement best practices. The goal is for all 30 sites to have been assessed within the first six months of FY 2013.</li> </ul> <p>The National Non-VA Care Program Office is continually creating and updating procedure guides and fee facts to distribute written process information and best practices. Additionally, learning curriculum has been developed and is currently being developed to become more step-by step process oriented (Course 4 and Desktop Procedures)</p>	



Veterans Health Administration.		
Measure	Target	Result
Progress toward researching, developing, and implementing innovations in clinical practice that ensure improved access to health care for Veterans, especially in rural areas	63%	55% (R)
<b>Causes</b>	<ul style="list-style-type: none"> <li>Recruitment for a study of video teleconference cognitive processing therapy was not completed.</li> <li>The findings on a study to compare telehealth team care to standard care at CBOCs have not been submitted for publication.</li> </ul>	
<b>Resolution Strategies</b> (4th Quarter, 2013)	<ul style="list-style-type: none"> <li>Recruitment for a study of video teleconference cognitive processing therapy was expanded to September 30, 2013, to increase the number of Veteran participants. This milestone should be completed in the 4<sup>th</sup> quarter of 2013.</li> <li>The findings on a study to compare telehealth team care to standard care at CBOCs have been presented, and a paper will be submitted for publication by the end of the 1<sup>st</sup> quarter of 2013.</li> </ul>	



Veterans Benefits Administration		
Measure	Target	Result
Average Days to Complete Original Education Claims	23	31 (R)
<b>Causes</b>	<ul style="list-style-type: none"> <li>Total claims volume increased in 2012.</li> <li>Overtime for claims processing was limited.</li> <li>Implementation of the VRAP program further increased claims volume.</li> </ul>	
<b>Resolution Strategies</b> (Estimated Completion Quarter)	<ul style="list-style-type: none"> <li>Realignment of Ohio and West Virginia from Buffalo Regional Processing Office (RPO) to St Louis RPO to better balance workload. (Q4)</li> <li>FTE redirected from supplemental claims processing to process original claims. (Q2)</li> </ul>	

Veterans Benefits Administration		
Measure	Target	Result
Average Days to Complete Supplemental Education Claims	12	17 (R)
<b>Causes</b>	<ul style="list-style-type: none"> <li>Total claims volume increased in 2012.</li> <li>Overtime for processing was limited.</li> <li>Implementation of the VRAP program further increased claims volume.</li> </ul>	
<b>Resolution Strategies</b> (Estimated Completion Quarter)	<ul style="list-style-type: none"> <li>Realignment of Ohio and West Virginia from Buffalo RPO to St Louis RPO to better balance RPO workload. (Q1)</li> <li>End-to-end automation of Post-9/11 GI bill supplemental claims. (Q1)</li> </ul>	



Veterans Benefits Administration		
Measure	Target	Result
Education Call Center – Abandoned Call Rate	15	26 <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">R</span>
<b>Causes</b>	<ul style="list-style-type: none"> <li>VA implemented a new telephone system in February 2011 called Genesys Call Routing. While the new system has reduced the number of blocked calls, it has resulted in more calls being received which contributed to the abandoned call rate in 2012.</li> <li>The largest contributors to the abandoned call rate were legislative changes to the Post-9/11 GI Bill in 2011 which became effective in 2012, which resulted in Veterans calling about payment of benefits. The key change which generated additional calls was the suspension of interval pay.</li> </ul>	
<b>Resolution Strategies</b> (Estimated Completion Quarter)	<p>VA is taking the following actions:</p> <ul style="list-style-type: none"> <li>Implementation of end-to-end automation of chapter 33 claims to improve processing times for chapter 33 enrollments. (Q4 FY12-Q1 FY13)</li> <li>VA will continue to conduct outreach to Veterans to proactively provide information on benefit changes. (Q1 FY13)</li> <li>VA will promote outreach to raise awareness through multiple venues such as Facebook and the Internet Inquiry System which Veterans can use to ask questions. (Q1 FY13)</li> </ul>	



Veterans Benefits Administration		
Measure	Target	Result
Percent of Compensation and Pension pending inventory that is more than 125 days old	60%	66% (R)
Compensation and Pension entitlement claims – average days to complete	230	262 (R)
Appeals resolution time (From NOD to Final Decision) (Average Number of Days) (Joint BVA-VBA Compensation and Pension measure)	675	866 (R)
Burial claims processed - average days to complete (Pension & Fiduciary)	70	178 (R)
Compensation maintenance claims - average days to complete	85	128 (R)
<b>Causes</b>	<ul style="list-style-type: none"> <li>• VA established three new presumptive conditions (<i>Nehmer</i>) related to herbicide exposure in 2009, and began processing these additional claims on October 30, 2010. To date, almost 270,000 of these claims have been received, resulting in the payment of \$3.8 billion in retroactive benefits. The completion of these complex claims required the diversion of significant claims processing resources throughout 2011 and the beginning of 2012. While most of these resources have transitioned back to processing VBA’s traditional rating workload, this influx of claims has had a residual impact on the VBA backlog and processing timeliness throughout 2012.</li> <li>• Since the beginning of 2011 through June 2012, VBA has trained over 2,600 claims processors. This required the utilization of experienced personnel to conduct training, perform quality reviews, and mentor new employees.</li> <li>• Claims receipts up 50% since 2008 – backlog grew from 180K to 576K in three years.</li> <li>• VBA has invested in nationwide initiatives, such as training 600 employees for Quality Review Teams (QRTs), which represents a short-term loss of production in productivity but is expected to result in increased productivity in the long-term. Additionally 300 employees working Integrated Disability Evaluation System (IDES) claims, which required further shifting of resources toward training and overall implementation.</li> </ul>	



**Resolution Strategies**

(Estimated Completion Quarter)

- To achieve processing efficiencies that will enable VA to reduce the claims backlog and improve decision quality, VA is employing a synchronized and integrated transformation strategy that incorporates people, processes, and technology initiatives. (Q1 – ongoing)
- VA is organizing its work force into segmented processing lanes and “case management” teams, managing work in the most efficient, effective ways possible and leveraging proven automated workflow tools. This new “process model” was deployed to 18 Regional Offices during 2012. (Q4)
- VBA is implementing the Veterans Benefits Management System (VBMS), a paperless IT claims processing system. VBMS is currently being tested in four Regional Offices. (Q4)
- Claims processors hired and trained in 2011 and 2012 will continue to gain experience and contribute to VBA’s efforts of reducing claims processing timeliness and the backlog. (Q1 – ongoing)
- VBA’s “Resource Centers” previously used exclusively for Nehmer claims, have transitioned back to individual missions and processing VBA’s traditional rating workload; this conversion of these resources will directly affect VBA’s production and timeliness capacity. (Q1)



Office of Information Technology		
Measure	Target	Result
Percent of VA IT systems that automatically reuse all redundant client information in other systems	25%	9.5% (R)
<b>Causes</b>	<ul style="list-style-type: none"> <li>This measure as written is too broad in scope for appropriate data to be collected and reported. "Redundant client data" is not defined and the measure implies that data should be collected from every VA IT system across the enterprise.</li> <li>VA established this metric in response to feedback from multiple Veteran Service Organizations about delays in Veterans receiving services and benefits due to personal information (such as name and address changes) not replicating across all VA information systems. Examples cited include Veterans updating their addresses at a VAMC yet not receiving their disability checks because the checks continue to be mailed to the former address.</li> <li>In 2010, the measure was defined as VA IT systems in planning/development that used Veteran personally identifiable information. The 9.5% metric was calculated by dividing the number of systems deployed at fiscal year end by the number of IT systems planned or in development. This definition was accepted initially but soon became obsolete as the IT systems initially identified merged with other projects were dropped, or were transferred to other organizations. New calculation methodologies have been developed and this measure will be replaced by two new ones (one related to producers of data and one related to consumers of data) slated to commence in 2014.</li> </ul>	
<b>Resolution Strategies</b> (4 <sup>th</sup> Quarter 2014)	<ul style="list-style-type: none"> <li>Virtual Lifetime Electronic Record (VLER) is developing the VLER Data Access Service (DAS) in 2013 which enables data to exchange. By using DAS, producers of data will make data sets available, reducing the need to replicate data in multiple systems. In 2012 and 2013, VLER is working with business owners to identify producers and consumers and the "owners" of each. Once identified, this information will be used as the basis for measuring activities in 2014.</li> </ul>	



Office of Congressional Affairs and Legislative Affairs		
Measure	Target	Result
Percent of title 38 reports that are submitted to Congress within the required timeframe.	85%	68%
<b>Causes</b>	<ul style="list-style-type: none"> <li>Responsible offices have not allotted sufficient time for the concurrence process when staffing congressionally mandated reports. This has resulted in reports being submitted late to Congress.</li> </ul>	
<b>Resolution Strategies</b> (1 <sup>st</sup> QTR FY13)	<ul style="list-style-type: none"> <li>Reports must be submitted for concurrence a minimum of 30 days prior to the due date to allow sufficient time for review and necessary actions. While significant improvement was made during 2012, performance is still below the targeted goal. OCLA continues to coordinate with responsible offices to improve performance. (Q1, 2013)</li> </ul>	

Office of Congressional Affairs and Legislative Affairs		
Measure	Target	Result
Percent of responses to pre- and post-hearing questions that are submitted to Congress within the required timeframe.	85%	75% (R)
<b>Causes</b>	<ul style="list-style-type: none"> <li>A large number of sets of questions/large volume of questions and higher number of pass-backs during concurrence process, combined with additional review requirements, overwhelmed the QFR process and slowed responses.</li> </ul>	
<b>Resolution Strategies</b> (1 <sup>st</sup> QTR FY13)	<ul style="list-style-type: none"> <li>VA offices will make a concerted effort by all offices to provide thorough and complete responses in accordance with the QFR, timeline and active participation by all stakeholders in the collaborative review sessions will reduce concurrence time and pass-backs. (Q1, 2013)</li> </ul>	



Office of Acquisition, Logistics, and Construction		
Measure	Target	Result
Percent of annual major construction operating plan executed	90%	44% <sup>(R)</sup>
<b>Causes</b>	VA made a business decision not to award several contracts for design because it didn't appear the funding outlook for their associated construction funding would be available for several years. Thus the design would likely have to be redone.	
<b>Resolution Strategies</b> (Estimated Completion Quarter)	1. Future operating plans for final design documents will not include projects for which construction funding is not anticipated to be received within 2 years. 2. OALC will continue to coordinate with medical centers to improve design efforts by achieving 35 percent design completion prior to requesting construction funding and projecting construction contract awards. (Completed: 1st Quarter 2013)	



## Financial Highlights

The principal financial statements have been prepared to report the financial position and results of operations of the Department of Veterans Affairs (VA) pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of VA in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The financial statements should be read with the realization that VA is a component of the U.S. Government, a sovereign entity.

VA received an unqualified (“clean”) opinion on the Department’s financial statements for 2012 and 2011 from the external auditing firm of CliftonLarsonAllen LLP (CLA). As a result of its audit work, CLA reported one material weakness in internal controls. The sole material weakness was for “Information Technology (IT) Security Controls,” a repeat condition. CLA also reported one significant deficiency, “Undelivered Orders” as a partial repeat condition and re-titled it from “Accrued Operating Expenses.” The Department has taken corrective actions sufficient to address the reasonable estimation of the accrued operating expenses portion of unpaid obligations and therefore accrued operating expenses have been removed from the significant deficiency for this year. The Department has also taken corrective actions sufficient to eliminate one other significant deficiency, “Loan Guaranty Reporting,” previously cited last year.

Through its leadership and guidance, VA’s Office of Financial Process Improvement and Audit Readiness’ (FPIAR) has significantly aided VA’s audit remediation efforts. The FPIAR office

continues to provide guidance in the remediation of audit findings and improvements to internal controls. VA’s financial improvement successes in 2012 reflect the dedication and hard work of staff throughout VA’s Administrations and staff offices. In 2013, VA will focus on continuing progress toward remediating the remaining material weakness and the significant deficiency identified by the external auditors and management’s assessment process.

VA programs operated at a net cost of \$355.9 billion in 2012 compared to a net cost of \$180.9 billion in 2011 or an overall increase in net cost of \$175.0 billion or 92 percent. The increase is due to an increase in the Changes in Actuarial Liability Assumptions for Veterans’ compensation and burial costs of \$93.4 billion and an increase of \$81.6 billion in Net Program Costs by Administration before Changes in Veterans Benefits Actuarial Liability Assumptions. The increase in the Changes in Actuarial Liability Assumptions included in net cost was primarily attributable to higher disability claims rates and a lower discount rate resulting in a higher present value of discounted expected future cash payments partially offset by a lower COLA rate which slowed the rate of growth in future costs.

The higher disability claims rates are based on emerging experience from initial and reopened claims for the three new presumptive conditions related to Agent Orange which accounted for a \$123.4 billion increase in net cost. VA has prioritized the processing of the claims backlog related to Agent Orange which is forecasted to take through 2015 to complete, thereby resulting in the large increase in the assumption costs for 2012. The decrease in the discount rate accounted for a \$14.5 billion increase in net costs. The single average discount rate declined from 4.53 percent to 4.31 percent at September 30, 2011 and 2012,



respectively, resulting in a higher present value of expected future cash outflows at 2012 than at 2011.

The change in the COLA rate assumptions accounted for a \$44.5 billion decrease in net costs. The decrease resulted from the combined effect of lower future COLA rates and a significantly lower inflation assumption for 2012 compared with the prior year. COLA rate assumptions reflect estimated future inflation and are based on and consistent with the decline in the 10-year average historical interest rate yield curve on Treasury securities. The COLA rates declined to 2.61 percent in 2012 from 2.78 percent in 2011 and the rate is applied to future periods. In addition, the inflation rate assumed for 2012 was 1.54 percent compared to the 3.66 percent assumed for the prior year. See Note 13 to the financial statements for more information.

Net Program Costs by Administration before Changes in Veterans Benefits Actuarial Liability Assumptions in the Consolidated Statements of Net Cost totaled \$206.6 billion and \$125 billion for 2012 and 2011, respectively. Of this \$81.6 billion increase in net costs, approximately \$80.7 billion is related to Veterans Benefits Administration (VBA) and approximately \$0.9 billion is related to Veterans Health Administration (VHA).

The VBA increase in net costs was primarily a result of the \$75.6 increase in Experience Changes in Veterans Benefits Actuarial Liability. The 2012 increase was caused by the unprecedented number of disability cases processed in 2012 and exceeded the forecasted claims estimated in the actuarial model assumptions for future periods. VBA's efforts to reduce the backlog of pending claims, including the large number of claims from eligible Veterans with preexisting conditions that were recently added to the list of presumptive

conditions contributed to the increase in experience loss.

The balance of the VBA net increase in program costs totaled \$5.1 billion and related to increased compensation payments of \$5.2 billion and increased costs from participation in the new Post-9/11 GI Bill of \$0.6 billion, partially offset by a \$0.7 billion reduction in subsidy and re-estimate costs related to the housing program. The increased compensation costs are attributable to an increase in the number of payments to Veterans and survivors by 2.0 million or 3.5 percent compared to 2011 and increased compensation payments for Agent Orange claims which have totaled \$4.0 billion since inception. The increased claims relate to disability claims filed and processed for presumptive disability benefits associated with Vietnam Veterans who have any of three specific illnesses from an association with herbicides used in Vietnam, including Agent Orange.

The increased costs related to the new Post-9/11 GI Bill are attributable to an increase of more than 1.4 million payments received by Veterans for education benefits over 2011 or an increase of 20 percent over 2011.

The decreased costs in the housing program are attributable to a significant reduction in subsidy expense due to a one-time estimation method adjustment in 2011 that did recur in 2012. The one-time upward re-estimate adjustment to loan years 1992 through 2006 of approximately \$0.7 billion was required in 2011 since VA had actual experience data to adjust for a lack of accurate cash flow data prior to 2006.

The VHA increase in net costs relates primarily to the increased number of Veterans receiving medical care at Veterans' hospitals and medical facilities and increased costs associated with additional staff hired to meet Veteran medical demands.



Assets and liabilities reported in VA's balance sheets do not show significant change from year to year with the exception of Federal Employee and Veterans Benefits Liabilities, Public Accounts Payable and General Property, Plant and Equipment, Net.

Substantially all the \$228.0 billion increase in the Federal Employee and Veterans Benefits Liabilities in 2012 relates to changes in experience and changes in actuarial liability assumptions. The changes in experience relate primarily to increased disability claims filed and processed for presumptive disability benefits associated with Vietnam Veterans, including Agent Orange. The changes in actuarial liability assumptions relate primarily to: decreases in the average discount rate used to compute the actuarial balance of Veterans Benefits Liability; decreases in the COLA rates used to project future cash flows; and, increased costs from updated actual disability claims data used to project future cash flows. It should be noted that the future cash flows to liquidate the actuarial estimated liability are not supported by identifiable assets as they are anticipated to be funded from the future general revenues of the U.S. Government.

Approximately \$4 billion of the \$4.7 billion increase in Public Accounts Payable is attributable to the timing of payment related to recurring Veterans compensation and pension benefit payments due October 1 each year. In 2011, the October 1 payment was paid in September 2011 since the date fell on a weekend. In 2012, the October 1 payment was made in October 2012. As a result, the 2011 Public Accounts Payable balance was significantly lower than the 2012 balance payable at September 30, 2012.

General Property, Plant and Equipment, Net increased approximately \$1.9 billion due to a

\$3.0 billion increase in new and renovated medical facilities placed in service over the preceding twelve months, a \$0.5 billion increase in construction work in progress and a \$0.4 billion increase in software acquired and developed. The new facilities and construction provide the necessary infrastructure to support increasing patient loads and to provide optimal care for veterans. The increased costs were partially offset by \$1.9 billion of depreciation expense and the disposition of approximately \$0.3 billion of General Property, Plant and Equipment at a loss of \$0.1 billion.

Medical care collections in 2012 totaled \$2.74 billion, slightly over the 2012 goal of \$2.67 billion. Medical care collections in 2011 totaled \$2.7 billion, slightly below the 2011 goal of \$2.8 billion.

For FY 2012, 82 percent of eligible debt was sent to Treasury for either offset or cross-servicing. VA referred \$1.01 billion of eligible debt to Treasury for offset under the Treasury Offset Program (TOP). Under the cross-servicing program, VA referred \$148 million of eligible debt to Treasury for collection.

Through September 2012, the Department has collected \$1.1 billion in delinquent benefit debt. In addition, we have collected \$48.2 million through administrative offset on delinquent first party medical debt during 2012.

In 2010 VA developed a set of 11 financial management initiatives. Seven of these were completed in 2011. In 2012 VA continued work on the four remaining initiatives. The Systems to Drive Performance initiative was completed, delivering 17 dashboards that provide cost and workload program data to management. VA made significant progress on its Web-based Time and Attendance initiative. The final increment, system testing and implementation will be completed in 2013. In 2013 we also



expect to complete a final rule implementing electronic invoicing requirements. Significant progress is expected on the multi-year initiative to modernize Fee Basis payment capabilities. These financial management priorities drove our efforts during 2012, and continue to help us meet our financial management goals of: Reducing Operating Costs, Eliminating Improper Payments, Strengthening Internal Controls, and Enhancing Data and Analysis.

In 2012, VA continued to ensure that all Recovery Act transparency, reporting, and accountability goals were met. By September 30, 2012, VA had made outlays totaling over \$1.7 billion (96 percent) of Recovery Act funds. For USAspending.gov, VA reported 100 percent of all required contract, grant, loan, and other assistance program spending, totaling \$96 billion.

During 2012, the Department continued the aggressive use of the Governmentwide purchase card program, processing over 5.5 million transactions representing \$3.4 billion in purchases. This generated over \$75 million in refunds for VA compared to approximately \$73 million during 2011. VA's daily electronic billing and payment process for centrally billed accounts, along with a higher negotiated refund rate, allow VA to maximize refunds that are returned to VA entities for use in Veterans programs.

Throughout 2012, VA continued to make operational enhancements which resulted in improvements in interest paid, discounts earned, and improper payment collections. Interest improvements occurred largely because the Department centralized payment of VHA-certified payments at the Financial Services Center (FSC) in Austin, Texas, while the percentage of discounts earned increased because of ongoing operational improvements implemented at the FSC. Interest penalties paid

per million dollars disbursed improved 15 percent from \$45 per million in 2011 to \$38 per million in 2012. At the same time, VA earned over 97 percent (\$5.2 million) of its available discounts.

Additionally, the FSC reviews VA vendor payments daily to systematically identify, prevent, and recover improper payments made to commercial vendors. FSC also reviews vendor payments to identify and collect improper payments resulting from payment processing errors such as erroneous interest penalties, service charges, and sales taxes. Overall, during 2012, collections of improper payments totaled \$2.4 million from payment recapture audits and \$16.2 million from post-payment reviews and other sources. Improved payment oversight enabled VA to identify and cancel over \$11.1 million in potential improper payments prior to disbursement.

The FSC also leveraged technology to expedite payment of commercial invoices. At the end of 2012, FSC helped VA pay 95 percent of small businesses within 15 days of receipt of proper payment documentation. Additionally, during FY 2012 VA paid 99.8 percent of all commercial vendor payments within the Prompt Payment Act timeliness standard.

Improvements were made in VHA financial management throughout the year in providing additional and clarifying financial policies and procedures to VHA's fiscal community, particularly in the area of internal controls. VHA continues to monitor and improve its financial reporting and oversight process. During 2012, multiple national financial training episodes were conducted through live-meeting for Engineering, Finance, and Logistics staff to address audit findings related to Property, Plant, and Equipment and Environmental Liabilities and Deferred Maintenance. Multiple training episodes were also conducted for



Finance and Pharmacy staff to address internal controls issues related to reconciliation of Pharmacy Prime Vendor account activity.

During 2012, the financial oversight assistance program that was initiated in 2011, provided on-site assistance and training in researching and correcting accounting errors, as well as providing customized financial management systems and accounting transactions training to fiscal staff at 13 VHA facilities.

VHA continues to be actively engaged in addressing financial management issues at all levels of management and in all activities that have direct or indirect impact on financial reporting.

During 2012, VBA's Office of Resource Management addressed its prior year financial audit significant deficiencies and developed corrective action plans as part of its financial process improvement program. The following improvements were made to address the quality of financial reporting:

- Developed a corrective action plan and gained contractor support to do an independent review of the credit reform models. The report is being evaluated to determine what, if any changes should be made to the models.
- Implemented corrective action to close two notices of findings and recommendations from the financial statement auditors dealing with the Loan Guarantee program.
- Identified root causes of trading partner differences for Education programs and submitted project requests to have payments systems recoded to include correct trading partner data when interfacing into the VA core financial management system.

- Conducted a full review of VBA's Improper Payment and Elimination program and developed a corrective action plan to address deficiencies identified in the review.



## Management Controls, Systems, and Compliance With Laws and Regulations

VA management is required to comply with various laws and regulations in establishing, maintaining and monitoring internal controls over operations, financial reporting and financial management systems as discussed below. VA is required to provide assurances related to the Federal Managers' Financial Integrity Act and the Federal Financial Management Improvement Act in the section entitled "Management Assurances."

### **Federal Managers' Financial Integrity Act**

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish management controls over their programs and financial systems. VA managers monitor and improve the effectiveness of management controls associated with their programs and financial systems throughout the year. The results of monitoring and conducting other periodic evaluations provide the basis for the Secretary's annual assessment of and report on management controls. VA managers are required to identify material weaknesses relating to their programs and operations pursuant to sections 2 and 4 of the FMFIA as defined:

- Section 2 requires agencies to assess internal controls necessary to ensure compliance with applicable laws and regulations; protect against loss from waste, fraud, and abuse; and ensure receivables and expenditures are properly recorded.
- Section 2 also requires management's assessment of internal control over financial reporting.

- Section 4 requires agencies to assess nonconformance with Government-wide financial systems requirements.

### **Federal Financial Management Improvement Act**

The Federal Financial Management Improvement Act (FFMIA) requires agencies to have systems that generate timely, accurate, and useful information with which to make informed decisions and to ensure accountability on an ongoing basis. The Department faces challenges in building and maintaining financial management systems that comply with FFMIA.

Under FFMIA, VA is substantially compliant with applicable federal accounting standards and the U.S. Standard General Ledger at the transaction level but VA has a repeat material weakness (MW) for Information Technology (IT) Security Controls. This MW results in VA's financial management systems not being in compliance with the Federal financial management systems requirements as required by FFMIA Section 803(a). VA continues to work to remediate this remaining material weakness.

In 2012, the Department also continued operation of the Hyperion Financial Management System (MinX), which provided controls and significantly improved the process of preparing the consolidated financial statements.

### **Management Assurances**

During 2012, the Secretary of Veterans Affairs emphasized the importance of managers implementing strong internal controls that will enhance the Department's diligent stewardship and wise application of taxpayers' assets and



programs to deliver timely and high quality benefits.

OMB Circular A-123, Appendix A, *Management's Responsibility for Internal Control*, defines the requirements for conducting management's assessment of internal control over financial reporting in Federal agencies. In 2012, VA completed a comprehensive assessment of internal controls over financial reporting that covered approximately 19 key business processes that directly affect specific financial management statement accounts and impact the internal control over financial reporting. Management's assessment of internal control over financial reporting included an evaluation of such elements as the design and operating effectiveness of key financial reporting, controls, process documentation, accounting and finance policies and our overall control environment. VA engaged an independent public accounting firm to assist in an internal control assessment pursuant to OMB Circular A-123 Appendix A.

VA used a risk-based approach for identifying key internal controls over financial reporting for material financial statement accounts. VA tested all internal controls rated high risk and one-third of controls rated moderate risk. Low risk controls are evaluated on a 3-year cycle through self-assessment procedures conducted by Department managers.

After reviewing the results of the assessments outlined in the Statements of Written Assurance provided by the Under Secretaries, Assistant Secretaries, and Other Key Officials, the Secretary of Veterans Affairs provided a qualified statement of assurance. One material weakness was identified under FMFIA, "Information Technology (IT) Security Controls," which was carried forward from 2011 into 2012 and will be carried forward into 2013. This is discussed in more detail below.

Based on the results of VA's internal control assessment, no additional material weaknesses were identified in 2012. As the internal control programs mature, VA is increasingly able to improve its internal control environment and assessment of risk.



November 15, 2012

Statement of Qualified Assurance

The Department of Veterans Affairs' (VA) management is responsible for establishing, maintaining, and assessing internal control to ensure the efficiency and effectiveness of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Based on the annual assessment of the Department's internal control program, VA provides a qualified statement of assurance, identifying one material weakness as it relates to internal control objectives of the Federal Managers' Financial Integrity Act (FMFIA), Section 4. The details of the material weakness and related corrective actions are discussed in Part I, "Management Controls, Systems, and Compliance with Laws and Regulations," under the sections titled "Audit Material Weaknesses Identified by Management," and Part IV, "Other Accompanying Information" under the section titled "Summary of Financial Statement Audit and Management Assurances." No other material weaknesses were found in the design or operation of the internal controls for the fiscal year ended September 30, 2012.

In addition, VA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of Appendix A of revised OMB Circular A-123, "Management's Responsibility for Internal Control." Based on the results of the assessment of key business processes tested during 2012, VA's internal control over financial reporting is operating effectively and no new material weaknesses were identified as of June 30, 2012.

This evaluation was conducted in accordance with the revised OMB Circular A-123. As a result of this evaluation, the Department provides the following:

**Effectiveness of Internal Control Over Operations (FMFIA § 2)**

Based on information provided, VA provides reasonable assurance that internal control over operations is effective. No new material weaknesses were identified during FY 2012.

**Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)**

In accordance with the Department's OMB approved plan for Appendix A of revised OMB Circular A-123, our efforts focused on assessment of the key business processes and financial statement accounts during 2012. Based on information provided for the processes and financial statement accounts assessed, VA provides reasonable assurance that internal control over financial reporting meets the objective. No new material weaknesses were identified during FY 2012.

**Conformance with Financial Management System Requirements (FMFIA § 4)**

The Department faces challenges in building and maintaining financial management systems that comply with the Federal Financial Management Improvement Act (FFMIA). Under FFMIA, VA is substantially compliant with applicable Federal accounting standards and the U.S. Standard General Ledger at the transaction level. However, VA is not compliant with Federal financial management system requirements as a result of the material weakness identified prior to FY 2012 related to Information Technology (IT) Security Controls.

  
Eric K. Shinseki  
Secretary of Veterans Affairs



**Summary of Auditor’s Internal Control Assessment**

Although not a material weakness, VA was also noncompliant with the Debt Collection Improvement Act. The auditors’ report on internal controls reported one material weakness: "Information Technology (IT) Security Controls." In the "Information Technology (IT) Security Controls," material weakness, the auditors noted progress and improvement in the IT controls environment but also observed several areas which continue to need enhancements.

**Progress on Material Weakness**

The 2012 *Independent Auditor’s Report on Internal Control Over Financial Reporting* disclosed one material weakness, "Information Technology Security Controls," as a weakness under FMFIA. VA managers continue to make progress in correcting this material weakness.

During 2012, VA OIT developed new policy and procedures as well as continued in the formulation of an enterprise-wide remediation plan.

The auditors’ report on compliance with laws and regulations, also prepared as a result of the 2012 financial statement audit, determined that the Department’s financial management systems did not substantially comply with the Federal Financial Management Improvement Act (FFMIA) requirements. The remediation of this non-compliance is being addressed through corrective actions identified for the material weakness, "Information Technology (IT) Security Controls."



The one audit-related material weakness reported at the end of 2012 is shown in the table below, which provides the current status of the Department’s material weaknesses.

**Audit Material Weakness Identified by Management**

Description	Status as of September 30, 2012	Resolution Target Date
<p><b>Information Technology (IT) Security Controls</b> (Audit/FMFA Section 4 weakness) – VA’s assets and financial data are vulnerable to error or fraud because of weaknesses in information security management, access controls, segregation of duties, configuration management and contingency planning.</p>	<p>VA continues to implement the remediation plan defined in FY 2012 to address the IT Security Controls material weakness and will reassess its approach in response to feedback as a result of the recent audit. The approach will include prioritization of remediation efforts to focus on areas of highest risk. Additional financial, systems and personnel resources have been requested both to further support the corrective action plan and to sustain the program long-term.</p> <p>The Continuous Readiness in Information Security Program (CRISP) team is responsible for implementation of the corrective action plan. The team is actively developing its FY 2013 program and will have a timeline and project plan completed in January 2013.</p> <p>Improvements to systems, procedures and controls in the specific areas cited in the finding are on-going:</p> <ul style="list-style-type: none"> <li>• VA has improved its controls over remote access to its systems and information by continuing to eliminate the use of the One VA Virtual Private Network (VPN). Only about 1,000 remote users (down from 45,000) continue to access VA networks via One VA VPN. Remote users are now required to use VA’s Remote Enterprise Security Compliance Update Environment (RESCUE) and the Citrix Access Gateway (CAG) to connect to its network. The use of RESCUE and CAG corrects system configurations and scans for malware upon connection.</li> <li>• A Baseline Configuration Management Program Office will be established in FY 2013 to further analyze systems to determine where a baseline is needed, initiate and oversee actions to modify/maintain, implement baselines, establish</li> </ul>	<p>2014</p>



Description	Status as of September 30, 2012	Resolution Target Date
	<p>baseline review schedules, review/modify/update existing baselines, review baseline compliance and oversee the baseline configurations for the VA in its entirety.</p> <ul style="list-style-type: none"> <li>● In FY 2013, VA will establish an Audit Compliance Event Sustainment (ACES) Program Office. ACES will be responsible for agency-wide, standardized knowledge management, audit and event log management system (collection, business intelligence, trends, reporting and knowledge management) to monitor.</li> <li>● Vulnerability scanning was also performed in FY 2012 to allow VA to address, in real time, the continual and ever-changing threats to its information systems. VA is in the process of improving its patch and vulnerability processes to continue protecting VA Systems and Information. A Patch Vulnerability Team is being established to analyze existing scanning, patching, remediation, and compliance-reporting tools, processes and dependencies and implement a standard patch management and compliance-reporting program.</li> <li>● VA's Visibility to Everything (V2E) initiative improved upon the Visibility to Desktop (V2D) and Visibility to Server (V2S) and provided visibility into 100% of its systems allowing VA to proactively eliminate several of its security vulnerabilities.</li> <li>● Specialized, role-based training for system administrators has been put in place to improve the proficiency of VA operations staff.</li> </ul>	



## Financial Management Systems Framework

### Overview

The Department's strategy is based on goals to replace outdated and noncompliant systems with more modern, commercial off-the-shelf (COTS) systems which meet Office of Federal Financial Management core financial system requirements. This strategy was enhanced to incorporate business process reengineering in the requirements, acquisition, and development and implementation phases of projects.

The Office of Business Oversight's Internal Controls Service (ICS) provides the CFO with independent review and advisory services designed to add value and improve the management, acquisition, development, and maintenance of VA financial systems. The Department's scope of work is to ensure its compliance with regulatory requirements such as those prescribed by OMB Circular A-123, Appendix A and the Open Government Directive.

ICS is responsible for planning and conducting the Departmentwide reviews of internal controls over financial reporting in accordance with OMB Circular A-123, Appendix A. ICS also engages in management-directed program activities and system management reviews of project management processes and results, and monitors corrective action to address deficiencies identified in reviews. For example, in 2011 ICS evaluated and tested the quality of VA data reported to the USAspending.gov website.

VA's financial systems inventory provides details on all major financial and mixed systems. The major financial system initiative funded by the Department over the last 15 years to achieve VA's strategic goals has included the following:

The Financial Management System (FMS) was designed to replace VA's 1970's central accounting system. In the FMS initiative, completed in 1995, VA successfully met its stated objectives and implemented FMS as its single, core accounting system based on a certified Commercial Off the Shelf (COTS), Joint Financial Management Improvement Program (JFMIP)-compliant system with interfaces to all other VA payment and accounting systems. In the succeeding, post-implementation years, VA completed several studies and determined there were remaining inefficiencies in the overall financial management processes, areas of noncompliance in its mixed systems, and new mission business requirements that could not be supported economically in the current systems.

Recent accomplishments in VA's financial systems, as well as plans for the next 5 years, are detailed as follows.

### Financial Management System (FMS) Accomplishments and Plans

VA continued production support and maintenance of FMS during 2012. VA will continue to operate FMS as the core financial system in the foreseeable future.

VA's current financial system framework consists of FMS as the core financial system and a variety of subsidiary and feeder systems which process transactions of various types. Transactions that have a financial impact are sent to the core financial system. Systems such as payroll, benefit systems, procurement, and other systems send data to the core system for budget execution, monitoring, and reporting.

VA will begin planning for a limited scope replacement for its 26-year-old legacy FMS in 2013, as well as enhance the legacy system in several areas where cost effective.



### **PAID Accomplishments and Plans**

VA continued production support and maintenance of PAID during 2012 in support of programs such as modifying PAID in support of changes in Thrift Savings Plan enhancements including the new Roth Thrift Savings Plan, changes in order to support reporting of telework, and the redesign of how Uniform Allowances are processed. Production support and maintenance continues for PAID while plans are underway to replace the system with a new Human Resources (HR) Line of Business solution. Primary support and maintenance of PAID relates to HR processing and, as required, enhancements that impacts how data flows over to VA's payroll provider, the Defense Finance and Accounting Service (DFAS).

### **Payroll Modernization Accomplishments and Plans**

VA continued efforts to replace its legacy Enhanced Time and Attendance system (ETA) with a Web-based time and attendance system known as VATAS (VA Time and Attendance System). Development of this system continued during the year, meeting all milestones and successfully completing all planned development. During 2013, the new system will be piloted at several VA facilities, followed by full VA-wide deployment.

### **Federal Information Security Management Act (FISMA)**

VA continues to work on remediation of the IT Security Controls Material Weakness by developing and executing the Continuous Readiness in Information Security Program (CRISP). In addition to developing enterprise wide plans for remediation of its material weakness in IT Security Controls, VA has implemented enterprise-wide initiatives such as the Visibility to the Desktop Program, which allows visibility of all end user computers connected to the VA network. This visibility has helped VA to transition over to continuous

monitoring to provide a real time view of its security posture which has already yielded positive results in configuration management, specifically, in the area of Federal Desktop Core Configuration compliance.

VA has also improved its controls over remote access to its systems and information by continuing to eliminate the use of the One VA Virtual Private Network (VPN). Only about 1,000 remote users (down from 45,000) continue to access VA networks via One VA VPN. Remote users are now required to use VA's Remote Enterprise Security Compliance Update Environment (RESCUE) and the Citrix Access Gateway (CAG) to connect to its network. The use of RESCUE and CAG corrects system configurations and scans for malware upon connection. CAG allows users to access VA systems remotely, but utilizes a Citrix Gateway that prevents data from residing on the system being used to remotely access VA systems.

Vulnerability scanning was also performed in 2012 to allow VA to address, in real time, the continual and ever-changing threats to its information systems. VA is in the process of improving its patch and vulnerability processes to continue protecting VA Systems and Information.

In 2012, VA's Visibility to Everything (V2E) initiative improved upon the Visibility to Desktop (V2D) and Visibility to Server (V2S) and provided visibility into 100 percent of its systems allowing VA to proactively eliminate several of its security vulnerabilities.

To improve access controls, VA has enabled 98 percent of its computers with Smartcard capabilities. VA also issued more than 239,000 Personal Identity Verification (PIV) cards to its employees, which is 74 percent of its employee population. In many facilities, network access



can be achieved by a PIV card and Personal Identification Number (PIN) combination or with a login identification and password. The Department put specialized, role-based training for system administrators in place to improve the proficiency of VA operations staff.

In 2013, VA plans to aggressively execute the enterprise remediation plans developed in 2012 for remediation of its material weakness by empowering and holding accountable, individuals with the responsibility to implement solutions at their respective sites or locations

#### **IG Act Amendments of 1988**

The *Inspector General Act of 1978*, as amended, requires the Office of Inspector General (OIG) to identify recommendations pending implementation over 1 year in its Semiannual Report to Congress until final action is completed. As of September 30, 2012, OIG reports that 33 reports with 93 recommendations remain unimplemented over 1 year from issuance with a total monetary value of nearly \$4 billion. (Source: Office of Inspector General)

#### **Audit Follow-Up**

VA continues to make improvements and routinely assesses its programs, financial management, and financial systems. In addition, VA is making progress in resolving findings and remediating significant deficiencies. VA is implementing recommendations to improve business processes and internal controls identified by the FPIAR office, VA management, Office of Business Oversight, OIG, the Government Accountability Office, and other external auditors.

FPIAR's primary responsibility is to define and support a strategy to identify root causes of deficiencies identified in the audit report and to improve financial management and other

control deficiencies. The FPIAR office is responsible for audit follow-up and takes the lead in addressing deficiencies identified in the annual independent auditor's report. FPIAR coordinates the development of corrective action plans, monitors remediation progress, and provides support to the Administrations and staff offices. The status of remediation efforts are reported monthly to VA's Senior Assessment Team.

Accordingly, VA management at every level has been tasked to sustain the effort in resolving program and financial-related weaknesses as well as implement sound solutions for all audit recommendations. In order to ensure continued success in remediating audit findings, VA has contracted with an Independent Public Accounting firm to provide audit support and financial improvement services designed to resolve VA's material weakness and other significant findings. VA has enhanced its communication and coordination with VA Administrations and staff offices involved in strategic planning, budget formulation, budget execution, performance, and financial management.

#### **Prompt Payment Act**

In 2012, VA's Financial Services Center (FSC) continued to serve as VHA's centralized payment office for certified and matched invoices for purchased goods and services as well as construction payments. Performance results reflect improvements in payment processing timeliness, accuracy, and cost savings.

VA enhanced its vendor payment processes throughout 2012. Interest penalties paid per million dollars disbursed improved 15 percent from \$45 per million in 2011 to \$38 per million in 2012. At the same time, VA earned over 97 percent (\$5.2 million) of its available discounts. The FSC staff also reviews vendor payments to



identify and collect improper payments resulting from duplicate incentive award payments, erroneous interest penalties, and unclaimed properties. Overall, during 2012, collections of improper payments totaled \$2.4 million from payment recapture audits and \$16.2 million from post-payment reviews and other sources. Improved payment oversight enabled VA to identify and cancel over \$11.1 million in potential improper payments prior to disbursement.

The FSC continued its expansion of a technological solution to facilitate the transition from paper to electronic invoice submission using the e-Invoice format. The FSC e-Invoicing initiative is being performed in partnership with A&T Systems, Inc., and OB10 Inc. (OB10). This initiative goes beyond traditional electronic data interchange methods by offering a solution that does not require vendors to purchase any additional software or hardware. Additionally, all vendors can easily participate without changing existing invoicing formats. OB10 has the capability to accept any invoice format or layout directly from the vendor's existing billing system and utilize the electronic communication method of the vendor's choice. The electronic invoice data are then passed to the FSC to automatically populate the appropriate payment applications. The errors, expense, and time delays associated with traditional paper invoice submissions are eliminated, resulting in improved cost effectiveness, payment accuracy, and timeliness for VA and the vendor.

During 2012, the Department continued the aggressive use of the Governmentwide purchase card program, processing over 5.5 million transactions representing \$3.4 billion in purchases. This generated over \$75 million in refunds for VA compared to approximately \$73 million during 2011. VA's daily electronic billing and payment process for centrally billed

accounts along with a higher negotiated refund rate allow VA to maximize refunds that are returned to VA entities for use in Veterans' programs.

VA's Fee Basis purchase card program automates Health Care Fee Basis payments, eliminates processing of paper checks, and earns VA purchase card refunds. In 2012, VA's Fee Basis credit card processed over 768,000 transactions representing over \$214 million in payments, and generated over \$4.2 million in refunds. The growth of this program was attributed to educational awareness of the program's efficiencies, a reduction in the backlog of claims, and additional Fee Basis medical providers agreeing to receive payment via the Fee Basis Purchase Card.

VA's Prime Vendor Payment System (Power Track) automates payments under a nationwide pharmaceutical prime vendor centralized purchasing contract. During 2012, VA medical centers used the Prime Vendor Payment System to electronically process over 632,000 transactions worth over \$4.3 billion. The FSC ensures vendors who participate in VA's multi-billion dollar Prime Vendor procurement program are paid on time. These vendors provide VA medical centers with an efficient way to order supplies at low, negotiated contract prices and guarantee delivery within 24 hours, eliminating the need for warehousing large volumes of supplies.

#### **VA-wide TDY Travel Accomplishments and Plans**

The VA-wide TDY travel system, also known as FedTraveler.com, gives approximately 100,000 VA frequent travelers and VA managers an efficient and accountable way to plan, book, and track travel arrangements as well as request and approve expense reimbursement. This system which is operating at a steady state, eliminated four separate legacy travel systems



with its one-stop, self-service, Web-based site. One of the key performance measurements the General Services Administration (GSA) monitors is the online adoption rate, which measures the percentage of travel plans with air reservations made using the online booking engine. VA's online adoption rate in 2012 averaged 72 percent. For 2012, VA travelers processed approximately 202,136 vouchers in Fed Traveler.com.

The FSC will continue to provide support for VA-wide travel. The FSC provides the following services for program sustainment: Global System Administration; support for local system administrators; sponsor for super user conference calls; user acceptance testing of new software releases; training on new software releases; serving as Contracting Officer's Technical Representative; and participation in meetings hosted by the General Services Administration (GSA) such as EDS User Group meetings, Program Change Control Board meetings, and Executive Change Control Board meetings.

FSC will also provide support for VA's transition from the existing contract to the next contract for the VA-wide TDY travel system.

VA's Travel Management Centers (TMC) serve Veterans and employees who travel frequently. The billings are transmitted electronically from each TMC, and payment is sent daily through the Department of the Treasury's Electronic Certification System. During 2012, the travel management program processed over 676,000 transactions, disbursed payments of over \$82 million, and earned over \$1.5 million in refunds.

The FSC staff continued to provide vendor payment history on the Internet. The Vendor Inquiry System (VIS) Internet application stores over 7 years of information. Once vendors complete an authentication process, they can access a secure Web site to view payment

information for their company. Currently there are approximately 45,000 active registered vendors. VIS provides FSC vendors an easy-to-use tool for immediate access to their payment information 24 hours a day. VIS has also improved customer service efficiency of FSC staff by handling many routine inquiries and freeing staff to work customers' more difficult issues.

Registered VIS users have the ability to submit electronic invoices directly to the FSC. Vendors complete easy-to-use forms to create their invoices and can manage and track them. This online system provides the vendors with a list of valid purchase orders, virtually eliminating the number one error that causes payment delays. Errors identified by the system are immediately returned to the VIS user, who can instantly correct them prior to submission. This prevents payment delays and results in quicker and more accurate vendor payments.

### **Improper Payments Elimination and Recovery Act (IPERA) of 2010 (Summary of Implementation Efforts for 2012 and Agency Plans for 2012 through 2013)**

#### **Overview**

The President signed Executive Order 13520, "Reducing Improper Payments." On March 22, 2010, OMB issued the Governmentwide guidance on the implementation of the Executive Order. The guidance is under Part III, Appendix C of OMB Circular A-123. This guidance requires agencies with programs susceptible to significant improper payments to submit to the agency's Inspector General (IG) and the Council of Inspectors General on Integrity and Efficiency (CIGIE), and make available to the public, a quarterly report on any high-dollar overpayments identified by the agency. In accordance with OMB's guidance, VBA is required to report five programs. These programs include Compensation, Pension, Education, Insurance, and Vocational Rehabilitation & Employment (VR&E). VHA has



five programs that are deemed susceptible to significant improper payments and are required to be reported. These programs include: Beneficiary Travel, Non-VA Care Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA), Non-VA Care Fee, State Home Per Diem Grants, and Supplies and Materials.

### **Accomplishments**

VA's Executive in Charge, Office of Management, and Chief Financial Officer (CFO) is the designated senior official responsible for implementing IPERA. The CFO is responsible for establishing policies and procedures to assess VA program risks of improper payments, taking actions to reduce those payments, and reporting the results of those actions to VA management. Managers of all programs identified for review are aware of the importance of the IPERA.

All programs identified for review completed the risk assessment and/or completed statistical samplings in 2012 for 2011 data in accordance with VA's IPERA plan. VA also identified under- and over-payments by program, and provided program assessments and corresponding steps to prevent future erroneous payments in accordance with IPERA.

### **Plans to Accomplish**

For the Compensation program, VBA continues to improve training programs in an attempt to reduce processing and other types of errors. Centralized training materials are periodically updated.

For both Compensation and Pension programs, VBA analyzes necessary improvements through the work group's effort during 2012 and plans to seek assistance from an outside contractor to analyze processes and design needed controls to mitigate future improper payments. Also, VBA analyzes the results of Quality Assurance (QA) reviews and provides detailed feedback to

Regional Offices through a variety of methods including monthly Systemic Technical Accuracy Review error reporting, which requires follow-up and corrective action. VBA also updates training materials regularly to address error trends.

For the Education program, VBA analyzes necessary improvements through the work group's effort during 2012 and plans to seek assistance from an outside contractor to analyze processes and design needed controls to mitigate future improper payments.

For the Non-VA Care Fee program, VHA is developing a one claims processing solution with centralized management. Because this is a long-term solution, interim enhancements have been developed, using software products that positively impact payment accuracy, as well as claims process improvements and staff training. The VHA Chief Business Office (CBO) has developed a full set of business requirements to replace the VistA Fee Application Software under the Health Care Efficiency transformational initiative. This initiative will address more timely claims processing, elimination of duplicate payments, and reduction of manual entry and data entry errors.

VHA continues to refine and revise training topics in response to issues identified by the field and national program management, formal audits, and field assistance observations.

For the State Home Per Diem Grants, Purchased Care staff is conducting a training analysis with VA Medical Center field staff to determine education and training needs. Based on the results of this analysis, training content will be developed and training modules sent to the field. The training modules will emphasize correct processes for administering the State Home Per Diem Grants program.



Development of a State Home Per Diem Grants program standard operating procedures, desk procedures, fact sheets and a “Quick Reference Guide” will be completed in the first quarter of 2013.

In conjunction with the Veterans Integrated Service Network (VISN) Financial Quality Assurance Manager audits, Purchased Care staff will conduct focused audits to monitor, assess, and report payment activities and provide recommendations for additional corrective action initiatives.

For VHA’s Supplies and Materials, VHA is currently reviewing the national purchase card regulations to revise receiving report processing for expendable items. The VHA’s National Purchase Card Manager is preparing an inquiry to the National VA Inquiry System for VHA Financial Policy. This change would not preclude the tracking of expendable items as the purchase cardholder will have to account for the purchases, certify, and reconcile charges in the VA’s Integrated Funds Distribution, Control Point Activity, Accounting, and Procurement (IFCAP) system.

For Beneficiary Travel, CBO coordinates with field and program office representatives to create a robust standardized audit process that supports national collection of results covering all aspects of program operations and payments. VHA develops comprehensive standard operating procedures for use in the management and appropriate staff throughout the organization. Comprehensive training programs for all levels of staff members are under development. Enhanced test-based training will incorporate more detailed policy and operational guidance. Information will be provided to the field via a series of announcements on national calls, electronic messaging, and national teleconferences. Documentation will be distributed using various

electronic methodologies and stored on a SharePoint site to facilitate access by facility and VISN staff. VHA will also revise policies and procedures to ensure requests for information and responses regarding agency-wide systems are coordinated and vetted through appropriate national program offices. CBO had identified areas for improvement and has been developing enhanced internal controls and guidance for improved local administration of the Beneficiary Travel program to reduce risk for improper provision of benefits.

For CHAMPVA, Voucher Examiners who have completed Accurate Data Transfer training, and all Voucher Examiners are in the process of completing E-Learning specifically focused on entering and calculating patient responsibility. Focused training is provided to staff to address enhancements to the Claims Processing system to improve vendor selection accuracy. Internal audits are conducted on a regular basis by the Health Administration Center to identify opportunities to improve processes that reduce improper payments. Existing VHA capability will be leveraged to establish interfaces for accurate and timely data matches with Centers for Medicare & Medicaid Services, Department of Defense, and VBA. Automated business rules will be implemented to reduce the amount of manual input. Medicare Crossover was implemented the first quarter of 2011, which increased electronic claims data receipt by more than 50 percent.



## Performance Summaries by Program

### Significant Trends, Impacts, Use, and Verification of 2012 Results

Key Measure																						
PREVENTION INDEX V																						
Performance Trends	Impact on Veterans																					
<table border="1"> <thead> <tr> <th></th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> <th>ST</th> </tr> </thead> <tbody> <tr> <td>Results</td> <td>88%</td> <td>89%</td> <td>91%</td> <td>92%</td> <td>94%</td> <td></td> </tr> <tr> <td>Targets</td> <td>88%</td> <td>88%</td> <td>89%</td> <td>89%</td> <td>93%</td> <td>95%</td> </tr> </tbody> </table>		2008	2009	2010	2011	2012	ST	Results	88%	89%	91%	92%	94%		Targets	88%	88%	89%	89%	93%	95%	<p><b>Desired Direction</b></p> <p>This measure is an indicator of how well VA promotes healthy lifestyle changes such as immunizations, hyperlipidemia, smoking cessation, and early screening for cancer.</p> <p><b>Status</b></p> <p>A higher score means that VA-treated Veterans are receiving preventative care and are taking the necessary steps to develop or maintain healthy lifestyles.</p> <p><b>How VA Leadership Uses Results Data</b></p> <p>Monitoring and tracking PI results helps VA medical staff with early identification of disease risk and intervention for risky behaviors. VA medical staff also do the following:</p> <ul style="list-style-type: none"> <li>• Target education, immunization programs, and clinic access to prevent or limit potential disabilities resulting from these activities and/or diseases.</li> <li>• Identify patients in need of prevention screening for cancer.</li> <li>• Help identify cancers before the Veteran develops symptoms, and provide the opportunity for earlier intervention.</li> <li>• In addition, as a matter of policy and practice, VA targets all outpatients for its prevention measures with the goal of promoting and maintaining a healthy population.</li> </ul>
	2008	2009	2010	2011	2012	ST																
Results	88%	89%	91%	92%	94%																	
Targets	88%	88%	89%	89%	93%	95%																
<p><b>How VA Verifies Results Data for Accuracy</b></p> <p>VA is committed to data accuracy for reporting on the clinical quality of care. Sampling of the patient population for evaluation of the quality of care indicators for the Clinical Practice Guidelines Index (CPGI) and the Prevention Index (PI) are done through a standardized sampling framework by a statistician. Data are then abstracted through trained, third party, contracted staff members (External Peer Review Program) who review the medical record for the quality metrics VA tracks.</p>	<p>1) Actual data are final                  (2) The 2008 results is PI III. The 2009 and 2011 results are PI IV.                  (3) ST = Strategic Target</p>																					



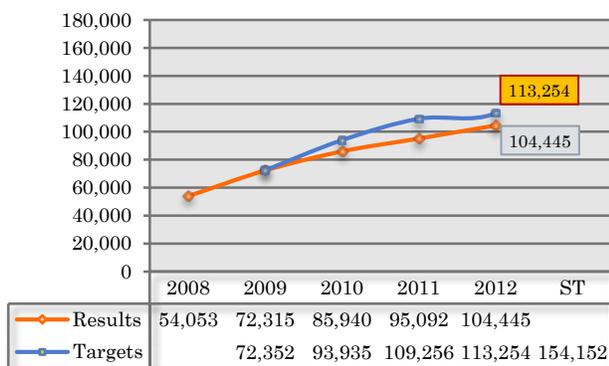
Key Measure																											
CLINICAL PRACTICE GUIDELINES INDEX IV																											
Performance Trends				Impact on Veterans																							
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Results	84%	91%	92%	91%	94%																						
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<p>1) Actual data are final                  (2) The 2008 numbers are Clinical Practice Guidelines Index (CPGI) II. The 2009, 2010, and 2011 numbers are CPGI III.                  (3) ST = Strategic Target</p>				<p>This measure is an indicator of how well VA performs regarding early identification and treatment of potentially disabling or deadly diseases such as acute myocardial infarction, inpatient congestive heart failure, hypertension, diabetes, and pneumonia.</p> <p>The index focuses primarily on the care provided to inpatients and is used to assess the quality of health care being delivered to its patients in accordance with industry standards.</p>																							
<p><b>How VA Verifies Results Data for Accuracy</b></p> <p>VA is committed to data accuracy for reporting on the clinical quality of care. Sampling of the patient population for evaluation of the quality of care indicators for the Clinical Practice Guidelines Index (CPGI) and the Prevention Index (PI) are done through a standardized sampling framework by a statistician. Data are then abstracted through trained, third party, contracted staff members (External Peer Review Program) who review the medical record for the quality metrics VA tracks.</p>				<p><b>How VA Leadership Uses Results Data</b></p> <p>Data are used by leadership to do the following:</p> <ul style="list-style-type: none"> <li>Identify and assess opportunities for early identification of acute and potentially disabling chronic diseases.</li> <li>Identify opportunities for managing entire chronic disease populations.</li> <li>Provide interventions based on clinical practice guidelines.</li> </ul> <p>Overall, CPGI data enable VA to target patient and employee education, focus on disease management, and provide access to care to prevent or limit the effects of potentially disabling diseases. The goal of disease management is to improve the quality of life for Veterans.</p>																							



**Key Measure**

**NON-INSTITUTIONAL, LONG-TERM CARE AVERAGE DAILY CENSUS (ADC)**

**Performance Trends**



- (1) Actual data through 08/2012. Final data are expected in 12/2012.
- (2) No targets were developed for 2008 because measure, as shown, was not included in the 2008 performance plans.
- (3) ST = Strategic Target

**How VA Verifies Results Data for Accuracy**

The data used for this report are extracted from established financial and workload databases that are routinely validated at the source of input using national criteria consistent with private sector auditing principles. The databases are used for budgeting, third party payment, and other day-to-day business practices all of which validate findings and contribute to the reliability of the data contained in the databases. The data in this metric reporting are not a sample but a 100 percent accounting of census in the metric programs.

**Impact on Veterans**

**Desired Direction**



Increasing the number of Veterans receiving Home and Community-Based Care (HCBC) services provides Veterans with an opportunity to improve the quality of their lives. HCBC promotes independent physical, mental, and social functioning of Veterans in the least restrictive settings and enables Veterans to remain in their own homes and communities for as long as possible.

**Status**



**How VA Leadership Uses Results Data**

VA uses the data to project the need for services, evaluate existing services, identify specific services\* that may need to be added or expanded to meet identified needs, and promote access to required services. In addition, the data are used to establish Veterans Integrated Service Network (VISN) targets and evaluate VISN performance in meeting their respective ADC targets. ADC targets were added as a mandatory measure in the Network Directors Performance Plan in 2012.

\*Services currently available include the following: Home Based Primary Care, Purchased Skilled Home Care, Homemaker/Home Health Aide, Community Adult Day Health care, VA Adult Day Health care, Home Respite, Home Hospice, Care Coordination/Home Telehealth, and, where present, Spinal Cord Home Health care and Medical Foster Home Care.



Key Measure			
PERCENT OF NEW PRIMARY CARE APPOINTMENTS COMPLETED WITHIN 14 DAYS OF THE DESIRED DATE			
Performance Trends		Impact on Veterans	
		<p><b>Desired Direction</b></p> 	<p>Delivery of primary care is critical to preventative health care and timely disease identification and management.</p>
		<p><b>Status</b></p> 	<p>A visit to a primary health care provider is also a patient's point of entry for specialty care. As such, timely access to primary health care services is critical to providing high-quality care to Veterans.</p>
	2011	2012	Strategic Target
Results	N/A	90%	90%
Targets	N/A	83%	90%
<p>Actual data is an estimate. Final data are expected in 11/2012. ST = Strategic Target</p>			
How VA Verifies Results Data for Accuracy		How VA Leadership Uses Results Data	
<p>VA's Veterans Information System and Technology Architecture (VistA) scheduling software captures data and requires minimal interpretation to ensure accuracy. VA data are published on the VHA Support Service Center (VSSC) Web site. Wait time data are published to the VSSC Web site on the 5<sup>th</sup> and 20<sup>th</sup> of each month.</p> <p>VSSC uses several mechanisms to audit and verify the accuracy of data. For example, data are tested with user groups in the field and reconciled with the data source and other products and reports internal and external to VSSC.</p>		<p>VA uses the results of this measure to inform and drive process improvement activities that improve efficiencies. Leadership also uses this information to make resource decisions.</p> <p>The results are compared across medical centers and clinics. If a facility is performing poorly, VA takes action to improve performance. One of the ways VA drives improvements is by identifying high performers and sharing their best practices with other facilities.</p> <p>VA also uses the results to examine variability among medical centers and clinics. If a facility is performing poorly, VA takes action to improve performance.</p> <p>VHA has continued to search for the best measures of access. While this measure is accurate, during 2012, VHA finished a study to examine alternative methods of measurement. Results of that study will inform changes next year.</p>	



Key Measure			
PERCENT OF ESTABLISHED PRIMARY CARE APPOINTMENTS COMPLETED WITHIN 14 DAYS OF THE DESIRED DATE			
Performance Trends		Impact on Veterans	
	2011	2012	Strategic Target
Results	N/A	95%	
Targets	N/A	94%	98%
<p>Actual data is an estimate. Final data are expected in 11/2012 ST = Strategic Target</p>			
<p><b>How VA Verifies Results Data for Accuracy</b> VA's VistA scheduling software captures data and requires minimal interpretation to ensure accuracy. VA's data are published on the VSSC Web site. Wait time data are published to the VSSC Web site the 5<sup>th</sup> and 20<sup>th</sup> of each month.</p> <p>VSSC utilizes several mechanisms to audit and verify the accuracy of data. For example, data are tested with user groups in the field and reconciled with the data source and other products and reports internal and external to VSSC.</p>		<p><b>Desired Direction</b>  VA tracks wait times for Veterans being seen in its 50 highest volume clinics with the goal of enhancing quality of care by ensuring service is delivered when the Veteran wants and needs to be seen.</p> <p><b>Status</b> </p> <p><b>How VA Leadership Uses Results Data</b> VA uses the results of this measure to inform and drive process improvement activities that improve efficiencies. Leadership also uses this information to make resource decisions.</p> <p>The results are compared across medical centers and clinics. If a facility is performing poorly, VA takes action to improve performance. One of the ways VA drives improvements is by identifying high performers and sharing their best practices with other facilities.</p> <p>VA also uses the results to examine variability among medical centers and clinics. If a facility is performing poorly, VA takes action to improve performance.</p> <p>VHA has continued to search for the best measures of access. While this measure is accurate, during 2012, VHA finished a study to examine alternative methods of measurement. Results of that study will inform changes next year.</p>	



Key Measure			
PERCENT OF NEW SPECIALTY CARE APPOINTMENTS COMPLETED WITHIN 14 DAYS OF THE DESIRED DATE			
Performance Trends			Impact on Veterans
	2011	2012	Strategic Target
Results	N/A	90%	
Targets	N/A	84%	90%
<p>Actual data is an estimate. Final data are expected in 11/2012. ST = Strategic Target</p>			
<p><b>How VA Verifies Results Data for Accuracy</b></p> <p>VA's VistA scheduling software captures data and requires minimal interpretation to ensure accuracy. VA's data are published on the VSSC Web site. Wait time data are published to the VSSC Web site the 5<sup>th</sup> and 20<sup>th</sup> of each month.</p> <p>VSSC utilizes several mechanisms to audit and verify the accuracy of data. For example, data are tested with user groups in the field and reconciled with the data source and other products and reports internal and external to VSSC.</p>			<p><b>Desired Direction</b></p> <p></p> <p><b>Status</b></p> <p></p> <p>Specialty care appointments are the vehicle by which VA treats Veterans with diseases and disabilities requiring specialized medical, rehabilitation, surgical, or other unique resources.</p> <p>Timely access to VA medical staff and facilities is therefore critical to those Veterans in need of specialty care.</p>
<p><b>How VA Leadership Uses Results Data</b></p> <p>VA uses the results of this measure to inform and drive process improvement activities that improve efficiencies. Leadership also uses this information to make resource decisions.</p> <p>The results are compared across medical centers and clinics. If a facility is performing poorly, VA takes action to improve performance. One of the ways VA drives improvements is by identifying high performers and sharing their best practices with other facilities.</p> <p>VA also uses the results to examine variability among medical centers and clinics. If a facility is performing poorly, VA takes action to improve performance.</p> <p>VHA has continued to search for the best measures of access. While this measure is accurate, during 2012, VHA finished a study to examine alternative methods of measurement. Results of that study will inform changes next year.</p>			



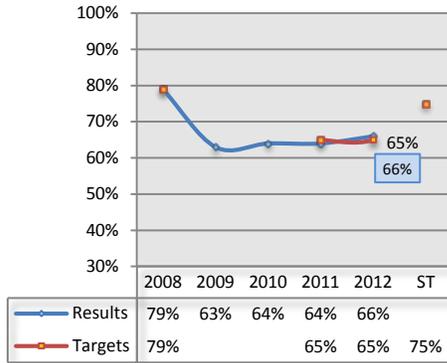
Key Measure			
PERCENT OF ESTABLISHED SPECIALTY CARE APPOINTMENTS COMPLETED WITHIN 14 DAYS OF THE DESIRED DATE			
Performance Trends		Impact on Veterans	
	2011	2012	Strategic Target
Results	N/A	96%	
Targets	N/A	95%	98%
<p>Actual data is an estimate. Final data are expected in 11/2012 ST = Strategic Target</p>		<p><b>Desired Direction</b></p>  <p>VA tracks wait times for Veterans being seen in its 50 highest volume clinics with the goal of enhancing quality of care by ensuring service is delivered when the Veteran wants and needs to be seen.</p> <p><b>Status</b></p> 	
<p><b>How VA Verifies Results Data for Accuracy</b></p> <p>VA's VistA scheduling software captures data and requires minimal interpretation to ensure accuracy. VA's data are published on the VSSC Web site. Wait time data are published to the VSSC Web site on the 5<sup>th</sup> and 20<sup>th</sup> of each month.</p> <p>VSSC utilizes several mechanisms to audit and verify the accuracy of data. For example, data are tested with user groups in the field and reconciled with the data source and other products and reports internal and external to VSSC.</p>		<p><b>How VA Leadership Uses Results Data</b></p> <p>VA uses the results of this measure to inform and drive process improvement activities that improve efficiencies. Leadership also uses this information to make resource decisions.</p> <p>The results are compared across medical centers and clinics. If a facility is performing poorly, VA takes action to improve performance. One of the ways VA drives improvements is by identifying high performers and sharing their best practices with other facilities.</p> <p>VA also uses the results to examine variability among medical centers and clinics. If a facility is performing poorly, VA takes action to improve performance.</p> <p>VHA has continued to search for the best measures of access. While this measure is accurate, during 2012, VHA finished a study to examine alternative methods of measurement. Results of that study will inform changes next year.</p>	



**Key Measure**

**PERCENT OF PATIENTS RATING VA HEALTH CARE AS 9 OR 10 ON A SCALE FROM 0 TO 10 (INPATIENT)**

**Performance Trends**



- (1) Actual data through 06/2012. Final data are expected in 01/2013.
- (2) VHA transitioned to a new questionnaire in 2009, and to a new survey sample in 2010. The questionnaire and methodology have remained consistent since 2010, thus allowing for trendable results. Trending with prior years is not valid. On the 0 to 10 scale, 0 represents the worst hospital and 10 represents the best hospital.
- (3) ST = Strategic Target

**How VA Verifies Results Data for Accuracy**

Data are collected through the VA-issued Consumer Assessment of Healthcare Plans and Systems (CAHPS). Information gathered measures Veterans' perceptions of VA health care.

The CAHPS survey is administered using a standardized, documented, consistent methodology. Patients are randomly selected for inclusion in the CAHPS sample from the population of eligible patients each month. Results are weighted to accurately account for population size differences across the system and varying rates of non-response to the survey.

**Impact on Veterans**

**Desired Direction**



Veterans who receive VA care are entitled to health care that includes emotional support, education, shared decision-making, safe environments, family involvement, respect, and management of pain and discomfort.

**Status**



The Veteran's level of overall satisfaction is impacted by the extent to which his or her needs are met. Satisfaction is therefore a key indicator of how well VA meets these expectations. This measure addresses how well these expectations are met in the *inpatient* setting.

**How VA Leadership Uses Results Data**

VA leadership uses results from this measure to focus on areas and/or facilities where scores do not meet or exceed performance targets.

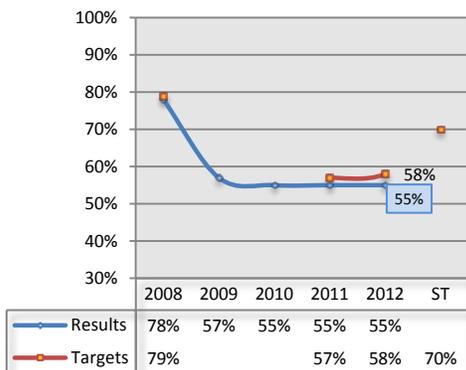
Reports identify satisfaction scores for high- and low-performing facilities. During national conference calls, facilities that do not achieve high scores are encouraged to contact facilities that do achieve high scores.



**Key Measure**

**PERCENT OF PATIENTS RATING VA HEALTH CARE AS 9 OR 10 ON A SCALE FROM 0 TO 10 (OUTPATIENT)**

**Performance Trends**



- (1) Actual data through 06/2012. Final data are expected in 01/2013.
- (2) VHA transitioned to a new questionnaire in 2009, and to a new survey sample in 2010. The questionnaire and methodology have remained consistent since 2010, thus allowing for trendable results. Trending with prior years is not valid. On the 0 to 10 scale, 0 represents the worst hospital and 10 represents the best hospital
- (3) ST = Strategic Target

**How VA Verifies Results Data for Accuracy**

Data are collected through the VA-issued CAHPS. Information gathered measures Veterans' perceptions of VA health care.

The CAHPS survey is administered using a standardized, documented, consistent methodology. Patients are randomly selected for inclusion in the CAHPS sample from the population of eligible patients each month. Results are weighted to accurately account for population size differences across the system and varying rates of non-response to the survey.

**Impact on Veterans**

**Desired Direction**



Veterans who receive VA care are entitled to health care that includes emotional support, education, shared decision making, safe environments, family involvement, respect, and management of pain and discomfort.

**Status**



The Veteran's level of overall satisfaction is impacted by the extent to which his or her needs are met. Satisfaction is therefore a key indicator of how well VA rises to these expectations. This measure addresses how well these expectations are met in the *outpatient* setting.

**How VA Leadership Uses Results Data**

VA leadership uses results from this measure to focus on areas and/or facilities where scores do not meet or exceed performance targets.

Reports identify satisfaction scores for high- and low-performing facilities. During national conference calls, facilities that do not achieve high scores are encouraged to contact facilities that do achieve high scores.



**Key Measure**

**PERCENT OF MILESTONES COMPLETED LEADING TO THE USE OF GENOMIC TESTING TO INFORM THE COURSE OF CARE (PREVENTION, DIAGNOSIS, OR TREATMENT) OF PATIENTS WITH MENTAL ILLNESS (INCLUDING PTSD, SCHIZOPHRENIA, AND MOOD DISORDERS)**

**Performance Trends**

	2011	2012	Strategic Target
Results	35%	43%	
Targets	35%	45%	100%

Actual data are final  
ST = Strategic Target

**How VA Verifies Results Data for Accuracy**

This performance measure involves enrollment of Veterans in a clinical study; therefore, human subject research protection procedures must be followed. This requires that all procedures, including data entry, are documented and followed.

**Impact on Veterans**

**Desired Direction**



**Status**



As of 2012, more than 30 percent of the Veterans needed for the study have been enrolled. Blood sample analysis is scheduled to begin at the end of 2012. Additionally, data analyses are completed. The plan will be to characterize functional impairments related to the blood-based genetic analyses, and determine clinical implications as a result. This type of new information will provide important details to better understand both disorders.

**How VA Leadership Uses Results Data**

Once the study is completed, genetic variants that contribute to functional disability associated with bipolar illness and schizophrenia can be identified. In addition, the study will assess the relationship between the characteristics of functional disability and the genetics that influence the likelihood of succumbing to mental illness. The impact of the information to be generated in this study may provide details that could identify new treatments. For example, if a particular impairment were related to a genetic difference, then a specific drug might be found to be helpful for that impairment. Alternatively, the functional impairment might be used to assess progress towards recovery via different treatment methods.



## Additional Performance Information

### Program Evaluations

- The National Research Advisory Council is an advisory committee of non-VA clinicians and scientists who assess the Research and Development Program. The Council evaluates the research program annually based on (1) balance of research to reflect the burden of disease treated by the VA health care system and the special responsibilities of VA in the areas of mental health, central nervous system injury, and deployment health; (2) processes/procedures in place to assure scientific quality and program balance on ongoing basis; (3) the quality and quantity of research conducted. This measure is important because it is an independent assessment of the research program. A balanced research program will lead to advances in healthcare in many areas. In June 2012, the Council gave the Research and Development a grade of “A” (on a scale of A to F, where A is the best and F is the worst) for 2011.

### New Policies, Procedures, or Process Improvements and Other Important Results

- As of August 15, 2012, a total of 152,339 Veterans have been recruited (completed the baseline survey) into the Million Veteran Program (MVP) and 82,155 have been enrolled (signed consent form and donated blood sample). MVP is a groundbreaking genomic medicine program that aims to enroll 1 million Veterans within the next 5 to 7 years. This program invites users of the VA healthcare system to nationwide to participate in a longitudinal study with the goal of better understanding

the interrelation of genetic characteristics, behaviors and environmental factors, and Veterans’ health. The long term goal is to use the information on an individual’s genetic make-up to tailor prevention and treatment to that person (personalized medicine).

- VINCI (VA Informatics and Computing Infrastructure) and CHIR (Consortium for Healthcare Informatics Research) medical informatics projects that will help maximize researchers’ capability to analyze Veterans health data in VA’s Computerized Patient Health Record System (CPRS). VINCI is a secure, high-performance analytical environment that hosts a wide array of VHA databases. CHIR promotes research that advances the use of natural language processing (NLP) techniques to extract information from VA’s CPRS narrative text laboratory and other reports for research purposes. This information is currently inaccessible without labor-intensive chart review. Data in these fields are rich and provide researchers an opportunity to characterize patients, their health status, and clinical encounters in meaningful detail for knowledge discovery toward improving care. VINCI and CHIR will allow VA to play a major role in the President’s “Big Data Research and Development Initiative” which aims to make the most of the large and complex collections of digital data.
- To support programmatic needs for the management of research administrative and regulatory data, the Office of Research and Development (ORD) is developing a Research Administrative Management System (RAMS). The system will support the major business functions of over 100 VA medical center research offices, field reporting to ORD, and provide a centralized up-to-date repository of research program data. Including a module for the VA Central



Institutional Review Board. Thus RAMS addresses Executive Order 13563, Improving Regulation and Regulatory Review. The Executive Order promotes the review of existing regulations and analysis of rules that may be excessively burdensome.

#### **Data Verification and Measure Validation**

More details on data verification and quality and measure validation for the key measures are provided in the Key Measures Data Table on pages II-52–II-64.



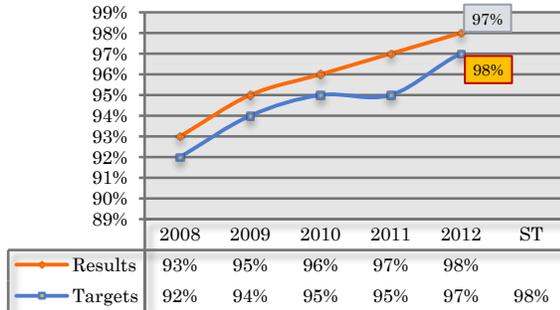
Key Measure																											
NATIONAL ACCURACY RATE FOR COMPENSATION ENTITLEMENT CLAIMS																											
Performance Trends			Impact on Veterans																								
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	2008	2009	2010	2011	2012	ST																					
Results	86%	84%	84%	84%	86%																						
Targets	90%	90%	90%	90%	87%	98%																					
<p>(1) Actual data through 07/2012. Final data are expected in 10/2012.            (2) ST = Strategic Target</p>			<p><b>How VA Leadership Uses Results Data</b></p> <p>VA leadership is committed to increasing the accuracy of rating decisions. Based on recent performance results, VA adopted a four-tiered approach to improve its accuracy rate:</p> <ul style="list-style-type: none"> <li>• <u>Tier One</u> - Accuracy; expanding the STAR staff to increase review sampling.</li> <li>• <u>Tier Two</u> - Oversight; expanding site visit staff and review of internal controls.</li> <li>• <u>Tier Three</u> - Special focus reviews; review of Appeals Management Center decisions, and providing review of administrative error decisions over \$25,000.</li> <li>• <u>Tier Four</u> - Consistency; expanding rating data analyses and increasing the focus on disability decision consistency reviews.</li> </ul> <p>VA continues to improve its skills certification testing program. In 2012, VA certified 2,464 claims processors as fully proficient in their positions. From its inception in 2004, a total of 14,009 employees have participated in skills certification testing.</p>																								
<p><b>How VA Verifies Results Data for Accuracy</b></p> <p>Data are analyzed daily, and the results are tabulated monthly. Compensation and Pension (C&amp;P) Systematic Technical Accuracy Review (STAR) quality teams conduct performance quality and consistency reviews on cases from the regional offices.</p> <p>Using a random sample of claims generated by VBA's Performance Analysis &amp; Integrity (PA&amp;I) staff, completed cases are selected for review and sent to the STAR staff on a monthly basis. The staff members thoroughly review the completed cases ensuring accuracy, quality, and consistency of rating and authorization issues. A coded spreadsheet identifies the type of each error and how it should be corrected.</p>																											



**Key Measure**

**NATIONAL ACCURACY RATE FOR PENSION MAINTENANCE CLAIMS**

**Performance Trends**



(1) Actual data through 08/2012. Final data are expected in 10/2012.

(2) ST = Strategic Target

**How VA Verifies Results Data for Accuracy**

Data are analyzed daily, and the results are tabulated monthly. Pension and Fiduciary STAR quality teams conduct performance quality and consistency reviews on cases from the regional offices.

Using a random sample of claims generated by VBA's PA&I staff, completed cases are selected for review and sent to the STAR staff monthly. The staff thoroughly reviews the completed cases ensuring accuracy, quality, and consistency of rating and authorization issues. A coded spreadsheet identifies the type of each error and how it should be corrected.

**Impact on Veterans**

**Desired Direction**



Despite increased workload, VA has continued to improve its accuracy rate in pension maintenance work, thereby ensuring that those Veterans and survivors most in need of financial resources receive the correct benefit.

**Status**



The importance of making timely payments to Veterans for pension claims is critical to helping them meet their financial need in order to maintain their standard of living.

**How VA Leadership Uses Results Data**

VA leadership is committed to increasing the accuracy of rating decisions. Based on 2012 performance results, VA expanded the four-tiered quality assurance program to improve its accuracy rate for compensation and pension claims:

- Tier One - Accuracy; expanding the STAR staff to increase review sampling.
- Tier Two - Oversight; expanding site visit staff and review of internal controls.
- Tier Three - Special focus reviews; review of Appeals Management Center decisions, and providing review of administrative error decisions over \$25,000
- Tier Four - Consistency; expanding rating data analyses and increasing the focus on disability decision consistency reviews.

Additionally, VA continues to implement its skill certification testing program. In 2012, VA certified an additional 2,464 claims processors as fully proficient in their positions. From its inception in 2004, more than 7,900 employees have been certified.



Key Measure			
PERCENT OF COMPENSATION AND PENSION PENDING INVENTORY THAT IS MORE THAN 125 DAYS OLD			
Performance Trends		Impact on Veterans	
	2011	2012	Strategic Target
Results	60%	66%	
Targets	60%	60%	0%
<p>Actual data are through 7/2012. ST = Strategic Target</p>		<p><b>Desired Direction</b>    VBA's goal is to process all Compensation and Pension rating claims within 125 days of receipt. This will ensure all Veterans receive a timely decision on their claim.</p> <p><b>Status</b>    The VBA backlog increased from 60.2 percent at the end of 2011, and increased to 65.8 percent in 2012.</p>	
<p><b>How VA Verifies Results Data for Accuracy</b>  Data extracted from VBA systems of record (Benefits Delivery Network and VETSNET) are captured electronically through a fully automated reporting process and imported into an enterprise data warehouse.</p> <p>VBA's PA&amp;I staff members assess the data monthly to detect discrepancies that would indicate an error in the automated data collection system. This review ensures accurate reporting, consistency, and absence of anomalies. All reports produced from the enterprise data warehouse were developed using business rules provided by each of VBA's business lines.</p>		<p><b>How VA Leadership Uses Results Data</b>  VA leadership uses the results to manage the compensation and pension programs and to implement performance strategies such as training needs, workload realignment, and staffing levels.</p> <p>To achieve processing efficiencies that will enable VA to reduce the claims backlog and improve decision quality, VA is employing a synchronized and integrated transformation strategy that incorporates people, process and technology initiatives.</p> <p>In 2012, VBA has trained an additional 998 claims processors. As these employees become fully proficient in their roles, they will favorably impact processing time and the backlog.</p>	



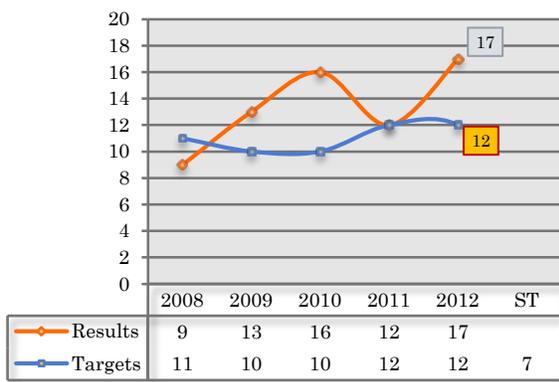
Key Measure																						
AVERAGE DAYS TO COMPLETE ORIGINAL EDUCATION CLAIMS																						
Performance Trends	Impact on Veterans																					
<table border="1" style="margin-top: 10px;"> <thead> <tr> <th></th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> <th>ST</th> </tr> </thead> <tbody> <tr> <td>Results</td> <td>19</td> <td>26</td> <td>39</td> <td>24</td> <td>31</td> <td></td> </tr> <tr> <td>Targets</td> <td>24</td> <td>24</td> <td>24</td> <td>23</td> <td>23</td> <td>10</td> </tr> </tbody> </table>		2008	2009	2010	2011	2012	ST	Results	19	26	39	24	31		Targets	24	24	24	23	23	10	<p><b>Desired Direction</b></p> <p style="text-align: center;">↓</p> <p><b>Status</b></p> <p style="text-align: center;"><span style="color: red; font-weight: bold; font-size: 2em;">R</span></p> <p>The timeliness of completing original education claims increased from 24 days in 2011 to 31 days in 2012. Compared with 2011, Veterans waited on average 7 additional days to receive their initial award notification and payment.</p> <p>The importance of making timely payments to Veterans for educational claims is critical to helping them meet their educational goals.</p>
	2008	2009	2010	2011	2012	ST																
Results	19	26	39	24	31																	
Targets	24	24	24	23	23	10																
<p>Actual data final ST = Strategic Target</p>	<p style="background-color: #d9e1f2; text-align: center;"><b>How VA Leadership Uses Results Data</b></p> <p>VA management uses performance results to pinpoint areas of performance weakness and then takes appropriate corrective actions.</p> <p>In 2012, such actions included retaining temporary Veterans Claims Examiners at our Regional Processing Offices to process Post-9/11 GI Bill claims. VA also implemented policies to streamline the entire claims process based on case reviews identifying duplication of efforts and redundant or unnecessary development. Additional enhanced functionalities continue to be added to The Long Term Solution to improve Post 9/11 GI Bill claims processing system.</p> <p>Education claims intake is cyclic with peaks at the beginning of the fall, spring, and summer. This data is used to determine when mandatory overtime may be needed to address the cyclical intake peaks.</p>																					
<p style="background-color: #d9e1f2; text-align: center;"><b>How VA Verifies Results Data for Accuracy</b></p> <p>Quality review staff members verify the data quarterly. The review uses a statistically valid sampling of cases to determine reliability of automated data reports.</p> <p>There are documented procedures to guide staff responsible for verifying the accuracy of timeliness data and for entering the source data. Data are captured electronically, and reports on the Distribution of Operational Resources are automatically generated. Data are analyzed monthly and verified quarterly.</p>																						



**Key Measure**

**AVERAGE DAYS TO COMPLETE SUPPLEMENTAL EDUCATION CLAIMS**

**Performance Trends**



Actual data final  
ST = Strategic Target

**How VA Verifies Results Data for Accuracy**

Quality review staff members verify the data quarterly. The review uses a statistically valid sampling of cases to determine reliability of automated data reports.

There are documented procedures to guide staff responsible for verifying the accuracy of timeliness data and for entering the source data. Data are captured electronically, and reports on the Distribution of Operational Resources are automatically generated. Data are analyzed monthly and verified quarterly.

**Impact on Veterans**

**Desired Direction**



The timeliness of completing supplemental education claims increased from 12 days in 2011 to 17 days in 2012. Compared with 2011, Veterans waited on average 5 additional days to receive their award notification and payment.

**Status**



The importance of making timely payments to Veterans for educational claims is critical to helping them meet their educational goals.

**How VA Uses the Results Data**

VA management uses performance results to pinpoint areas of performance weakness and then takes appropriate corrective actions.

In 2012, such actions included retaining temporary Veterans' Claims Examiners at our Regional Processing Offices to process Post-9/11 GI Bill claims. VA also implemented policies to streamline the entire claims process based on case reviews identifying duplication of efforts and redundant or unnecessary development. Additional enhanced functionalities continue to be added to The Long Term Solution to improve Post 9/11 GI Bill claims processing system.

Education claims intake is cyclic with peaks at the beginning of the fall, spring, and summer. This data is used to determine when mandatory overtime may be needed to address the cyclical intake peaks.



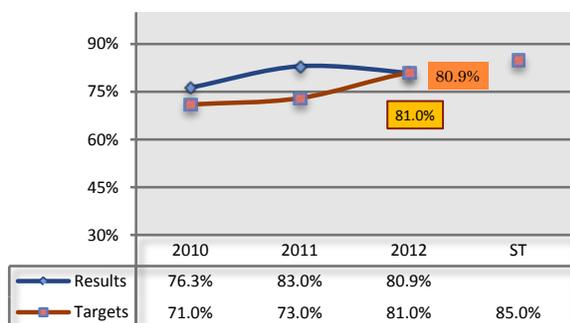
Key Measure																						
REHABILITATION RATE (GENERAL)																						
Performance Trends	Impact on Veterans																					
<table border="1"> <thead> <tr> <th></th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> <th>ST</th> </tr> </thead> <tbody> <tr> <td>Results</td> <td>76%</td> <td>74%</td> <td>76%</td> <td>77%</td> <td>77%</td> <td>77%</td> </tr> <tr> <td>Targets</td> <td>75%</td> <td>76%</td> <td>76%</td> <td>77%</td> <td>77%</td> <td>80%</td> </tr> </tbody> </table>		2008	2009	2010	2011	2012	ST	Results	76%	74%	76%	77%	77%	77%	Targets	75%	76%	76%	77%	77%	80%	<p><b>Desired Direction</b></p> <p><b>Status</b></p> <p>A "rehabilitated" Veteran is one who successfully completes the rehabilitation program plan and is equipped with the required skills and tools needed to obtain and maintain suitable employment or gain independence in daily living.</p>
	2008	2009	2010	2011	2012	ST																
Results	76%	74%	76%	77%	77%	77%																
Targets	75%	76%	76%	77%	77%	80%																
<p>Actual final ST = Strategic Target</p>	<p><b>How VA Leadership Uses Results Data</b></p> <p>VA leadership uses the rehabilitation rate to assess the performance of vocational rehabilitation counselors, counseling psychologists, VR&amp;E officers, and regional office directors as well as the overall effectiveness of the program and services provided.</p> <p>To improve performance in this area, VA leadership continues to place an increased emphasis on developing a culture that is forward looking, results driven, and Veteran-centric.</p> <p>Therefore, within the context of the above-cited tenets, VBA leadership has identified several areas of emphasis:</p> <ul style="list-style-type: none"> <li>• Providing services to enable Veterans to continue to complete the program and become career employed.</li> <li>• Enhance the VetSuccess.gov Web site because it provides Veterans with a VA employment portal that employers can use to match skilled Veterans with employer staffing needs.</li> <li>• Continue to sponsor career fairs geared toward today's Veteran to provide exposure to employers seeking to hire Veterans.</li> <li>• Train Vocational Rehabilitation Counselors and Employment Coordinators in the best methods for preparing and placing Veterans in careers.</li> </ul> <p>For detailed information on how this measure is calculated, please see the definitions section in Part IV.</p>																					
<p><b>How VA Verifies Results Data for Accuracy</b></p> <p>Data are verified monthly against the source data by Vocational Rehabilitation and Employment (VR&amp;E) Service analysts and distributed to regional offices. The regional offices review the data to ensure alignment with activities performed and that the data agree with the raw data submitted for analysis.</p> <p>The data collection staff is comprised of skilled professionals trained in the proper procedures for collecting and analyzing raw data. All data collection procedures are documented and followed.</p>																						



**Key Measure**

**DEFAULT RESOLUTION RATE**

**Performance Trends**



Actual data are final.  
ST = Strategic Target

**How VA Verifies Results Data for Accuracy**

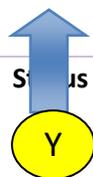
VA-guaranteed loan servicing personnel are skilled and trained in proper data reporting procedures, which ensures documented data reporting procedures are followed.

VA Loan Administration staff is also skilled and trained in loan servicing and proper data reporting procedures. All servicing and data reporting procedures are documented in both the VA Servicer and VA Loan Technician guides. These guides are updated regularly based on loan servicing industry best practices.

Submitted loan servicing data are verified through sampling against loan data. The accuracy of loan servicing data are also established via the Veterans Affairs Loan Electronic Reporting Interface (VALERI) system's business rules screening process. Additionally, procedures for making changes to previously entered loan data are documented and followed.

**Impact on Veterans**

**Desired Direction**



The 2012 default resolution rate of 80.9 percent means that of the Veterans who defaulted on their VA-guaranteed loans, VA and loan servicers were able to assist 80.9 percent in either retaining ownership of their homes or in lessening the impact of foreclosure by tendering a deed in lieu of foreclosure or arranging a private sale with a VA claim payment to help close the sale.

**How VA Leadership Uses Results Data**

VA uses the data to measure the effectiveness of joint servicing efforts of primary servicers and VA staff to assist Veterans in avoiding foreclosure through default resolution. Since Veterans benefit substantially from avoiding foreclosure through default resolution—and, at the same time, VA realizes cost savings—VA redesigned its data program in December 2008 to promote greater loss mitigation efforts by primary servicers.

This redesign effort included development of a new Web-enabled and rules-based "smart" system, VA Loan Electronic Reporting Interface (VALERI).

VALERI's standardized servicing criteria, which are on par or ahead of industry norms, enable instant access to acquisition and claim payment status and make it easier for servicers to work and communicate with VA. It also enables servicers to more quickly help Veterans who are experiencing financial difficulty to avoid foreclosure. For example, reaching out to Veterans earlier in the delinquency process allows for more home retention options using repayment plans, special forbearances, and loan modifications. In the event that these options are not viable, compromise sales and deeds in lieu of foreclosure can be discussed as alternatives to foreclosure.



Key Measure																											
RATE OF HIGH CLIENT SATISFACTION RATINGS ON SERVICES DELIVERED (INSURANCE)																											
Performance Trends			Impact on Veterans																								
<table border="1"> <tr> <td></td> <td>2008</td> <td>2009</td> <td>2010</td> <td>2011</td> <td>2012</td> <td>ST</td> </tr> <tr> <td>Results</td> <td>95%</td> <td>96%</td> <td>95%</td> <td>95%</td> <td>95%</td> <td></td> </tr> <tr> <td>Targets</td> <td>95%</td> <td>95%</td> <td>95%</td> <td>95%</td> <td>95%</td> <td>95%</td> </tr> </table>				2008	2009	2010	2011	2012	ST	Results	95%	96%	95%	95%	95%		Targets	95%	95%	95%	95%	95%	95%	<p><b>Desired Direction</b></p> <p>↑</p> <p><b>Status</b></p> <p>G</p> <p>VA's Insurance Program achieves high levels of client satisfaction by providing quality service and implementing and administering insurance programs that meet the needs of Veterans and their beneficiaries. Results over past years have consistently confirmed that Veterans' insurance needs are being met.</p>			
	2008	2009	2010	2011	2012	ST																					
Results	95%	96%	95%	95%	95%																						
Targets	95%	95%	95%	95%	95%	95%																					
			How VA Leadership Uses Results Data																								
<p>Actual data are final ST = Strategic Target</p>			<p>Leadership analyzes the results of the monthly client satisfaction surveys of 11 insurance services and addresses any problems identified. One question the surveys ask is, "What could we do better?" VA takes action on these comments, including reviewing processes and implementing refresher training on customer service as needed.</p> <p>VA revised a very large and complicated Beneficiary Financial Counseling (BFCS) brochure, used to prepare financial plans for beneficiaries of Servicemembers' and Veterans' Group Life Insurance Programs (SGLI and VGLI) as well as Servicemembers and Veterans who receive payment under the SGLI Traumatic Injury Protection Program (TSGLI). Based on feedback VA simplified and greatly shortened that brochure. The revised brochure has resulted in a 66 percent increase in participation in the BFCS program. VA was recognized by the Center for Plain Language with its ClearMark Award of Distinction for Best Revised Public (Government) Document.</p>																								
How VA Verifies Results Data for Accuracy																											
<p>VA reviews and tabulates the client satisfaction survey responses each month per written guidelines. VA validates the results by re-entering randomly selected monthly responses to determine if similar results are calculated.</p>																											



## Additional Performance Information

### Program Evaluations

VR&E launched a skill certification test for Vocational Rehabilitation Counselors (VRC) and Counseling Psychologists (CP) within VBA. Representatives from VBA, AFGE and NFFE formed a workgroup that met for 12 weeks over the course of a year to develop the certification test. As a result of the collaborative process, the workgroup was able to successfully develop a VA specific professional-level examination that measures technical and procedural knowledge of VRC's and CP's within VBA. On June 26-28, 2012, the first operational test was administered to 231 counselors resulting in a pass rate of 88 percent.

VR&E implemented an additional key feature of its Business Transformation project in 2012. Accomplishment of the forms improvement activity helped VR&E streamline the end to end process through the consolidation, elimination, and enhancement of program forms. VR&E achieved an overall 25 percent reduction of its forms inventory. Form reduction has a significant impact on the VR&E program by increasing VR&E staff time available to directly serve Veterans, streamlining the claims process, and advancing VR&E in the transition to a paperless environment.

### New Policies, Procedures, or Process Improvements and Other Important Results

VA Issued instructions and procedures on processing claims under Public Law (PL) 112-56 (Section 211), the Veterans Retraining Assistance Program, a new program that

provides retraining assistance to certain unemployed Veterans.

VR&E anticipates an increase in the number of participants as a result of the enactment of Public Law 112-56, the VOW to Hire Heroes Act of 2011, on November 21, 2011. Under the law, eligibility for certain services under Chapter 31 has been extended or expanded. Severely injured Servicemembers will have automatic eligibility to VR&E services until December 31, 2014. This provision allows VA to serve these active duty military members earlier in their transition to civilian life. Unemployed Veterans who previously completed a Chapter 31 program and have exhausted unemployment benefits may receive an additional 12 months of vocational rehabilitation services. The additional training will increase employment opportunities for these Veterans. VA may now pay an incentive to employers to hire or train Veterans participating in a VR&E program even when the Veteran has not completed a training program under Chapter 31. This provision increases job prospects for Veterans who need assistance with direct job placement.

The VR&E Longitudinal Study originated with the passage of Public Law 110-389, Sec. 334, requiring a 20-year longitudinal study of VR&E participants who began a plan of services in 2010, 2012, and 2014. The study follows these three cohorts of Veterans and Servicemembers to see how participants who enter a VR&E plan of service progress over time. As of the 3rd quarter of 2012, two annual reports have been submitted to Congress which provided observational analysis on the 2010 cohort. Beginning with the third year of the study, analysis will be more comprehensive in nature and will include survey data from cohort participants.



VR&E, in partnership with VBA's Office of Resource Management, enhanced the CAATS system to allow for automated administration of VR&E National VetSuccess contracts that provide Veteran vocational contracting services. Increased automation of invoicing and payments associated with VetSuccess contracts has greatly diminished the administrative burden that previous iterations of the national contract imposed on VR&E staff and contractors. The estimated cost savings of this system is estimated to be \$1.4 million over 2012 in administrative costs; in addition, Vocational Rehabilitation Counselors have been released from manually administering the invoicing and referral process allowing more efficient and effective direct Veteran service.

VR&E deployed two Employee Performance Support Systems (EPSS) to the regional offices during 2012, which target specific VR&E processes. The Appeals EPSS and VetSuccess Contract EPSS job aids will provide standardized training, references, and resources to VR&E Counselors and Contract Counselors. These targeted EPSS modules provide step-by-step instruction on VR&E processes related to delivering rehabilitation services to eligible Veterans.

#### **Data Verification and Measure Validation**

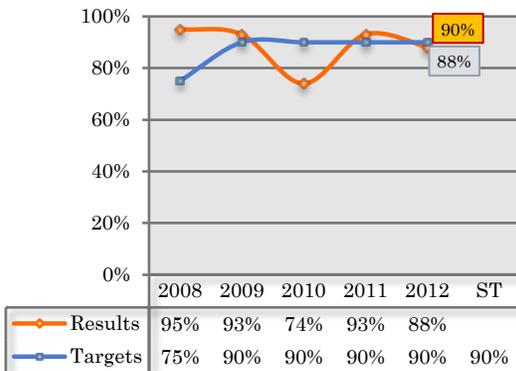
More details on data verification and quality and measure validation for the key measures that support this strategy are provided in the Key Measures Data Table on pages II-52–II-64.



**Key Measure**

**PERCENT OF APPLICATIONS FOR HEADSTONES AND MARKERS THAT ARE PROCESSED WITHIN 20 DAYS FOR THE GRAVES OF VETERANS WHO ARE NOT BURIED IN NATIONAL CEMETERIES**

**Performance Trends**



Actual data are final.  
ST = Strategic Target

**How VA Verifies Results Data for Accuracy**

Employees in NCA's Memorial Programs Service are trained and skilled at entering data into NCA's Automated Monument Application System (AMAS). Paper applications are scanned and entered electronically into AMAS.

Applications received electronically, either by fax or Internet, are automatically entered into AMAS. Data are verified by sampling against source data in AMAS.

**Impact on Veterans**

**Desired Direction**



The amount of time it takes to mark the grave after an interment is extremely important to Veterans and their families. The headstone or marker is a lasting memorial that serves as a focal point not only for present-day survivors, but also for future generations.

**Status**



In addition, there is often a sense of closure to the grieving process when the grave is marked. A high level of performance in this area is important as roughly 70 percent of headstones and markers furnished by VA are for Veterans buried in cemeteries other than a VA national cemetery.

**How VA Leadership Uses Results Data**

Monthly and fiscal-year-to-date reports are shared with NCA managers, employees and other interested parties, such as Veterans Service Organizations, to ensure visibility of this important initiative and demonstrate VA's commitment to serving Veterans in a timely manner.

NCA managers use these data to manage application processing workload and to identify and correct potential problems with headstone and marker application processing. Data are comparable between years, enabling NCA and its stakeholders to assess program progress and effectiveness.



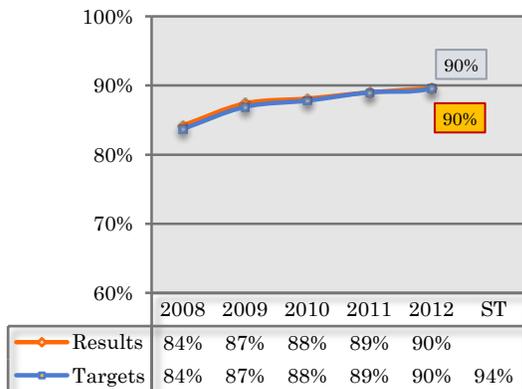
Key Measure																											
PERCENT OF GRAVES IN NATIONAL CEMETERIES MARKED WITHIN 60 DAYS OF INTERMENT																											
Performance Trends			Impact on Veterans																								
<table border="1"> <thead> <tr> <th></th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> <th>ST</th> </tr> </thead> <tbody> <tr> <td>Results</td> <td>93%</td> <td>95%</td> <td>94%</td> <td>93%</td> <td>89%</td> <td></td> </tr> <tr> <td>Targets</td> <td>95%</td> <td>95%</td> <td>95%</td> <td>95%</td> <td>95%</td> <td>95%</td> </tr> </tbody> </table>				2008	2009	2010	2011	2012	ST	Results	93%	95%	94%	93%	89%		Targets	95%	95%	95%	95%	95%	95%	<p><b>Desired Direction</b></p> <p>The amount of time it takes to mark the grave after an interment is extremely important to Veterans and their families. The headstone or marker is a lasting memorial that serves as a focal point not only for present-day survivors, but also for future generations. In addition, having a permanent headstone or marker often brings a sense of closure to the grieving process.</p> <p><b>Status</b></p>			
	2008	2009	2010	2011	2012	ST																					
Results	93%	95%	94%	93%	89%																						
Targets	95%	95%	95%	95%	95%	95%																					
<p>Actual data are final ST = Strategic Target</p>			<p><b>How VA Leadership Uses Results Data</b></p> <p>NCA field and Central Office employees have online access to monthly and fiscal year-to-date tracking reports on timeliness of marking graves in national cemeteries. Increasing the visibility of and access to this information reinforces the importance of marking graves in a timely manner.</p> <p>This information is also used to drive process improvements, such as the development of NCA's local inscription program. This program further improves NCA's ability to provide symbolic expressions of remembrance by improving the timeliness of the grave-marking process.</p>																								
<p><b>How VA Verifies Results Data for Accuracy</b></p> <p>National cemetery employees are trained and skilled at entering data into NCA's Burial Operations Support System (BOSS). Data are collected and verified by NCA Central Office employees who are skilled and trained in data collection and analysis techniques. Data are verified by sampling against source interment data in BOSS.</p>																											



**Key Measure**

**PERCENT OF VETERANS SERVED BY A BURIAL OPTION WITHIN A REASONABLE DISTANCE (75 MILES) OF THEIR RESIDENCE**

**Performance Trends**



Actual data are final  
ST = Strategic Target

**How VA Verifies Results Data for Accuracy**

VA staff is trained and skilled in proper procedures for calculating the number of Veterans who live within the service area of cemeteries that provide a first interment burial option. Changes to this measure are documented and reported through VA's annual Performance and Accountability Report and VA Monthly Performance Reports.

Results of a 1999 VA Office of the Inspector General audit assessing the accuracy of data used for this measure affirmed the accuracy of calculations made by VA personnel.

**Impact on Veterans**

**Desired Direction**



By the end of 2012, over 19 million Veterans and their families had reasonable access to a burial option.

**Status**



One of VA's primary objectives is to ensure that the burial needs of Veterans and eligible family members are met. Having reasonable access to this benefit is integral to realizing this objective.

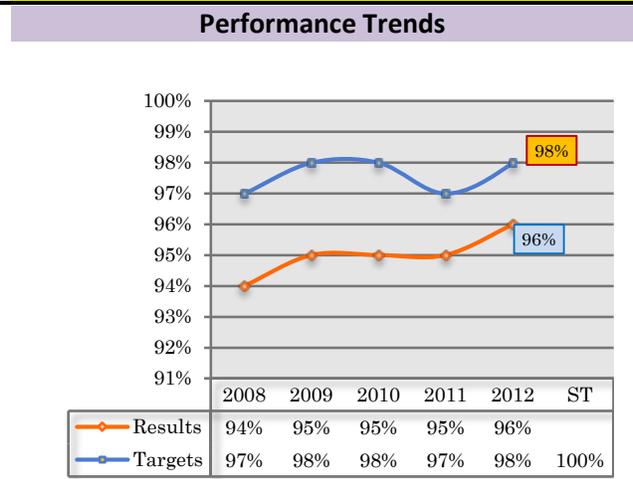
**How VA Leadership Uses Results Data**

VA analyzes census data to determine areas of the country that have the greatest number of Veterans not currently served by a burial option.

This information is used in planning for new national cemeteries and for gravesite expansion projects to extend the service life of existing national cemeteries, as well as in prioritizing funding requests for State and Tribal Veterans Cemetery grants.



**Key Measure**  
**PERCENT OF RESPONDENTS WHO RATE THE QUALITY OF SERVICE PROVIDED BY THE NATIONAL CEMETERIES AS EXCELLENT**



Actual data are final  
 ST = Strategic Target

**How VA Verifies Results Data for Accuracy**

Data for this measure are collected by an independent contractor. The contractor provides detailed written documentation of how the survey methodology delivers an acceptable level of accuracy system-wide and by individual cemetery.

The next of kin and servicing funeral directors at all national cemeteries with at least one interment during the fiscal year are surveyed. Data are accurate at a 95 percent confidence interval.

**Impact on Veterans**

**Desired Direction**



Performance targets for cemetery service goals are set high consistent with expectations of the families of individuals who are interred and other visitors to the cemetery. High-quality, courteous, and responsive service to Veterans and their families is reflected in VA's 2012 satisfaction rating of 96 percent.

**Status**



**How VA Leadership Uses Results Data**

NCA's annual Survey of Satisfaction with National Cemeteries is the source of data for this key measure. The survey collects data from family members and funeral directors who have recently received services from a national cemetery.

These data are shared with VA Central Office, Memorial Service Networks (MSN), and national cemetery managers who use the data to improve the quality of service provided at national cemeteries.

To ensure that all visitors to national cemeteries receive excellent customer service, NCA has instituted several measures to address customer concerns. Survey data are annually reviewed and used to form action plans at national cemeteries. Best Practices are identified and shared throughout the national cemetery system and incorporated into national cemetery employee training curriculum.



Key Measure																						
PERCENT OF RESPONDENTS WHO RATE NATIONAL CEMETERY APPEARANCE AS EXCELLENT																						
Performance Trends	Impact on Veterans																					
<table border="1"> <thead> <tr> <th></th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> <th>ST</th> </tr> </thead> <tbody> <tr> <td>Results</td> <td>98%</td> <td>98%</td> <td>98%</td> <td>98%</td> <td>99%</td> <td></td> </tr> <tr> <td>Targets</td> <td>99%</td> <td>99%</td> <td>99%</td> <td>99%</td> <td>99%</td> <td>100%</td> </tr> </tbody> </table> <p>Actual data final ST = Strategic Target</p>		2008	2009	2010	2011	2012	ST	Results	98%	98%	98%	98%	99%		Targets	99%	99%	99%	99%	99%	100%	<p><b>Desired Direction</b></p> <p>Performance targets for cemetery service goals are set high consistent with expectations of the families of individuals who are interred as well as other visitors.</p> <p><b>Status</b></p> <p>High-quality, courteous, and responsive service to Veterans and their families is reflected in VA's 2012 satisfaction rating of 99 percent.</p>
	2008	2009	2010	2011	2012	ST																
Results	98%	98%	98%	98%	99%																	
Targets	99%	99%	99%	99%	99%	100%																
<p><b>How VA Verifies Results Data for Accuracy</b></p> <p>Data for this measure are collected by an independent contractor. The contractor provides detailed written documentation of how the survey methodology delivers an acceptable level of accuracy system-wide and by individual cemetery.</p> <p>The next of kin and servicing funeral directors at all national cemeteries with at least one interment during the fiscal year are surveyed. Data are accurate at a 95 percent confidence interval.</p>	<p><b>How VA Leadership Uses Results Data</b></p> <p>NCA's annual Survey of Satisfaction with National Cemeteries is the source of data for this key measure. The survey collects data from family members and funeral directors who have recently received services from a national cemetery. These data are shared with NCA managers at Central Office, MSNs, and national cemeteries who use the data to improve the quality of service provided at national cemeteries.</p>																					



## Additional Performance Information

### Program Evaluations

In August 2008, VA completed an independent and comprehensive program evaluation of the full array of burial benefits and services that the Department provides to Veterans and their families in accordance with 38 USC 527. The evaluation was performed by ICF International to provide VA with an objective assessment of the extent to which VA's program of burial benefits has reached its stated goals and the impact that this program has had on the lives of Veterans and their families.

The evaluation showed that 85 percent of Veterans prefer either a casket or cremation burial option, affirming that VA is meeting the burial needs of Veterans and their families by providing these options at national cemeteries. The evaluation also validated VA policies that consider Veterans living within 75 miles of a national or State Veterans cemetery with available first interment gravesites for either casketed or cremated remains to be adequately served with a burial option within a reasonable distance of their home. Major recommendations addressed the need to continue building new national cemeteries and supporting State cemetery development to serve Veterans nationwide and to consider a new Veteran population threshold of 110,000 Veterans within a 75-mile area for establishing new national cemeteries.

VA used this study as a starting point to develop new burial policies that resulted in a 2011 proposal to change current policy and lower the Veteran population threshold required to establish a new national cemetery from 170,000 to 80,000. Based on the new policies, five new national cemeteries will be built, thus increasing the percent of Veterans served by a burial option. In addition, VA will build five

columbarium-only satellite cemeteries in urban locations where utilization rates are low and where time/distance barriers are cited by our clients more frequently on customer satisfaction surveys.

The Veterans Millennium Health Care and Benefits Act, Public Law 106-117, directed VA to contract for an independent study to look at various issues related to the National Shrine Commitment and its focus on cemetery appearance. The study, Volume 3: Cemetery Standards of Appearance, was published in March 2002 and served as a planning tool and reference guide in the task of reviewing and refining VA's operational standards and measures.

In August 2002, Volume 2: National Shrine Commitment was completed. This report identified the one-time repairs needed to ensure a dignified and respectful setting appropriate for each national cemetery. NCA is using the information in this report to address repair and maintenance needs at national cemeteries. Through 2012, NCA has addressed approximately 57 percent of the total repairs identified in this report.

### New Policies, Procedures, or Process Improvements and Other Important Results

#### Improving Burial Access

In 2012 NCA implemented its Rural Veterans Burial Initiative. NCA began the site selection process to establish National Veterans Burial Grounds, facilities that will be located within existing public or private cemeteries and operated by the National Cemetery Administration, to serve Veterans in rural areas of Maine, Wisconsin, North Dakota, Montana, Wyoming, Nevada, Idaho and Utah.



## Part II - Performance Summaries by Program

NCA also continued activities to identify and acquire suitable properties to establish five new cremation cemetery facilities as part of the Urban Initiative. These facilities will serve Veterans in large urban areas where the existing national cemetery location has proven to be a barrier to burial and visitation.

In 2012 NCA completed construction projects to extend burial operations at Camp Nelson (KY), Chattanooga (TN), Fort Logan (CO), Jacksonville (FL), Leavenworth (KS), Marion (IN), and Willamette (OR) National Cemeteries.

In addition to building, operating, and maintaining national cemeteries, VA also administers the Veterans Cemetery Grants Program (VCGP), which provides grants to states and tribal organizations for up to 100 percent of the cost of establishing, expanding, or improving State Veterans Cemeteries. Increasing the availability of State and Tribal Organizations Veterans Cemeteries is a means to provide a burial option to those Veterans who may not have reasonable access to a national cemetery.

In 2012, four new State Veterans Cemeteries began interment operations in Birdeye, Arkansas; Charleston, West Virginia; Corpus Christi, Texas; and, Fort Polk, Louisiana. In 2012, 88 operating State Veterans Cemeteries performed over 31,000 interments of Veterans and eligible family members, and grants were obligated to establish, expand, or improve State and Tribal Organization Veterans Cemeteries in 16 states. Also in 2012, State Veterans Cemeteries provided a burial option to more than 2 million Veterans and their families.

VA continued to experience an increase in interest in Veterans cemetery grants from tribal organizations in 2012. Section 403 of Public Law 109-461, the Veterans Benefits, Health Care, and Information Technology Act of 2006, granted eligibility to tribal organizations for

grants to establish, expand, or improve Veterans cemeteries on trust lands. In 2012 VA approved its fourth grant to establish a Veterans cemetery on tribal trust lands. The \$6 million grant was awarded to the Oglala Sioux Tribe for construction of a Veterans cemetery on the Pine Ridge Reservation in Kyle, South Dakota. Of the initial three grants for Tribal Veteran cemeteries awarded in 2011, two began construction and one was dedicated in 2012. In total, five new Veterans cemeteries were dedicated in 2012, four State and one Tribal.

### Memorials

VA continues to furnish headstones and markers for the graves of Veterans in VA national cemeteries, national cemeteries administered by the Department of the Army and the Department of the Interior, columbaria niche inscriptions at Arlington National Cemetery, State Veterans cemeteries, and private cemeteries around the world. In 2012, VA processed nearly 354,600 applications for headstones and markers for placement in national, state, other public, or private cemeteries. Since 1973, VA has furnished nearly 12 million headstones and markers for the graves of Veterans and other eligible persons.

Marking graves in a timely manner is important to Veterans and their families as it may help to bring a sense of closure to the grieving process. In VA national cemeteries, NCA marked the graves of Veterans with a permanent headstone or marker within 60 days of the date of interment nearly 90 percent of the time.

Headstones and markers must be replaced if the government or contractor makes errors in the inscription, or if the headstone or marker is damaged during installation. Replacing headstones and markers further delays the final portion of the interment process. NCA



continues to improve accuracy and operational processes in order to reduce the number of inaccurate or damaged headstones and markers delivered to the gravesite. In 2012, 95 percent of headstones and markers were delivered undamaged and correctly inscribed. In 2012, inscription data for 99 percent of headstones and markers ordered by national cemeteries were accurate and complete. VA will continue to focus on business process reengineering, including improving accuracy and operational processes in marking graves.

In 2012, VA issued nearly 719,100 Presidential Memorial Certificates, bearing the President's signature, to convey to the family of the Veteran the gratitude of the Nation for the Veteran's service. To convey this gratitude, it is essential that the certificate be accurately inscribed. The accuracy rate for inscription of Presidential Memorial Certificates provided by VA is consistently 99 percent or better.

In June 2010, VA announced the availability of a new memorial: a medallion signifying a Veteran's service that can be furnished for Veterans who are not buried in a VA national or State Veterans cemetery and who have not ordered a government headstone or marker. The medallion is available in three sizes: 5 inches, 3 inches, and 1 ½ inches in width. Each bronze medallion features the image of a folded burial flag adorned with laurels and is inscribed with the word "Veteran" at the top and the branch of service at the bottom. Next of kin who order the medallion will also receive a kit that will allow the family or the staff of a private cemetery to affix the medallion to a headstone, grave marker, or mausoleum or columbarium niche cover. In 2012 VA furnished approximately 7,500 medallions for Veterans graves in private cemeteries.

### **Client Satisfaction**

In 2012, 96 percent of survey respondents (family members and funeral directors combined) agreed that the quality of service provided by the national cemeteries was excellent. This result demonstrates VA's continued commitment to providing a dignified and respectful environment at all national cemeteries in order to honor the service and sacrifice Veterans have made.

Respondents to the 2012 Memorial Products Survey reported that VA clients continue to experience very high levels of satisfaction with VA memorials. Ninety-one percent of respondents who are the next of kin of Veterans who recently received a Government headstone, marker, or medallion responded that they either agreed or strongly agreed that the quality of the memorial was excellent. Ninety percent of next of kin respondents agreed that the quality of the Presidential Memorial Certificate that they received from VA was excellent.

Overall, respondents to the 2012 Memorial Products Survey reported a high level of satisfaction with their experience with VA. Ninety-three percent of next of kin respondents indicated that they were either somewhat or very satisfied with their experience with VA.

The willingness to recommend a national cemetery to Veteran families during their time of need is an expression of loyalty toward that national cemetery. In 2012, 99 percent of survey respondents (family members and funeral directors who recently received services from a national cemetery) indicated they would recommend the national cemetery to Veteran families in their time of need.



### **National Shrines**

To ensure the appearance of national cemeteries meets the standards our Nation expects of its national shrines, VA performed a wide variety of grounds management functions including raising, realigning, and cleaning headstones to ensure uniform height and spacing and to improve appearance. Rows of pristine, white headstones set at the proper height and correct alignment provide a vista that is the hallmark of many VA national cemeteries. In 2012, VA collected data that showed that 69 percent of headstones and/or markers in national cemeteries are at the proper height and alignment; 82 percent of headstones, markers, and niche covers are clean and free of debris or objectionable accumulations; and 93 percent of gravesites in national cemeteries had grades that were level and blended with adjacent grade levels. In 2012, National Shrine Commitment projects were initiated at 21 national cemeteries and two soldier's lots. These projects will raise, realign, and clean more than 314,000 headstones and markers and renovate gravesites in more than 348 acres.

NCA's Organizational Assessment and Improvement Program identifies and prioritizes improvement opportunities and enhances program accountability by providing managers and staff at all levels with a cemetery-specific rating or score based upon a uniform, NCA-wide set of standards. As part of the program, assessment teams conduct site visits to all national cemeteries on a rotating basis to validate performance reporting.

NCA schedules 12 visits each year to a representative group of national cemeteries from each Memorial Service Network (MSN) that reflects the diversity of our system in terms of age, size, workload, and climate. Since the program's inception in 2004 NCA has completed 81 site visits assessing 126 national cemeteries.

In 2012, 7 visits assessing 18 national cemeteries were conducted.

In 2012, 99 percent of survey respondents (family members and funeral directors combined) rated the overall appearance of national cemeteries as excellent. This result demonstrates VA's continued commitment to maintaining national cemeteries as shrines dedicated to preserving our Nation's history, nurturing patriotism, and honoring the service and sacrifice Veterans have made.

### **Eliminating Veteran Homelessness**

In 2012 NCA implemented a Homeless Veterans Apprentice Program in collaboration with the Veterans Health Administration and the VA Learning University. This program will create paid employment positions as Cemetery Caretakers for up to 20 homeless Veterans each year who are enrolled in VA's Homeless Veterans Initiative Programs around the country. Apprentices who successfully complete 12 months of competency based training will be offered permanent full time employment at a national cemetery. Successful participants will receive a Certificate of Competency which can also be used to support employment applications in the private sector.

### **Civic Partnerships**

VA continued its partnerships with various civic organizations that provide volunteers and other participants to assist in maintaining the appearance of national cemeteries. In addition to the support of civic organizations, many national cemeteries have agreements with State, county, or local law enforcement entities for community service workers and select inmates to perform grounds maintenance work. Under a joint venture with VHA, national cemeteries provide therapeutic work opportunities to Veterans receiving treatment in the Compensated Work Therapy/Therapeutic Work Experience/Veterans Industries programs.



A number of the patients who have utilized these programs have been permanently hired by NCA. Lastly, NCA also partners with VBA to assist Veterans participating in the Work Study program to provide job opportunities while attending a trade or vocational school. Veterans are provided the opportunity to work for pay, regain lost work habits, and learn new work skills while the national cemeteries are provided a supplemental workforce.

### **History**

NCA has entered into an agreement with Ancestry.com to provide burial records from national cemeteries to its members. NCA has preserved approximately 50 historic, hand-written burial ledgers from burials dating from the 1860s through mid-20<sup>th</sup> century. More than 8,700 pages are now being made available in an electronic format. Ancestry.com plans to launch the burial ledger data to observe Veterans Day 2012. Due to the age and standard content of the ledgers, they do not contain Personally Identifiable Information. The actual burial ledgers were transferred to the National Archives and Records Administration (NARA). In addition to providing a valuable resource to genealogists, VA offices, including VA cemeteries and libraries, will benefit by having this information in electronic form. Preserving historic ledgers while expanding the availability of historic information is one of several ongoing projects NCA has undertaken to commemorate the sesquicentennial of the Civil War and the corresponding founding of the VA National Cemetery System.

### **Renewable Energy**

During 2009, NCA began implementing renewable energy projects using funding from the American Recovery and Reinvestment Act. In 2012, new solar photo voltaic electric generating panel systems came on-line at Riverside and Sacramento Valley (CA) National Cemeteries. A contract to construct a new

photo voltaic system at the Ft. Rosecrans (CA) National Cemetery was awarded.

Combined with the new wind turbine system in operation at Massachusetts National Cemetery and Photo Voltaic systems in operation at Calverton (NY) National Cemetery, San Joaquin Valley, and Miramar National Cemetery (CA), the National Cemetery Administration receives credit for generating 16 percent of its energy through renewable sources per the Energy Policy Act of 2005. This exceeds the Federal requirement of 15 percent renewable energy use with on-site generation in federal facilities by 2013. Implementation of four additional Photo Voltaic Projects planned for Ft. Rosecrans (CA) National Cemetery, the National Memorial Cemetery of Arizona, Quantico (VA) National Cemetery, and Eagle Point (OR) National Cemetery, NCA will ultimately increase the amount of energy generated through renewable sources to approximately 22 percent.

### **Operational Improvements**

In 2012 NCA's Cemetery Development and Improvement Service began work on several new research and development (R&D) initiatives designed to improve cemetery operations nationwide. These initiatives are designed to improve interment operations, gravesite maintenance, and employee safety through the effective use of specialized equipment and the use of GPS technologies for gravesite data collection.

In 2012 NCA continued to broaden the scope of its First Notice of Death (FNOD) Office by working with post offices as well as VA medical centers and regional offices to refine the flag distribution system. The FNOD Office is responsible for processing information on deceased Veterans who were receiving benefits from VA into VA's information technology systems. This process enables VA to cancel



## *Part II - Performance Summaries by Program*

compensation payments in a timely manner and communicate with family members in order to ensure overpayments of compensation are reduced or eliminated. This also ensures family members receive timely and accurate information concerning possible entitlement to survivor and burial benefits. In 2012, NCA processed nearly 665,000 notices of death, avoiding nearly \$50 million in overpaid benefits.

### **Data Verification and Measure Validation**

More details on data verification and quality and measure validation for the key measures that support this objective are provided in the Key Measures Data Table on pages II-52–II-64





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100 VA consumer systems using one or more items of the 415 data sets: Each consumer system. If 10 of the systems connect to the DAS for the use of the data, the resulting percentage is 10 pct (10/100).

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## Additional Performance Information

### Program Evaluations

Project Management Accountability System (PMAS) is VA's IT management approach that focuses on achieving scheduled objectives while the scope of functionality provided remains flexible. PMAS was designed as a performance based management discipline that provides incremental delivery of IT system functionality—tested and accepted by customers—within established schedule and cost criteria. PMAS provides a wealth of information and reports that are used to review the cost and scheduling information associated with the myriad IT projects included in VA's IT portfolio. This data and its corresponding reports provide early identification of underperforming IT investments which, in turn, provides VA leadership with the flexibility to relocate scarce resources to projects that are on track to succeed. However, prior to reallocation of resources, interim measures, such as milestone reviews, flagging actions, and accountability meetings, are employed in an attempt to put a project back on track. From the perspective of public trust and fiduciary responsibility, all these actions provide a significant value to Veterans, their dependents, survivors, and other stakeholders.

### New Policies, Procedures, or Process Improvements and Other Important Results

- OIT published ProPath Release 12. With this publication, OIT stabilized the OMB

Exhibit 300B reporting process and successfully delivered the monthly report. It also established processes for and assisted in facilitating 51 Green Flag Reviews.

- OIT established Milestone (MS) 0 and 1 reviews and conducted 22 MS 0 and 13 MS 1 reviews.
- OIT established the Yellow Flag process to address project risks associated with critical personnel resource turnover, IPT membership instability, requirements changes, changes in acquisition or contract strategy, change in the funding status, change in architecture and technical environment or dependencies, delays or issues. Multiple categories can be reported with the same Yellow Flag.
- The PMAS Business Office established a Program Management Review (PMR) process and template and conducted six PMRs. It improved the TechStat (TS) process to include missed milestone reviews, conducted 75 TS Reviews and increased the Red Flag (RF) Review tempo by 30 percent, when compared to the same 2011 timeframe.

### Data Verification and Measure Validation

More details on data verification and quality and measure validation for the key measure that supports this objective are provided in the Key Measures Data Table on pages II-52–II-64

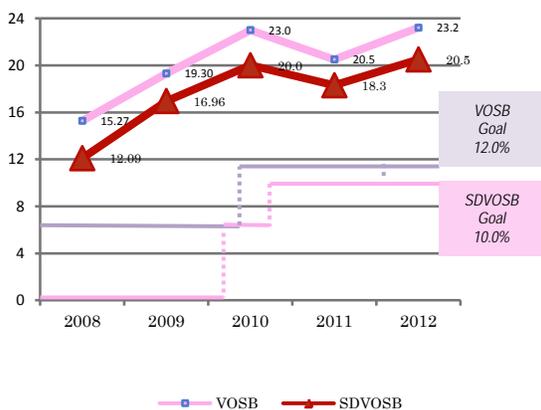


**Supporting Measure**

**PERCENT OF PROCUREMENT OBLIGATIONS AWARDED TO VETERAN-OWNED SMALL BUSINESSES (VOSBs)\* AND SERVICE-DISABLED VOSBs (SDVOSBs)**

**Performance Trends**

Percent of Total VA Procurement Obligations



(1) Actual data through 08/2012. Final data will be available no later than 06/2013.

Source: Federal Procurement Data System

\* P.L. 109-461 gave VA unique authority to conduct set-aside and sole source procurement with Veteran-owned small businesses. In January 2008, the Secretary established a 2008 performance target and instituted PAR reporting requirements.

**How VA Verifies Results Data for Accuracy**

Data are analyzed monthly by staff and program managers in the Office of Small and Disadvantaged Business Utilization. Data collection staff is trained in the proper procedures for extracting and interpreting data.

**Impact on Veterans**

**Desired Direction**



**Status**



Contracting with Veteran entrepreneurs is a logical extension of VA's mission and contributes to the economic strength of this important business community. Increased spending also makes entrepreneurship a viable and attractive career option for America's Veterans. With VA's ability to verify ownership and control of Veteran-owned small businesses, there is some assurance that dollars are reaching legitimate business concerns. Participants display these Verified logos for SDVOSBs and VOSBs.



**How VA Leadership Uses Results Data**

Data assist VA leadership, Congress, the Veteran entrepreneurial community, and other stakeholders in gauging the extent of VA compliance and success in implementing the procurement provisions of P.L. 109-461, VA's unique "Veterans First" buying authority. Results data provide information on VA's compliance with the Veterans Entrepreneurship and Small Business Development Act of 1999 (P.L. 106-50); support for the Veterans Benefits, Healthcare and Information Technology Act of 2006 (P.L. 109-461); and actions required by Executive Order 13360, *Providing Opportunities for Service-Disabled Veteran-Owned Businesses to increase their Contracting and Subcontracting*, issued in October 2004.

As appropriate, results help VA program management identify areas for improvement and assist in targeting training and vendor outreach.



## Assessment of Data Quality

VA's ability to accomplish its mission is dependent on the quality of its data. Each day, VA employees use data to make decisions that affect America's Veterans. Data accuracy and reliability are paramount in delivering medical care, processing benefits, and providing burial services.

### **I. Data Accuracy**

VHA's Data Quality Program and data quality workgroups provide guidance on data quality policies and practices. In 2012, the program accomplishments related to data accuracy included:

- Delivery of monthly training in identity management to enhance skills and understanding of data entry staff at the local level.
- Development of policy and guidance for data content, context, and meaning of specific data elements in VHA databases for field and other staff.
- Provision of VHA metadata requirements to inform VA's Data Architecture Repository which will provide data users and consumers with a better understanding of what the data mean and how they are represented.
- Delivery of training and education on Data Quality to users through presentations at the Administrative Data Quality Council, VHA Data Consortium, and program-specific conferences.
- Continuation of updates to documentation of best practices and data quality guidance through the VHA Data Quality Web site <http://vaww.vhaco.va.gov/DataQuality/> VHA Healthcare Identity Management Web site [http://vista.med.va.gov/mpi\\_dqmt/](http://vista.med.va.gov/mpi_dqmt/); and through Administrative Data Quality Council Tips of the Month to improve data entry.
- Review of Master Veteran Index (MVI) electronic exceptions for accuracy. Data are

verified through expert review and corrected where necessary.

- Dissemination of a quarterly data quality newsletter and publication of user guides on subjects such as Data Quality, Data Stewardship, Analysis and Profiling efforts relating to the Corporate Data Warehouse and Nationwide Health Information Network (NwHIN) efforts, and Healthcare Identity Management and Catastrophic Overwrites that affect patient health care records.
- Assessment and development of approach for resolving patient safety risks through implementation of strong data quality practices that ensure the correct identification of patients and reduce the likelihood of catastrophic overwrites to the patient's longitudinal health record.
- Provision of data quality guidance to field sites through collaboration with VA Product Support (via Remedy© application).
- Participation in various workgroups providing stewardship of and expertise on VHA data that provided increased data quality for future efforts such as HealthVet Vista and in VA workgroups such as the effort to reduce uses of social security numbers in electronic systems and other records and to develop alternatives for individual identification.
- Provision of leadership for the Administrative Data Quality Council, which is a collaborative group of subject matter experts from the field and the national level who identify and address data quality issues and provide guidance, training, and expertise to the field in the area of administrative data quality. The Data Quality Program provided leadership for this Council, in partnership with the Chief Business Office, establishing priorities, determining membership, and guiding all activities of the Council.



- Resolution of over 23,000 cases by the Healthcare Identity Management (HCIdM) team, which included the resolution of duplicate entries on the MVI, Catastrophic Edits or Merges, identity theft, or some other type of data quality issue.
- Analysis and profiling of data related to race, ethnicity, gender, and test patients not identified to assess data quality by the Business Product Management Analysis and Profiling staff.
- Analysis of data for data quality issues and potential duplicates in preparation for integrating NCA, VHA, and legacy VHA systems with MVI by the Business Product Management Analysis and Profiling staff.
- Analysis, profiling, and data validation on CDW data from multiple domains, e.g., inpatient and outpatient encounters, laboratory, compensation and pension, mental health, and appointments by the Business Product Management Analysis and Profiling staff.
- Development of metadata as part of the CDW domain analysis process to include descriptions of data characteristics and limitations.
- Guidance and training by HC IdM to Health Eligibility Center (HEC) staff on data quality best practices and prevention of catastrophic edits to patient identity.

VBA's data management systems have been substantially improved in recent years with such programs as the VETSNET suite of applications and other corporate data solutions. These applications, and the analytical tools associated with the data warehouse, provide leadership with more robust data and better support for information management and analysis.

Information is collected in defined formats and entered into specific fields of database records. Data are checked for completeness by system audits and manual verifications.

Certain data, such as Social Security Number, are verified with the Social Security Administration periodically. Prior to award of benefits by VBA, the Veteran's record is manually reviewed and data validated to ensure correct entitlement.

Employees are skilled and trained in the proper procedures; data entry procedures are documented and followed; data are sampled against source data through quality reviews; and procedures for making changes to previously entered data are documented and followed.

NCA determines the annual distribution of living Veterans and estimated Veteran deaths from data provided by the VA Office of the Actuary based on current census figures. NCA's methodology for estimating the percent of Veterans served by a burial option within a reasonable distance (75 miles) of their residence was reviewed in a 1999 OIG audit assessing the accuracy of the data used for this measure. Audit results showed that NCA personnel generally made sound decisions and accurate calculations in determining the percent of Veterans served by a burial option. Data were revalidated in the 2002 report entitled Volume 1: Future Burial Needs, prepared by an independent contractor as required by the Veterans Millennium Health Care and Benefits Act, P.L. 106-117.

NCA utilizes an annual mail-out survey to assess customer satisfaction with the appearance, quality of service provided, and other important aspects of VA national cemeteries. This survey is administered by an independent contractor. The next of kin and servicing funeral directors at all national cemeteries with at least one interment during the fiscal year are surveyed. Data are accurate at a 95 percent confidence interval.



NCA also utilizes an annual mail-out survey to assess customer satisfaction with VA's memorial programs. This survey is administered by an independent contractor. Data are accurate at a 95 percent confidence interval.

Performance data are captured in NCA's Burial Operations Support System (BOSS) and Automated Monument Application System (AMAS) databases. These data are entered daily by NCA personnel who are trained in cemetery and memorial benefits data collection and BOSS and AMAS data entry procedures.

Automated monthly and fiscal-year-to-date reports are provided by VA's Quantico Information Technology Center and are analyzed, verified, and distributed by trained NCA central office personnel to NCA Central Office, Memorial Service Network (MSN), and national cemetery managers. After reviewing the data for general conformance with previous report periods, headquarters staff flag and resolve any irregularities through contact with the reporting stations and comparisons with source data from the BOSS and AMAS systems.

NCA established an Organizational Assessment and Improvement Program in 2004 to identify and prioritize improvement opportunities and to enhance program accountability. As part of the program, assessment teams conduct site visits to all national cemeteries on a rotating basis to review cemetery data collection systems and verify collection methods. This review ensures that cemetery performance data are collected and reported in a manner that is accurate and valid.

## **II. Data Reliability/Comparability**

Corporate Data Warehouse (CDW) data domain implementation activities. At the request of the Under Secretary for Health, CDW is increasing its holdings by adding domains to better meet

the needs of its stakeholders. In addition, the CDW Data Governance Board requested that a template be developed to define VHA's role in implementing this initiative. CDW data are used for reporting and critical decision making. Data quality staff has specifically supported this by:

- Guiding template development and leveraging initial domain activity to include the processes, work plan, tools, stakeholders, and corporate knowledge.
- Assisting in validation and quality analysis of data within domains, e.g. , Patient Treatment File (PTF), Outpatient Pharmacy, and Lab Chemistry.
- Providing Domain Team support including coordination, membership, leadership, standardization, and monitoring.
- Providing data comparison and query support to domain teams.
- Identifying, training, coordinating, and supporting Data Stewards for priority CDW domains.

The Office of Performance Analysis and Integrity (OPA&I) assesses data for completeness, consistency, accuracy, and appropriateness of use as performance and workload management indicators. These data are extracted from VBA's systems of record, such as VETSNET, and are imported into an enterprise data warehouse.

All reports emanating from the enterprise data warehouse are developed using business rules provided by the respective VBA business lines. Supporting documentation for the enterprise data warehouse is maintained and readily available. Reporting requirements are regularly reviewed and modified when anomalies are noted, or when changes are made to the underlying business applications.



VBA leadership uses performance data to make program decisions concerning benefits processing and other organizational needs. The decision to consolidate functions such as original pension claims processing to improve service is one example of the use of performance data in the decision-making cycle. To the extent possible, performance data is comparable between years, and is routinely reported during VA's Monthly Performance Review, in annual budget submissions, and in other forums.

NCA uses data on the percent of Veterans served by a burial option within a reasonable distance (75 miles) of their residence to determine the need for future national cemeteries and to prioritize funding decisions for potential State and Tribal Organization Veterans Cemeteries. These data are comparable between years and show the impact that funding for new cemeteries has made toward serving the burial needs of Veterans.

Data from respondents to NCA's annual national cemetery client satisfaction mail-out survey are collected and reported by an independent contractor. These data are accurate at a 95 percent confidence interval at the national and MSN levels and for cemeteries having at least 400 interments per year. Data provided by this survey are reliable and are used by NCA management to develop funding requests and determine priorities for the operation and maintenance of national cemeteries as national shrines.

Data from respondents to NCA's annual memorial programs client satisfaction mail-out survey are also collected and reported by an independent contractor. These data are accurate at a 95 percent confidence interval. Data provided by this survey are reliable and are used by NCA management to assess client

satisfaction with the quality and appearance of memorial products.

### **III. Data Consistency**

- The consistency and accessibility of patient data is vital to VHA's ability to provide quality health care and is used to make clinical decisions. The VHA Data Quality Program participated in the following activities in support of data consistency and accessibility through data sharing and interoperability in 2012:
- Development of requirements, policies, and business flows necessary for the implementation of Nationwide Health Information Network (NwHIN) pilots and other activities.
- Efforts to achieve a VA/DoD Virtual Lifetime Electronic Record (VLER).
- Leadership of the Veterans Relationship Management (VRM) Identity and Access Management Workgroup. The Data Quality Director serves as the co-chair of this group and staff members also chair the sub-group for this effort. Requirements were provided to standardize identity services across VA.
- Development of data quality and governance metadata repository requirements (e.g., description of data sources, requirements for documenting definitions, and identification of authoritative data stewards) necessary to implement data management.
- Creation of a prioritization list of initial VHA metadata sets for the VA Data Architecture Repository (DAR).
- Provision of guidance, testing, and data quality expertise to the OIT DAR project team.

Each VBA business line's requirements for data definitions, collection and documentation are well-documented in users' guides and manuals.



During the migration to the corporate environment for the Compensation and Pension, Vocational Rehabilitation and Employment, and Loan Guaranty Programs, reporting consistency is maintained through synchronization of the legacy and corporate data within the corporate database. Corporate reporting requirements are well-defined, but additional requirements and modifications are continually under development. As business users identify new requirements, they are documented and tested to ensure reliability.

Reports are generated on regular schedules (daily, monthly, annually) to ensure consistency between reporting periods. Data are validated monthly by all VBA business lines, and migrated into Monthly Operations Reports by OPA&I for use by VBA leadership as well as at the local level to make program and operational decisions.

Since 1999, NCA has consistently used a 75-mile standard for determining the percent of Veterans served by a burial option within a reasonable distance of their residence. NCA uses the most current VetPop model based on census data developed by the VA Office of the Actuary, to determine the demographics of living Veterans for this measure. The consistency of the methodology for calculating performance on this measure is verified in both the 2002 Future Burial Needs report and in the 2008 report entitled Evaluation of the VA Burial Benefits Program, prepared by an independent contractor as required by 38 U.S.C. 527.

The methodology for assessing customer satisfaction on NCA's annual national cemetery client satisfaction mail-out survey has remained consistent since its inception in 2001. The survey collects data annually from family members and funeral directors who recently received services from a national cemetery. To ensure sensitivity to the grieving process, NCA

allows a minimum of 3 months after an interment before including a respondent in the sample population.

The methodology for assessing customer satisfaction on NCA's memorial programs annual mail-out survey has remained consistent from its inception in 2010. The process is the same as described above.

The data collection method, requirements, and process are specified in the survey contract. These meet industry standards for survey methodology. VA headquarters staff oversees the data collection process to verify that the contractor complies with data collection procedures.

NCA's BOSS database was originally implemented in the early 1990's and continues to serve as VA's primary source for national cemetery workload data. BOSS data fields and input instructions are well documented in BOSS User Guides. Monthly, semi-annual, and annual reports generated from BOSS are automated and generated on regular time schedules to ensure data consistency between reporting periods.



## Veterans Benefits Administration Quality Assurance Program (Millennium Act)

VBA maintains a national quality assurance program independent of the field stations responsible for processing claims and delivering benefits. The following information about our programs including compensation and pension,

education, vocational rehabilitation and employment, housing and insurance - is provided in accordance with title 38, section 7734.

Cases Reviewed and Employees Assigned by Program		
	Cases Reviewed	Employees Assigned
Compensation (C&P) (STAR Accuracy Reviews)	31,379	27
Pension (P&F) (STAR Accuracy Reviews)	1,000	2
Education	1,993	4
Vocational Rehabilitation and Employment	8,089	12
Loan Guaranty (Housing)	18,164	17
Insurance	11,040	4

VBA administers a multi-faceted quality assurance program to ensure compensation and pension benefits are provided in a timely, accurate, and consistent manner. This comprehensive program includes four tiers. The first tier consists of the established accuracy measures of the quality products within the compensation and pension (C&P) benefits processing arena. The Systematic Technical Accuracy Review (STAR) program measures accuracy of claims processing decisions made in all regional offices. Monthly quality reviews of VHA examination requests and reports accuracy are conducted in collaboration with the Disability Evaluation Management Office - formerly Compensation and Pension Examination Program Office.

The second tier of the C&P quality assurance program consists of regional office compliance oversight visits conducted by central office site survey teams. In addition to these regional office visits, the Office of Field Operations performs regular oversight reviews.

The third tier of the quality assurance program consists of special ad-hoc reviews. The quality assurance staff completes special focused reviews as needed in support of the agency mission and needs. These reviews are conducted for a specified purpose and can be either one-time or recurring in nature. The fourth tier of the quality assurance program focuses on rating consistency. Data analysis of recently completed rating decisions across all regional offices, identifies the disabilities by diagnostic code rated most often, and plots both the grant/denial rate and evaluation mode assigned across all regional offices. Further review is conducted on identified statistical outliers to determine root causes of inconsistency.

Similar business line STAR programs contain the same aspects: stratified and randomly sampled case reviews for each regional office, site visits to ensure compliance, and ad hoc reviews.



**Summary of Findings and Trends - Compensation and Pension (C&P)**

STAR accuracy reports are based on the month that a case was completed, not when reviewed. Cases are submitted for review no later than the end of the month following the completion of the claim.

The STAR system includes review of work in three areas: claims that usually require a rating decision (also identified as entitlement reviews), authorization work (claims that generally do not require a rating decision, also identified as maintenance reviews), and fiduciary work.

Reviews of rating-related decisions and authorization-related actions have a specific focus:

- The benefit entitlement review ensures all issues were addressed, claims assistance was provided (under the Veterans Claims Assistance Act), and the resulting decision was correct, including effective dates. Accuracy performance measures are calculated based on the results of the benefit entitlement review.
- The decision documentation/notification review ensures adequate and correct decision documentation and proper decision notification.

Results for C&P rating and Pension Management Center reviews for the 12-month period ending May 31, 2012 are as follows:

	Compensation Entitlement (Rating) Reviews		Compensation Maintenance (Authorization) Reviews		Pension Management Center Entitlement (Rating) Reviews		Pension Management Center Maintenance (Authorization) Reviews	
	Reviewed	Accuracy	Reviewed	Accuracy	Reviewed	Accuracy	Reviewed	Accuracy
Benefit Entitlement	17,333	86%	12,403	96%	502	97.81%	498	97.59%
Decision Documentation & Notification	17,333	92%	12,403	93%	502	92.63%	498	95.78%

The fiduciary work review focuses on the appointment of fiduciaries, the content of field examinations, and the accountings by fiduciaries. The fiduciary review through the end of the fiscal year was based on 1,892 cases with an accuracy rate of 87 percent. Most of the errors were found in the area of "protection." "Protection" includes oversight of the fiduciary/beneficiary arrangement, analysis of accounting, adequacy of protective measures for the residual estate, and any measures taken to ensure that VA funds are used for the

welfare and needs of the beneficiary and recognized dependents. If any of the individual components is in error, the entire case is in error.

**Actions Taken to Improve Quality - Compensation and Pension**

Training remains a priority and is conducted using a variety of mediums including monthly national Quality Calls, training letters, and computer-assisted training. C&P Training and



STAR staffs collaborate on training based on error trend analysis. STAR accuracy reviews are conducted on all compensation and pension cases selected for quality assessment. The rating includes a review of brokered work completed by the Resource Centers and the Tiger Team. Sampling was increased for 2011 to allow measurement of pension entitlement decisions at 95 percent confidence with a 5 percent margin of error. Ongoing reviews of Disability Evaluation System cases and Appeal Management Center cases continue to be part of the monthly compensation quality sample.

To assure accuracy of a STAR finding, a second level peer review of all comments is conducted. The second level review includes all cases in which a date-of-claim error is cited.

Regional offices are required to certify corrective actions taken quarterly for errors documented by STAR. Reports on the corrective actions are submitted to VBA Headquarters, where they are reviewed to determine the adequacy of such actions. Reliability of the reports is monitored during cyclical management site visits. Area offices continue to provide oversight for regional offices, directing the development and implementation of wellness plans as needs arise.

The fiduciary quality assurance program transitioned to the Nashville Quality Assurance office in January 2011. Common STAR error findings are used for discussion and training during scheduled site visits and as agenda items for monthly fiduciary program teleconference calls.

VBA continues to work closely with VHA to improve C&P examination reports. VBA and VHA established an executive level group to identify significant improvements to disability examination processes. This group is working

to establish a new way forward for the C&P process, one that collaboratively addresses the need for substantive improvements in the way VBA and VHA support Veterans' claims for disability compensation and pension. The scope of the group's activity was to focus on near-term and longer-term improvements, including the development and implementation of Disability Benefits Questionnaires (DBQs).

P.L. 110-389, Section 224 requires VA to contract with a third party entity to conduct a 3-year assessment of the quality assurance program, evaluate a sample of employees' work, measure performance of VA regional offices and accuracy of rating, assess employees' and managers' performances, and produce data to help identify trends. This assessment has been completed and the final report will be submitted to Congress on October 10, 2012.

#### **Summary of Findings and Trends - Education**

Education Service reviewed 1,993 cases in 2012 to date, through the 3<sup>rd</sup> quarter. In 2012 through the third quarter, payment accuracy has improved to 98.5 percent from 98.2 percent in 2011. Errors in determining training time (part or full time) were 32 percent of all payment errors. Incorrect effective date determinations were 16 percent of all payment errors. Failure to process an enrollment document in the file accounted for 13 percent of the errors. Incorrect determinations of end date of training were 13 percent of payment errors. These four main causes accounted for 74 percent of all payment errors for the FYTD in 2012. Training time errors, reduction or termination date errors, and interval pay errors, which constituted 47 percent of payment errors in 2011, were reduced to 32 percent in 2012. The remaining errors were from a wide variety of causes, with only a few instances of each.



This indicates that training is having an effect in reducing systematic error trends, even though the complexity of Education programs, the manual processing procedures still needed for the Post-9/11 GI Bill, and the relative inexperience of staff still result in errors.

**Actions Taken to Improve Quality - Education**

In addition to performing quarterly quality reviews, an independent review was established to examine improper payments. The 2012 quarterly quality results identified error trends and causes. These then were used as topics for refresher training in regional processing offices. Annual appraisal and assistance visits to the regional processing offices are also conducted. In 2012, Education Service continued to update the materials available for standardized training for employees. Although this standardization is

expected to have a significant impact in raising quality scores and maintaining them at high levels, its current impact has been lessened by changes to the Post-9/11 GI Bill, including frequent changes to automated systems and job aids. This required extensive training for both experienced employees and new employees.

**Summary of Findings and Trends - Vocational Rehabilitation and Employment (VR&E)**

VR&E completed quality assurance (QA) reviews on 8,008 cases for 2012, including Independent Living and Maximum Rehabilitation Gain case reviews. The national QA reviews are conducted over a 12-month period, with a sample of cases from each regional office reviewed every month. Approximately five percent of the workload was reviewed from each regional office.

VR&E Accuracy Targets and Actuals		
Accuracy Elements	Target Score 2012	Actual Score 2012
Accuracy of Entitlement Determinations	96%	99%
Accuracy of Fiscal Decisions	85%	82%
Accuracy of Outcome Decisions	92%	90%
Accuracy of Evaluation, Planning, and Rehabilitation Services	90%	84%



In addition to review of cases from each regional office, the QA & Field Survey Team conducted site visits of 14 regional offices in 2012.

#### **Actions Taken to Improve Quality - Vocational Rehabilitation and Employment**

The VR&E accuracy scores met or exceeded the target scores for 2012 in two elements: Accuracy of Entitlement Determinations; Accuracy of Evaluation Planning, and Rehabilitation Services; Accuracy of Fiscal Decisions; and Accuracy of Outcome Decisions. These scores are attributed to the following initiatives implemented over the last 3 years:

- Each regional office conducts a review of 10 percent of its caseload each year. This ensures consistency in the QA review process and office procedures.
- The QA review results for national and local reviews are available on the VA Intranet Web site. This information enables regional offices to assess individual quality and to identify training needs.
- The QA Review Team currently works with the Training Team to provide trend data and develop training that clarifies administration of VR&E benefits.

Current initiatives to improve performance include development of the Knowledge Management Portal; updates to the quality standards of practice; development of a new QA IT system; implementation of policy clarifying service requirements; continued development of the Electronic Performance Support System; and extensive training for new and experienced counselors as well as for new managers.

#### **Summary of Findings and Trends - Loan Guaranty (Housing)**

The Loan Guaranty housing program redesigned its quality review process in 2010 and began implementing this new process in 2011. As a result, first-level quality reviews that were previously performed onsite by Regional Loan Center staff are now the responsibility of Loan Guaranty Central Office. The redesigned quality review process provides an objective third-party review of the work being done by the Regional Loan Center staff and produces a more representative sample than previously attained. Loan Guaranty Central Office staff reviewed 18,164 cases under its quality review process during 2012. The reviewed cases serve as the baseline comparison for the new quality process.

The housing quality assurance program includes elements beyond the review of cases. The VBA Lender Monitoring Unit performed 44 on-site audits and 34 in-house audits of lenders participating in VA's home loan program. VA audits of lenders during 2012 amounted to \$281,912 liability avoidance via indemnification agreements. VA has also collected \$149,640 in 2012 as a result of having indemnification agreements in place.

The Portfolio Loan Oversight Unit (PLOU) conducts two types of reviews: in-house and on-site. PLOU reviewed 103 billing invoices and completed 5,620 associated invoice reviews of the portfolio services contractor, as well as 1,826 non-invoice reviews related to contract compliance. Additionally, PLOU conducted research and tracking on funds due the Department based on monies flowing through the Department of Justice to VA. These monies are from bankruptcy trustee funds and foreclosure proceedings that are collected by the Department of Justice as a result of



handling foreclosures on behalf of VA. The amount traced and recovered for VA in 2012 is \$204,726.

In 2012 the reviews by Loan Management/PLOU recovered excessive contractor charges in excess of \$76,000. PLOU also discovered approximately \$45,400 of potentially recoverable amounts from Government Issue lenders in connection with title issues. Additionally, PLOU researched and provided legal descriptions to the Bank of America tax unit on 797 Real Estate Owned properties.

#### **Actions Taken to Improve Quality - Loan Guaranty (Housing)**

The Loan Guaranty Service disseminates the results of its quality reviews to field offices on a monthly basis. The Service prepares and releases trend reports that identify negative trends and action items found during on-site visits. The reports are published to assist field personnel in identifying frequent problems facing loan guaranty management. Any negative findings not resolved during on-site visits are to be addressed by field management within 30 days as to the corrective actions taken or planned. Conversely, any procedures discovered during on-site visits that would benefit other field stations can be deemed as best practices. Summaries of best practices employed by individual field stations are disseminated to all field stations with loan guaranty activity.

National training is provided to enhance the quality of service provided to Veterans and to increase lender compliance with VA policies. For instance, lenders who significantly fail to comply with VA's loan underwriting policies are either required to enter into indemnification agreements with VA or immediately repay the agency for its losses.

The property management service provider is authorized to manage and sell all VA-acquired properties as a result of foreclosure or termination. For the entire 2012 fiscal year, the property management service provider was Bank of America. Starting in July 2012, newly foreclosed properties were assigned directly to Vendor Resource Management, the new service provider. In September 2012, the management of all assets that were still being managed by Bank of America was transferred to Vendor Resource Management. The Property Management Oversight Unit (PMOU) monitors the management and marketing of the properties by the property management service provider. These assets are valued at approximately \$855 million. The PMOU monitors the property management service provider's performance by inspecting properties nationwide to ensure compliance with the contract requirements and performs on-site case reviews at their operations center.

#### **Summary of Findings and Trends - Insurance**

The Insurance program's principal quality assurance tool is the Statistical Quality Control (SQC) review. SQC assesses the ongoing quality and timeliness of work products by reviewing a random sample of completed and pending work. Ten categories of work from the Policyholders Services and Claims divisions are reviewed.

Policyholders Services, whose work products deal with the maintenance of active insurance policies, had an overall accuracy of 92.8 percent for 2012. Work products included correspondence, applications, disbursements, record maintenance and refunds. The Policyholders Services Division also responds to telephone inquiries from Veterans and their beneficiaries. In 2012, the average speed of answer was 25 seconds. The percent of abandoned calls was 1.4 percent, and the percent of blocked calls was 0.1 percent.



Insurance Claims Division is responsible for the payment of death and disability awards, the issuance of new life insurance policies, and the processing of beneficiary designations. The accuracy rate for Insurance Claims work products was 98 percent. Work products included death claims, awards maintenance, beneficiary designation changes, disability claims, and medical reinstatement applications. In total, the accuracy rate for all 2012 insurance work products was 95.4 percent.

The timeliness rate for Policyholders Services work products was 96 percent, and 98.7 percent for Insurance Claims work products. The overall timeliness rate for 2012 insurance work products was 97.4 percent.

The insurance quality assurance program also includes internal control reviews and individual employee performance reviews. The Internal Control staff reviews insurance operations for fraud through a variety of reports. Reports are generated daily and identify various insurance transactions based on specific criteria that indicate possible fraud. The Internal Control staff also reviews 100 percent of all employee-prepared disbursements. Primary end products processed by employees in the operating divisions are evaluated based on the elements identified in the Individual Employee Performance Requirements. As a result of these controls, insurance disbursements are 99 percent accurate.

VA utilizes a client satisfaction survey instrument for the purpose of measuring satisfaction and to identify areas that need improvement. VA surveys 40 randomly selected Veterans and beneficiaries per month for each of 11 insurance end products. Veterans are asked to evaluate different aspects of service delivery on a five-point scale. Low ratings in a particular area indicate the need for process improvements or additional training.

**Actions Taken to Improve Quality - Insurance**  
SQC exceptions are brought to the attention of the insurance operations division chiefs, unit supervisors, and employees who worked the case. VBA's Insurance Service evaluates the SQC programs periodically to determine if they are functioning as intended. Individual performance reviews are conducted monthly. The performance levels - critical and non-critical elements - are identified in the Individual Employee Performance Requirements. These reviews are based on a random sampling of the primary end products produced by employees in the operating divisions. Those items found to have errors are returned to the employee for correction. At the end of the month, supervisors inform employees of their error rates and timeliness percentages as compared to acceptable standards. VA's Insurance Program management also uses these data to identify training needs and opportunities for process improvements.

The survey contains a section titled, "What could we do better?" VA analyzes the responses to determine where process improvements can be made. VA makes an effort to implement customer suggestions where appropriate to increase the effectiveness and efficiency of operations and increase customer satisfaction.

The Internal Control Staff monitors, reviews, and approves insurance disbursements and certain other controlled transactions, as well as reviews post-audit reports. Work products with any detected errors are returned for correction.

The results of SQC, employee performance reviews, client satisfaction surveys, and Internal Control feedback are used to address any areas where improvement is needed via corrective



training and other steps to improve error rates and timeliness percentages.

The Insurance Program has successfully implemented fifteen job aids and tools under the initiative called "Skills, Knowledge and Insurance Practices and Procedures Embedded in Systems." This program captures "best

practices" and standardized procedures for processing various work items and makes them available on each employee's desktop. The job aids are an important tool in reducing error rates and improving timeliness.



## **Key Measures Data Table**

The following discussion explains how VA's Key Measures help achieve VA's goal of caring for Veterans and their families. It includes the definition, measure validation, data source and frequency, data verification/quality, and data limitations.

### **Prevention Index V**

**Key Performance Measure Definition:** The Prevention Index is an average of nationally recognized primary prevention and early detection interventions for nine diseases or health factors that significantly determine health outcomes. The nine diseases or health factors include: rate of immunizations for Influenza and Pneumococcal pneumonia; screening for tobacco consumption, alcohol abuse, breast cancer, cervical cancer, colorectal cancer, and cholesterol levels; and prostate cancer education. Each disease has an indicator. Each indicator's numerator is the number of patients in the random sample who actually received the intervention they were eligible to receive. The denominator is the number of patients in the random sample who were eligible to receive the intervention. As prevention indicators become high performers, they are replaced with more challenging indicators. This Index is now in Phase V.

**Measure Validation:** The Prevention Index V demonstrates the degree to which VHA provides evidence-based clinical interventions to Veterans seeking preventive care in VA. The measure targets elements of preventive care that are known to have a positive impact on the health and well-being of our patients.

**Data Source and Frequency:** VHA biostatisticians design and obtain a statistically valid random sample of medical records for review. The findings of the review are used to calculate the index scores. Data are reported quarterly with a cumulative average determined annually.

**Data Verification/Quality:**

- **Accuracy:** Data collection staff is skilled and trained in gathering statistically valid random samples of medical records for review.
- **Reliability/Comparability:** Data can be used to identify potentially disabling chronic diseases. VA can then provide education, disease management, and care access to limit the effects and improve the quality of life for the Veteran.
- **Consistency:** Collection standards are documented/available/used.

**Data Limitations:** None

### **Clinical Practice Guidelines Index IV**

**Key Performance Measure Definition:** The Clinical Practice Guidelines Index is a composite measure comprised of the evidence and outcomes-based measures for high-prevalence and high-risk diseases that have significant impact on overall health status. The indicators within the Index are comprised of several clinical practice guidelines in the areas of ischemic heart disease, hypertension, diabetes mellitus, major depressive disorder, schizophrenia, and tobacco use cessation. The percent compliance is an average of the separate indicators. As clinical indicators become high performers, they are replaced with more challenging indicators. The Index is now in Phase IV.

**Measure Validation:** The CPGI IV demonstrates the degree to which VHA provides evidence-based clinical interventions to Veterans seeking care in VA. The measure targets elements of care that are known to have a positive impact on the health of our patients who suffer from commonly occurring acute and chronic illnesses.



Data Source and Frequency: VHA biostatisticians design and obtain a statistically valid random sample of medical records for review. The findings of the review are used to calculate the index scores. Data are reported quarterly with a cumulative average determined annually.

Data Verification/Quality:

- Accuracy: Data collection staff is skilled and trained in gathering statistically valid random samples of medical records for review.
- Reliability/Comparability: Data can be used to identify potentially disabling chronic diseases. VA can then provide education, disease management and care access to limit the effects and improve the quality of life for the Veteran.
- Consistency: Collection standards are documented/available/used.

Data Limitations: None

**National accuracy rate - compensation entitlement claims**

Key Performance Measure Definition: Processing accuracy for compensation claims that normally require a disability or death rating determination. Review criteria include: addressing all issues, Veterans Claims Assistance Act (VCAA)-compliant development, correct decision, correct effective date, and correct payment date if applicable. Accuracy rate is determined by dividing the total number of cases with no errors in any of these categories by the number of cases reviewed.

Measure Validation: This measure assesses the quality of claims processing and assists VBA management in identifying improvement opportunities and training needs.

Data Source and Frequency: Findings from Compensation and Pension (C&P) Service Systematic Technical Accuracy Review (STAR) are entered in an Intranet database maintained by the Philadelphia LAN Integration Team and downloaded monthly to the Performance Analysis and Integrity (PA&I) information storage database. Case reviews are conducted daily. The review results are tabulated monthly on a 12-month rolling basis.

Data Verification/Quality:

- Accuracy: Data accuracy is maintained through the following mechanisms: Data collection staff is skilled and trained in the proper procedures; data entry procedures are documented and followed; data are sampled against source data through quality reviews; and procedures for making changes to previously entered data are documented and followed.
- Reliability/Comparability: Data can be used to make decisions such as those regarding training needs; data can be compared between years to assess progress or program effectiveness; and supporting documentation is maintained and readily available.
- Consistency: Collection sampling standards are documented, available, and used; source data are well defined and documented; data reporting schedules are documented, distributed, and followed.
- Data Limitations: There is a slight chance of an erroneous entry by the end user.

**National accuracy rate - pension entitlement claims**

Key Performance Measure Definition: Processing accuracy for pension claims that normally require a disability or death rating determination. Review criteria include: whether all issues were addressed; Veterans Claims Assistance Act (VCAA)-compliant development; correct decision; correct effective date; and correct payment date if applicable. Accuracy rate is determined by dividing the total number of cases with no errors in any of these categories by the number of cases reviewed.

Measure Validation: This measure assesses the quality of claims processing and assists VBA management in identifying improvement opportunities and training needs.



Data Source and Frequency: Findings from Pension (P&F) Service Systematic Technical Accuracy Review (STAR) are entered in an Intranet database maintained by the Philadelphia LAN Integration Team and downloaded monthly to the Performance Analysis and Integrity (PA&I) information storage database. Case reviews are conducted daily. The review results are tabulated monthly on a 12-month rolling basis.

Data Verification/Quality:

- Accuracy: Data accuracy is maintained through the following mechanisms: Data collection staff is skilled and trained in the proper procedures; data entry procedures are documented and followed; data are sampled against source data through quality reviews; and procedures for making changes to previously entered data are documented and followed.
- Reliability/Comparability: Data can be used to make decisions such as those regarding training needs; data can be compared between years to assess progress or program effectiveness; and supporting documentation is maintained and readily available.
- Consistency: Collection sampling standards are documented, available, and used; source data are well defined and documented; data reporting schedules are documented, distributed, and followed.

Data Limitations: There is a slight chance of an erroneous entry by the end user.

**Percent of Pension pending inventory that is more than 125 days old**

- Key Performance Measure Definition: The percentage of claims pending greater than 125 days is measured by the number of days pending for each pension claim requiring a rating decision. Includes the end products (EPs) (Original Service Connected Death Claim (EP140); Reopened Service Connected Death Claims (EP020); Original Disability Pension (EP180); and Reopened Pension (EP120). The measure is calculated by dividing the total number of claims pending 125 days or greater by the total number of cases pending.
- Measure Validation: This measure's focus is improved service delivery to claimants. Additionally, it ensures that claimants receive the benefits to which they are entitled in a consistent and timely manner.
- Data Source and Frequency: The source of this data is VETSNET Operations Reports (VOR). Data are collected daily as awards are processed. Results are tabulated at the end of the month and annually.
- Data Verification/Quality:
- Accuracy: Data are captured electronically through an automated process; data are reviewed for anomalies; procedures for making changes to previously entered data are documented and followed.
- Reliability/Comparability: Data can be used to make decisions such as those regarding realignment of resources; data are released monthly; data can be compared between years to assess progress or program effectiveness; and supporting documentation is maintained and readily available.
- Consistency: Collection standards are documented and programmed electronically; source data are well defined and documented; and data are reported monthly.
- Data Limitations: None



### Percent of Pension maintenance claims pending inventory that is more than 90 days old

- **Key Performance Measure Definition:** The percentage of claims pending greater than 90 days is measured by the number of days pending for each pension claim requiring a rating decision. Includes the end products (EPs) (Original Death Claim (EP190); Income adjustment Claims (EP150); Dependency (EP130); and Pre Determination claims (EP600); Eligibility Determinations (EP 290). The measure is calculated by dividing the total number of claims pending 90 days or greater by the total number of cases pending.
- **Measure Validation:** This measure's focus is improved service delivery to claimants. Additionally, it ensures that claimants receive the benefits to which they are entitled in a consistent and timely manner.
- **Data Source and Frequency:** The source of this data is VETSNET Operations Reports (VOR). Data are collected daily as awards are processed. Results are tabulated at the end of the month and annually.
- **Data Verification/Quality:**
- **Accuracy:** Data are captured electronically through an automated process; data are reviewed for anomalies; procedures for making changes to previously entered data are documented and followed.
- **Reliability/Comparability:** Data can be used to make decisions such as those regarding realignment of resources; data are released monthly; data can be compared between years to assess progress or program effectiveness; and supporting documentation is maintained and readily available.
- **Consistency:** Collection standards are documented and programmed electronically; source data are well defined and documented; and data are reported monthly.
- **Data Limitations:** None

### Average days to complete original and supplemental Education claims

- **Key Performance Measure Definition:** Elapsed time, in days, from receipt of a claim in the Department of Veterans Affairs to closure of the case by issuing a decision. Original claims are those for requests for an eligibility determination for an education benefit. Subsequent school enrollments and enrollment changes are considered a supplemental claim.
- **Measure Validation:** Timeliness is directly related to the volume of work received, the resources available to handle the incoming work, and the efficiency with which the work can be completed, and is thus the best quantifying measure for education processing.  
**Data Source and Frequency:** Education claims processing timeliness is measured by using data captured automatically through VBA's Benefits Delivery Network (BDN). This information is reported monthly through VBA's data warehouse using the Distribution of Operational Resources (DOOR) system.
- **Data Verification/Quality:**
- **Accuracy:** More than half of all claims are received electronically, and date of claim is automatically determined. For claims received via U.S. Mail, imaging clerks and authorization personnel are skilled and trained in determining date of claim for manual input. Procedures for date of claim input, completion, and change are documented and followed. Timeliness is an element reviewed during the quarterly Quality Assurance review. Timeliness error rates of 3 percent or more on Quality Assurance reviews result in a recommendation of corrective refresher training. No 3rd party evaluations are conducted.



Reliability/Comparability: Timeliness data are received in a timely manner to facilitate program management decisions and for other critical reporting. It is maintained in easily accessible electronic storage covering more than a decade and can be extracted in both standard and ad hoc report formats. The stored data include both detail and summary information to ensure reliability for decision-making.

Consistency: Timeliness data are collected according to long-established, well-documented, and consistently used standards. The definitions for source data are clear and documented, and are available and used. Data reporting schedules are documented, distributed, and followed.

Data Limitations: The necessity for manual input of date of claim opens the possibility of data entry errors. While basic and refresher training can reduce this possibility, they cannot entirely eliminate it. Although quality reviews identify problems in this area, they are conducted after the fact, and individual errors cannot be detected in time to prevent their inclusion in overall data.

### **Default Resolution Rate**

Key Performance Measure Definition: This measure represents the joint efforts of VA and VA-guaranteed loan servicers in assisting borrowers with defaulted VA-guaranteed loans. The Default Resolution Rate is the percent of defaulted VA-guaranteed loans that are successfully resolved via a loss mitigation option.

Measure Validation: The primary goal of Loan Guaranty Service is to assist Veterans in purchasing, retaining, and adapting homes in recognition of their service to the Nation. The Default Resolution Rate gauges VA's and Loan Servicers' ability to assist Veterans in maintaining home ownership during times of financial hardship.

Data Source and Frequency: VA-guaranteed loan servicing data are extracted from the Veterans Affairs Loan Electronic Reporting Interface (VALERI) System. This system is used to monitor and oversee the servicing of VA-guaranteed loans. Loan servicing data are collected on a monthly basis.

#### Data Verification/Quality:

- Accuracy: VA-guaranteed loan servicing personnel are skilled and trained in proper data reporting procedures, which ensures documented data reporting procedures are followed. VA Loan Administration staff are skilled and trained in loan servicing and proper data reporting procedures. Submitted loan servicing data are verified through sampling against loan data. The accuracy of loan servicing data is also established via VALERI's business rules process. Additionally, procedures for making changes to previously entered loan data are documented and followed.
- Reliability/Comparability: VA-guaranteed loan servicing data can be used to make program decisions and can be compared between years to assess progress or program effectiveness. VA-guaranteed loan servicing data are timely and can be used to make critical policy and program decisions. Supporting loan servicing documentation is maintained and readily available.
- Consistency: VA-guaranteed loan servicing data are well defined and documented. Definitions of loan servicing data elements are available and used. Collection standards and data reporting schedules for loan servicing data are documented, available, and used.

Data Limitations: None



### **Percent of graves in national cemeteries marked within 60 days of interment**

Key Performance Measure Definition: The number of graves in national cemeteries for which a permanent marker has been set at the grave or the reverse inscription completed within 60 days of the interment divided by the number of interments, expressed as a percentage.

Measure Validation: The headstone or marker is a lasting memorial that serves as a focal point not only for present-day survivors but also for future generations. In addition, it may bring a sense of closure to the grieving process to see the grave marked. The amount of time it takes to mark the grave after an interment is important to Veterans and their family members.

Data Source and Frequency: Source: Burial Operations Support System (BOSS); data input by field station staff. Data are reported monthly.

Data Verification/Quality:

- Accuracy: National cemetery employees are trained and skilled at entering data into NCA's BOSS system. Data are collected and verified by NCA Central Office employees who are skilled and trained in data collection and analysis techniques. Data are verified by sampling against source interment data in BOSS.
- Reliability/Comparability: Data are used by NCA managers to identify and correct potential problems in the headstone and marker ordering, delivery, and setting process. Data are available at the beginning of each month and are available for use in GPRA reports and VA internal Monthly Performance Reviews. Data are comparable between years, enabling NCA and its stakeholders to assess program progress and effectiveness.
- Consistency: Data collection standards for this measure are automated at VA's Quantico Information Technology Center (QITC). Monthly reports are generated automatically by QITC on the first day of each month. Source data are well defined in NCA's BOSS users guide.

Data Limitations: None

### **Percent of applications for headstones and markers that are processed within 20 days for the graves of Veterans who are not buried in national cemeteries**

Key Performance Measure Definition: This measures the timeliness of processing applications for headstones and markers -- using NCA's Automated Monument Application System (AMAS) -- for the graves of Veterans who are not buried in national cemeteries. This percentage represents the number of headstones and markers ordered within 20 days of receipt of the application divided by the number of applications for headstones and markers received.

Measure Validation: The headstone or marker is a lasting memorial that serves as a focal point not only for present-day survivors but also for future generations. In addition, it may bring a sense of closure to the grieving process to see the grave marked. The amount of time it takes to mark the grave after an interment is important to Veterans and their family members.

Data Source and Frequency: Source: Automated Monument Application System (AMAS); data input by field station and Central Office staff. Data are reported monthly.

Data Verification/Quality:

- Accuracy: National cemetery employees are trained and skilled at entering and verifying data in NCA's AMAS system. Data are collected and verified by NCA Central Office employees who are skilled and trained in data collection and analysis techniques. Data are verified by sampling against dates assigned automatically by the AMAS system for source application.
- Reliability/Comparability: Data are used by NCA managers to identify and correct potential problems in the headstone and marker application processing process. Data are available at the beginning of each month and are available for use in GPRA reports and VA internal Monthly



Performance Reviews. Data are comparable between years, enabling NCA and its stakeholders to assess program progress and effectiveness.

- **Consistency:** Data collection standards for this measure are automated at VA's Quantico Information Technology Center (QITC). Monthly reports are generated automatically by QITC on the first day of each month. Source data are well defined in NCA's AMAS users guide.

Data Limitations: None

### **Percent of Veterans served by a burial option within a reasonable distance (75 miles) of their residence**

Key Performance Measure Definition: The measure is the number of Veterans served by a burial option divided by the total number of Veterans, expressed as a percentage. A burial option is defined as a first family member interment option (whether for casketed remains or cremated remains, either in-ground or in columbaria) in a national or state Veterans cemetery that is available within 75 miles of the Veteran's place of residence.

Measure Validation: Reasonable access to a burial option means that a first interment option (whether for casketed remains or cremated remains, either in-ground or in columbaria) in a national or state Veterans cemetery is available within 75 miles of the Veteran's place of residence. VA established a 75-mile service area standard because NCA data show that more than 80 percent of persons interred in national cemeteries resided within 75 miles of the cemetery at the time of death.

Data Source and Frequency: VA's VetPop2007 model, based on 2000 census data, is the source for determining the total number of Veterans and the number of Veterans served. Data are recalculated annually or as required by the availability of updated Veteran population census data. Projected openings of new national or state Veterans cemeteries and changes in the service delivery status of existing cemeteries also determine the Veteran population served.

Data Verification/Quality:

- **Accuracy:** NCA staff is trained and skilled in proper procedures for calculating the number of Veterans who live within the service area of cemeteries that provide a first interment burial option. Changes to this calculation methodology or other changes to the measure are documented and reported through VA's annual Performance and Accountability Report and VA Monthly Performance Reviews. Results of a VA Office of the Inspector General audit assessing the accuracy of data used for this measure affirmed the accuracy of calculations made by NCA personnel.
- **Reliability/Comparability:** Data on this measure are used to determine potential areas of need for future national cemeteries and to guide funding decisions for state and tribal Veterans cemetery grants. Data are timely, are used in VA Monthly Performance Reviews and annual GPRA reports, and enable VA stakeholders to assess VA's progress toward meeting the burial needs of Veterans on an annual basis.
- **Consistency:** Current data sources and collection standards are well defined. Data sources and collection standards have been documented by independent program studies conducted in 2002 and 2008.

Data Limitations: Provides performance data at specific points in time while at the same time, Veteran demographics are constantly changing.

### **Non-institutional, long-term care average daily census (ADC)**

Key Performance Measure Definition: The Average Daily Census (ADC) captures the Veteran days of care in Home and Community Based-Care Programs including Care Coordination/Home Telehealth



Programs; Community Residential Care; Home-based Primary Care; Purchased Skilled Home Health Care; Adult Day Health Care (VA and Community); Homemaker/Home Health Aid Services; Home Hospice and Home Respite; and Medical Foster Homes.

Measure Validation: The measure captures the expansion of access to non-institutional care within VHA programs and/or contracted services. Non-institutional care is deemed to be more desirable and cost efficient for those Veterans who are appropriate for this level of care. The measure drives both expansion of the variety of services and expansion of geographic access.

Data Source and Frequency: The ADC data are obtained from VHA workload reporting databases designed to capture both VHA-provided care and VHA-paid (fee-based or contracted) care. Data are reported quarterly.

Data Verification/Quality:

- Accuracy: Data are verified through sampling against source data. The data captured are verified against previously captured data to determine the trend (increase/decrease) of Veterans receiving home and Community-Based Care.
- Reliability/Comparability: Data can be used to project the need for services, evaluate existing services, and promote access to required services in Home and Community-Based Care.
- Consistency: Collection standards are documented/available/used.

Data Limitations: None

### **Percent of new primary care appointments completed within 14 days of the desired date**

Key Performance Measure Definition: This measure tracks the time in days between the day on which the Veteran desired to have the new patient primary care appointment as captured by the scheduler and the date on which the appointment is actually completed. The percent is calculated using the numerator, which is all appointments completed within 14 days of create date, and the denominator, which is all completed appointments in primary care clinics as posted in the scheduling software during the review period.

Measure Validation: Provides a reliable measure of timeliness of access to care as well as responsiveness to the patient's stated needs.

Data Source and Frequency: The source of this data is VistA scheduling software. The data are collected monthly.

Data Verification/Quality:

- Accuracy: Data collection staff is skilled and trained in proper procedures of the scheduling package. The scheduling package entry procedures are also documented and followed. Edits to previously entered data are documented and followed.
- Reliability/Comparability: VA uses the results of this measure to inform and drive quality improvement activities that promote shorter waiting times for primary care appointments by improving efficiencies and addressing missed opportunities.
- Consistency: Source data are well defined and documented; definitions are available and used.

Data Limitations: None

### **Percent of established primary care appointments completed within 14 days of the desired date**

Key Performance Measure Definition: This measure tracks the time in days between the desired date entered for an established patient appointment and the date on which the appointment is actually completed. The percent is calculated using the numerator, which is all appointments completed within 14 days of desired date, and the denominator, which is all completed appointments in primary care clinics as posted in the scheduling software during the review period.



**Measure Validation:** Provides a reliable measure of timeliness of access to care as well as responsiveness to the patient's stated needs.

**Data Source and Frequency:** The source of this data is VistA scheduling software. The data are collected monthly.

**Data Verification/Quality:**

- **Accuracy:** Data collection staff is skilled and trained in proper procedures of the scheduling package. The scheduling package entry procedures are also documented and followed. Edits to previously entered data are documented and followed.
- **Reliability/Comparability:** VA uses the results of this measure to inform and drive quality improvement activities that promote shorter waiting times for primary care appointments by improving efficiencies and addressing missed opportunities.
- **Consistency:** Source data are well defined and documented; definitions are available and used.

**Data Limitations:** None

### **Percent of new specialty care appointments completed within 14 days of the desired date**

**Key Performance Measure Definition:** This measure tracks the time in days between the day on which the Veteran desired to have the new patient specialty care appointment as captured by the scheduler and the date on which the appointment is actually completed. The percent is calculated using the numerator, which is all appointments completed within 14 days of create date, and the denominator, which is all completed appointments in specialty care clinics as posted in the scheduling software during the review period.

**Measure Validation:** Provides a reliable measure of timeliness of access to care as well as responsiveness to the patient's stated needs.

**Data Source and Frequency:** Reported monthly via VistA scheduling software.

**Data Verification/Quality:**

- **Accuracy:** Data collection staff is skilled and trained in proper procedures of the scheduling package. The scheduling package entry procedures are also documented and followed. Edits to previously entered data are documented and followed.
- **Reliability/Comparability:** VA uses the results of this measure to inform and drive quality improvement activities that promote shorter waiting times for specialty care appointments by improving efficiencies and addressing missed opportunities.
- **Consistency:** Source data are well defined and documented; definitions are available and used.

**Data Limitations:** None

### **Percent of established specialty care appointments completed within 14 days of the desired date**

**Key Performance Measure Definition:** This measure tracks the time in days between the desired date entered for an established patient appointment and the date on which the appointment is actually completed. The percent is calculated using the numerator, which is all appointments completed within 14 days of desired date, and the denominator, which is all completed appointments in specialty care clinics as posted in the scheduling software during the review period.

**Measure Validation:** Provides a reliable measure of timeliness of access to care as well as responsiveness to the patient's stated needs.

**Data Source and Frequency:** Reported monthly via VistA scheduling software.



Data Verification/Quality:

- Accuracy: Data collection staff is skilled and trained in proper procedures of the scheduling package. The scheduling package entry procedures are also documented and followed. Edits to previously entered data are documented and followed.
- Reliability/Comparability: VA uses the results of this measure to inform and drive quality improvement activities that promote shorter waiting times for specialty care appointments by improving efficiencies and addressing missed opportunities.
- Consistency: Source data are well defined and documented; definitions are available and used.

Data Limitations: None

**Percent of respondents who rate the quality of service provided by the national cemeteries as excellent**

Key Performance Measure Definition: The number of survey respondents who agree or strongly agree that the quality of service received from national cemetery staff is excellent divided by the total number of survey respondents, expressed as a percentage.

Measure Validation: NCA strives to provide high-quality, courteous, and responsive service in all of its contacts with Veterans and their families and friends. These contacts include scheduling the committal service, arranging for and conducting interments, and providing information about the cemetery and the location of specific graves.

Data Source and Frequency: NCA's Survey of Satisfaction with National Cemeteries. The survey collects data from family members and funeral directors who have recently received services from a national cemetery. Data are reported annually.

Data Verification/Quality:

- Accuracy: Data are collected by an independent contractor skilled in data collection and analytical techniques. The next of kin and servicing funeral directors at all national cemeteries with at least one interment during the fiscal year are surveyed. Data are accurate at a 95 percent confidence interval.
- Reliability/Comparability: Data for this measure are used by VA management to inform budget formulation, for VA internal Monthly Performance Reviews and annual GPRA reports, and to enable stakeholders to assess VA's annual performance on providing quality service to Veterans and their families.
- Consistency: VA's current mail-out survey methodology has been in place since 2001. Data collection standards and reporting schedules are clearly defined and incorporated into a contract with the firm that conducts the survey.
- Data Limitations: The mail-out survey provides statistically valid performance data at the national and MSN levels and at the cemetery level for cemeteries having at least 400 interments per year.

**Percent of respondents who rate national cemetery appearance as excellent**

Key Performance Measure Definition: This measure tracks the number of survey respondents who agree or strongly agree that the overall appearance of the national cemetery is excellent divided by the total number of survey respondents, expressed as a percentage.

Measure Validation: NCA will continue to maintain the appearance of national cemeteries as national shrines so that bereaved family members are comforted when they come to the cemetery for the interment, or later to visit the grave(s) of their loved one(s). Our Nation's Veterans have earned the appreciation and respect not only of their friends and families, but also of the entire country and our



allies. National cemeteries are enduring testimonials to that appreciation and should be places to which Veterans and their families are drawn for dignified burials and lasting memorials.

Data Source and Frequency: The source of this data is NCA's Survey of Satisfaction with National Cemeteries. The survey collects data annually from family members and funeral directors who have recently received services from a national cemetery.

Data Verification/Quality:

- Accuracy: Data are collected by an independent contractor skilled in data collection and analytical techniques. The next of kin and servicing funeral directors at all national cemeteries with at least one interment during the fiscal year are surveyed. Data are accurate at a 95 percent confidence interval.
- Reliability/Comparability: Data for this measure are used by VA management to inform budget formulation, for VA internal Monthly Performance Reviews and annual GPRA reports, and to enable stakeholders to assess VA's annual performance on maintaining national cemeteries as national shrines.
- Consistency: VA's current mail-out survey methodology has been in place since 2001. Data collection standards and reporting schedules are clearly defined and incorporated into a contract with the firm that conducts the survey.

Data Limitations: The mail-out survey provides statistically valid performance data at the national and MSN levels and at the cemetery level for cemeteries having at least 400 interments per year.

**Percent of milestones completed leading to the use of genomic testing to inform the course of care (prevention, diagnosis, or treatment) of patients with mental illness (including PTSD, schizophrenia, and mood disorders)**

Key Performance Measure Definition: Improve the understanding of serious mental illness, including its causes, by using advanced laboratory and gene-based scientific methods. As medical science advances, there is a growing ability to use genetic information for better understanding how individual differences can affect and/or improve treatment outcomes. It is important to obtain and advance knowledge in the science, methodology, and application of personalized medicine to our Veterans. This performance measure will ensure that VA research helps place the VA health care system in a position for delivering state-of-the-art health care in key diseases affecting the Veteran population.

Measure Validation: The goal of the study is to obtain genetic material from blood samples for genome scanning to identify genetic variants that contribute to functional disability associated with bipolar illness and schizophrenia. In addition, the study will assess the relationship between the characteristics of functional disability and the genetics that influence the likelihood of succumbing to mental illness. As medical science advances, there is a growing ability to use genetic information for better understanding how individual differences can affect and/or improve treatment outcomes, as well as improve diagnosis resulting in prevention or early intervention. It is important to obtain and advance knowledge in the science, methodology, and application of genomics and personalized medicine to our Veterans. This performance measure will ensure that VA research helps place the VA health care system in a position for delivering state-of-the-art health care in a key disease area affecting the Veteran population, namely, serious mental illness.

Data Source and Frequency: The enrollment data will be obtained quarterly from the Cooperative Studies Program Coordinating Center for the multi-site study.

Data Verification/Quality:



- Accuracy: Since the performance measure involves enrollment of subjects in a clinical study, human subjects research protections procedures must be followed. This requires that data entry procedures are documented and followed.
- Reliability/Comparability: \* Data can be used to make program decisions.
- \* Supporting documentation is maintained and readily available.
- Consistency: The procedures are defined in the protocol and informed consent documents approved by the Institutional Review Board (IRB). Any deviations must be reported to the IRB.

Data Limitations: None

### **Rehabilitation Rate (General)**

Key Performance Measure Definition: The rehabilitation rate calculation is as follows: (1) the number of disabled Veterans who successfully complete VA's Vocational Rehabilitation program and acquire and maintain suitable employment and Veterans with disabilities for whom employment is infeasible but who obtain independence in their daily living with assistance from the program divided by (2) the total number leaving the program—both those rehabilitated plus discontinued cases with a plan developed in one of three case statuses (Independent Living, Rehabilitation to Employability, or Employment Services) minus those individuals who benefited from but left the program under one of three conditions: the Veteran (a) reached "maximum rehabilitation gain" due to choosing to be employed in a job that is not suitable, (b) reached "maximum rehabilitation gain" due to being unemployed but employable and not seeking employment, or not employable for medical or psychological reasons, or (c) elected to discontinue his or her VR&E plan to pursue educational goals utilizing Post-9/11 GI Bill Benefits (Chapter 33).

Measure Validation: The primary goal of the VR&E program is to assist service-disabled Veterans in becoming employable. The rehabilitation rate is the key indicator of the program's success in meeting this goal, as it represents the number of Veterans successfully reentering the workforce following completion of their VR&E program.

Data Source and Frequency: Data is obtained from VR&E management reports. Quality Assurance Reviews evaluate the accuracy and reliability of data and are conducted twice a month.

Data Verification/Quality:

- Accuracy:
- Reliability/Comparability: Data are collected and compiled on a monthly basis. Data collected are used by VR&E Management, VBA Management, and Regional Offices to measure the program's success and to identify areas of concern and progress. Data can be compared between years to assess progress or program effectiveness.
- Consistency: The source data are well defined and documented - definitions are available and used. Data collection and distribution on a monthly basis are consistent and documented.
- Data Limitations: There is a slight chance of an erroneous entry by the end user.

### **Rate of high client satisfaction ratings on services delivered (Insurance)**

Key Performance Measure Definition: This measure represents the percent of insurance clients who rate different aspects of insurance services in the highest two categories, based on a 5-point scale, using data from the insurance customer survey.

Measure Validation: VA's insurance program uses the results of the surveys to identify opportunities for improvement in order to maintain high levels of client satisfaction by providing quality service and implementing and administering insurance programs that meet the needs of Veterans and their beneficiaries.



Data Source and Frequency: Insurance sends client satisfaction surveys to 40 randomly selected Veterans and beneficiaries per month for each of 11 end products.

Data Verification/Quality:

- Accuracy: Insurance Service reviews and tabulates survey responses and independently validates the results of the tabulated responses by re-entering randomly selected monthly responses in order to determine if similar results are calculated.
- Reliability/Comparability: Data collected are used to measure client satisfaction. VBA Insurance managers use the results of this measure to inform and drive quality improvement.
- Consistency: Data are collected on an on-going basis throughout the month for recording and verification. Data results are reported once per month.

Data Limitations: The necessity for manual input of survey data opens the possibility of data entry errors. Re-entering the data a second time helps to identify possible data entry errors.

**Percent of patients rating VA health care as 9 or 10 (on a scale from 0 to 10): Inpatient and Outpatient**

Key Performance Measure Definition: Data are gathered for these measures via a VA survey that is applied to a representative sample of inpatients and a sample of outpatients. The denominator is the total number of patients sampled who answered the question, "Overall, how would you rate your quality of care?" The numerator is the number of patients who rated their care as 9 or 10 (on a scale from 0 to 10).

Measure Validation: Satisfaction surveys are the most effective way to determine patient expectations and provide a focused critique on areas for improvement.

Data Source and Frequency: Data is obtained from the Survey of Health Experiences of Patients.

Surveys are conducted as follows: Inpatient - Semi-annually; Outpatient – Quarterly;

Data Verification/Quality:

- Accuracy: The data collection process is documented and followed when surveys are received.
- Reliability/Comparability: Data collected are used by VHA to measure patient satisfaction. The results are used to inform and drive quality improvement.
- Consistency: Collection standards are documented, available, and used.

Data Limitations: None



## Performance Measures Tables

### By Organization and Program

The following table displays our key and supporting measures by organization and program.

For each measure, we show available trend data for 4 years. **This report highlights the actual 2012 result as compared to the 2012 target designated as follows:**

- **Green or G:** Target was met or exceeded.
- **Yellow or Y:** Target was not met, but the deviation was not significant or material.
- **Red or R:** Target was not met, but the deviation was significant or material.

For measures coded "red," we provide a brief explanation of why there was a significant deviation between the actual and planned performance level and briefly identify the steps being taken to ensure goal achievement in the future. Please see the Performance Shortfall Analysis tables beginning on page I-70 for this information.

For those measures where 2012 results are partial or estimated, we will publish final data in the 2014 Congressional Budget and/or the 2013 Performance and Accountability Report.

The table showing measures by organization and program includes the total amount of resources (FTE and obligations) for each program.

VA uses the balanced measures concept to monitor program and organizational performance. We examine and regularly monitor several different types of measures to provide a more comprehensive and balanced view of how well we are performing. Taken together, the measures demonstrate the balanced view of performance we use to assess how well we are doing in meeting our performance targets.

VA works to ensure the quality and integrity of our data. The Key Measures Data Table starting on page II-52 provides the definition, data source, frequency of collection, any data limitations, and data verification and measure validation for each of VA's 24 key measures. The Assessment of Data Quality beginning on page II-39 provides an overall view of how our programs verify and validate data for all of the measures. Definitions for the supporting measures are located in Part IV.

\*These are partial or estimated data; final data will be published in the 2014 Congressional Budget and/or the 2013 Performance and Accountability Report



Part II - Performance Measures Tables

Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
<b>Veterans Health Administration</b>							
<i>Medical Care Programs</i>							
<b>Resources</b>							
FTE	219,535	238,927	245,263	254,835	257,806		
Total Program Costs (\$ in millions)	\$42,531	\$44,537	\$51,705	\$52,822	\$55,774		
<b>Performance Measures</b>							
<b>Prevention Index V</b> (The 2008 result is PI III. The 2009-2011 results are PI IV. The 2012-2014 targets are PI V.)	88%	89%	91%	92%	94%	93%	95%
<b>Clinical Practice Guidelines Index IV</b> (The 2008 result is CPGI II. The 2009-2011 results are CPGI III. The 2012-2014 targets are CPGI IV.)	84%	91%	92%	91%	94%	92%	94%
<b>Non-institutional, long-term care average daily census (ADC)</b> (Measure being dropped after 2013)	54,053	72,315	85,940	95,092	*104,445	113,254	154,152
<b>Percent of new primary care appointments completed within 14 days of the desired date for the appointment (New)</b> [1] In 2012, VHA will begin measuring the four appointment performance measures using a 14-day standard.	N/Av	N/Av	N/Av	N/Av	90%	83%	90%
<b>Percent of established primary care appointments completed within 14 days of the desired date for the appointment (New)</b> (See [1] above)	N/Av	N/Av	N/Av	N/Av	95%	94%	98%
<b>Percent of new specialty care appointments completed within 14 days of the desired date for the appointment (New)</b> (See [1] above)	N/Av	N/Av	N/Av	N/Av	90%	84%	90%
<b>Percent of established specialty care appointments completed within 14 days of the desired date for the appointment (New)</b> (See [1] above)	N/Av	N/Av	N/Av	N/Av	96%	95%	98%



Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets	
	2008	2009	2010	2011	Results	Targets		
<b>Percent of patients rating VA health care as 9 or 10 (on a scale from 0 to 10)</b> (VHA has moved to a nationally standardized tool, a family of surveys known as Consumer Assessment of Health Care Plans and Systems (CAHPS). 2009 was a re-baseline year to determine both annual and strategic targets. The 2009 results are not comparable with prior years and cannot be compared to 2010 due to additional changes to the survey instrument and administration protocol that were implemented in 2010.)								
	<b>Inpatient</b>	79%	63% (Baseline)	64%	64%	*66%	65%	75%
	<b>Outpatient</b>	78%	57% (Baseline)	55%	55%	55%	58%	70%
Percent of VA Hospitals whose unplanned readmissions rates are less than or equal to other hospitals in their community	N/Av	N/Av	N/Av	94%	91%	85%	100%	
Percent of Veterans who successfully obtain resident status as a result of vouchers distributed through the U.S. Department of Housing and Urban Development and Veterans Affairs Supportive Housing (HUD-VASH) program ( <b>Supports Agency Priority Goal</b> )	N/Av	N/Av	88%	100%	92%	85%	90%	
Number of Homeless Veterans on any given night ( <b>Supports Agency Priority Goal</b> ) (Joint VHA-OPIA measure) The 2008 number is based on Community Homelessness Assessment, Local Education and Networking Groups (CHALENG) data. The numbers for 2009 and subsequent years are based upon the Annual Homeless Assessment Report (AHAR).	131,000	75,609	76,329	67,495	TBD	59,000	0	
Percent of Eligible Patient Evaluations Documented within 14 days of New MH Patient Index Encounter (Measure being dropped after 2012)	N/Av	96%	96%	95%	96%	96%	96%	



Part II - Performance Measures Tables

Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
Percent of eligible patients screened at required intervals for PTSD (Measure being dropped after 2012)	84%	96%	98%	99%	98%	97%	97%
Percent of eligible patients screened at required intervals for alcohol misuse (Measure being dropped after 2012)	N/Av	N/Av	97%	97%	97%	97%	98%
Percent of eligible patients screened at required intervals for depression (Measure being dropped after 2012)	N/Av	N/Av	97%	97%	97%	97%	98%
Percent of OEF/OIF Veterans with a primary diagnosis of PTSD who receive a minimum of 8 psychotherapy sessions within a 14-week period	N/Av	N/Av	11%	15%	15%	20%	30%
Percent of eligible OEF/OIF PTSD patients evaluated at required intervals for level of symptoms	N/Av	N/Av	5%	TBD	N/A	20%	80%
Percent of patients who report being seen within 20 minutes of scheduled appointments at VA health care facilities	76%	79%	74%	78%	76%	75%	85%
Percent of clinic "no shows" and "after appointment cancellations" for OEF/OIF Veterans	N/Av	N/Av	13%	22%	21%	12%	10%
Percent of VHA clinical health care professionals who have had VA training prior to employment	N/Av	27% (Baseline)	29%	29%	29%	29%	33%
Obligations per unique patient user *Results/Future targets are expressed in constant dollars based on the Bureau of Labor Statistics Consumer Price Index (CPI). The CPI for all Urban Consumers (CPI-U) released in the OMB November 2011 Economic Assumption was used for the 2008-2011 results and for the 2012-2014 targets.	\$5,891	\$6,317	\$6,551	\$6,417	\$6,429	\$6,429	TBD



Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
Gross Days Revenue Outstanding (GDRO) for 3rd party collections (VHA)	56	55	45	48	48	46	37
Total amount expended for health care services rendered to VA beneficiaries at a DoD facility (\$ Millions)	N/Av	N/Av	N/Av	\$84.0	\$93.8	\$85.7	\$92.0
Amount billed for health care services provided to DoD beneficiaries at VA facilities (\$ Millions) (1) Corrected <i>* The FY 2012 total amount is significantly less than FY 2011 because of the establishment of the Joint Department of Defense-Department of Veterans Affairs Medical Facility Demonstration Fund that is now used to resource the Captain James A. Lovell Federal Health Care Center (FHCC) in Chicago, IL.</i>	N/Av	N/Av	N/Av	(1) \$183.6	\$157.8*	\$187.3	\$198.8
Dollar value of 1st party and 3rd party collections (VHA):							
1st Party (\$ Millions)	\$922	\$892	\$870	\$911	\$894	\$877	\$952
3rd Party (\$ Millions)	\$1,497	\$1,843	\$1,904	\$1,800	\$1,847	\$1,825	\$1,807
Percent of NonVA claims paid in 30 days (VHA) (1) Corrected	N/Av	N/Av	N/Av	(1) 79%	80%	95%	98%
Percent of Veterans who report "yes" to the Shared Decision-making questions in the Inpatient Surveys of the Health Experiences of Patients (SHEP) (2011 was a re-baseline year after measure validation was completed in 2010.)	N/Av	N/Av	71%	72%	72%	71%	75%
Percent of Milestones completed towards development of AViVA infrastructure and User Interface (UI) functionality to modernize VA's Electronic Health Record (New)	N/Av	N/Av	N/Av	N/Av	100%	95%	100%
Percent of Milestones completed towards Increasing Informatics and Analytics literacy in healthcare delivery workforce (New)	N/Av	N/Av	N/Av	N/Av	100%	95%	100%



Part II - Performance Measures Tables

Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
<b>Medical Research</b>							
<b>Resources</b>							
FTE	3,142	3,226	3,352	3,523	3,496		
Total Program Costs (\$ in millions)	\$981	\$967	\$476	\$580	\$643		
<b>Performance Measures</b>							
<b>Percent of milestones completed leading to the use of genomic testing to inform the course of care (prevention, diagnosis, or treatment) of patients with mental illness (including PTSD, schizophrenia, and mood disorders)</b>	N/Av	N/Av	25%	35%	43%	45%	100%
Percent of milestones completed towards development of one new objective method to diagnose mild Traumatic Brain Injury (TBI)	N/Av	N/Av	N/Av	22%	50%	55%	100%
Progress toward researching, developing, and implementing innovations in clinical practice that ensure improved access to health care for Veterans, especially in rural areas	N/Av	N/Av	N/Av	42%	55%	63%	100%
Percent increase in number of enrolled Veterans participating in telehealth This focus is on the following Office of Telehealth Services only: Home Telehealth, and Store and Forward Telehealth services.	N/Av	N/Av	N/Av	24%	61%	45%	75%



Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
<b>Veterans Benefits Administration</b>							
<b>Compensation</b>							
<b>Resources</b>							
FTE	9,943	12,049	12,871	14,064	13,825		
Total Program Costs (\$ in millions)	\$37,589	\$41,659	\$45,440	\$54,547	\$55,824		
<b>Performance Measures</b>							
<b>National accuracy rate - compensation entitlement claims (Supports Agency Priority Goal)</b>	86%	84%	84%	84%	86%	87%	98%
Compensation maintenance claims - average days to complete (1) Corrected	N/Av	N/Av	99	(1) 106	128	85	60
Percentage of compensation maintenance claims pending inventory that is more than 90 days old (New)	N/Av	N/Av	N/Av	N/Av	N/AV	Baseline	0%
Burial claims processed - average days to complete (Compensation)	84	78	76	113	178	70	21
Percentage of burial claims pending inventory that is more than 60 days old (Compensation) (New)	N/Av	N/Av	N/Av	N/Av	57%	Baseline	0
National accuracy rate -- compensation maintenance claims	95%	95%	96%	97%	95%	97%	98%
National accuracy rate - burial claims processed (Compensation)	96%	93%	96%	97%	100%	98%	98%
Overall satisfaction rate (%) (Compensation) (1) Targets are TBD as this measure will be captured by customer satisfaction surveys under development.	N/Av	N/Av	N/Av	N/Av	N/Av	(1) Baseline	TBD



Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
<b>Pension</b>							
<b>Resources</b>							
FTE	1,461	1,157	2,238	1,491	1,952		
Total Program Costs (\$ in millions)	\$4,020	\$4,259	\$4,502	\$4,773	\$5,041		
<b>Performance Measures</b>							
<b>National accuracy rate - pension maintenance claims</b>	93%	95%	96%	97%	98%	97%	98%
<b>Percent of pension maintenance claims pending inventory that is more than 90 days old (New)</b>	N/Av	N/Av	N/Av	N/Av	68%	Baseline	0%
National accuracy rate - pension entitlement claims	87%	95%	96%	98%	98%	98%	98%
Overall satisfaction rate (%) (Pension) (1) Targets are TBD as this measure will be captured by customer satisfaction surveys under development.	N/Av	N/Av	N/Av	N/Av	N/Av	(1) Baseline	TBD
<b>Combined Compensation and Pension Measures</b>							
<b>Percent of Compensation and Pension pending inventory that is more than 125 days old (Supports Agency Priority Goal)</b>	N/Av	N/Av	36%	60%	66%	60%	0%
<b>Number of registered eBenefits users (Supports Agency Priority Goal) (New)</b>	N/Av	N/Av	N/Av	1M (Baseline)	1.97M	1.65M	3.5M
<b>Compensation and Pension entitlement claims - average days to complete (Supports Agency Priority Goal)</b>	179	161	166	188	262	230	90
Compensation and Pension National accuracy rate - fiduciary work	81%	82%	85%	88%	87%	92%	98%
Appeals resolution time (From NOD to Final Decision) (Average Number of Days) (Joint BVA-VBA Compensation and Pension measure)	645	709	656	747	*866	675	400
National Call Center Customer Satisfaction Overall Score	N/Av	N/Av	N/Av	N/Av	744	720	765%



Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
Percent of IDES participants who will be awarded benefits within 30 days of discharge (1) The baseline year has been changed to 2012 pending the full deployment of the Integrated Disability Evaluation System (IDES) in 2012.	N/Av	N/Av	N/Av	N/Av	N/Av	(1) Baseline	TBD
The indicators below are the component end-products for average days to complete disability rating claims. We do not establish separate performance goals for these indicators.							
	2008	2009	2010	2011	2012	Claims	
<b>Average days to complete C&amp;P disability rating</b>	179	161	166	188	262	1,032,334	
Initial disability compensation	198	179	183	219	307	261,033	
Initial death compensation/DIC	121	109	149	145	150	32,332	
Reopened compensation	195	173	170	214	289	509,401	
Initial disability pension	113	92	112	99	97	39,503	
Reopened pension	120	113	146	123	125	53,083	
Reviews, future exams	74	97	112	132	103	60,371	
Reviews, hospital	52	65	68	87	93	8,346	
Agent Orange Claims	N/A	N/A	N/A	144	294	67,387	
<b>Education</b>							
<b>Resources</b>							
FTE	1,002	1,410	1,961	1,967	1,971		
Total Program Costs (\$ in millions)	\$3,097	\$3,693	\$8,444	\$11,452	10,540		
<b>Average days to complete original Education claims</b>	19	26	39	24	31	23	10
<b>Average days to complete supplemental Education claims</b>	9	13	16	12	17	12	7
Percentage of claims processed through the automated claims processing system (Education) (1) Baseline is 2012 because the requisite level of automation within VA's long-term processing solution will not be reached until 2012.	N/Av	N/Av	N/Av	N/Av	TBD	(1) Baseline	TBD



Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
Percent of Montgomery GI Bill or Post 9/11 GI Bill participants who successfully completed an education or training program (See (1) above)	N/Av	N/Av	N/Av	N/Av	TBD	(1) Baseline	TBD
Percent of Eligible Applicants who use the Post-9/11 GI Bill <b>(New)</b> <i>(Measure being dropped after 2012)</i>	N/Av	N/Av	N/Av	N/Av	TBD	Baseline	TBD
Education Claims Completed Per FTE (See (1) above)	N/Av	N/Av	N/Av	N/Av	TBD	(1) Baseline	TBD
Payment accuracy rate (Education)	96%	96%	95%	98%	99%	96%	97%
Education Call Center - Abandoned call rate <i>(Measure being dropped after 2012)</i>	5%	11%	17%	20%	26%	15%	5%
Percentage of beneficiaries very satisfied or somewhat satisfied with the way VA handled their education claim (1) Targets are TBD as this measure will be captured by customer satisfaction surveys under development.	N/Av	N/Av	N/Av	N/Av	TBD	(1) Baseline	TBD
Percent of beneficiaries that believe their VA educational assistance has been either very helpful or helpful in the attainment of their educational or vocational goal (See (1) above)	N/Av	N/Av	N/Av	N/Av	TBD	(1) Baseline	TBD



Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
<b>Vocational Rehabilitation and Employment</b>							
<b>Resources</b>							
FTE	1,283	1,276	1,301	1,284	1,363		
Total Program Costs (\$ in millions)	\$775	\$827	\$960	\$1,034	\$968		
<b>Performance Measures</b>							
<b>Rehabilitation Rate (General)</b>	76%	74%	76%	77%	77%	77%	80%
Serious Employment Handicap (SEH) Rehabilitation Rate (1) Corrected	76%	74%	(1) 75%	77%	76%	77%	80%
Employment Rehabilitation Rate	N/Av	Baseline	73%	74%	74%	75%	80%
Independent Living Rehabilitation Rate	N/Av	Baseline	93%	95%	96%	94%	96%
Speed of Entitlement Decisions in average days (VR&E)	48	51	49	44	43	44	40
Accuracy Rate of Decisions (Services) (VR&E)	82%	80%	81%	82%	82%	87%	96%
Accuracy Rate of Vocational Rehabilitation Program Completion Decisions	96%	96%	97%	97%	97%	97%	99%
Veterans' satisfaction with the Vocational Rehabilitation and Employment Program (1) Targets are TBD as this measure will be captured by customer satisfaction surveys under development	N/Av	N/Av	N/Av	N/Av	N/Av	(1) Baseline	TBD



Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
<b>Housing</b>							
<b>Resources</b>							
FTE	911	883	875	834	872		
Total Program Costs (\$ in millions)	\$978 (a)	\$480	\$962	\$1,541	\$1,736		
(a) Includes positive subsidy, administrative expenses, and upward reestimates, which are required to comply with Credit Reform Act guidelines.							
<b>Performance Measures</b>							
<b>Default Resolution Rate</b>	N/Av	71.5%	76.3%	83.0%	80.9%	81.0%	85.0%
Program Review Accuracy Rate (Housing)	N/Av	N/Av	N/Av	Baseline	98.4%	97.5%	99.0%
Rate of homeownership for Veterans compared to that of the general population	115.2%	117.2%	117.2%	122.98%	123.1%	120.0%	122.0%
Default Resolution Efficiency Ratio	N/Av	32.0:1	55.7:1	68.3:1	68.7:1	66.0:1	70.0:1
Success Rate of Automated Certificate of Eligibility (ACE) System (Housing)	N/Av	N/Av	Baseline	54.98%	54.8%	62.5%	75.0%
Lender Satisfaction with VA Loan Guaranty Program (1) The Lender Satisfaction Survey will be conducted on a biennial basis starting in 2012.	N/Av	95.0%	94.5%	N/Av	N/Av	96.5%	97.0%
Veterans' Satisfaction Level with the VA Loan Guaranty Program (1) Targets are TBD as this measure will be captured by customer satisfaction surveys under development.	N/Av	92.3%	N/Av	N/Av	N/Av	(1) Baseline	TBD



Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
<b>Insurance</b>							
<b>Resources</b>							
FTE	365	348	359	341	341		
Total Program Costs (\$ in millions)	\$3,157	\$2,927	\$2,890	\$2,826	\$2,760		
<b>Performance Measures</b>							
<b>Rate of high client satisfaction ratings on Insurance services delivered</b>	95%	96%	95%	95%	95%	95%	95%
Number of disbursements (death claims, loans, and cash surrenders) per FTE (Insurance) (1) Insurance processed slightly more disbursements with fewer FTE than projected in 2011. FTE dedicated to processing disbursements were less than projected due to losses realized during the year. Future targets of the number of disbursements processed per FTE are based on the optimal FTE level necessary to process disbursements Insurance projects to receive.	1,756	1,755	1,714	(1) 1,808	1,775	1,750	1,750
Conversion rate of disabled SGLI members to VGLI (Insurance) (1) Insurance created a new outreach unit in 2011 to supplement our existing outreach to disabled Servicemembers eligible to convert their SGLI coverage to VGLI. The initial outreach results from this new unit were very successful. VA is currently in the process of determining the baseline results for this new outreach effort to determine if adjustments in future targets are needed.	45%	32%	37%	(1) 55%	36%	40%	50%



Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
<b>National Cemetery Administration</b>							
<b>Burial Program</b>							
<b>Resources</b>							
FTE	1,512	1,622	1,670	1,676	1,652		
Total Program Costs (\$ in millions)	\$598	\$640	\$345	\$259	\$391		
<b>Performance Measures</b>							
Percent of applications for headstones and markers that are processed within 20 days for the graves of Veterans who are not buried in national cemeteries	95%	93%	74%	93%	88%	90%	90%
Percent of graves in national cemeteries marked within 60 days of interment	93%	95%	94%	93%	89%	95%	95%
Percent of Veterans served by a burial option within a reasonable distance (75 miles) of their residence	84.2%	87.4%	88.1%	89.0%	89.6%	89.6%	94.0%
Percent of respondents who rate the quality of service provided by the national cemeteries as excellent	94%	95%	95%	95%	96%	98%	100%
Percent of respondents who rate national cemetery appearance as excellent	98%	98%	98%	98%	99%	99%	100%
Percent of respondents who would recommend the national cemetery to Veteran families during their time of need	98%	98%	98%	98%	99%	99%	100%
Percent of gravesites that have grades that are level and blend with adjacent grade levels	86%	90%	89%	91%	93%	90%	95%



Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
Percent of headstones and markers that are delivered undamaged and correctly inscribed	96%	96%	96%	95%	96%	96%	98%
Percent of headstones, markers, and niche covers that are clean and free of debris or objectionable accumulations	84%	82%	85%	82%	82%	83%	95%
Percent of headstones and/or markers in national cemeteries that are at the proper height and alignment	65%	64%	67%	70%	69%	71%	90%
Percent of national cemetery buildings and structures that are assessed as "acceptable" according to annual Facility Condition Assessments (1) This measure will be dropped after 2012.	N/Av	84%	84%	74%	TBD	(1)	90%
Percent of funeral directors who respond that national cemeteries confirm the scheduling of the committal service within 2 hours	72%	73%	77%	81%	81%	84%	93%
Percent of Presidential Memorial Certificate applications that are processed within 20 days of receipt	N/Av	N/Av	17%	91%	78%	70%	90%
Percent of headstone and marker applications from private cemeteries and funeral homes received electronically	46%	52%	56%	61%	65%	65%	75%



Part II – Performance Measures Tables

Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
Percent of respondents who agree or strongly agree that the quality of the headstone or marker received from VA was excellent	N/Av	N/Av	94%	95%	91%	95%	100%
Percent of respondents who agree or strongly agree that the quality of the Presidential Memorial Certificate received from VA was excellent	N/Av	N/Av	96%	94%	90%	97%	100%
<b>Board of Veterans' Appeals</b>							
<b>Resources</b>							
FTE	469	525	549	535	510		
Administrative costs only (\$ in millions)	\$60	\$69	\$75	\$77	\$75		
<b>Performance Measures</b>							
Appeals resolution time (From NOD to Final Decision) (Average Number of Days) (Joint BVA-VBA Compensation and Pension measure)	645	709	656	747	*866	675	400
BVA Cycle Time (Excludes Representative Time) (Average Number of Days)	155	100	99	119	117	140	104
Appeals decided per Veteran Law Judge	754	813	818	784	692	752	800
Percent of Total Hearings that are Conducted via Video Conference	N/Av	N/Av	N/Av	29%	40%	35%	46%
BVA Appeals Backlog ( <b>New</b> )	N/Av	17,713	21,112	20,287	25,599	39,283	21,000



Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
<b>Departmental Management</b>							
<b>Total FTE and Program Costs</b> (less BVA and OIG FTE and costs, which are identified separately)							
FTE	9,428(a)	10,059	9,057	9,410	9,662		
Total Program Costs (\$ in millions)	\$3,165	\$4,582	\$3,024	\$2,399	\$4,036		
(a) Increase primarily reflects the centralization of IT personnel under the Department's Chief Information							
<b>Performance Measures</b>							
Percent of total procurement dollars awarded to service-disabled Veteran- owned small businesses (OSDBU) (1) VA's data reported may differ from data reported by the Small Business Administration (SBA) due to the timing of when SBA runs its report.	12.09%	(1) 16.96%	20.0%	18.3%	*20.5%	10.0%	10.0%
Percent of total procurement dollars awarded to Veteran-owned small businesses (OSDBU) (See (1) above)	15.27%	(1) 19.3%	23.0%	20.5%	*23.2%	12.0%	12.0%
Number of Homeless Veterans on any given night ( <b>Supports Agency Priority Goal</b> ) (Joint VHA-OPIA measure) The 2008 number is based on Community Homelessness Assessment, Local Education and Networking Groups (CHALENG) data. The numbers for 2009 and subsequent years are based upon the Annual Homeless Assessment Report (AHAR).	131,000	75,609	76,329	67,495	TBD	59,000	0
Percent of federally recognized Native American tribes contacted by VA for outreach purposes (OPIA)	1%	1%	80%	85%	100%	90%	100%
Percent of milestones achieved towards deployment and implementation of a paperless disability claims processing system ( <b>Supports Agency Priority Goal</b> ) (OIT)	N/Av	N/Av	N/Av	100%	100%	100%	100%



Part II – Performance Measures Tables

Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
Percent of milestones achieved in deploying and implementing the Veterans Relationship Management System (VRMS) <b>(Supports Agency Priority Goal)</b> (OIT)	N/Av	N/Av	N/Av	30%	70%	70%	100%
Percent of milestones achieved in deploying and implementing the Virtual Lifetime Electronic Record (VLER) <b>(Supports Agency Priority Goal)</b> (OIT)	N/Av	N/Av	N/Av	88%	60%	60%	100%
Annual percent growth in VA IT systems that automatically reuse all redundant client information in other systems (OIT)	N/Av	N/Av	N/Av	9.5%	9.5%	25%	15%
Percentage of responses to pre- and post-hearing questions that are submitted to Congress within the required timeframe (OCLA)	57%	75%	12%	90%	75%	85%	90%
Percentage of testimony submitted to Congress within the required timeframe (OCLA)	58%	80%	62%	98%	88%	90%	90%
Percentage of title 38 reports that are submitted to Congress within the required timeframe (OCLA) (1) Corrected	59%	76%	63%	(1) 33%	68%	85%	85%
Percentage of concurrence actions completed on time (OCLA)	N/Av	N/Av	N/Av	95%	99%	85%	90%
Percent of employees in mission critical and key occupations who participated in a competency-based training program within the last 12 months (HRA) *HRA will continue working with customers to determine which occupations are considered mission critical	N/Av	N/Av	20%	45%	*47%	65%	95%



Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
Percent of training participants who agreed during the post-training evaluation that the training session will help improve job performance (HRA) <b>(New)</b>	N/Av	N/Av	N/Av	N/Av	*94%	80.0%	80%
Alternative Dispute Resolution (ADR) participation rate in the informal stage of the Equal Employment Opportunity (EEO) complaint process (HRA) (1) Corrected	46%	48%	52%	(1) 54%	*57%	53%	55%
Percentage of VA employees who are Veterans (HRA)	30%	30%	31%	32%	*32%	35%	40%
Workers' Compensation Lost Time Case Rate (LTCR) (HRA) *This rate indicates the number of injuries and illnesses that have resulted in days away from work or have been documented as lost time cases adjusted for employment changes, per 100 employees. This target meets Department of Labor standards; however, the goal for 2012 has not been issued yet.	1.81	1.82	1.71	1.64	1.22	1.58	1.51
Average number of months to process VA regulations (OGC) (1) These targets are "stretch goals" because they accelerate individual project completion dates from Departmental standards of 22.4 months and 10.8 months, respectively. The strategic and interim goals are identical because actual processing times cover multi-years and are measured as performance data only when rulemakings are completed.							
-Requiring advance notice and public comment (2-stage)	21.7	19.4	19.6	19.5	19.9	(1) 19.6	(1)19.6
-Without advance notice and public comment (1-stage)	7.4	7.8	7.5	7.4	7.3	(1) 7.5	(1) 7.5
Number of material weaknesses (OM)	3	4	1	1	1	1	0



Part II – Performance Measures Tables

Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
Percent Condition Index (Owned Buildings) (OAEM) *(Standard government-wide measure required by the Federal Real Property Council) The Office of Asset Enterprise Management (OAEM) develops VA policy that governs the Department's Capital Asset Management. Policy execution is done by VA's business lines (Veterans Health Administration, Veterans Benefits Administration, and National Cemetery Administration), and annual performance results are reported by OAEM.	66%	74%	71%	(1)70%	*79%	78%	87%
Percent of space utilization as compared to overall space (owned and direct-leased) (OAEM) (1) Corrected (See * above)	113%	(1) 114%	(1) 122%	(1) 116%	*116%	110%	100%
Ratio of non-mission dependent assets to total assets (OAEM) (1) Corrected (See * above)	12%	12%	9%	(1) 10%	*13%	10%	10%
Ratio of operating costs per gross square foot (GSF) (OAEM) (1) Corrected (See * above)	\$6.47	\$6.95	\$7.64	(1) \$7.94	*\$7.67	\$7.23	\$6.41
Cumulative percent reduction of vacant square feet through public-private partnerships via Enhanced Use Lease(s) (OAEM) (New)	N/Av	N/Av	N/Av	N/Av	N/Av	TBD	25%
Cumulative Number of Enhanced Use Leases Executed (OAEM) (New)	N/Av	N/Av	N/Av	N/Av	N/Av	TBD	50 projects
Percent of current year (CY) electricity consumption generated with renewable energy sources (OAEM) **The Office of Asset Enterprise Management (OAEM) develops VA policy that governs the Department's Capital Asset Management. Policy execution is done by VA's business lines (Veterans Health Administration, Veterans Benefits Administration, and National Cemetery Administration), and annual performance results are reported by OAEM.	4%	3%	7%	12%	5%	5%	15% by 2013
Cumulative percent decrease in greenhouse gas (GHG) emissions (OAEM) (See ** above) (1) Corrected	N/Av	N/Av	(1) 0%	3%	6%	6%	30% by 2020



Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
Percent of annual major construction operating plan executed (OALC)	N/Av	N/Av	N/Av	82%	44%	90%	90%
Percentage of contracts competitively awarded (Supply Fund)	N/Av	N/Av	74%	75%	78%	65%	65%
<b>Office of Inspector General</b>							
<b>Resources</b>							
FTE	513	509	553	634	638		
Administrative costs only (\$ in millions)	\$78	\$97	\$113	\$113	\$116		
<b>Performance Measures</b>							
Number of reports (audit, inspection, evaluation, contract review, and CAP reports) issued that identify opportunities for improvement and provide recommendations for corrective action	212	235	263	301	299	275	300
Number of arrests, indictments, convictions, criminal complaints, pretrial diversions, and administrative sanctions, and corrective actions	1,884	2,250	1,929	1,939	2,683	1,900	2,300
Monetary benefits (dollars in millions) from audits, investigations, contract reviews, inspections, and other evaluations	\$500	\$2,931	\$1,914	\$7,122	\$3,477	\$1,200	\$1,500
Return on investment (monetary benefits divided by cost of operations in dollars) Beginning in 2009, the cost of operations for the Office of Healthcare Inspections, whose oversight mission results in improving the health care provided to Veterans rather than saving dollars, is not included in the return on investment calculation (see OIG's September 2011 <i>Semiannual Report to Congress</i> , page 5, <a href="http://www.va.gov/oig/publications/semiannual-reports.asp">www.va.gov/oig/publications/semiannual-reports.asp</a> )	6 to 1	38 to 1	20 to 1	76 to 1	36 to 1	12 to 1	15 to 1



Part II – Performance Measures Tables

Organization/Program/Measure (Key Measures in Bold)	Past Fiscal Year Results				2012		Strategic Targets
	2008	2009	2010	2011	Results	Targets	
Percentage of:							
Prosecutions successfully completed	94%	94%	97%	99%	94%	94%	95%
Recommendations implemented within 1 year to improve efficiencies in operations through legislative, regulatory, policy, practices, and procedural changes in VA	88%	94%	86%	87%	87%	90%	95%
Recommended recoveries achieved from postaward contract reviews	N/Av	N/Av	N/Av	100%	100%	95%	98%
OIG Customer satisfaction survey scores (based on a scale of 1 - 5, where 5 is high):							
Investigations	4.6	4.9	4.9	4.9	4.9	4.5	5.0
Audits and Evaluations	4.0	4.0	4.0	4.4	4.0	4.0	5.0
Healthcare Inspections	4.7	4.7	4.6	4.6	4.4	4.3	5.0
Contract Review	N/Av	4.6	4.7	4.8	4.7	4.2	5.0

Measures dropped after 2011 that did not report final numbers in the 2011 PAR							
<i>Veterans Benefits Administration</i>	2007	2008	2009	2010	2011	2011 Target	
Montgomery GI Bill usage rate (%) for Veterans who have passed their 10-year eligibility period (Education)	70%	70%	70%	71%	71%	71%	

**Footnotes for why measures were dropped:**

Measure was dropped and will be replaced with a measure for the Post-9/11 GI Bill. It is anticipated that the Post-9/11 GI Bill will become the education program of choice. Education Service continues to consider ways to develop a performance measure for the Post-9/11 GI Bill.



## Major Management Challenges Identified by the OIG

The Department’s Office of Inspector General (OIG), an independent entity, evaluates VA’s programs and operations. The OIG submitted the following update of the most serious management challenges facing VA.

We reviewed the OIG’s report and provided responses, which are integrated within the OIG’s report. Our responses include the following for each challenge area:

- **Estimated resolution timeframe (fiscal year)** to resolve the challenge
- **Responsible Agency Official** for each challenge area
- **Completed 2012 milestones** in response to the challenges identified by the OIG

VA is committed to addressing its major management challenges. Using the OIG’s perspective as a catalyst, we will take whatever steps are necessary to help improve services to our Nation’s Veterans. We welcome and appreciate the OIG’s perspective on how the Department can improve its operations to better serve America’s Veterans.

Major Management Challenge		Estimated Resolution Timeframe (Fiscal Year)	Page #
No.	Description		
<b>OIG 1</b>	<b>Health Care Delivery</b>		<b>II-91</b>
1A	Quality of Care	2014	II-91
1B	Access to Care	2013	II-93
1C	Accountability of Prosthetic Supplies in VHA Medical Facilities	2015	II-98
<b>OIG 2</b>	<b>Benefits Processing</b>		<b>II-99</b>
2A	Effectively Managing Disability Benefits Claims Workload	2015	II-99
2B	Improving the Quality of Claims Decisions	2012	II-102
2C	VA Regional Office Operations	2015	II-104
2D	Improving Disability Benefits Questionnaires (DBQs)	2013	II-104
2E	Improving the Management of VBA’s Fiduciary Program	2012	II-106
<b>OIG 3</b>	<b>Financial Management</b>		<b>II-108</b>
3A	Strengthen Financial Management and Fiscal Controls for VISN Offices	2014	II-108
3B	Strengthen Oversight of Human Capital Management and Development Programs.	2012	II-109
3C	Strengthen Oversight to Better Leverage Capital Assets	2013	II-112
<b>OIG 4</b>	<b>Procurement Practice</b>		<b>II-113</b>
4A	Compliance with Laws, Regulations, and Policies	2013	II-113
4B	Improve Oversight for VA’s VOSB and SDVOSB Programs Procurement Activities	20XX	II-116
4C	Effective Contract Administration	2013	II-118



*Part II - Major Management Challenges*

4D	Improve Oversight of Procurement Activities	2013	II-120
4E	Sound IT Procurement Practices	2013	II-122
<b>OIG 5</b>	<b>Information Management</b>		<b>II-124</b>
5A	Development of an Effective Information Security Program and System Security Controls	2013	II-124
5B	Interconnections with University Affiliates	2013	II-126
5C	Successful Deployment of Encryption Software	2013	II-127
5D	Strategic Management of Office of Information Technology Human Capital	2013	II-128
5E	Strengthening Information Technology Governance	2013	II-130
5F	Effective Oversight of Active IT Investment Programs and Projects	2013	II-131
	<b>Appendix</b>		<b>II-135</b>



## Department of Veterans Affairs

# Memorandum

Date: July 11, 2012

From: Inspector General (50)

Subj: 2012 Performance and Accountability Report

To: Secretary of Veterans Affairs (00)

1. Please see the attached Office of Inspector General (OIG) update regarding VA's most serious management challenges for inclusion in the 2012 Performance and Accountability Report (PAR). Our staff worked with VA staff to arrange publication of the full OIG report on major management challenges in the PAR.
2. OIG is submitting this statement to the Department pursuant to Section 3516 of Title 31, United States Code. The law states that the Department may comment on, but may not modify, the OIG statement. Please ensure the Department provides all suggested changes to OIG for review prior to incorporation into the PAR.
3. On behalf of all OIG staff, I am appreciative of the level of support and cooperation we have received from the Department as we work to improve VA. We especially appreciate the support you and the Deputy Secretary have exhibited as we work together to address the major challenges facing VA. We look forward to working with both of you to complete the implementation of key OIG recommendations in the future.

A handwritten signature in cursive script that reads "George J. Opfer".

GEORGE J. OPFER

Attachment



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

**FOREWORD**

Our Nation depends on VA to care for the men and women who have sacrificed so much to protect our freedoms. These service members made a commitment to protect this Nation, and VA must continue to honor its commitment to care for these heroes and their dependents—in a manner that is as effective and efficient as possible. VA health care and benefits delivery must be provided in a way that dually meets the needs of today's and yesterday's Veterans. It is vital that VA health care and benefits delivery work in tandem with support services like financial management, procurement practices, and information management to be capable and useful to the Veterans who turn to VA for the benefits they have earned.

Office of Inspector General (OIG) audits, inspections, investigations, and reviews recommend improvements in VA programs and operations, and act to deter criminal activity, waste, fraud, and abuse in order to help VA become the best-managed service delivery organization in Government. Each year, pursuant to Section 3516 of Title 31, United States Code, OIG provides VA with an update summarizing the most serious management and performance challenges identified by OIG work and other relevant Government reports, as well as an assessment of the Department's progress in addressing those challenges.

This report contains the updated summation of major management challenges organized by the five OIG strategic goals—health care delivery, benefits processing, financial management, procurement practices, and information management—with assessments of VA's progress on implementing OIG recommendations.

OIG will continue to work with VA to address these identified issues and to ensure that the Department will provide the best possible service to the Nation's Veterans and their dependents.

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

**GEORGE J. OPFER**  
Inspector General



## OIG CHALLENGE #1: HEALTH CARE DELIVERY -Strategic Overview-

For many years, the Veterans Health Administration (VHA) has been a national leader in the quality of care provided to patients when compared with other major U.S. health care providers. VHA's use of the electronic medical record, its National Patient Safety Program, and its commitment to use data to improve the quality of care has sustained VHA's quality of care performance. VHA's decision to provide the public access to extensive data sets on [quality outcomes and process measures](#) is a further step forward as a national leader in the delivery of health care. Additionally, VHA's action to determine each hospital's ability to handle complex surgical cases, assign a [rating](#) classification, and then limit the procedures that can be performed at each class of facility is further evidence of its groundbreaking efforts to maintain and improve the quality of care that Veterans receive.

However, VHA faces particular challenges in managing its health care activities. The effectiveness of clinical care, budgeting, planning, and resource allocation are negatively affected due to the continued yearly uncertainty of the number of patients who will seek care from VA. Over the past 7 years, OIG has invested about 40 percent of its resources in overseeing the health care issues impacting our Nation's Veterans and has conducted reviews at all VA Medical Centers (VAMCs) as well as national inspections and audits, issue-specific Hotline reviews, and criminal investigations. The following sub-challenges highlight the major issues facing VHA today.

### OIG Sub-Challenge #1A: Quality of Care

VHA faces increased challenges in meeting the mental health needs of today's returning war Veterans. The high incidence of Post-Traumatic Stress Disorder (PTSD), depression, substance abuse, and military sexual trauma (MST) among today's Veterans challenge VHA to provide one standard of care across the country. This is especially impacted by the increase in the number of women Veterans. Although VHA has a high compliance with the goal of providing these at-risk Veterans with suicide safety plans, VHA is challenged to improve that coordination of care between VHA medical facilities, civilian and military facilities and providers for at-risk Veterans. Deficits in the coordination of care for these high-risk patients may result in patient deaths.

VHA has demonstrated the ability to deliver a high quality of patient care as determined by standard measures of population health. However, OIG continues to note excessive variation in the quality of care delivered. With the increasing number of Veterans receiving care at community-based outpatient clinics (CBOCs), VA faces challenges in delivering quality care at CBOCs that are often distant from their parent facilities.

While CBOCs expand Veterans' access to care, they require increased oversight by VHA. An OIG audit of CBOC management oversight found that VHA lacks the means to evaluate CBOC performance at the national, regional, and local levels; ensure parent facilities provide adequate CBOC oversight; and identify health care gaps at VA and contractor-operated CBOCs. In addition, VHA lacks the management controls needed to ensure CBOCs provide Veterans consistent quality care, because the CBOC Primary Care Management Module (PCMM) data, which VHA uses to make budgetary and resource management decisions, is inaccurate. Inaccurate PCMM data and problems in the completion of



traumatic brain injury (TBI) and MST screenings at CBOCs demonstrate the need for VHA to establish CBOC-specific monitors to evaluate systemic problems and deviations from VHA's one standard of care. To address this challenge, VHA is in the process of taking action to improve the accuracy of PCMM data, monitor TBI and MST screenings, and establish a comprehensive CBOC performance monitoring system.

An additional ongoing challenge relates to reusable medical equipment (RME). VHA recognizes the importance of safe and consistent RME practices, but it continues to face problems despite efforts to comply fully with proper reprocessing procedures. After identifying poor compliance with RME procedures at several hospitals, OIG notes issues with maintaining compliance with RME directives. Veterans seeking care at a VA facility should have assurance that any equipment they come in contact with will be properly cleaned and, if necessary, sterilized within specifications promulgated by bodies advising on such processes. To do otherwise, at a minimum, exposes patients to unnecessary and unacceptable risk of infection.

**VA's Program Response**  
**Estimated Resolution Timeframe: 2014**  
**Responsible Agency Official: Under Secretary for Health**

Completed 2012 Milestones

In 2012, VHA approved a plan to expand the number of VA staff located at Military Treatment Facilities (MTF) to transition health care of recovering Servicemembers from the Department of Defense (DoD) to the VA. VA Liaisons for Healthcare (VA Liaison), either licensed social workers or registered nurses, are strategically placed in MTFs with concentrations of recovering Servicemembers returning from Iraq and Afghanistan. VA now has 33 VA Liaisons for Healthcare stationed at 18 MTFs and plans to expand to 43 VA Liaisons at 21 MTFs in early late 2012. The VA Liaisons coordinate health care as Servicemembers transition from MTFs to VA health care facilities closest to their homes or the most appropriate locations for the specialized services their medical conditions require.

As of June 30, 2012, 91% of Servicemembers who were referred to VA Liaisons to transition their health care from MTFs to VA had appointments scheduled at the receiving VAMC or CBOC prior to leaving MTFs.

Coordination of care among VHA, civilian, and military facilities for at-risk Veterans is enhanced by a highly functioning team providing oversight of the health care. Patient-Aligned Care Teams (PACT) have been designed to provide this high level of team-based care that can coordinate an integrated treatment plan to be implemented in diverse settings. A well trained interdisciplinary team is the cornerstone of PACT care, typically including a nurse care manager, social workers, dietitians, clinical pharmacists, as well as mental health, rehabilitation and telehealth specialists. The PACT initiative, launched in 2010, has completed the initial education and training phase with the conclusion of an Institute for Healthcare Improvement style national collaborative, and is now entering phase II of the training which includes a focus on personalized patient-centered, team-based care that thoroughly integrates all VHA transformation initiatives to optimize coordination of care across all sites. This training phase, begun in 2012, will accelerate in 2013 and complete all training in 2014. Included in this initiative is a well-defined focus on the special needs and concerns experienced by the returning combat Veteran. It is



anticipated that this uniform training effort for all PACTs will reduce unwanted variation and enhance the overall standard of care for all at-risk Veterans.

The methodology for collection of data used for monitoring clinical care, including care provided in CBOCs, has been restructured. These data were previously reviewed only as CBOC contract care vs. non-contract care and were not part of the quality performance review of parent VAMCs and Veterans Integrated Service Networks (VISN). This changed in 2012 when CBOC data were included in the overall performance of the parent facility and rolled into the VISN quality data. Because the data are now part of the overall data of the parent facility, the parent facility must ensure the clinical quality at the CBOCs is maintained in order for the VISNs to successfully meet their clinical performance metrics.

In addition to the data being a portion of the overall data for the parent facility, VHA recognizes the importance of looking at the data independently from the parent VAMC by reviewing size and whether the site is contracted or VA staffed. A separate report about just CBOC quality of care is prepared and reviewed.

The Deputy Under Secretary for Health Operations and Management (DUSHOM) has quarterly reviews with each VISN Director. These reviews focus on the measures in performance plans, key initiatives (such as access and mental health), and quality of care. CBOC data are a portion of the VISN quality reviews. A CBOC is considered part of its parent facility for clinical care issues and oversight. The VISNs and parent facilities are held accountable for the quality and safety of the Veterans within their CBOCs.

To emphasize the importance of sterile processing of reusable medical equipment (RME), VHA revised its sterile processing inspection system to use inspection tools that includes questions specific to the requirement that standard operating procedures (SOP) be current and consistent with manufacturers' instructions, and that that these SOPs are located in reprocessing areas. Inspection results show excellent compliance. Also, the One Source document database contract has been extended through September 30, 2012. Starting in March 2012, VHA began its International Standardization Organization (ISO) 9001 Implementation at 7 pilot sites. This provides the sustainable, repeatable framework to reduce variation and ensure standardization of reprocessing of RME.

#### **OIG Sub-Challenge #1B: Access to Care**

As mentioned in Sub-Challenge 1A, Veterans' access to VA mental health care is a major challenge for VHA. Here the focus is on the particular challenges of providing timely access to mental health services, reducing wait times for services and ensuring the availability of providers. With the increase in the number of Veterans needing care, VA contracts care to private physicians and medical facilities where the challenge is both in ensuring the standard of care provided, and also verifying fees charged to VA by non-VA providers.

OIG reviews, including an April 2012 report, *Review of Veterans' Access to Mental Health Care*, indicate VHA does not have a reliable and accurate method of determining whether they are providing patients timely access to mental health care services. VHA did not provide first-time patients with timely mental health evaluations, and existing patients often waited more than 14 days past their desired date of care



for their treatment appointment. Using the same data VHA used to calculate the 95 percent success rate shown in the FY 2011 PAR, OIG selected a statistical sample of completed evaluations to determine the starting and ending points of the elapsed day calculation. OIG calculated the number of days between initial contact in mental health and the full mental health evaluation. The analysis projected that VHA provided only 49 percent (approximately 184,000) of their evaluations within 14 days. On average, for the remaining patients, it took VHA about 50 days to provide them with their full evaluations. As a result, performance measures used to report patients' access to mental health care do not depict the true picture of a patient's waiting time to see a mental health provider.

OIG reported concerns with VHA's calculated wait time data in the *Audit of VHA's Outpatient Scheduling Procedures* and *Audit of VHA's Outpatient Wait Times*. During both audits, OIG found that schedulers were entering an incorrect desired date. VHA needs a reliable set of performance measures and consistent scheduling practices to accurately determine whether they are providing patients timely access to mental health services. Given VHA's inability to correct this long-standing problem, VHA also needs to reassess their training, competency, and oversight methods and develop appropriate controls to collect reliable and accurate appointment data.

Furthermore, VHA needs to strengthen the management of rural health care funding to ensure that rural health projects meet VHA's Office of Rural Health's (ORH's) goals of improving access and quality of care for rural Veterans. ORH was created in February 2007 to conduct rural health research and develop policies and programs to improve health care and services for approximately 3.3 million rural Veterans. Men and women from geographically rural areas make up a disproportionate share of Servicemembers and comprise about one-third of all Operation Enduring Freedom, Operation Iraqi Freedom, and Operation New Dawn (OEF/OIF/OND) enrolled Veterans.

In April 2011, OIG reported that VHA needed to improve the management of rural health funding, finding that ORH did not adequately manage the use of rural health funds for fee care and their rural health project selection process. Additionally, ORH did not monitor project obligations and performance measures. The cause was a lack of financial controls, the absence of policies and procedures to ensure staff followed management directives, and inadequate communication with key stakeholders. Also, ORH lacked a project monitoring system, procedures to monitor performance measures, and a process to assess rural health needs. As a result, OIG determined that VHA lacked reasonable assurance that ORH's use of \$273.3 million of the \$533 million in funding received during FYs 2009 and 2010 improved access and quality of care for Veterans residing in rural areas. To address this challenge, VHA must identify high-impact projects during the formulation of the program's annual budget requests and strengthen its future proposal selection process. Completing these actions will improve VHA's accounting of funds and measuring of the rural health program's impact on the health care of rural Veterans and their families.

As reported last year, the Veterans Benefits Administration (VBA) relies on VHA medical facilities to perform compensation and pension (C&P) medical examinations to determine the degree of disability or provide a medical opinion as to whether a disability is related to the Veteran's military service. A 2010 OIG audit found that VA medical facilities do not consistently commit sufficient resources to ensure Veterans receive timely C&P medical examinations. This occurred because VHA has not established procedures to identify and monitor resources needed to conduct C&P medical examinations and to



ensure resources are appropriately planned for, allocated, and strategically placed to meet examination demand. VHA's ability to complete C&P examinations in a timely and efficient manner is of extreme importance due to VBA's claims processing backlog. Due to the insufficient resources committed to the C&P medical examination program, many Veterans do not receive timely C&P medical examinations. VHA is taking steps to capture workload data and analyze staffing models and is also developing standards on the amount of time that should be allotted when scheduling appointments for each examination.

OIG continues to monitor VA's ability to complete C&P examinations in a timely and efficient manner. During FY 2011, VHA continued to face C&P examination backlogs. In at least one VISN, some VHA facilities conducted C&P examination "blitzes" during the spring of 2011. These facilities dedicated up to 80 percent of their primary care appointment schedules over the course of 3 weeks to address a backlog of C&P examinations. While VHA recently reorganized responsibility for VHA's C&P examination efforts under a new Office of Disability and Medical Assessment, report recommendations made in the OIG 2010 audit report remain open. VHA needs to implement procedures to better capture data on C&P examination workload, costs, and productivity and use this data to ensure appropriate resources are dedicated to completing C&P examinations.

VHA also faces a significant challenge in ensuring Veterans obtain needed nursing home care. In March 2011, an OIG audit of VHA's State Home Per Diem Program reported that two states were denying care to eligible Veterans and none of the eight VAMCs the OIG visited had strengthened their outreach efforts to ensure Veterans denied access to State Veterans Homes (SVHs) nursing home care obtained access to care from other VA sources. The issue resulted from VAMCs not providing SVHs information on VA nursing home care options for distribution to Veterans. VHA can address this challenge by providing fact sheets on VA nursing home care options to SVHs for distribution to eligible Veterans, identifying the SVHs that have denied eligible Veterans access to care, and developing and initiating a plan to conduct specific and targeted outreach activities.

The March 2011 audit also reported that VA medical facilities need to improve their oversight of SVHs to reduce risks of Veterans receiving inappropriate nursing home care. In addition, VAMCs did not properly document or ensure timely SVH submission of 32 percent of eligibility determinations and 55 percent of medical care approval requests for the sample of Veterans the OIG reviewed. This was the result of ineffective VHA policies and procedures, insufficient oversight, and inadequate staff training. Improvements are needed to avoid an increased risk that Veterans will not receive needed nursing home care, and SVHs will not provide appropriate medical care. By revising VHA policies and procedures, ensuring VISNs establish oversight procedures, and providing training to VAMC staff responsible for SVH oversight, VHA can reduce the risks of Veterans receiving inappropriate SVH nursing home care.

VA has undertaken the mission of ending homelessness among Veterans, but VHA continues to face difficulties in serving this population of Veterans appropriately. In many instances, VHA has provided compassionate care to a most challenging population; however, the successful provision of health care to Veterans without a fixed address and with the disease burden typical of this population will require comprehensive programs and outreach. VHA faces challenges in identifying Veteran subpopulations most susceptible to homelessness, and in placing homeless or at-risk Veterans into programs that are



demonstrated to be effective. Furthermore, the diagnosis and treatment of complex cardiac disease, gastrointestinal disorders, cancer, and substance abuse are examples of medical disorders that are a challenge to provide care for in disadvantaged areas and to homeless Veterans.

The VHA Grant and Per Diem Program is successfully assisting homeless Veterans to live independently in safe and affordable permanent housing. This program supports the Secretary's goal to eliminate homelessness for Veterans by 2015. However, OIG identified serious issues impacting the housing safety, security, and privacy issues of homeless Veterans, particularly homeless female Veterans. Further, an incomplete grant application evaluation process; a lack of program safety, security, health, and welfare standards; and an inconsistent monitoring program impacted the program's effectiveness. As a result, VHA did not ensure homeless Veterans consistently received the supportive services agreed to in approved grants. In addition, funding was not effectively aligned with program goals. Program improvements are needed to ensure access to vital support services as VA prepares to serve approximately 20,000 homeless Veterans in 2012 and thousands more in subsequent years based on a 2011 Department of Housing and Urban Development report, *The 2011 Point-in-Time Estimates of Homelessness: Supplement to the Annual Homeless Assessment Report*, estimating that 67,495 Veterans were homeless on a single night in January 2011.

VHA continues to face significant challenges in addressing the healthcare and financial vulnerabilities associated with the Non-VA Fee Care Program. The OIG issued *Audit of Veterans Health Administration's Non-VA Outpatient Fee Care Program and Alleged Mismanagement of the Fee Basis Program VA Connecticut Healthcare System West Haven, Connecticut*. OIG concluded in both reports that controls over pre-authorizing fee care services needed improvement. Yet in FY 2011, OIG substantiated an allegation that the Phoenix Health Care System (HCS) experienced an \$11.4 million budget shortfall, 20 percent of the Non-VA Fee Care Program funds for that year. HCS management did not have sufficient procedural and monitoring controls to ensure that: (1) the official designated to pre-authorize fee care thoroughly reviewed requests, (2) clinical staff conducted necessary utilization and concurrent reviews, and (3) fee staff obligated sufficient funds for fee care. As a result, the Phoenix HCS had to obtain additional funds from the National Fee Program and VISN 18 and cancel equipment purchases to cover the \$11.4 million shortfall. OIG concluded that authorization procedures and the procedures to obligate sufficient funds to ensure it could pay its commitments were so weak that the Phoenix HCS processed about \$56 million of fee claims during FY 2010 without adequate review.

**VA's Program Response**  
**Estimated Resolution Timeframe: 2013**  
**Responsible Agency Official: Under Secretary for Health**

Completed 2012 Milestones

To improve accuracy and validity of wait time measurements in ambulatory care, the Veterans Health Administration (VHA) has recently revisited the use of the "desired date" in out-patient scheduling. In 2013, VHA anticipates adopting the "agreed upon date" to replace the "desired date" in determining wait times. The "agreed upon date" is a date agreed upon by both provider and patient which is then written down and communicated directly to the scheduler as the appointment is created. This approach



promotes negotiation of a date that is both clinically relevant and patient-centered; this improved process is expected to reduce scheduling errors and enhance accuracy of wait time recording.

VHA's Office of Rural Health has made significant progress in the establishment and implementation of financial controls as well as revised review and approval processes; use of project management tracking systems, quality measures, and performance measures to assess access, quality, patient satisfaction and performance; and collection and quarterly evaluation of data to ensure oversight and accountability for funded projects.

In 2012, VHA concentrated on implementing an updated and revised handbook issued to strengthen the State Veterans Home (SVH) Per Diem Program. Efforts have concentrated on addressing roles and responsibilities, eligibility requirements for the different levels of care (i.e., nursing home, domiciliary, and adult day health care), and the processing of SVH admissions applications and per diem payment processing, to include the computation of rates and monthly invoicing processes. Audit processes and related training have also been implemented.

VHA's Office of Disability and Medical Assessment (DMA) has initiated significant improvements to ensure compensation and pension (C&P) examinations are completed in 30 days or less. As of July 30, 2012, the national timeliness average for the completion of C&P examinations was 26 days. To further enhance operations, DMA is refining the C&P unit guideline recommendations and also expects to implement a C&P examination demand forecasting model later in 2012.

VHA recognizes the value and critical piece that prevention plays in achieving the overall goal of ending Veteran homelessness and is addressing risk factors for becoming homeless by:

- Developing a universal at-risk screening tool to identify those Veterans at immediate risk for homelessness and then connecting them to both Department of Veterans Affairs (VA) and community resources that promote housing stabilization and treatment;
- Conducting collaborative research to inform VA policy and practice to ensure that VA programs are tailored to models that most effectively prevent Veterans from becoming homeless;
- Expanding the Supportive Services for Veteran Families Program funding to private non-profit organizations and consumer cooperatives to provide a range of supportive services to very low-income Veterans and their families; and
- Funding substance use disorder (SUD) clinical positions.

VHA also recognizes the importance of the safety and security of all Veterans, and especially female Veterans and families. VHA has increased attention to these areas through a review of all grant programs to ensure facilities are safe and appropriate, adaptation of grant reviews and applications to ensure Veterans are appropriately placed in programs, and concentrated training to educate staff in the field about the need to be vigilant and attentive.

VHA recognizes the need to address issues with the non-VA fee care program and this year has initiated a complete review of non-VA fee care in contracted community-based outpatient clinics (CBOC) and is upgrading the Fee Basis Claim System (FBCS) software to ensure sites are processing claims at Medicare rates.



### **OIG Sub-Challenge #1C: Accountability of Prosthetic Supplies in VHA Medical Facilities**

From FY 2007 through FY 2011, VHA's prosthetic supply costs increased nearly 79 percent to about \$1.8 billion. Every year, VHA medical facilities process hundreds of millions of dollars of prosthetic supplies through inventories. In March 2012, OIG completed an audit of VHA's prosthetic supply inventory management. VHA medical facilities need to improve the management of prosthetic supply inventories. The audit estimated from April through October 2011, VHA medical facilities maintained inventories of nearly 93,000 prosthetic supply items with a total value of about \$70 million. Of the 93,000 items, VHA medical facilities inventories exceeded current needs for almost 43,500 items (47 percent) and were too low for nearly 10,000 items (11 percent), increasing the risk of supply shortages. As a result, VHA medical facilities spent about \$35.5 million to purchase unnecessary prosthetic supplies and increased the risk of supply expiration, theft, and supply shortages. Without adequate inventory management tools and controls and a more modern inventory system, it is difficult for VHA medical facility managers and staff to ensure proper stewardship and accountability of prosthetic inventories and the continuous availability of prosthetic supplies needed for clinical staff to provide patient care. To improve prosthetic supply inventory management, VHA needs to increase inventory system capabilities, provide sufficient staff training, strengthen oversight, and revise policies and procedures.

#### **VA's Program Response**

**Estimated Resolution Timeframe: 2015**

**Responsible Agency Official: Under Secretary for Health**

#### Completed 2012 Milestones

The Veterans Health Administration (VHA) acknowledges that improvements in the prosthetics inventory management are important and necessary. The following strategic action plan including timelines and milestones is in place:

- Policy and procedures to conduct and reconcile physical inventories as well as provide guidance to eliminate excess and avoid shortages of prosthetic supplies maintained in the Prosthetics Inventory Package (PIP) and the Generic Inventory Package (GIP) were issued to facilities on July 30, 2012.
- Veterans Integrated Service (VISN) Chief Logistics Officers were required to validate that physical inventories were conducted. This is 37% complete as of August 22, 2012.
- A plan to replace PIP and GIP inventory systems with a comprehensive inventory management is in development. Completion is projected for 2015 pending availability of funds awarded through the internal prioritization process of the information technology budget. Revised standardized inventory management training guides are scheduled to be distributed to VISN and field offices by November 30, 2012.
- Training curriculum and a certification program about inventory management practices and techniques is to be completed by November 30, 2012.
- A requirement that at least one prosthetic supply inventory manager from each VAMC become a Certified VA Supply Chain Manager is to be issued by November 30, 2012.
- An analysis of inventory procurement data about implantable devices is to be completed by December 30, 2012. Following that, actions are to be identified about potential strategic



sourcing opportunities via consignment agreements with completion anticipated in mid- to late-2013.

- Compliance requirements were issued to field/network offices on July 30, 2012, indicating compliance and monthly reporting requirements for performance measures related to prosthetic supply inventories.
- Cyclical reviews with reports being sent to VHA Procurement and Logistics Office are scheduled to begin October 31, 2012.

## **OIG CHALLENGE #2: BENEFITS PROCESSING** **-Strategic Overview-**

The OIG has consistently reported the need for enhanced policies and procedures, training, oversight, quality review, and other management controls to improve the timeliness and accuracy of disability claims processing. OIG remains committed to keeping decision makers informed of longstanding and emerging problems identified through the audits, inspections, investigations, and reviews so that the Department can take timely corrective actions. While the Department has made much progress, there is still much to do to establish an effective and efficient organization.

During the 6-year period from FY 2007 through 2011, VBA's national accuracy rates for rating claims decisions remained the same or declined every year, dropping from 88 percent in FY 2006 to 83 percent in FY 2011. In FY 2012, VBA realigned its rating accuracy goal from 90 percent to 87 percent, to make a more stair-step achievable approach to reaching 98 percent accuracy in 2015. With the significant expansion of its claims workforce through current recruitment efforts and increasing receipt of claims from Veterans, VA will face additional significant challenges in meeting its goals for accuracy and consistency of benefit decisions. VBA is moving forward with plans to implement about 40 transformational initiatives to improve the accuracy and timeliness of claims processing. However, at this time, sufficient information to assess how each of these individual initiatives will contribute to meeting the Secretary's goals is unobtainable due to early implementation efforts.

### **OIG Sub-Challenge #2A: Effectively Managing Disability Benefits Claims Workload**

In FY 2011, VBA completed 1.8 million rating and non-rating claims, resulting in an end-of-year claims inventory of 1.1 million claims, up 54 percent from FY 2010's ending inventory of almost 726,000 claims. As of May 31, 2012, VBA's rating and non-rating inventory had climbed to an unprecedented 1.28 million claims. The May 2012 inventory represents dramatic increases of 15 percent from the end of FY 2011 and 76 percent from the end of FY 2010. OIG has completed several audits and reviews to assist VBA in addressing the demands of a rapidly increasing workload. VBA introduced several initiatives to attempt to reduce disability benefits claims processing times.

In a May 2012 audit, the OIG reported that opportunities exist for VBA to improve appeals processing at VA Regional Offices (VAROs). The nationwide inventory of appeals increased over 30 percent from about 160,000 appeals in FY 2008 to about 209,000 in FY 2010. During this time, the inventory of compensation rating claims increased by 40 percent from 380,000 to 532,000 claims. OIG found VBA



contributed to the growing inventory and time delays. Regional office managers did not assign enough staff to process appeals, diverted staff from appeals processing, and did not ensure appeals staff acted on appeals promptly because compensation claims processing was their highest priority. OIG reported that *de novo* reviews will result in quicker decisions on the Veterans' appeals because decision review officers can render decisions without waiting for new evidence as required with traditional reviews. The audit showed that VARO staff did not properly record 145 appeals in Veterans Appeal Control and Locator System (VACOLS) that delayed processing for an average of 444 days. VBA had launched a pilot program, the Appeals Design Team, to try several different process changes to the appeals workflow. The pilot began in March 2012 at the Houston VARO, and VBA anticipates pilot completion in January 2013.

Processing the increased number of Veterans' compensation benefit claims has been a major challenge for VBA, as was discussed previously in Sub-Challenge 1B. Here the focus is directed specifically at process. VBA utilizes a claims brokering system with the goal to reduce claims backlogs by expediting processing and helping VAROs meet their processing timeliness targets. In 2010, OIG conducted an audit to evaluate the effectiveness of VBA's Compensation Program claims brokering. OIG reported VBA could improve the effectiveness of claims brokering by ensuring area offices consider additional factors affecting timeliness and accuracy. Nearly 171,000 brokered claims were completed during FY 2009, with an average processing time of 201 days. OIG projected the average processing time could have been reduced by 49 days if VBA had avoided the claims processing delays identified in this report. Rating Centers and Veterans Service Centers (VSC) with reported claims-processing accuracy rates completed almost 117,000 of the 171,000 brokered claims. Of the nearly 117,000 claims VBA brokered for ratings, OIG projected area offices brokered about 54,000 (46.2 percent) to facilities with lower rating accuracy rates than original offices. To address these issues, VBA needs to revise brokering policies and procedures and include timeliness and accuracy measurements in performance plans for directors of VAROs that process brokered claims. In June 2010, VBA interrupted most claims brokering to address the additional challenge of processing *Nehmer* claims. VBA officials have stated they plan to resume full-scale brokering in July 2012.

**VA's Program Response**  
**Estimated Resolution Timeframe: 2015**  
**Responsible Agency Official: Under Secretary for Benefits**

Completed 2012 Milestones

Despite unprecedented VBA claims production and completing over 1 million claims each year for the last two years, VA's backlog has grown. VBA has experienced an unprecedented growth in claims, nearly 48 percent more than three years ago. Included in this growth are 45 percent of the 1.6 million Veterans who have honorably served during more than a decade of war in Iraq and Afghanistan, rightfully filing claims and at unprecedented levels.

VBA allocated significant resources to processing the approximately 260,000 Agent Orange presumptive claims received, dedicating our 13 resource centers exclusively to readjudicating over 90,000 previously denied claims for the new presumptive conditions under the stipulations of the *Nehmer* court decision.



As of October 1, 2012, VA awarded over \$4 billion in retroactive benefits for the three new presumptive conditions to over 144,000 Veterans and survivors. Our prioritized focus on processing these complex claims slowed processing of other claims and contributed to a larger claims backlog, but remained the right thing to do for Vietnam Veterans.

Beginning March 1, 2012, the 13 Day-One Brokering Centers that were used exclusively for *Nehmer* workload in 2011 transitioned back to individual missions, including Benefits Delivery at Discharge and Quick Start claims support, appeals processing, and brokering support for lower-producing stations. To ensure this transition was successful, refresher training was conducted to familiarize the *Nehmer* claims processors with processing mission-specific claims.

VA's appeals process is extremely complex. Many factors affect the time it takes the agency to process an appeal. First, VA is experiencing an increase in appellate workload, commensurate with the overall increase in its benefit claims workload. Court decisions and other unforeseen changes in law can have a significant impact on this workload. Second, the record on appeal is an open record that allows claimants all-but-unlimited opportunities to submit evidence during the appeal process. Each such submission triggers development obligations for VBA and incumbent response times that must be afforded the claimant. Third, appeals processing in VBA cannot receive higher staffing levels without negatively impacting initial adjudications, which is inconsistent with VA policy regarding delivery of benefits to Veterans, their dependents, and survivors as quickly as possible. This systemic complexity makes it difficult to identify simple, easily implemented, solutions to the problems identified by the OIG. In March 2012, VBA launched an Appeals Design Team pilot at the Houston Regional Office (RO). The results of this pilot will allow VBA to conduct gap analysis, identify resource needs, and identify ways to leverage the knowledge and abilities of Decision Review Officers to streamline the appeals process.

VBA's intended effect of brokering is a faster decision for Veterans whose cases were brokered. OIG stated that claims were delayed because brokering centers and Veterans service centers maintained excessive claims inventories; however, the claims were intentionally brokered to these sites because the RO of original jurisdiction could not process them timely. VBA historical data shows that ROs facing workload and performance challenges have significantly benefited from brokering by reducing processing times and the inventory of pending claims. To address challenges with claims brokering, VBA mandated the use of specific end products for brokered work tracking and work credit. A comprehensive national brokering plan is being developed to ensure compliance with claims brokering policies and procedures aimed at improving timeliness and accuracy.

Even with unprecedented workload increases, VBA achieved nearly a 15 percent increase in output each year (from 2009 through 2011) and a 16 percent increase in 2012, when compared to 2008. VBA completed over one million disability claims in each of the past three years. VBA expects production levels to continue to increase each year through our transformational initiatives focused on people, process, and technology. As of the end of 2012, VBA has implemented a new operating model at 18 ROs, changing the way we are organized to do this work. Once fully implemented at all 56 ROs by the end of December 2013, VBA anticipates this new operating model will allow for the expedited processing of benefits claims. In addition, the Veterans Benefits Management System (VBMS) standardizes disability compensation claims processing through a web-based electronic system. VBMS



will be deployed to all ROs through a phased approach with an estimated completion by the end of 2013.

### **OIG Sub-Challenge #2B: Improving the Quality of Claims Decisions**

VARO management teams face multiple challenges in providing benefits and services to Veterans. Unlike last year's summary report, VARO staff was generally effective in processing PTSD claims. However, from the FY 2011 inspection reports, OIG identified systemic issues in providing oversight and training to staff in three areas: temporary 100 percent disability evaluations for service-connected conditions requiring surgical or specific medical treatment, TBI, and herbicide exposure-related claims. Based on these results, OIG projected VARO staff did not correctly process 30 percent of approximately 48,000 claims. These results do not represent the overall accuracy of disability claims processing at these VAROs as OIG sampled claims we considered at higher risk of processing errors.

During the period from October 2011 through June 2012, OIG inspected 14 VAROs and assessed their performance in the three areas identified above. Staff at these 14 VAROs incorrectly processed 40 percent of 1,026 disability compensation claims in these categories, resulting in nearly \$5 million in overpayments. In addition, these 14 VAROs incorrectly processed 35 percent of 232 TBI claims because VHA medical examination reports did not contain sufficient information to make an accurate determination. Further, inaccuracies resulted from staff not properly evaluating the severity of TBI-related disabilities. OIG found that VARO staff generally over-evaluated the severity of TBI-related disabilities because they did not properly interpret the medical examination reports.

OIG found that VBA needs to ensure the quality of 100 percent disability evaluations. In January 2011, OIG reported that VARO staff inconsistently processed temporary 100 percent disability evaluations. OIG projected that VARO staff did not correctly process evaluations for approximately 27,500 Veterans and that, since January 1993, VBA has paid Veterans a net \$943 million without adequate medical evidence. The review showed that VARO staff did not enter the required future medical exam date into VBA's electronic records. Entering the future medical exam date generates an automatic notification that alerts VARO staff to request a medical exam to evaluate whether the Veteran's temporary 100 percent disability evaluation should continue. Without this notification, improper payments could potentially continue for the Veteran's lifetime. OIG estimated that if VBA does not take timely corrective action, it could overpay Veterans a projected \$1.1 billion over the next 5 years. VBA generally classifies these overpayments as administrative errors and does not establish a receivable or expect the Veteran to repay the overpayment.

In response to a recommendation in the January 2011 report, the Acting Under Secretary for Benefits agreed to review all temporary 100 percent disability evaluations and ensure each had a future medical examination date entered in VBA's electronic record with a target completion date of September 30, 2011. However, VBA did not provide each VARO with a list of temporary 100 percent disability evaluations for review until early September 2011. VBA subsequently extended the deadline several times to December 31, 2011, then to March 31, 2012, and then again to September 2012. At one VARO, management erroneously reported to the Western Area office that staff had requested VA medical reexaminations to determine whether the Veterans' disabilities warranted the continued temporary 100 percent evaluations, when in fact this had not occurred. Given the financial risks associated with continuing to pay benefits in the absence of adequate medical documentation, OIG considers this a



major challenge. VBA must ensure controls are in place and working to ensure staff input suspense diaries, which alert staff when a medical re-examination is needed, into VBA's electronic system as required.

**VA's Program Response**  
**Estimated Resolution Timeframe: 2012**  
**Responsible Agency Official: Under Secretary for Benefits**

Completed 2012 Milestones

As part of the 2012 National Training Plan curriculum for VBA regional office employees, VBA created training material to ensure compliance with guidelines established regarding future examinations for the temporary 100 percent disability evaluations, traumatic brain injury, and herbicide exposure. VBA added 50 lesson plans to the Compensation Service Training Web site. These lessons are configured in a design template recognized as an educational design industry standard, written by subject matter experts, and reviewed by professional, educational curriculum experts.

In January 2012, VBA instructed regional offices that any files with temporary 100 percent disability evaluations or pending examination diaries cannot be relocated to the Records Management Center.

In May 2012, VBA completed the review of records containing temporary 100 percent evaluations for the top three disability-specific problem areas to assess current disability status and ensure a future examination date is in the Veteran's record.

In-depth system testing identified specific scenarios where future exam diary controls were either being canceled unexpectedly or not being set at all during the award generation process. A systemic diary redesign within the VETSNET Awards application and changes to the batch diary process were implemented in July 2012. Oversight of the VETSNET Awards processing function confirmed that the application problem has been corrected and the system now manages diaries correctly.

VBA is in the process of verifying that all records containing temporary 100 percent evaluations have the appropriate controls and indicators established to ensure a future examination date is in the Veteran's electronic record.

In March 2012, VBA instituted Quality Review Teams (QRT) in all regional offices to conduct in-process reviews (IPR) on claims that have not been promulgated or completed. IPRs are designed to correct deficiencies early in the claims process, including deficiencies related to the medical documentation necessary to decide a claim. QRT members provide immediate feedback and training to individual employees. VBA is also re-evaluating the efficacy of the current claim-based review process and whether an issue-based review process will result in more useful data to identify training needs.

In August 2012, the evaluation builder was embedded into the Veterans Benefits Management System – Rating (VBMS-R) which is the modernized rating application. VBMS-R is currently in use at five regional



offices. This capability affords claimants the maximum benefit supportable under the law and improves consistency across the Nation.

### **OIG Sub-Challenge #2C: VA Regional Office Operations**

VBA continues to experience challenges with ensuring its 56 VAROs comply with VA regulations and policies and deliver consistent performance of their VSC operations. OIG's Benefits Inspection Division has reported problems in ensuring VARO personnel complete thorough and timely Systematic Analysis of Operations (SAO) and accurately process claims-related mail. Half of the VAROs inspected during 2011 did not follow VBA policy to ensure SAOs were timely and complete. SAOs provide an organized means of reviewing VSC operations annually to identify existing or potential problems in claims processing and propose corrective actions. OIG reported that if VARO management had ensured staff completed thorough SAOs, they would have identified weaknesses associated with their operations and could have developed plans to correct these shortcomings. In addition, many VAROs did not always control and process mail according to VBA policy. Delays in processing claims-related mail might affect the accuracy and overall timeliness of claims processing.

**VA's Program Response**  
**Estimated Resolution Timeframe: 2015**  
**Responsible Agency Official: Under Secretary for Benefits**

#### Completed 2012 Milestones

VBA is constantly striving to identify new ways to improve performance at all regional offices (RO). VBA aggressively monitors regional office performance to develop specific action plans to improve identified problem areas. Oversight is provided through site visits conducted by both the Compensation and Pension and Fiduciary Services and the Area Offices. Regional office directors are held accountable for station performance through annual performance evaluations.

All VBA ROs are required to perform annual SAOs to provide a comprehensive overview of specific divisional functions as well as identify areas for improvement. Procedures and a schedule for completing SAOs are available for each VBA business line. Also, each RO director can establish additional SAOs for local operational issues.

SAOs are reviewed during both Central Office and Area Office site visits. SAO compliance is tracked and monitored closely by both parties. Throughout the year, Area Offices may also request copies of RO SAO schedules and specific completed SAOs for further review. The importance of SAOs is emphasized during the weekly Deputy Under Secretary conference call.

### **OIG Sub-Challenge #2D: Improving Disability Benefits Questionnaires (DBQ)**

In October 2010, VA introduced Disability Benefits Questionnaires (DBQ) to reduce the claims backlog by speeding up the collection of medical evidence. DBQs replaced the C&P examination worksheets previously used and can also be filled out and submitted by a Veteran's private physician. DBQs have



changed the way VA collects medical evidence to support Veterans' disability compensation claims. The volume of disability compensation claims processed using this new method will increase significantly as VA has deployed about 80 DBQs for use.

The OIG conducted an audit in February 2012 to provide an early assessment of VA's internal controls over the use of DBQs. OIG found that the expedited rollout of the DBQ process did not provide VA sufficient time to design, evaluate, and implement adequate internal controls to prevent potential fraud. VA does not verify the authenticity of medical information submitted by Veterans and private physicians prior to awarding disability benefits, track disability-rating decisions where VARO staff used a DBQ as medical evidence, or electronically capture information contained on completed DBQs.

Further, while VBA has a quality assurance review process to verify a limited number of DBQs completed by private physicians, it is OIG's opinion that the quality assurance reviews do not provide reasonable assurance that fraudulent DBQs will be detected. Developing and implementing additional controls—as conveyed in the report—should reduce the risk of fraud, allow for greater fraud detection, and help VA identify disability compensation claims that carry an increased risk of fraud. VBA implemented new measures to review about 1,200 DBQs a year and agreed to promptly refer DBQs with questionable information or inconsistencies to OIG for further investigation.

**VA's Program Response**  
**Estimated Resolution Timeframe: 2013**  
**Responsible Agency Official: Under Secretary for Benefits**

Completed 2012 Milestones

In January 2012, VBA revised the standard operating procedures (SOP) for validation reviews of DBQs. This SOP mandates that quality assurance reviewers refer DBQs with potentially fraudulent information to the OIG Hotline Division.

In March 2012, VBA revised the DBQ internet Web site to inform Veterans and physicians that VA reserves the right to confirm the authenticity of all DBQs completed by private health-care providers.

In March 2012, VA completed business requirements for the secured electronic submission of information to the electronic portal. The development of the first phase of the DBQ Service Gateway is scheduled for completion in 2013. It will be accessible through VA's Stakeholder Enterprise Portal, which will provide a single sign-on capability and require users to be credentialed and authenticated before they can access the system.

VBA Fast Letter 12-11, Disability Benefits Questionnaire Updates, released in March 2012, instructs claims processors to append a special issue indicator to claims received with a DBQ as medical evidence. The Compensation Service site visit protocol requires that Compensation Service staff members review the Modern Awards Processing-Development application to monitor regional office compliance with this guidance.



In July 2012, VBA approved the DBQ manual changes, and the Web Automated Reference Material System (WARMS) was updated to reflect these changes. [WARMS](#) (Part III, Subpart IV, Ch 3, Section A).

**OIG Sub-Challenge #2E: Improving the Management of VBA’s Fiduciary Program**

VBA beneficiary funding managed by the Fiduciary Program are at risk for fraud based on program weaknesses. From April 1, 2007, to March 31, 2012, OIG conducted 142 investigations involving fiduciary fraud and arrested 84 fiduciaries and/or their associates. Two recent examples illustrate weaknesses that allowed funds to be embezzled. In the first example, a former VA fiduciary, who was also a disbarred attorney, was sentenced in September 2011 to 18 months in prison and ordered to pay \$318,899 restitution after having previously pled guilty to embezzling money over a 10-year period from the accounts of 11 incompetent Veterans. In the second example, a former VA Field Examiner and a court-appointed fiduciary were each sentenced in December 2011 to 36 months’ incarceration and ordered to pay \$889,626 for conspiring to embezzle funds from 12 Veterans over a 10-year period to support gambling at area casinos. Of particular concern in both of these cases is that the fraud continued undetected for 10 years.

**VA’s Program Response**

**Estimated Resolution Timeframe: 2012**

**Responsible Agency Official: Under Secretary for Benefits**

Completed 2012 Milestones

The Department of Veterans Affairs (VA) enhanced procedures to prevent and identify misuse of beneficiary funds. VA requires that fiduciaries provide detailed financial documents, including bank records, with their annual accountings. This additional information allows VA to verify reported expenditures and identify potential misuse of funds. In December 2011, VA mandated criminal background checks for proposed fiduciaries prior to appointment. These precautionary requirements serve as a misuse deterrent for fiduciaries.

In March 2012, VA issued policy requiring that fiduciaries provide a copy of VA-approved accountings to beneficiaries. This policy increases transparency of the fiduciary’s management of the beneficiary’s funds. VA issued guidance limiting fiduciary fees to monthly benefit payments only. Also, VA directed that fiduciary activities would no longer authorize payment of commissions based upon retroactive, lump sum, or other one-time benefit payments disbursed to a fiduciary.

In March 2012, VA consolidated fiduciary activities into six regional fiduciary hubs. The hub consolidation is expected to significantly improve VA’s timeliness of fiduciary appointments and quality of oversight.

In March 2012, VA deployed an automated field examination report generator to ensure consistency and reduce the time it takes field examiners to complete their work.



VA conducted an in-depth staffing analysis of its fiduciary activities in 2012. This analysis examined the location of beneficiaries and field examiners to develop a staffing model for the hub consolidation. As a result, VA hired 58 additional field examiners and deployed them based upon the needs of the current beneficiary population.

VA is reconciling information in the current Fiduciary Beneficiary System (FBS) database and the corporate database in preparation for the new computer system that will replace FBS. A project manager was assigned in May 2012, and a platform was identified for the redesigned FBS. The redesigned FBS will allow VA to leverage existing technology to create an interface with other VA systems, improve reporting processes to enhance workload management capabilities, integrate a report generator tool, and improve monitoring of the misuse protocol. It will greatly improve VA's ability to track beneficiary visits, fiduciaries' annual accountings, and further detect potential misuse.

VA is revising its fiduciary regulations to update and reorganize fiduciary rules consistent with current law and VA policies to prescribe fiduciary responsibilities and beneficiary rights.

These and other major initiatives led to a decrease in the misuse rate that was less than one-half of one-percent in 2012.



**OIG CHALLENGE #3: FINANCIAL MANAGEMENT**  
**-Strategic Overview-**

Sound financial management not only represents the best use of limited public resources, but also the ability to collect, analyze, and report reliable data on which resource use and allocation decisions depend. OIG oversight assists VA in identifying opportunities to improve the quality and management of VA's financial information, systems, and other assets.

**OIG Sub-Challenge #3A: Strengthen Financial Management and Fiscal Controls for VISN Offices**

In 1995, VHA restructured its field operations from 4 medical regions to 22 VISN offices to redistribute VHA health care resources to better meet Veterans' needs, improve Veterans' access to health care, and decentralize decision-making and operations. At that time, VHA expected the VISN offices to have about 220 full-time equivalent staff and estimated that VISN operating costs would be about \$26.7 million. However, by FY 2011, the VISN offices had grown significantly in size to over 1,000 staff with expenses totaling at least \$164.9 million, a 500 percent increase above the estimated costs (\$26.7 million) at inception.

OIG's audit of the VISNs' management and fiscal operations disclosed that VHA lacked budgetary controls and reliable data to monitor VISN offices, evaluate their performance relative to operational costs, justify their organizational structures and staffing levels, and ensure the effective and efficient use of funds. The OIG determined that VHA had allowed the VISN offices to operate independently and that VHA had not established required fiscal controls because it considered the VISN offices small. However, the growth in the offices' costs and the fiscal issues identified in the VISN offices' travel, leased office space, and performance awards demonstrated that VHA needed to strengthen VISN office fiscal controls to ensure transparency and accountability in their operations and the effective and efficient use of funds. To address this challenge, VHA initiated actions to standardize and build accountability in the VISNs' organizational and management structures and to establish fiscal controls and a comprehensive financial management system. However, full implementation of these actions is expected to require a more long-term plan.

**VA's Program Response**  
**Estimated Resolution Timeframe: 2014**  
**Responsible Agency Official: Under Secretary for Health**

Completed 2012 Milestones

The Veterans Health Administration (VHA) has made steady progress to standardize and build additional accountability into its fiscal controls and financial management systems. Specific accomplishments include:

- VHA completed a revised Operating Plan, which included Veterans Integrated Service Network (VISN) Office Operating Plans, which was submitted to the Department of Veterans Affairs (VA) Office of Management on May 25, 2012.
- The first monthly VISN Office Execution Reports were submitted on June 15, 2012. Subsequent reports are due by not later than the 10th of each month



- Development of policy that provides guidance for accounting for VISN staff, centralized facility support units, and centralized purchases is expected to be completed by the end of 2012. Plans are for execution to be monitored against approved VISN Office and VISN Operating Plans and regular reports to the Office of the Deputy Under Secretary for Health for Operations and Management (DUSHOM).
- In regard to oversight of travel at VISNs, Fiscal Quality Assurance Managers met in July to prepare an audit guide and then implement random audits. Travel policy guidance is being rewritten. It is planned that VISN leadership will do random audits of 25 trips a quarter for two consecutive quarters, and periodically thereafter as deemed necessary, to ensure proper approvals, justifications, and trip purposes are documented. This process is anticipated to be in place by the end of 2012.
- VHA expects to complete and issue guidance related to VISN office lease costs and space requirements as well as implement periodic reviews of VISN space utilization by VISNs by September 30, 2012.
- A comprehensive review of performance awards will begin October 1, 2012.
- VHA is defining what constitutes core VISN staff and functions for each VISN based on the particular VISN functions and services. The definition will set the base staffing levels for a VISN. VHA will initiate reviews of VISN full time equivalent and VISN personnel and related costs. VHA's Office of Finance will develop policy to provide guidance on accounting for VISN staff and centralized facility support units. Execution will be monitored against approved VISN Office and VISN Operating Plans and compared with data reported in the Financial Management System and the Personnel and Accounting Integrated Data System to ensure accuracy and reliability during monthly reports to the DUSHOM.

### **OIG Sub-Challenge #3B: Strengthen Oversight of Human Capital Management and Development Programs**

In 2010, VA paid nearly \$111 million in retention incentives to 16,487 employees. OIG found VHA and VA Central Office (VACO) approving officials did not adequately justify and document retention incentive awards in accordance with VA policy. VA lacked clear guidance, oversight, and training to effectively support the program. Officials did not effectively use the Personnel and Accounting Integrated Data system to generate timely review notices and did not always stop retention incentives at the end of set payment periods. Based on these findings, OIG questioned the appropriateness of 96 (80 percent) of 120 VHA incentives and 30 (79 percent) of 38 VACO incentives reviewed. These incentives totaled about \$1.06 million in FY 2010. Furthermore, OIG identified 6 of 99 statistically sampled cases where VA assigned incorrect duty stations due to inadequately trained human resources personnel and lack of supervisor verification of employee duty assignments. Consequently, VA overpaid a total of about \$106,000 in locality pay from the time the errors first occurred. If problems assigning incorrect duty stations are not fixed, OIG projected a total of \$1,355,355 in potential monetary overpayments over the next 5 years.

In addition, VA's ADVANCE program aligns with Federal human capital reforms by centralizing workforce training and senior executive recruitment and development. VA started its ADVANCE human capital program, including its Corporate Senior Executive Management Office (CSEMO), in FY 2010 as part of



the Secretary's initiative to transform VA into a 21st century organization. ADVANCE operated on an estimated budget of about \$864 million from FY 2010 through FY 2012, including about \$32 million for CSEMO. VA achieved many of its ADVANCE program goals. However, VA needs to strengthen its management of interagency agreements with the Office of Personnel Management (OPM) and improve its program measures to more accurately assess program impact. These management weaknesses occurred because VA deployed ADVANCE rapidly and did not establish adequate controls over interagency agreement costs and terms. Further, VA proceeded without fully assessing its implementation options and concluded that only OPM could provide the needed resources and expertise. As a result, VA lacks reasonable assurance that it effectively spent program funds during FYs 2010 and 2011, and that its spending plans for FY 2012 will achieve the intended impact on VA's workforce.

### **VA's Program Response**

**Estimated Resolution Timeframe: 2013**

**Responsible Agency Official: Assistant Secretary, Office of Human Resources and Administration**

#### Completed 2012 Milestones

In order to better manage, and ultimately remedy, issues regarding lax monitoring of retention incentives, incorrect duty station assignments and locality pay, which the Office of Inspector General has identified, the Department of Veterans Affairs (VA) has done the following:

#### Senior Executive Programs:

- Corporate management of executive resources has allowed VA to improve the administration of important programs. A VA Office of Inspector General (OIG) report raised concerns about the adequacy of VA's justification and documentation of retention incentives and, based on these findings, questioned the appropriateness of many incentives paid in Veterans Health Administration and VA Central Office. Even before the report was issued, VA had begun to review executive retention incentives focused on determining if each was still warranted. The OIG report recommended, and VA conducted, a 100 percent review of executive retention incentives being paid as of the date of the report. As a result of the review, VA terminated incentives no longer needed and strengthened the justification and documentation for those that needed to be continued.
- VA has developed and implemented a very deliberate approach to considering new executive retention incentive requests. Retention incentives are a management tool which VA uses as appropriate to retain an executive whose continued service is critical to successful mission accomplishment. Each proposed incentive is documented in a manner that fully meets requirements, and is scrutinized to ensure it is appropriate and necessary. All executive incentives are reviewed and approved or disapproved by the VA Chief of Staff.

#### Other Programs



- Additionally, VHA also implemented training to ensure its human resources (HR) managers and officers have a solid understanding of the laws and regulations governing retention incentives, the required documentation for approval, and the requirement for annual review of all approved retention incentives.
- Conducted a presentation/training about the need for correct duty station codes and implementation of virtual duty station assignments.
- Forwarded e-mail communication to the HR community regarding the new requirements that all duty stations must be coded correctly in PAID to ensure that the correct locality pay is provided.
- Prepared and published a HR Bulletin providing instructions for accessing the updated P41-A monthly personnel data report, and working with managers and supervisors to validate the duty station.

In response to the OIG Major Management Challenge concerning the administration of VA's ADVANCE (including those of Corporate Senior Executive Management Office) human capital programs:

- The Office of Human Resource & Administration (HRA) is currently conducting the 2013 HCIP/ADVANCE (HCIP - Human Capital Investment Program) program prioritization to provide funding to those initiatives demonstrating the best possible transformational value; (This effort is facilitated by VA's Strategic Management Group (SMG)).
- Beginning in January 2012 and working in concert with Office of Personnel Management (OPM), SMG drafted Service Level Agreement (SLA) language formalizing the cyclical exchange of data and reports critical to VA operations of HCIP/ADVANCE initiatives, in accordance with the costs and terms of interagency agreements with OPM.
- Improved transparency provided through the SLA, SMG will continue to review and refine the OPM Deliverable Receipt Form process to guarantee VA receives actual services contracted for in the interagency agreement.
- SMG provided (by or before 4th quarter of 2012) additional written guidance to each HRA Program Office administering HCIP/ADVANCE initiatives to rigorously review the Deliverable Receipt Form process in relationship to the tangible and intangible goods and services contracted for.
- Retention Incentives. The Veterans Health Administration (VHA) has comprehensively reviewed its policies, procedures, and training in regard to retention incentives and taken action as needed to address concerns.
  - Senior Executive Service (SES) and SES-Equivalents (EQV). To provide oversight for all SES and SES-EQV retention incentives, VHA established a Retention Incentive Technical Review Board (RITRB) and updated guidance. A full review of all SES and SES-EQV retention incentive agreements was completed. Those retention incentives still being requested have been put in the required format with appropriate justification and the Corporate Senior Executive Management Office (CSEMO) has reviewed and processed final decisions.



- Non-SES. Written guidance directing VHA field facilities to conduct a complete review of non-SES retention incentives was issued. This guidance detailed the proper use of retention incentives with instructions for the preparation of fully documented requests for approval. The guidance also requires that all retention incentives for non-SES/SES-EQV employees be approved at the Veterans Integrated Service Network (VISN) level by a RITRB. The VISN reviews of existing retention incentives are to be completed in 2012.
- Unsupported Reviews. The 100 percent review of the 96 retention incentives considered to be unsupported has been completed. Of the 96 retention incentives reviewed, 57 have been terminated and 39 remain active and are considered appropriate and necessary in order to retain essential staff.
- Training. Training was implemented to ensure human resources (HR) managers and officers have a solid understanding of the laws and regulations governing retention incentives, the required documentation for approval, and the requirement for annual review of all approved retention incentives. HR managers will be reminded to place a follow-up code in the Personnel and Accounting Integrated Data (PAID) system for all retention incentives to ensure that annual reviews are completed as required.

### **OIG Sub-Challenge #3C: Strengthen Oversight to Better Leverage Capital Assets**

An OIG audit of VA's use of the Enhanced-Use Lease (EUL) program revealed that program policies and procedures, oversight, and performance measures were not in place to ensure adequate project documentation, timely project development and execution, effective monitoring, and accurate cost accounting. VA had little assurance of EUL effectiveness due to inaccurate reporting on program benefits and expenses. Personnel did not always document major project decisions, resulting in a lack of transparency to ensure program integrity. Further, VA often paid to maintain capital assets longer than necessary due to delays in executing EUL arrangements. The program lacked the policies and procedures, oversight, and performance measures needed for effective EUL project management. As a result of these deficiencies, VA may not have fully realized the potential benefits of the EUL program.

#### **VA's Program Response**

**Estimated Resolution Timeframe: 2013**

**Responsible Agency Official: Director, Office of Asset Enterprise Management**

#### Completed 2012 Milestones

The Office of Management (OM) completed several actions in 2012 to address concerns raised in the OIG audit. To ensure EUL agreements are negotiated in line with the Department's strategic goals, OM has developed project scorecards that identify relevant strategic goals (as reflected in the FY11 VA Strategic Plan Refresh) and quantify the extent to which each EUL project under development contributes to these goals. Scorecards for all EUL projects in the formulation stage will be reviewed by senior Office of Asset Enterprise Management (OAEM) leadership on a quarterly basis; the first review occurred in June 2012. Concurrently with this review, OAEM leadership, in consultation with the EUL Concept Paper Review Committee (CPRC), reviewed all formulation- and execution-stage EUL projects to



ensure timely execution of each. Projects anticipated to exceed their lease-execution and construction-completion target timeframes (24 months and 18 months, respectively) by 12 months or more were referred to the CPRC to review and approve VA's continued pursuit. The first of these OAEM/CPRC timeliness reviews occurred in July 2012, and will continue on a quarterly basis. In an effort to further strengthen on-going oversight and monitoring of executed EUL projects, OM developed and published directive and handbook 7454, defining the post-transaction oversight and compliance process. To ensure EUL project benefits and expenses are properly calculated, classified, and monitored, OM has developed a formal methodology to be used for calculating the benefits and expenses of each EUL. This methodology is supported by new technology tools and a web-based tracking system. The new methodology revises the methods used for determining the monetary value of the revenue, cost-savings, cost-avoidance, and enhanced services provided to VA as consideration for EUL projects, as well as accounts for any expenses incurred as a result of the project to get a full picture of the benefits of the project. This enhanced and improved calculation methodology will be implemented in the FY2012 EUL Consideration Report, as well as used to review previous consideration reports to ensure program benefits were accurately reported. OM has instituted a comprehensive new records management system in order to ensure that major EUL project decisions are documented and maintained in accordance with policy. In addition, OM conducted a comprehensive inventory of its EUL files, and those of its partner organizations within VA (OGC, CFM, local facilities, etc.), to ensure all available archival documents are identified and stored pursuant to the standards and protocols of the new records management policy.

#### **OIG CHALLENGE #4: PROCUREMENT PRACTICE**

##### ***-Strategic Overview-***

VA operations require the efficient procurement of a broad spectrum of services, supplies, and equipment at national and local levels. OIG audits and reviews continue to identify systemic deficiencies in all phases of the procurement process to include planning, solicitation, negotiation, award, and administration. OIG attributes these deficiencies to inadequate oversight and accountability.

Recurring systemic deficiencies in the procurement process, including the failure to comply with the Federal Acquisition Regulation (FAR) and VA Acquisition Regulation (VAAR), and the lack of effective oversight increase the risk that VA may award contracts that are not in the best interests of the Department. Further, VA risks paying more than fair and reasonable prices for supplies and services and making overpayments to contractors. VA must improve its acquisition processes and oversight to ensure the efficient use of VA funds and compliance with applicable acquisition laws, rules, regulations, and policies. [Place holder] OIG comment on VA HR Conferences Report

#### **OIG Sub-Challenge #4A: Compliance with Laws, Regulations, and Policies**

For several years, OIG audits and reviews have identified VA challenges in complying with Federal and VA acquisition laws and regulations that protect the Government's interests and promote transparency in procurements. In 2009, VA made two major changes intended to strengthen its procurement process. VHA created Service Area Offices to oversee VISN contracting activities. VA also established an Integrated Oversight Process (IOP) that replaced traditional technical and legal contract reviews. OIG's audit of VHA's VISN contracts disclosed that these changes, which were made to strengthen acquisition



operations, were not effective because the new review processes were not followed consistently, and VA and VHA acquisition management did not provide adequate guidance and oversight on how to implement the IOP.

A 2011 OIG audit report on VISN contracts identified recurring systemic deficiencies associated with acquisition planning, contract award, and contract administration. A review of 89 noncompetitive VISN contracts identified deficiencies associated with the acquisition planning and award phases for 81 of the 89 contracts. A review of 83 competitive contracts identified deficiencies in these phases for 61 of the 83. Eighty-five of the 89 noncompetitive contracts reviewed, valued at \$56 million, had 1 or more contract deficiencies. VISN contracting officers could also not provide evidence that they made a determination of responsibility of prospective contractors by checking the Excluded Parties List System prior to award, as required. OIG estimated that a determination of responsibility was not made for nearly 1,290 contracts, valued at \$674 million. OIG estimated that VISN contracting staff did not perform required IOP contract reviews for about 3,000 contracts, valued at about \$1.58 billion, awarded between June 2009 and May 2010.

The Office of Information and Technology (OIT) contracted for in-depth technical reviews of VA's major information technology (IT) initiatives to ensure IT systems met VA's Enterprise Architecture standards. However, OIG determined the work the contractor performed did not meet the primary intent of the task order, which called for in-depth technical reviews of VA's major IT initiatives. OIT's decision to continue using the contractor to perform work that did not meet the primary intent of the task order resulted in ineffective and inefficient use of contract resources. As a result, OIT incurred contract costs of approximately \$1.7 million for an underutilized task order during the first and second option years. The amount could have also grown to approximately \$2.4 million if OIT had chosen to exercise the third option year of the task order—OIT did not, based on the OIG recommendations. In addition, no other organization within OIT was performing technical reviews of VA's major IT initiatives. As a result, VA's IT programs and projects may be at an increased risk of noncompliance with VA's Enterprise Architecture standards. As a result of the OIG evaluation of the secure VA-Chief Information Security Officer support services acquisition process, it was determined that VA's proposal evaluation and contract award procedures demonstrated a potential bias toward the incumbent contractor and did not promote full and open competition in accordance with the FAR.

**VA's Program Response**  
**Estimated Resolution Timeframe: 2013**  
**Responsible Agency Official: Principal Executive Director, OALC**

Completed 2012 Milestones

The VHA Procurement and Logistics Office (P&LO) has developed an internal quality compliance program to provide senior management with the ability to review field compliance with Federal and Department of Veterans Affairs (VA) acquisitions laws. In 2012, a new audit program was developed to address the implementation of various standard operating procedures (SOP), such as the integrated oversight process (IOP) SOP. A VHA internal audit team conducts the reviews, and the plan is to audit each network contract office (NCO), primary contracting office (PCO), service area office (SAO) quarterly.



As of April 2012, results from two quality assurance audits were available. These reviews will continue as directed by VHA Acquisition Quality Director and/or senior management.

The following outlines specifics about the implementation of the acquisition quality program.

- Eleven quality compliance internal audits were completed in 2012. At the completion of 2013, all VHA contracting offices will have been audited.
- The Acquisition Quality Office also implemented an internal contract review program to monitor key recurring procurement issues, such as compliance with the Integrated Oversight Information Letter. A statistical sample of contracts per each NCO and PCO is audited every quarter. In 2012, each contracting office has been audited twice to address seven key areas: (1) Electronic Contract Management System (eCMS) usage; (2) contracting officer representative (COR) delegation; (3) sole source approvals; (4) information security requirements; (5) IOP; (6) responsibility determination requirements, and (7) price reasonableness. To date over 2,000 contracting actions have been reviewed.
- The first and second quarter 2012 Green Procurement Audits were completed per the relevant Office of Management and Budget (OMB) directive.
- Five SOPs were completed or revised to assist the field with compliance of laws and regulations.
- NCO prosthetic files were audited in order to assess processes established for prosthetic purchasing.

The Office of Information and Technology (OIT) has taken the following actions:

- Technical Reviews of VA's major IT initiatives are conducted on a regular, recurring basis. These reviews, called program management reviews (PMRs), are chaired by the Deputy CIO and/or her designee. The PMR review team includes members of the architecture, strategy and design (ASD) organization, and other applicable OIT organizations.
- PMRs follow a standard, comprehensive briefing template. PMRs ensure the project/program is following PMAS guidance and the technical reference model. PMRs also ensure that the program/project is being executed according to plan, and has no issues with respect to scope, schedule, or requirements.
- The product development organization stood up a Project Management Accountability System (PMAS) Business Office to:
  1. Monitor the progress of all VA IT projects in PMAS;
  2. Develop and maintain PMAS policy and guidance;
  3. Develop tools and techniques to gather, analyze, and report on PMAS project data;
  4. Provide guidance and training on PMAS policy;
  5. Provide guidance and data quality analysis on PMAS status reporting and produce reports;
  6. Provide support to the CIO and ITPROGs, Major Initiative Leads and project managers (PMs) in the area of Red Flag, Green Flag and TechStat meetings (facilitate meetings, develop, and consult on materials, processes and procedures);
  7. Provide OMB 300B data gathering tools, reports, support and submission; and
  8. Conduct project and program assessments and PMRs, as necessary.



- The PMAS Business Office has developed a Milestone Review process. The first phase of a Milestone Review is called a “Milestone Zero Review”, which is used to transition a concept from new start to the planning state. This phase of review is used to identify and articulate a business problem or service improvement recommendation and to recommend a course of action or concept to resolve it.
  1. A “Milestone One Review” is used to transition from the planning state or paused state to the active state. This phase of review includes a comprehensive assessment of project management documents and other required documentation as specified in the PMAS Guide. This review grants or denies approval for Increment 1 activities. A System Design Document, signed by a representative of ASD, is required for a Milestone One review.
  2. Milestone reviews are currently being scheduled. Briefing papers on Milestone Zero and One Reviews are in development, as is the schedule for Milestone Reviews.
  3. Each project’s integrated project team members attend both PMRs and Milestone Reviews.

#### **OIG Sub-Challenge #4B: Improve Oversight for VA’s VOSB and SDVOSB Programs**

VA continues to experience challenges with contract awards to Veteran-owned small businesses (VOSBs) and service-disabled Veteran-owned small businesses (SDVOSBs). Forty of the 42 noncompetitive VOSB and SDVOSB contracts reviewed during the audit of VISN contracts, valued at about \$17.9 million, had one or more contract deficiencies. Price negotiation memoranda were not prepared, or were determined to be inadequate, for 22 of 42 contracts awarded to SDVOSBs, valued at \$10.5 million. OIG also disclosed that VISN contracting officers from each SAO used Public Law 109–461, “Veterans Benefits, Health Care, and Information Technology Act of 2006,” as justification to award noncompetitive contracts to VOSBs and SDVOSBs without considering competition restricted to these businesses.

These results are consistent with the findings reported in a 2011 OIG audit of VOSB and of SDVOSB programs. Sixty-eight percent of 79 VOSB and SDVOSB contracts valued at \$21.9 million had 1 or more contracting deficiencies. Contracting officers did not complete a justification for other than full and open competition prior to the award or perform and document a price reasonableness determination in a document such as the price negotiation memorandum for 30 VOSB and SDVOSB contracts, valued at \$12 million, awarded to 20 businesses.

These contracting deficiencies prompted criminal investigations of SDVOSB contract participants. To date, the investigations have resulted in the issuance of 407 subpoenas and the execution of 25 search warrants. OIG’s investigative efforts have resulted in 14 indictments, 6 convictions, and nearly 100 open investigations ongoing.

The following three examples demonstrate the types of fraud frequently committed among participants misusing the program. The first example was a referral received from the Government Accountability Office alleging that an SDVOSB was a shell company. The OIG conducted an investigation which substantiated that the owner of a non-SDVOSB approached a bedridden Vietnam War Veteran and proposed the idea of starting a joint venture using the Veteran’s service-disabled status. The OIG



determined that the Veteran performed no work for either company, had no ownership stake in the SDVOSB, and did not control the management of the company. The SDVOSB contract simply served as a pass-through for the larger company. In November 2011, a Federal grand jury indicted the company's owner on charges of wire fraud and major fraud against the United States. Both the company and the owner have been debarred from doing business with the Government.

In a second example, the OIG received allegations that a company was engaging in SDVOSB fraud and that a VA employee was accepting bribes and/or gifts from the company. OIG initiated a joint investigation with the Small Business Administration (SBA) OIG and General Services Administration (GSA) OIG. The OIG investigation determined that two individuals approached a service-disabled Veteran about setting up a construction company to compete for Government contracts under the SDVOSB Program. They gave a VA employee luxury box tickets at sporting events, as well as lunches and interest-free loans, to ensure that the company would continue to receive VA contracts. In February 2012, two individuals pled guilty to conspiracy involving the illegal payment of gratuities. In May 2012, one was sentenced to serve 2 years in prison and ordered to pay a \$50,000 fine; the second was sentenced to serve 3 years of probation and ordered to pay \$1,550,000 in restitution and fined \$60,000. In March 2012, the former VA employee pled guilty to accepting an illegal gratuity and was subsequently sentenced to 15 months in prison. The three defendants and two companies have been referred for debarment from future Government contracts.

Finally, two individuals were charged in February 2012 with conspiracy, major fraud, and false statements after an OIG investigation determined that a company owner and his son-in-law conspired to defraud VA by falsely claiming that the company was an SDVOSB. A third individual, who was a service-disabled Veteran and received payment for allowing the use of his service-disabled Veteran status, had previously pled guilty to conspiracy and major fraud. Between March 2009 and February 2012, the company was awarded five SDVOSB set-aside contracts totaling \$10.9 million. In March 2012, the three individuals and the company were suspended from doing business with the Federal government.

**VA's Program Response**  
**Estimated Resolution Timeframe: 20XX**  
**Responsible Agency Official:**

Completed 2012 Milestones

In 2012, the Center for Veterans Enterprise (CVE) reengineered the verification business processes. The new business process has been codified in a series of Standard Operating Procedures (SOP) that cover all phases of the verification process, requests for reconsideration, referrals to the Office of Inspector General (OIG) and the 8127 Debarment Committee, and the Quality Assurance plan. CVE has formalized the process for referring possible fraud cases to OIG and to the 8127 Debarment Committee. Referrals have increased substantially. CVE has also initiated a post-verification unannounced site visit program that checks on verification compliance of firms that have been verified. Visits are selected on both a risk-based and random basis. Those who are found to be ineligible are removed from the program and referred to OIG for further investigation. In FY 2012, CVE made 43 referrals to the 8127 Debarment



Committee. The 8127 Debarment Committee has debarred 8 firms and 7 individuals and there are 9 firms and 20 individuals pending a decision from the Committee.

VA has established a Subcontracting Compliance Review Program and audits selected contracts to ensure prime contractors are meeting subcontracting obligations. [OSDBU has no oversight of this program]

VHA has implemented a review strategy for active, high-dollar Veteran-owned small business (VOSB) and service-disabled Veteran-owned small business (SDVOSB) contracts to determine if Federal subcontracting performance requirements have been met, and if the requirements have not been met, to research and pursue remedies. The Service Area Office (SAO) Quality Assurance (QA) random reviews were completed in February 2012. The audits did not result in sending any subcontractor concerns to the Office of Inspector General (OIG) for further investigation. The SAO teams will continue to track any contracts that have VetBiz certification concerns.

#### **OIG Sub-Challenge 4C: Effective Contract Administration**

OIG continues to identify poor contract administration as a systemic deficiency resulting in overpayments to vendors. A 2012 review of VA's Fast Pay system concluded that inadequate segregation of supply ordering and receiving duties makes VA facility pharmacies vulnerable to fraudulent activity. OIG determined three of four VA medical facility pharmacies reviewed needed to strengthen controls to ensure an adequate segregation of duties existed. The three VA medical facility pharmacies did not segregate duties among different staff to prevent any one individual from having the ability to both order and receive non-controlled pharmacy supplies. These findings related to contract administration are consistent with other recently issued OIG reports.

For example, the OIG's audit of prosthetic limb acquisition and management practices found that VHA needs to strengthen payment controls for prosthetic limbs to minimize the risk of overpayment. OIG identified overpayments in 23 percent of all the transactions paid in FY 2010. Specifically, VHA needs to establish appropriate separation of controls within its prosthetic management practices and ensure staff follows these practices before authorizing payment. The acquisition practices reviewed at the four VISNs visited did not stress Contracting Officer's Technical Representative (COTR) responsibilities, which resulted in internal control weaknesses. VHA overpaid about \$2.2 million for prosthetic limbs in FY 2010. VA can recover the overpayments from vendors because the invoices paid exceeded the agreed upon prices per the terms in the contracts.

OIG's national audit of VISN contracts also disclosed that multiple issues are negatively impacting the quality of VISNs' efforts to administer contracts. VISN contracting officers are not consistently initiating background checks for contractors having access to VA computer systems. OIG also determined that contracting officers are not consistently designating COTRs to help oversee contract administration. In addition, contracting officers and/or COTRs are not consistently monitoring contractors' performance. Lapses in monitoring a contractor's performance or taking actions to ensure that goods and services have been received increases the risk that VA may not be getting what it paid for and increases the risk of contract failure. The FAR requires that contracting officers ensure contractors comply with the terms



and conditions of the contract and safeguard the interests of the Government in its contractual relationships.

**VA's Program Response**  
**Estimated Resolution Timeframe: 2013**  
**Responsible Agency Official: Principal Executive Director, OALC**

Completed 2012 Milestones

VHA provided information about the requirements for separation of duties for ordering and receiving to the Veterans Integrated Service Network (VISN) pharmacy executives and facility chiefs of pharmacy in March 2012. A survey of the medical centers was completed in June 2012, in which all stations certified that they have adequate separation of duties in place so the person placing the order is not receiving an order they placed themselves. In addition, the VHA Budget office conducted a series of six live meetings with medical center pharmacy and fiscal staff to educate them on separation of duties and reconciliation requirements. VHA is currently conducting a survey to ensure compliance and require any facilities that have incomplete compliance to provide corrective action plans with appropriate timelines and milestones. Completion is expected by December 31, 2012.

In regard to acquisition of prosthetic limbs, VHA Procurement and Logistics Office (P&LO), as of July 2012, has created a comprehensive database and completed reviews of contracts for prosthetic limbs. Contracting staffs are developing corrective and preventive action plans to address issues of concern. The VHA Acquisition Quality staff will regularly review and monitor status of the plans to ensure actions have been implemented. Supplemental training is in progress.

To address overpayment issues, VHA is identifying potential overpayments for VISN review to determine validity of overpayment and collect confirmed overpayments. Collection activities are expected to begin September 2012 and be completed by December 2012.

To improve general VISN administration of contracts, VHA has developed an additional internal quality assurance (QA) program to review the implementation of the integrated oversight process (IOP) standard operating procedures (SOPs). A VHA Acquisition Quality Team conducts the reviews, with a plan to audit each network contract office (NCO), primary contracting office (PCO), and service area office (SAO) quarterly. As of April 2012, results from two QA audits were available. These reviews are continuing through 2012.

The following provides other specific items completed in 2012:

- VHA implemented a contracting officer representative (COR) contract review program and completed nine COR audits in 2012.
- The COR SOP included additional VHA training for VHA CORs.
- The VHA Operations Division developed a COR SharePoint site as a resource tool for CORs which includes newsletters, training information, and a COR toolkit.

<http://vawww.pclo.infoshare.va.gov/PCLO/AWI/COTRComm/default.aspx>

VHA also provided COR training via online modules on a number of subjects of interest to CORs.



#### **OIG Sub-Challenge #4D: Improve Oversight of Procurement Activities**

Effective oversight is difficult to achieve because there is no central database that captures all VA contracting and purchasing information. Although VA established the Electronic Contract Management System (eCMS) in 2007 as the required contract management tool for the Department, OIG has found that it does not capture all VA procurement information. A 2009 OIG audit revealed that eCMS is not used effectively and procurement information in eCMS is incomplete. Recent audits indicate that these deficiencies still exist.

For example, the OIG audit of VISN contracts concluded that VISN acquisition personnel were not properly and consistently using eCMS. OIG found that documentation of COTR training and invoices were most frequently missing from the system for competitive and noncompetitive contracts. OIG also identified inaccurate data in eCMS for 44 of the 172 contracts reviewed, including inaccurate classifications of goods and services purchased, obligation amounts, estimated values, and award dates.

During the OIG's nationwide audit of VHA's acquisition and management of prosthetic limbs, eCMS data reliability and system problems were identified that impacted VISN contracting personnel's ability to effectively oversee VA procurements. None of the VISNs reviewed included vendors' invoices in eCMS. As a result, OIG could not readily verify whether a COTR had reviewed vendors' invoices prior to certification to ensure they accurately reflected that goods received were in accordance with the requirements of the contract. The lack of official contract documentation in eCMS adversely affects VISN management's ability to assess the quality and administration of prosthetic limb procurements.

A 2011 OIG audit also concluded managers at VA's NAC did not ensure that staff fully utilized VA's mandatory eCMS to develop and award national contracts. This occurred because VA's Office of Acquisition, Logistics, and Construction (OALC) provided limited oversight to monitor eCMS compliance and ensure eCMS capabilities adequately supported NAC operations. In addition, OALC and NAC officials impaired visibility of VA procurement actions by not ensuring compliance with the mandatory use of eCMS.

**VA's Program Response**  
**Estimated Resolution Timeframe: 2013**  
**Responsible Agency Official: Principal Executive Director, OALC**

#### Completed 2012 Milestones

The Veterans Health Administration (VHA) continued with the implementation of the Acquisition Quality program:

- Eleven quality compliance internal audits were completed in FY 2012. At the completion of FY 2013, all VHA contracting offices will have been audited.
- The Acquisition Quality Office also implemented an internal contract review program to monitor key recurring procurement issues, such as compliance with Integrated Oversight Information Letter. A statistical sample of contracts per each network contract manager (NCM)/program contract



manager office is audited every quarter. In FY 2012, each contracting office has been audited twice to address seven key areas: (1) eCMS usage; (2) COR delegation; (3) sole source approvals; (4) information security requirements; (5) Integrated Oversight Process; (6) responsibility determination requirements; (7) and price reasonableness. To date, over 2,000 contracting actions have been reviewed.

- Completed 1 and 2 quarter “green procurement” audits per OMB Directive.
- Completed and/or revised five standard operating procedures to assist the field with compliance of laws and regulations.
- Audited pilot NCM prosthetic files in order to assess processes established for prosthetic purchasing.

The Office of Acquisition, Logistics, and Construction’s (OALC) National Acquisition Center (NAC) has taken the following actions: All procurements over \$3,000 are being entered into eCMS. Specific actions and controls have been developed by the National Contract Service (NCS) and Federal Supply Schedule Service (FSSS) to ensure quality control of the data entered and maintained in the system. NCS has established metrics and is tracking all new procurement actions valued at the micro-purchase level or greater to ensure they are entered into eCMS. Since FY 2011 Q2, NCS is 100% compliant for data entry. NCS also is tracking: (1) if appropriate/required attachments are in eCMS; (2) if attachments in eCMS briefcase are named in accordance with appropriate conventions; and (3) whether eCMS data values are being accurately completed. Within FSSS, a core team was formed to develop a quality assurance (QA) process involving periodic reviews of contract files to ensure completeness and accuracy pertinent to eCMS documents within electronic briefcase. Implementation of the new QA process will begin in 2013. FSSS is providing comprehensive vendor training sessions to promote more complete submission of proposals. Training will be provided via face-to-face conferences, Webinars, and other technological means. The FSSS HelpDesk Support has greatly improved because seasoned managers handle all inquiries; thus providing more timely and accurate responses.

OALC implemented an ongoing enterprise-wide audit to measure and improve the usage and adoption of the Agency’s contract writing system and to determine the level of adherence to procurement policy memorandum (PPM), “Mandatory Use of VA’s Electronic Contract Management System (eCMS),” dated June 15, 2012. A monthly dashboard was also created to monitor the results of this audit for each VA Head of Contracting Activity.

On September 29, 2011, the Veterans Health Administration (VHA) Procurement and Logistics Office (P&LO) issued a memorandum reinforcing the requirement to use the Electronic Contract Management System (eCMS) for all new procurement actions valued at \$3,000 or more. VHA P&LO has also required Service Area Office (SAO) Quality Assurance (QA) offices to complete eCMS spot checks quarterly. The VHA National eCMS Coordinator has distributed a Data Values Guide that describes in detail the values that should be entered for each data value. The eCMS Coordinator has also presented additional eCMS data value instructions via the VHA Operations Network Contracting Activity (NCA) of the Month program. The NCA of the Month program has provided additional eCMS, Contracting Officer’s Technical Representative (COTR), Acquisition Quality, and Small Business Program training to all NCAs.

Several metrics are used to track eCMS compliance such as the Integrated Funds Distribution, Control Point Activity, Accounting, and Procurement (IFCAP) module to eCMS metric. VHA added a Procurement Administrative Lead Time (PALT) metric to the VHA dashboard to further assist in the



tracking of eCMS compliance and, since April 2012 VHA P&LO has been implementing the use of the eCMS Acquisition Planning Module to assist in tracking PALT. Each SAO has been phasing in the use, and it is expected that all SAOs will have this in place by October 1, 2012. The eCMS Coordinator has also developed various reports to track eCMS usage such as a report that displays the number of solicitation and award documents created in eCMS monthly.

In 2012, a new audit program was developed to address the implementation of various standard operating procedures (SOP) such as the Integrated Oversight Process (IOP) SOP. A VHA internal audit team conducts the reviews and the plan is to audit each Network Contract Office (NCO), Primary Contracting Office (PCO), Service Area Office (SAO) quarterly. As of April 2012, results from two QA audits were available. These reviews will continue.

The following outlines specific accomplishments in the Acquisition Quality program.

- Eleven quality compliance internal audits were completed in 2012. At the completion of 2013, all VHA contracting offices will have been audited per the VHA Acquisition Quality Internal Compliance manual.
- The Acquisition Quality Office also implemented an internal contract review program to monitor key recurring procurement issues such as compliance the requirement to use eCMS for all new procurement actions valued at \$3,000 or more. In 2012, each contracting office has been audited twice to address seven key areas: eCMS usage; Contracting Office Representative (COR) delegation; sole source approvals; information security requirements; IOP; responsibility determination requirements, and price reasonableness. To date over 2,000 contracting actions have been reviewed with improvement shown in seven of the eight specific areas audited.
- Green Procurement Audits were completed in the first and second quarters of 2012 per a relevant Office of Management and Budget (OMB) directive.
- Five SOPs were completed or revised to assist the field with compliance of laws and regulations.
- The pilot NCM's Prosthetic files were audited in order to assess processes established for prosthetic purchasing.

#### **OIG Sub-Challenge #4E: Sound IT Procurement Practices**

OIG evaluated the Secure VA-Chief Information Security Officer Support Services acquisition process to determine whether the solicitation, proposal evaluation, and contract award processes were conducted in line with full and open competition requirements. In December 2011, OIG found that VA's acquisition process demonstrated a potential bias by using knowledge of VA procedures and practices as a significant selection factor without clear disclosure of its relative importance when asking for bids. As such, the technical evaluation process favored awarding the contract to the incumbent, Booz-Allen Hamilton. This was the same contractor that had provided VA's Information Assurance and Information Technology Security Services for the previous 2 years. VA awarded the contract for \$133 million, at a premium of 16 percent (\$18 million) and 22 percent (\$24 million) over two other offers.

OIG reported that the Department's failure to disclose all significant evaluation factors prevented vendors from submitting comparable proposals, placing potential contractors at a disadvantage in the bidding process. The Executive Director, OALC, neither concurred nor non-concurred with OIG



recommendations and provided no statement on his intent for future acquisitions. Therefore, OIG will evaluate VA's contract award decisions in future audits to determine if evaluation panels assess vendor proposals based solely on evaluation factors stated in the solicitations.

**VA's Program Response**  
**Estimated Resolution Timeframe: 2013**  
**Responsible Agency Official: Principal Executive Director, OALC**

The description of OIG Sub-Challenge #4E "Sound IT Procurement Practices" incorrectly notes that the Office of Acquisition, Logistics, and Construction (OALC) activity directly involved in the acquisition at issue neither non-concurred nor concurred in the OIG recommendations. OALC is on record as non-concurring with the OIG recommendations.

OALC's position with regard to the referenced procurement is that the evaluation was conducted in accordance with the solicitation and relevant GAO case law and no corrective action was required. OALC views the OIG conclusions as stemming, in large measure, from a misunderstanding of the best value FAR Part 15 environment. Specifically, OALC asserts that:

- a. The contemporaneous record of the procurement clearly contradicts the conclusion that knowledge of VA procedures was used as a significant selection factor.
- b. The categorization by the OIG of strengths and weaknesses as "VA Specific" is misleading. In most cases, the reference to VA (as well as other Federal agencies) served to demonstrate an offeror applied its methodologies in a similar, verifiable environment. This was wholly consistent with VA's evaluation plan and relevant GAO precedent. It appears that, if the word "VA" was mentioned in connection with an evaluated strength, the OIG incorrectly assumed it was the sole basis for the assessment.
- c. OIG perceived that VA penalized one offeror for the use of certain tools, but didn't penalize the incumbent for suggesting the same. However, there were distinct differences in the two proposals that OIG did not recognize. OIG focused narrowly on selection of the tools and not on the specifics of the methodology or operational relevance of the solution.
- d. OIG has stated that weaknesses were given to offerors because of their lack of specific VA knowledge, but failed to provide any examples, with the exception of one which OALC acknowledged as a minor error in the way the weakness was written.
- e. OIG stated that VA traded-off lower cost in favor of vendors' technical knowledge of VA procedures and practices in evaluating the offers. However, the contemporaneous record clearly reflects that the appropriate trade-offs were made in arriving at a best value decision.

OALC supports the best value evaluation procedures generally applied to such acquisitions, and accordingly, no milestones have been established towards addressing this sub-challenge.



## OIG CHALLENGE #5: INFORMATION MANAGEMENT

### *-Strategic Overview-*

Information Management should enable government to better serve its citizens. The Federal government, however, has experienced difficulty in achieving productivity improvements from IT advances similar to those realized by private industry. In large part, this has been caused by poor management of large-scale IT projects. All too often, Federal IT projects run over budget, behind schedule, or fail to deliver promised functionality.

VA has consolidated the vast majority of its IT resources under the Chief Information Officer (CIO) by reorganizing the IT functions of VA's Administrations under OIT. Through the stewardship of the CIO, OIT has positioned itself to facilitate VA's transformation into a 21st century organization by focusing on five key management areas. In 2012, OIT strived to: (1) achieve customer service in all aspects of IT; (2) develop a next generation IT Security Plan; (3) manage its IT organizations with metrics that are tracked; (4) focus on product delivery using the Project Management Accountability System (PMAS); and (5) perform better financial reporting to more effectively track spending on IT projects.

However, OIG's annual Consolidated Financial Statement (CFS) and information security program audits continue to report IT security control deficiencies that place sensitive information at risk of unauthorized use and disclosure. Furthermore, OIG oversight work indicates that additional actions are needed to safeguard and effectively manage VA's information resources and data, and that VA has only made marginal progress toward eliminating the information management material weakness reported in the CFS audit and remediating major deficiencies in IT security.

### **OIG Sub-Challenge #5A: Development of an Effective Information Security Program and System Security Controls**

OIG continues to identify major IT security deficiencies in the annual information security program audits. While VA has made progress defining policies and procedures supporting its agency-wide information security program in accordance with the Federal Information Security Management Act (FISMA), they face significant challenges in meeting the requirements of FISMA.

OIG's 2011 FISMA audit identified significant deficiencies related to access, configuration management, change management, and service continuity controls. Improvements are needed in these key controls to prevent unauthorized access, alteration, or destruction of major application and general support systems. CFS auditors also concluded that a material weakness exists related to the implementation of VA's agency-wide information security program. Finally, VA has also identified over 15,000 system security risks and corresponding Plans of Action & Milestones (POA&Ms) that need to be remediated to improve its overall information security posture.

To improve its IT security posture, VA needs to focus its efforts to: (1) dedicate resources to aggressively remediate the significant number of unresolved POA&Ms, while addressing high risk system security deficiencies and vulnerabilities; (2) implement mechanisms to identify and remediate system security weaknesses on the Department's network infrastructure, database platforms, and web application servers across the enterprise; (3) develop and establish a system development and change control



framework that will integrate information security throughout each system's life cycle; (4) implement technological solutions to actively monitor all network segments for unauthorized system access to Department programs and operations; and (5) implement mechanisms to ensure that system contingency plans are fully tested in accordance with FISMA.

In February 2012, OIG reported that VA did not adequately protect sensitive data hosted within its STDP application. Specifically, OIG determined that more than 20 system users had inappropriate access to sensitive STDP information. Further, OIG reported that project managers did not report unauthorized access as a security event as required by VA policy. STDP project managers were not fully aware of VA's security requirements for system development and had not formalized user account management procedures. Inadequate Information Security Officer oversight contributed to weaknesses in user account management and failure to report excessive user privileges as security violations. As a result, VA lacked assurance of adequate control and protection of sensitive STDP data.

In July 2011, OIG reported that certain contractors did not comply with VA information security policies for accessing mission critical systems and networks. For instance, contractor personnel: improperly shared user accounts when accessing VA networks and systems; did not readily initiate actions to terminate accounts of separated employees; and did not obtain appropriate security clearances or complete security training for access to VA systems and networks. OIG concluded that VA has not implemented effective oversight to ensure that contractor practices comply with its information security policies and procedures. Contractor personnel also stated they were not well aware of VA's information security requirements. As a result of these deficiencies, VA sensitive data is at risk of inappropriate disclosure or misuse.

#### **VA's Program Response**

**Estimated Resolution Timeframe: 2013**

**Responsible Agency Official: Deputy Chief Information Officer/Director, Service, Delivery, and Engineering**

#### Completed 2012 Milestones

VA has taken significant actions towards improvement of its information security program. As part of its continuous monitoring program, VA has implemented its Visibility to the Desktop and Visibility to the Server initiatives which provide detailed inventory, configuration, and vulnerability information to enable it to prioritize and remediate security vulnerabilities. This will help reduce the risk of compromise to VA systems and data. To improve access controls, VA has reviewed and reduced the number of personnel with elevated access privileges to its systems, has enabled most of its computers with Smartcard capabilities, and has issued Personal Identity Verification (PIV) cards to its employees and contractors. In many facilities, network access can be achieved by a PIV card and Personal Identification Number (PIN) combination or with a login identification and password. Additional specialized, role based training has been put in place to improve the proficiency of its operations staff and VA personnel and contractors with access to VA information or systems have been provided with annual security awareness and privacy training to ensure that they are knowledgeable of their roles and responsibilities for protection of VA information.



In FY 2012 VA aggressively implemented its Continuous Readiness in Information Security (CRISP) Program which is the new operating model to ensure information security. Through this program, VA has either initiated or completed enterprise-wide actions addressing security management, segregation of duties, access controls, contingency planning, and configuration management. This has allowed VA to address many of its outstanding plans of actions and milestones and has resulted in significant improvement in remediation of many of the deficiencies which compromise its material weakness in information technology security controls.

The VA Network Security Operations Center continues to conduct periodic scanning of segments of the VA network to identify vulnerabilities in VA systems. VA has also developed Directive 6500, *Managing Information Security Risk* and Handbook 6500, *Risk Management Framework for VA Information Systems – Tier 3*, which will formally document and provide updated guidance on managing the risk associated with the VA's information security program. This will help to ensure that resources are spent on remediation of high risk system deficiencies and vulnerabilities.

#### **OIG Sub-Challenge #5B: Interconnections with University Affiliates**

VAMCs have numerous systems interconnections with external organizations to exchange the data needed to support a range of health care services and collaborative research studies. VA has not effectively managed its network interconnections and data exchanges with its external research and university affiliates. Despite Federal requirements, VA could not readily account for the various systems linkages and sharing arrangements. VA also could not provide an accurate inventory of the research data exchanged, where they were hosted, or their sensitivity levels. In numerous instances, the OIG identified unsecured electronic and hardcopy research data at VAMCs and co-located research facilities.

VA's data governance approach has been ineffective to ensure that research data exchanged with research partners are adequately controlled and protected throughout the data life cycle. VA and its research partners have not consistently instituted formal agreements requiring that hosting facilities implement controls commensurate with VA standards for protecting sensitive data. The responsible VHA program office's decentralized approach to research data collection and oversight at a local level has not been effective to safeguard sensitive information. Because of these issues, VA data exchanged with research partners were at risk of unauthorized access, loss, and disclosure.

#### **VA's Program Response**

**Estimated Resolution Timeframe: 2013**

**Responsible Agency Official: Deputy Chief Information Officer/Director, Service, Delivery, and Engineering**

#### Completed 2012 Milestones

Once VA's Enterprise Security Change Control Board (ESCCB) has established an external (university) connection through the Trusted Internet Connection (TIC), the enforcement becomes the responsibility of the Facility Chief Information Officer with oversight by the cognizant information security officer and VA's Network Security Operations Center. The connection is documented in an interconnection



agreement and memorandum of understanding and is included as part of the system security plan for the supporting Local Area Network (LAN). The security implications of the connection are evaluated by the Office of Information and Technology prior to granting authority for the LAN to operate on the VA network. This evaluation is conducted as part of the Assessment and Authorization (A&A) for the LAN.

Authorities to operate are granted consistent with VA's continuous monitoring capability. Plans of Actions and Milestones for IT deficiencies related to the connection are tracked through resolution in VA's Security Management and Reporting Tool Database.

In 2012, as part of its Continuous Readiness in Information Security (CRISP) Program, VA emphasized its commitment to protect its system and data from unauthorized access and use which included the requirement to document, evaluate, and approve external connections to the VA network. While progress has been made in this area with the implementation of CRISP, much work remains to be done.

Once the Enterprise Security Change Control Board (ESCCB) has established an external (university) connection (through the Trusted Internet Connection (TIC), the enforcement is the local responsibility of the Field Information Security Officer (with support from the Facility CIO). They are the ones on-point for a Certification and Authority (C&A) of the connection (as part of the Local Area Network (LAN) System Security Plan document in Security Management and Reporting Tool (SMART) – and there is a LAN C&A activity for every facility. They also would be on-point for an external audit (presumably the OIG scanning activity).

VHA:

This draft report is still in process. No response can be provided until the final response is signed by Assistant Secretary OI&T and USH.

**OIG Sub-Challenge #5C: Successful Deployment of Encryption Software**

A data breach in May 2006 initiated a heightened and immediate concern in the protection of VA Personally Identifiable Information. In August 2006, the VA Secretary mandated that all VA computers would be upgraded with enhanced data security encryption software. As a result, VA awarded a contract to Systems Made Simple for Guardian Edge encryption software. The contract—at a cost of \$2.8 million—was for 300,000 encryption licenses and 1 year of maintenance, training, and services. VA also exercised 4 option years to extend the maintenance for the entire 300,000 encryption licenses for an additional \$1.2 million for a total award of \$4 million. Finally, in April 2011, VA procured an additional 100,000 licenses for \$2.3 million, which included a 2-year extended maintenance agreement on the original 300,000 licenses procured in 2006.

However, to date, OIT has only managed to encrypt approximately 65,000 computers, 48,000 laptops, and 17,000 desktops, resulting in some 335,000 encryption licenses and related maintenance agreements going unused. Initially, OIT's inability to successfully encrypt was due to inadequate planning of the original and subsequent encryption acquisitions. Subsequently, OIT encountered compatibility issues between IT equipment and encryption software. Delays also occurred due to OIT's



transition from Windows XP to Windows 7. Currently, OIT lacks adequate IT resources to support full deployment of encryption software. OIT's inability to successfully manage the deployment of the encryption software has resulted in approximately \$5.1 million dollars in funds that OIT could have put to better use.

**VA's Program Response**

**Estimated Resolution Timeframe: 2013**

**Responsible Agency Official: Deputy Chief Information Officer/Director, Service, Delivery, and Engineering**

Completed 2012 milestones

- Increment 1 Initial Operating Capacity Request; Finish 3/16/2012
- Increment 2 Initial Operating Capacity first set of sites; Start 3/16/2012

OIT has encrypted all deployed laptop computers, and will be encrypting all VA desktops as part of the Windows 7 deployment. Windows 7 provides additional functionality to VA staff, and includes encryption that will meet the mandate. The national deployment of Windows 7 has been initiated and will be completed over several phases. The target date for completion of Windows 7 deployment is FY 2013.

For desktops that will not receive the Windows 7 upgrade until later project phases (pending testing of clinical applications on the new platform), OIT is formulating a plan for an interim encryption solution using the licenses procured. The issues that prevented OIT from completely implementing the encryption solution more expeditiously included both compatibility issues early, and then later, resource issues to get the product fully deployed.

**OIG Sub-Challenge #5D: Strategic Management of Office of Information Technology Human Capital**

OIT provides IT systems support in the provision of benefits and health care services to our Nation's Veterans. However, within the next 5 years, OIT may face a loss of over 40 percent of its leadership and technical employees, which could threaten institutional knowledge and mission-critical IT capabilities as VA moves forward in the 21st century. Given the potential loss of critical staff, OIT has not established a strategic approach to mitigate and manage its human capital. Instead, OIT has been managing its human resources in an ad hoc manner with no clear vision. Although OIT recognizes the importance of strategic human capital management, it has not made it a priority and does not have the leadership and staff in place to support implementation of an OIT human capital strategy.

OIT has not developed a strategic human capital plan, fully implemented competency models, identified competency gaps, or created strategies for closing the gaps. OIT also has not captured the data needed to assess how well contractor support supplements OIT staffing and fills competency gaps. Moreover, OIT lacks assurance that it has made cost-effective decisions regarding how it spent money on contractors. Finally, OIT has not established a mechanism to evaluate the success of its human capital initiatives. As a result, OIT has no assurance it has effectively managed its human capital resources to support VA in accomplishing its mission.



**VA's Program Response**  
**Estimated Resolution Timeframe: 2013**  
**Responsible Agency Official: Director, IT Workforce Development**

Completed 2012 Milestones

VA OIT Workforce Development ITWD is developing competency models to support the workforce development needs of the OIT population by developing and implementing technical competency models for the 2210 workforce, OIT supervisors, and for the non-technical workforce, a core model. Once the technical workforce is implemented, the focus will shift to the non-2210 workforce.

ITWD approaches competency model development using a well- defined framework that can be replicated and applied to any identified OIT competency development area. During the Phase I, ITWD begins the development process by identifying key workforce activities and existing competency information available through the IT Roadmap and other relevant sources. During Phase II, the team works to identify key stakeholders and subject matter experts who can help ascertain role-specific key activities and provide knowledge of any existing competency model information through the development and execution of an OIT Stakeholder Engagement Plan. Using a collaborative approach, the team works with key stakeholders and subject matter experts to collect and analyze relevant competency data. During the final phase, ITWD begins the actual competency model development.

On November 10, 2011, Principal Deputy Assistant Secretary, Stephen Warren, issued a Memorandum mandating that *"All employees must have a completed, supervisor approved, electronic Individual Development Plan in the VA TMS no later than 60-days after being assigned a competency model."* As noted above, all employees were assigned a competency model, either Core, Supervisory or Technical in January 2012. As depicted by the chart below, those assigned to ITWD, Information Security Officer (ISO) or Software Developer (SD & SD SQA) models have completed the majority of self-assessments; however, participation in the process remains substantially less than anticipated.

From all competency self-assessments as of July 27, 2012, the largest competency gaps revealed by employee data were in the areas Web Development/Technology (Knowledge of the principles and methods of Web technologies, tools, and delivery systems, including Web security, privacy policy practices, and user interface issues), Oral Communication (Expresses information to individuals or groups effectively, taking into account the audience & nature of the information; makes clear & convincing oral presentations; listens to others, attends to nonverbal cues, & responds appropriately) and Information Resources Strategy & Planning (Knowledge of the principles, methods & techniques of information technology (IT) assessment, planning, management, monitoring, & evaluation, such as IT baseline assessment, interagency functional analysis, contingency planning & disaster recovery). This competency gap information is reviewed monthly and is shared with OIT leadership during the OIT Internal Monthly Performance Review. ITWD will use this data to guide training development.



### **OIG Sub-Challenge #5E: Strengthening Information Technology Governance**

A 2009 OIG audit determined that the ad hoc manner in which VA managed the realignment of its IT program from a decentralized to a centralized management structure inadvertently resulted in an environment with inconsistent management controls and inadequate oversight. Although OIG conducted this audit more than 2 years after VA centralized its IT program, senior OIT officials were still working to develop policies and procedures needed to manage IT investments effectively in a centralized environment. For example, OIT had not clearly defined the roles of IT governance boards responsible for facilitating budget oversight and IT project management.

Further, in September 2009, OIG reported that VA needed to better manage its major IT development projects, valued at that time at over \$3.4 billion, in a more disciplined and consistent manner. In general, OIG found that VA's System Development Life Cycle (SDLC) processes were adequate and comparable to Federal standards. However, OIT did not communicate, comply with, or enforce its mandatory software development requirements. OIT did not ensure that required independent milestone reviews of VA's IT projects were conducted to identify and address system development and implementation issues. OIG attributed these management lapses to OIT centralizing IT operations in an ad hoc manner, leaving little assurance that VA was making appropriate investment decisions and best use of available resources. Moreover, VA increased the risk that its IT projects would not meet cost, schedule, and performance goals, adversely affecting VA's ability to timely and adequately provide Veterans health services and benefits.

These audits demonstrated that OIT needed to implement effective centralized management controls over VA's IT investments. Specifically, OIG recommended that OIT develop and issue a directive that communicated the mandatory requirements of VA's SDLC process across the Department. OIG also recommended that OIT implement controls to conduct continuous monitoring and enforce disciplined performance and quality reviews of the major programs and projects in VA's IT investment portfolio. Although OIT concurred with recommendations and provided acceptable plans of actions, OIT's implementation of the corrective actions is still ongoing.

As of May 2012, OIT was managing all 134 active development programs and projects using PMAS. PMAS represents a major shift from the way VA historically has planned and managed IT development projects. An additional 46 projects were in the planning stage, while 30 projects were classified as new starts. However, OIT lacks the program management skills and the financial management system capabilities to fully track program costs and to implement an effective earned value management system to assist with achieving cost and performance goals. VA is challenged to ensure appropriate investment decisions are made and that annual funding decisions for VA's IT capital investment portfolio will make the best use of VA's available resources.



**VA's Program Response**  
**Estimated Resolution Timeframe: 2013**  
**Responsible Agency Official: Deputy Chief Information Officer, Product Development**

Completed 2012 Milestones

On October 24, 2011, VA OIT formally established the PMAS Business Office (PBO). The PBO has made significant strides toward better data capture, project review, and methodology management. The PBO defined and implemented versions of the MS0 and MS1 processes. Additional review processes identified as Milestone 2 (MS2) and Milestone 3 (MS3) are under development and were finalized at an executive participant lockdown in August. Templates for MS2 and MS3 reviews will be published by the end of Quarter 4, 2012.

The OIT Office of Enterprise Risk Management Oversight (ERMO) began conducting PMAS Compliance Reviews on May 1, 2012. The value of the PMAS Compliance Reviews is to audit projects ensuring data reliability and completeness.

PBO continues to improve reporting through the PMAS Dashboard. Analysis by PBO staff reviews whether data for funded projects are complete and defensible. Further, new enhancements to the PMAS Dashboard will include the ability to interface with multiple VA financial and contracting systems to capture project obligations and expenditures. These enhancements are expected to be completed during the next fiscal year. The contract for this work was awarded in April 2012. A Working Integrated Project Team (WIPT) composed of government and contractor subject matter experts was formed in May 2012. A priority list of activities and system interfaces to be developed has been approved.

The first operational iteration of the Artifact Centralized Repository (ACR) was developed and tested to satisfy the requirement for a centralized repository for all project artifacts. However, this project has been paused while analysis of other already deployed similar solutions may meet this need.

New PMAS requirements and system capabilities will be documented in the next release of the PMAS Guide which is scheduled release in Quarter 4, 2012 (Version 4.0).

**OIG Sub-Challenge #5F: Effective Oversight of Active IT Investment Programs and Projects**

VA has a longstanding history of challenges in effectively managing IT development projects. For example, the Veterans Service Network (VETSNET) program, which is VA's effort to consolidate C&P benefits processing into a single replacement system, has faced a number of cost, schedule, and performance goal challenges. In May 2009, VBA estimated the total cost of VETSNET to be more than \$308 million—more than 3 times the initial cost estimate. After more than 15 years of VBA development, including management and process improvements, VETSNET has the core functionality needed to process and pay the majority of C&P claims; however, work remains to meet the original goals for VETSNET. VETSNET's major releases were also developed with unstable functional



requirements resulting in inadequate time to fully test software changes. Consequently, major releases of VETSNET contained functions that did not operate as intended and many system defects were deferred or corrected in subsequent software releases. Further complicating matters, VBA has recently launched several high profile IT initiatives that will leverage VETSNET to make benefit payments. These overlapping IT initiatives increase the risks that VBA will experience further delays in achieving the original VETSNET goals.

Recently, VA has also had trouble establishing an effective IT project management system. A 2011 OIG audit found a great deal of work remains before VA's PMAS can be considered completely established and fully operational. PMAS was designed as a performance-based management discipline that provides incremental delivery of IT system functionality—tested and accepted by customers—within established schedule and cost criteria. However, the audit concluded that OIT instituted the PMAS concept without a roadmap identifying the tasks necessary to accomplish PMAS or adequate leadership and staff to effectively implement and manage the new methodology. Lacking such foundational elements, OIT has not instilled the discipline and accountability needed for effective management and oversight of IT development projects.

Specifically, OIT did not establish key management controls to ensure PMAS data reliability, verify project compliance, and track project costs. Also, OIT did not put in place detailed guidance on how such controls will be used within the framework of PMAS to manage and oversee IT projects. Consequently, the current PMAS framework does not provide a sound basis for future success. Until these deficiencies are addressed, VA's portfolio of IT development projects will remain susceptible to cost overruns, schedule slippages, and poor performance. To improve PMAS, VA must develop an implementation plan and assign adequate leadership and staff needed to fully execute the IT project management system. In addition, VA needs to establish controls for ensuring data reliability, verifying project compliance, and tracking costs to strengthen PMAS oversight. Finally, VA must prepare and provide users detailed guidance on using PMAS to ensure IT project success.

**VA's Program Response**

**Estimated Resolution Timeframe: 2013**

**Responsible Agency Official: Deputy Chief Information Officer, Product Development**

Completed 2012 Milestones

With the final conversion of C&P records from BDN in October 2012, the expected freezing of VETSNET's C&P client in early 2014, and the planned charter of Benefits Delivery Network (BDN) and Beneficiary Identification and Record Locator System (BIRLS) drawdown in early 2013, OIT is effectively lowering the future risk by reducing redundancy in similar functional systems.

BDN is funded as sustainment for 2013. The Benefits Product Support staff for BDN is primarily government FTE. VA is currently working on the Performance Work Statement, and expects to obligate it by March 2013.



Total non-pay costs for VETSNET 1996 through 2011 were \$275M. These costs reflect efforts to respond to a litany of new requirements that could not be anticipated in the VETSNET original charter. New benefits like Chapter 18 (Spina Bifida), legislative changes to benefits (including, for example, one-time lump sum Equity Compensation payments from the Filipino Veterans Equity Compensation Fund); and transformational initiatives like the Disability Evaluation System and Benefits at Discharge have provided all incredibly complex and dynamic targets for VETSNET. The cost-overruns in VETSNET that are cited by OIG should be considered in light of these unanticipated requirements, which were often costly and time-consuming to accommodate. The benefits environment does not always remain static; even the best planning cannot possibly anticipate changes that alter the benefits structure and increase the complexity of original requirements.

Within OIT, a more disciplined approach of monitoring has been established and expanded this year. In addition to Integrated Baseline Reviews (IBR) conducted by the CIO for all major programs and investments: 1) OIT conducts OMB standard TechStats for projects that miss schedule or scope objectives. OIT has instilled significant discipline, rigor, and accountability into the management and oversight of IT projects. This is evident through multiple means, among them Yellow Flags, Red Flags, TechStats, and Milestone 0, 1,2,3, and 4 reviews; 2) OIT's PMAS Business Office (PBO) conducts and an automated review of all projects schedule performance weekly; and, 3) OIT's PBO conducts ad hoc surveys to determine performance trends, indicating future requirements such as resource requirements.

PMAS is supported by the PMAS Dashboard, a technical environment which houses the project data for all PMAS projects. VA is taking several significant steps to ensure the data is reliable, that projects are complying with PMAS, and that the financials are tracked. Upon initiation of PMAs, VA used a prototype tool to rapidly build a technical environment. Over time, it became evident that the temporary environment would not adequately fulfill VA's technical needs. Hence, VA is now investing in a more stable, standard, and robust technology for the PMAS environment. This environment will ensure greater data reliability, include the ability to automatically generate mechanisms for project compliance, and provide interfaces with the appropriate accounting systems to track project costs. The release of the improved PMAS dashboard will be initially available in February 2013 and updated.

Detailed guidance to ensure appropriate management and oversight of IT projects is now available to the practitioners of PMAS. PMAS is supported by several artifacts which assist the practitioners of PMAS in its implementation. The PMAS Directive will be a VA-wide policy that mandates the use of PMAS and communicates the high-level responsibilities for successful project management and IT delivery. The PMAS Guide is a much more comprehensive document that details, not only how PMAS operates, but also how the multiple PMAS management and oversight processes function and interconnect. The Integrated Project Team (IPT) Guide provides detailed guidance on the functionality of the IPT, a very specific and critical aspect of PMAS. The PMAS Guide will be updated every six months. The IPT guide will be updated periodically to adjust to changes in policy. In addition to the various artifacts, the PBO offers monthly webinars on implementing PMAS and participates in a weekly enterprise-wide conference call with the IT PMs to address any questions or issues they may have with PMAS implementation.



On August 25, 2010 OIT rescinded its Earned Value Management directive 6061. The PMAS methodology was established as the discipline for achieving cost and performance goals. Since then, PMAS has enabled VA to make dramatic improvements in delivery commitments. Future enhancements to the PMAS Dashboard will build capabilities to institute data collection for resource forecasting. The PBO awarded a contract to develop an improved Dashboard in April 2012 as planned. The increment planned for January 2013 delivery will substantially improve capital investment portfolio reporting to OMB.

OIT authorized the creation of the PBO in October 2011. The office is comprised of 18 approved positions, of which nine have been filled and three are in the process of being filled. The PBO Director is a GS-15 and there are four GS-14 Team Leads. In addition, the PBO is supported by a contractor staff of 13.

The VBA Office of Business Process Integration (OBPI) established an internal VBA governance structure for the management of IT benefits projects. The Benefits Portfolio Steering Committee (BPSC) and the Benefits Portfolio Executive Board (BPEB) consist of representatives from the seven VBA business lines and various VBA staff offices. The BPSC is the first level of internal oversight that includes Deputy/Assistant Directors and/or their representatives. The BPEB is the next higher level of governance and includes all SES-level directors from the seven business lines and staff offices as well as the VBA Chief of Staff. Topics and issues needing further discussion or concurrence are referred to a joint VBA and OIT governance board named the Transformation Joint Executive Board (TJEB), which includes the Under Secretary for Benefits and the Assistant Secretary for Information and Technology. OBPI utilizes this governance process, as well as the VBA Integration Dashboard, to track and manage schedules, funding, integration points, and risks for VBA IT initiatives.



## APPENDIX

The Appendix lists selected reports pertinent to the five key challenges discussed. However, the Appendix is not intended to encompass all OIG work in an area.

### **OIG MAJOR MANAGEMENT CHALLENGE #1: HEALTH CARE DELIVERY**

#### **Review of Veterans' Access to Mental Health Care**

4/23/2012 | 12-00900-168 | [Summary](#) |

#### **Audit of VHA's Homeless Providers Grant and Per Diem Program**

3/12/2012 | 11-00334-115 | [Summary](#) |

#### **Audit of VHA's Prosthetics Supply Inventory Management**

3/30/2012 | 11-00312-127 | [Summary](#) |

#### **Audit of the VHA's Office of Rural Health**

4/29/2011 | 10-02461-154 | [Summary](#) |

#### **Audit of the Veterans Health Administration's Outpatient Scheduling Procedures**

7/8/2005 | 04-02887-169 | [Summary](#) |

#### **Audit of the Veterans Health Administration's Outpatient Waiting Times**

9/10/2007 | 07-00616-199 | [Summary](#) |

#### **Healthcare Inspection Alleged Mismanagement of the Fee Basis Program VA Connecticut Healthcare System, West Haven, Connecticut**

6/3/2009 | 09-01219-141 | [Summary](#) |

#### **Audit of Veterans Health Administration's Non-VA Outpatient Fee Care Program**

8/3/2009 | 08-02901-185 | [Summary](#) |

#### **Audit of the VHA's Office of Rural Health**

4/29/2011 | 10-02461-154 | [Summary](#) |

#### **Audit of VA's Efforts To Provide Timely Compensation and Pension Medical Examinations**

3/17/2010 | 09-02135-107 | [Summary](#) |

### **OIG CHALLENGE #2: BENEFITS PROCESSING**

#### **Audit of VA Regional Offices' Appeals Management Processes**

5/30/2012 | 10-03166-75 | [Summary](#) |

#### **Audit of VA's Internal Controls Over the Use of Disability Benefits Questionnaires**

2/23/2012 | 11-00733-95 | [Summary](#) |

#### **Audit of VBA's 100 Percent Disability Evaluations**

1/24/2011 | 09-03359-71 | [Summary](#) |

#### **Audit of the Fiduciary Program's Effectiveness in Addressing Potential Misuse of Beneficiary Funds**

3/31/2010 | 09-01999-120 | [Summary](#) |



**OIG CHALLENGE #3: FINANCIAL MANAGEMENT**

**Independent Review of VA's FY11 Detailed Accounting Summary Report to the ONDCP**

3/22/2012 | 12-01071-122 | [Summary](#) |

**Independent Review of VA's FY 2011 Performance Summary Report to ONDCP**

3/22/2012 | 12-01072-121 | [Summary](#) |

**Audit of the VA's Enhanced-Use Lease Program**

2/29/2012 | 11-00002-74 | [Summary](#) |

**Audit of VA's Duty Station Assignments**

4/19/2012 | 11-04081-142 | [Summary](#) |

**Audit of VHA's Financial Management and Fiscal Controls for Veterans Integrated Service Network Offices**

3/27/2012 | 10-02888-128 | [Summary](#) |

**Audit of VHA's Management Control Structures for Veterans Integrated Service Network Offices**

3/27/2012 | 10-02888-129 | [Summary](#) |

**Review of VA's Compliance with the Improper Payments Elimination and Recovery Act**

3/14/2012 | 12-00849-120 | [Summary](#) |

**Review of Alleged Mismanagement of Non-VA Fee Care Funds at the Phoenix VA Health Care System**

11/8/2011 | 11-02280-23 | [Summary](#) |

**Audit of Retention Incentives for Veterans Health Administration and VA Central Office Employees**

11/14/2011 | 10-02887-30 | [Summary](#) |

**Audit of VA's Consolidated Financial Statements for Fiscal Years 2011 and 2010**

11/10/2011 | 11-00343-26 | [Summary](#) |

**Audit of NCA's Appropriated Operations and Maintenance Funds Oversight**

6/20/2012 | 11-003060-193 | [Summary](#) |

**Audit of VA's Duty Station Assignments**

4/19/2012 | 11-04081-142 | [Summary](#) |

**Audit of VA's ADVANCE and the Corporate Senior Executive Management Office Human Capital Development Programs**

8/2/2012 | 11-02433-220 | [Summary](#) |

**Audit of VBA's Liquidation Appraisal Oversight at the Cleveland and Phoenix Regional Loan Centers**

9/28/2012 | 10-04045-124 | [Summary](#) |

**Audit of VHA's Medical Care Collections Fund Billing of VA-Provided Care**

8/30/2012 | 11-00333-254 | [Summary](#) |

**Audit of VA's Savings Reported Under OMB's Acquisition Savings Initiative**

9/30/2012 | 11-03217-293 | [Summary](#) |

**Administrative Investigation of VA's FY 2011 HR Conferences in Orlando, FL**

9/30/2012 | 12-02525-291 | [Summary](#) |



**OIG CHALLENGE #4: PROCUREMENT PRACTICE**

**Review of VA's Controls for the Pharmaceutical Prime Vendor Fast Pay System**

5/17/2012 | 12-01008-185 | [Summary](#) |

**Audit of VHA Acquisition and Management of Prosthetic Limbs**

3/8/2012 | 11-02254-102 | [Summary](#) |

**Review of Alleged Mismanagement of Systems to Drive Performance Project**

2/13/2012 | 11-02467-87 | [Summary](#) |

**Review of VA's Secure VA-Chief Information Security Officer Support Services Acquisition Process**

12/20/2011 | 11-01508-24 | [Summary](#) |

**Audit of VHA's Veterans Integrated System Network Contracts**

12/1/2011 | 10-01767-27 | [Summary](#) |

**Review of Alleged Contract Irregularities in VA's Office of Information and Technology**

10/13/2011 | 11-01708-02 | [Summary](#) |

**OIG CHALLENGE #5: INFORMATION MANAGEMENT**

**VA's Federal Information Security Management Act Assessment for FY 2011**

4/6/2012 | 11-00320-138 | [Summary](#) |

**Review of VA's Alleged Circumvention of Security Requirements for System Certifications and Apple Mobile Devices**

5/23/2012 | 12-00089-182 | [Summary](#) |



### High-Risk Areas Identified by GAO

The U.S. Government Accountability Office (GAO) evaluates VA’s programs and operations. In February 2011, GAO issued an update to its High-Risk Series (GAO-11-278). The GAO-identified High-Risk Areas (specific to VA as well as Government-wide) are summarized below. In response to each of the High-Risk Areas (HRAs), the Department has provided the following:

- **Estimated resolution timeframe (fiscal year)** for VA to eliminate each HRA
- **Responsible Agency Official** for each HRA
- **Completed 2012 milestones** in response to the HRA
- **Planned 2013 milestones** along with **estimated completion quarter**

High-Risk Area		Estimated Resolution Timeframe (Fiscal Year)	Page #
No.	Description		
GAO 1	Improving and Modernizing Federal Disability Programs	2014	II-139
GAO 2	Strategic Human Capital Management: A Governmentwide High-Risk Area	2013	II-144
GAO 3	Managing Federal Real Property: A Governmentwide High-Risk Area	2013	II-145
GAO 4	Protecting the Federal Government’s Information Systems and the Nation’s Critical Infrastructures: A Government-wide High-Risk Area	2013	II-147
GAO 5	Management of Interagency Contracting: A Governmentwide High-Risk Area	2012	II-148
	Appendix		II-150



**GAO High-Risk Area 1: Improving and Modernizing Federal Disability Programs**

Designated a high-risk area in 2003, federal disability programs remain in need of modernization. Almost 200 federal programs provide a wide range of services and supports, resulting in a patchwork of policies and programs without a unified strategy or set of national goals. Further, disability programs emphasize medical conditions in assessing work incapacity without adequate consideration of work opportunities afforded by advances in medicine, technology, and job demands. Beyond these broad concerns, the largest disability programs--managed by the Social Security Administration (SSA), Department of Veterans Affairs (VA), and Department of Defense (DoD)--are experiencing growing workloads, creating challenges to making timely and accurate decisions.

VA has made progress in some areas of its claims process and faced continued challenges in others. In fiscal year 2008, VA completed nearly 66 percent more initial compensation claims than in fiscal year 2000 and reduced pending appeals from about 127,000 to 95,000. However, in fiscal year 2008, it took VA on average 776 days to resolve an appeal. We reported in January 2010 that VA has implemented several improvement initiatives, including expanding its practice of workload distribution and testing new claims-processing approaches--such as shortening response periods for certain claims and appeals and reorganizing its claims-processing units. Per our recommendations, VA recently completed evaluations of some key initiatives, and continues to evaluate others. Thus, their long-term impact on the timeliness and accuracy of Veterans' claims is not yet known.

Through their pilot of an integrated disability evaluation system (IDES), DoD and VA have made some progress toward addressing inefficiencies associated with operating two separate yet similar disability systems, but full implementation will require careful monitoring. DoD's and VA's recently completed evaluation of the pilot has generally shown positive results. In support of plans to expand the IDES militarywide, DOD and VA have identified actions needed to address staffing, logistical, and other challenges. However, they do not have a monitoring process for identifying emerging problems such as staffing shortages in order to quickly take remedial actions. DoD and VA should develop a comprehensive monitoring mechanism.

An overall federal strategy and governmentwide coordination among programs is needed to align disability policies, services, and supports, but little progress has been made. SSA, VA, and DoD leadership have demonstrated a strong commitment and invested additional resources to address claims workloads. However, the agencies still need to complete work on the following recommendations. SSA needs to employ a comprehensive plan that considers its entire disability process. VA needs to evaluate its claims-processing initiatives to assess return on investment. As VA and DOD proceed with a joint disability evaluation system, they need to develop a systematic monitoring process and ensure adequate staffing is in place.



**VA's Program Response**  
**Estimated Resolution Timeframe: 2015**  
**Responsible Agency Official: Under Secretary for Benefits**

Completed 2012 Milestones

One of VA's primary goals is to improve the timeliness and accuracy of claims processing. VA is committed to achieving the 2015 strategic goal of completing all rating-related compensation and pension claims within 125 days at a 98 percent accuracy level. VBA has embarked on a wide-scale Transformation Plan to achieve new efficiencies, greater effectiveness, improved quality and consistency, and a workplace that is recognized as an "employer of choice." The transformation strategy builds on VA's strategic plan, goals, and integrated objectives.

The plan's initiatives incorporate an integrated approach to people, process, and technology solutions, including a strong focus on a career-ready military transition program, national training standards, paperless rules-based systems, case management, and automated capability to process an increased number of claims and a greater number of complex conditions per claim – all at a high quality level for our Veterans, their families, and survivors. Best practices in claims processing are being tested at regional offices (RO) to validate the potential of the initiatives to help VA achieve the 2015 strategic goals. The effective implementation of this transformation plan is driving VBA to achieve standardization among all ROs and a methodology for governing implementation. VBA's implementation strategy includes effective communications and change management, detailed implementation planning, and effective and measurable training, ensuring that new ideas are sustainable for the future.

VBA's transformation will be implemented according to a carefully developed and multi-year timeline. Changes in people, process, and technology will be rolled out in a progressive, intentional sequence that enables efficiency gains while minimizing risks to performance. As initiatives are implemented, VBA is closely tracking current metrics to assess results and, if necessary, adjust our efforts. VBA is working to expand what is measured to more clearly show the impact of the Transformation Plan, both at local and national levels. As VBA's transformation efforts are deployed, VBA will be better positioned to identify the overall return on investment. VBA's Implementation Center was established as a program management office to oversee the deployment of the newly transformed organizational model in a phased implementation schedule that is in use at 18 ROs as of September 30, 2012, and will be implemented at all RO's by the end of CY 2013.

Specific initiatives and actions to improve the timeliness and accuracy of claims processing are summarized as follows:

- VBA created a new Organizational Model that includes segmented lanes, cross-functional teams, and intake processing centers. The new model is currently implemented at 18 ROs and will be implemented at 33 more by the end of December 2012.



- VBA plans to deploy the Veterans Benefit Management System (VBMS) to all ROs by the end of CY 2013. VBMS is currently in use at five ROs. VBMS uses rules-based technology to improve quality and accuracy for disability rating determinations. The rating calculators (Evaluation Builder, Hearing Loss Calculator, and Special Monthly Compensation Calculator) are being leveraged for use in VBMS.
- VBA deployed the new Veterans Relationship Management (VRM) platform to improve awareness of VA services and benefits, and added the capability for claimants to file their claims and evidence electronically through eBenefits.
- VBA implemented a rules-based processing capability for adding dependency claims for Veterans in receipt of compensation. The Rules Based Processing System automatically executes business rules on eligible claims, records decisions, generates correspondence, and triggers payment for award decisions.
- VBA deployed 81 Disability Benefits Questionnaires (DBQs), 10 for internal use only and 71 for use by VA and private physicians. DBQs allow VBA to bring new efficiencies to the collection of medical information needed for claims decisions.
- VBA instituted Quality Review Teams (QRTs) in all 56 regional offices to conduct in-process reviews to correct deficiencies early in the claims process and before the claim is authorized.
- VBA implemented recommendations from the Institute for Defense Analyses to enhance VBA's quality assurance programs. These included re-evaluating the efficacy of the current claim-based review process to identify training needs and performing consistency reviews for rating decisions.
- As part of VA's continued effort to modernize the disability benefits program, the Veterans Affairs Schedule for Rating Disabilities (VASRD) revision project completed public forums for 15 body systems. Working groups prepared proposed recommendations and presented them at the VASRD Summit for public viewing and comments for consideration during the drafting phase.
- The Private Medical Records (PMR) pilot allows VBA to receive private medical records electronically (through Virtual VA), which reduces the amount of time to obtain these records and process claims.
- VBA assisted with development, testing, and release of Veterans On-Line Application Direct Connect (VDC), an online application process for Veterans. This method is similar to the way many people file their taxes and allows Veterans to apply directly to VA for disability benefits and upload medical evidence directly into their electronic claims folder. Veterans can also apply online to provide dependency information for their benefit payments.
- VBA updated forms for the Fully Developed Claims program. The updated forms improve the timeliness of claims processing.
- Congress approved an amendment to 38 U.S.C. Section 5103 which allows more flexibility in how and when VA provides Veterans Claims Assistance Act (VCAA) notification to claimants regarding



information and evidence that is necessary to substantiate a claim. This provision will permit VA to deliver VCAA notifications to claimants by electronic communication, thereby significantly reducing the number of paper letters sent to claimants.

- On July 6, 2012, VBA submitted the final report to Congress on the feasibility and advisability of continuing or expanding the Individual Claimant Checklist pilot program.
- VBA implemented the Appeals Design Team initiative with the purpose of improving timeliness in each segment of the appeals process and making the process more Veteran-centric, trust-earning, and consistent. The Houston VA RO is currently piloting this initiative with positive performance results.
- The number of available field hearings decreased by 25 percent in favor of increasing video teleconferencing hearings, between Veteran Law Judges and Veterans. This resulted in both time and monetary savings for VA.
- VBA and BVA conducted mandatory joint training programs to aid in standardizing adjudication across the system. This interactive training relationship includes the Systemic Technical Accuracy Review (STAR) staff, Decision Review Officers, and the Appeals Management Center staff. These combined efforts are expected to lead to future reduction in the number of avoidable remands.
- Congress enacted the presumptive waiver of Agency of Original Jurisdiction law in August 2012. This measure establishes a presumption that an appellant has waived RO consideration of any evidence filed after a Substantive Appeal has been filed to the Board (BVA). This will eliminate re-adjudication of the appeal by the RO in some cases, in favor of the Board directly addressing the evidence.
- The Integrated Disability Evaluation System (IDES) is deployed at 139 military sites worldwide. IDES now covers 100 percent of servicemembers being evaluated for medical separation or retirement. IDES developed an electronic case file transfer system allowing VA and DoD case managers to transfer documents electronically. The pilot for this system began in September 2012.
- The IDES Performance Dashboard is used to monitor IDES performance by VAMCs and other Department agencies/activities that exercise responsibility for the IDES process. Emphasis is placed on all aspects of IDES timeliness and responsiveness to IDES participants and the DoD. The reporting mechanism provides a comprehensive view of key IDES performance parameters and activities such as actual versus forecasted annual medical evaluation board workload, examination timeliness, examination insufficiencies, examination termination, and staffing adequacies. The dashboard serves as the primary informational tool used by VA leadership and is also shared with the DoD to facilitate their specific evaluations.

Planned 2013 Milestones with estimated completion quarter

Planned initiatives and actions to improve the timeliness and accuracy of claims processing to achieve the 2015 strategic goals of completing all rating-related compensation and pension claims within 125 days at a 98 percent accuracy level are summarized as follows:



- Deploy VBMS to all ROs. (Q1 2014)
- Enhance the VBMS application to employ rules-based technology that will automate additional decision-making processes and provide increased quality and accuracy of disability rating determinations. (Q4)
- Develop additional rating calculators in VBMS to assist in improving timeliness, accuracy, and consistency of rating decisions. (Q4)
- Implement the rules-based processing capability for adding and removing dependents from compensation claims. (Q4)
- Provide training for new QRT members, as well as quarterly training courses. Conduct site visits at ROs to ensure VBA policies and procedures are followed consistently nationwide. (Q4)
- Continue revision of the Veterans Affairs Schedule for Rating Disabilities. (Q4)
- Deploy PMR to additional sites to leverage optimized processes and lessons learned in preparation for possible deployment nationwide. (Q4)
- Enhance the VDC application to include applications for nonservice-connected disability pension, survivors benefits, and enhanced dependency claim capabilities. (Q4)
- Revise the National Training Curriculum to place more emphasis on individual and station training needs identified through quality assessments. (Q4)
- Automate the appeals hearing scheduling process to manage all hearings electronically, through the creation and implementation of the Virtual Docket (programmed in Veterans Appeals Control and Locator System). This automation will include the creation of initial hearing notification letters and reminders to Veterans. (Q4)
- Integrate hearing schedules into eBenefits to provide Veterans the ability to virtually review their scheduled hearings. (Q4)
- Establish a baseline for IDES benefits notification gap and establish a graduated reduction baseline to meet the newly established target. (Q4)
- Investigate potential alternatives for replacement of Veterans Tracking Application technology in IDES by the end of 2013. (Q4)
- Analyze results from an IDES electronic case file transfer pilot and make necessary recommendations for improvements in 2014. (Q1)



## GAO High-Risk Area 2: Strategic Human Capital Management

GAO initially designated strategic human capital management as a high-risk area because of the long-standing lack of leadership of strategic human capital management. However, Congress has provided agencies with additional authorities and flexibilities to manage the federal workforce, including the Telework Enhancement Act of 2010. OPM undertook a major initiative to reform the federal hiring process in 2010 and has expanded its assistance to agencies with more strategic approaches to human capital management. These changes demonstrate increased top level attention and clear progress toward more strategic management of the federal workforce.

GAO, therefore, is narrowing the scope of this HRA to focus on the most significant challenges that remain to close critical skills gaps. Federal agencies need to continue to both take actions to address their specific challenges and work with OPM and through the Chief Human Capital Officers Council to address critical skills gaps that cut across several agencies. Overall, the needed actions can be grouped into the following three broad categories:

*Planning:* Agencies' workforce plans must fully support the highly skilled talent needs of agencies, both now and as those needs evolve to address new mission priorities. These workforce plans must define the root causes of skills gaps, identify effective solutions to skills shortages, and provide the steps necessary to implement solutions.

*Implementation:* Agencies' recruitment, hiring, and development strategies must be responsive to changing applicant and workforce needs and expectations, as well as to the increasingly competitive battle for top talent. They must also show the capacity to define and implement corrective measures to narrow skill shortages.

*Measurement and evaluation:* Agencies need to measure the effects of key initiatives to address critical skills gaps, evaluate the performance of those initiatives, and make appropriate adjustments. By taking these steps, agencies will improve their ability to monitor and independently validate the effectiveness and sustainability of corrective measures.

### VA's Program Response

**Estimated Resolution Timeframe: 2013**

**Responsible Agency Official: Assistant Secretary, Office of Human Resources and Administration**

#### Completed 2012 Milestones

Transformation of human capital management is a major strategic goal for VA. At the core of this effort is VA's most important asset - its employees. VA has invested in its human capital through initiatives, also known as ADVANCE. Established 2012 milestones achieved in support of ADVANCE are:

- VA's Recruitment & Placement Policy has implemented an automated application process via USA Staffing.
- VA Learning University (VALU) has identified five areas of focus for training and development; the *MyCareer@VA* Team conducted over 35 demonstrations at various sites, and trained over 1,000 employees; *MyCareer@VA* is a website that provides employees with opportunities to grow in their careers; it will expand to 30 career groups, providing opportunities for approximately 168,000 employees to explore more than 102 jobs covering 75 percent of mission critical occupations by September 2012.



## Part II - High-Risk Areas

- HR Academy performed 2012 Competency Gap Assessments, and trained 563 HR professionals; it also developed and delivered four-day interactive training workshops entitled "HR2U."
- Workforce Planning (WFP) designed and piloted an enterprise-wide launch of two web-based work force planning tools to assist workforce planners in identifying and addressing workforce risks and skills/competency gaps, as well as created a VA WFP Performance Management Framework and Dashboard to monitor key workforce planning activities.

### Planned 2013 Milestones with estimated completion quarters

#### Streamline/Standardize Recruitment for Federal Jobs (Q4)

- Develop and implement strategies to validate and execute the requirements of the OPM end-to-end (E2E) hiring process.
- Develop occupational assessment questionnaires and standardized position descriptions for Mission Critical Occupations.

#### Retain personnel. (Q4)

- Increase training opportunities.
- Allow employees to access leadership tests to enhance their understanding of their career development at VA.

#### Enhance opportunities for employees to become more engaged at work. (Q4)

- VA Learning University will continue to train leadership, supervisors and other VA stakeholders on supporting the career development process.
- VA Learning University also plans to continue outreach efforts to educate the workforce on career development and online resources.
- VA Learning University plans to expand *MyCareer@VA* both in terms of the services offered and impact of career development within the VA.

### **GAO High-Risk Area 3: Managing Federal Real Property**

The federal real property portfolio is vast and diverse. It totals over 900,000 buildings and structures with a combined area of over 3 billion square feet. Progress has been made on many fronts, including significant progress with real property data reliability and managing the condition of facilities. However, federal agencies continue to face long-standing problems, such as overreliance on leasing, excess and underutilized property, and protecting federal facilities. As a result, this area remains high risk, with the exceptions of governmentwide real property data reliability and management of condition of facilities, which GAO found to be sufficiently improved to be no longer considered high risk.

The Department of Veterans Affairs (VA) has undertaken various planning efforts to realign its real property portfolio, including the Capital Asset Realignment for Enhanced Services (CARES), creation of a 5-year capital plan, and its newest effort, the Strategic Capital Investment Planning process (SCIP), which extends the planning horizon. VA's capital planning efforts generally reflect leading practices, but lack transparency about the cost of future priorities that could better inform decision making by VA and Congress.



**VA's Program Response**  
**Estimated Resolution Timeframe: 2013**  
**Responsible Agency Official: Director, Asset Enterprise Management**

Completed 2012 Milestones

VA completed an initial round of repurposing as part of the Building Utilization Review and Repurposing (BURR) initiative. In December 2011, 39 enhanced-use leases (EULs) were signed, resulting in over 2M square feet of vacant or underutilized space being repurposed in support of VA's mission, including housing options for homeless or at-risk homeless Veterans and their families.

VA completed its second full Strategic Capital Investment Planning (SCIP) process in support of the 2013 budget process. The SCIP process included enhancements to the SCIP Automated Tool (SAT), consisting of a fully integrated action plan, business case, and scoring modules, as well as numerous process improvements resulting from lessons learned in the initial SCIP cycle. The results of the SCIP process are included in VA's budget submissions for 2012 and 2013. Both budget submissions provide an estimated cost range for VA's long range capital plan and investment priorities, improving transparency.

The transition of the management of the Capital Asset Inventory (CAI) database was completed in the Spring of 2012, with the Office of Asset Enterprise Management (OAEM) being the new owners. Since that time, OAEM has deployed multiple sets of enhancements aimed at improving data entry accuracy with on-screen validation, better data linkages to ensure consistency, and security features to ensure internal controls.

VA completed migration from an existing Crystal Reports platform to a fully integrated Business Intelligence Publisher platform in May, 2012. This migration allows VA to have integrated reporting, improved analysis capabilities, and more efficient processing of new reporting requests.

Planned 2013 Milestones with estimated completion quarter

VA has begun extensive improvements to the CAI to enhance data validation and usability, including more tightly linking lease and agreements to building records, improving site navigation, and providing interactive highlighting to draw attention to missing or incomplete fields. VA expects to make continual improvements to CAI over the next year to further improve data accuracy and facilitate ease of use. (Q2)

VA will continue to enhance the SAT with additional features such as an optimization engine and business intelligence reporting and analysis module, as well as enhanced capabilities for operating plans and budget creation. These enhanced features, in conjunction with improvements to the SCIP process itself, will result in a more efficient and robust management of capital asset planning process. (Q3)

Significant focus will be put on identifying offsets (i.e. disposals or reuse opportunities), including potential EULs, to ensure our vacant and underutilized assets continue to be tightly managed. (Q2)



**GAO High-Risk Area 4: Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures**

Federal agencies and our nation's critical infrastructures--such as power distribution, water supply, telecommunications, and emergency services--rely extensively on computerized information systems and electronic data to carry out their operations. The security of these systems and data is essential to protecting national and economic security, and public health and safety. Safeguarding federal computer systems and the systems that support critical infrastructures--referred to as cyber critical infrastructure protection, or cyber CIP--is a continuing concern. Federal information security has been on GAO's list of high-risk areas since 1997; in 2003, GAO expanded this high-risk area to include cyber CIP.

Agencies need to (1) develop and implement remedial action plans for resolving known security deficiencies of government systems, (2) fully develop and effectively implement agencywide information security programs, as required by the Federal Information Security Management Act (FISMA) of 2002, and (3) demonstrate measurable, sustained progress in improving security over federal systems.

**VA's Program Response**

**Estimated Resolution Timeframe: 2013**

**Responsible Agency Official: Deputy Assistant Secretary for Information Security**

In 2012, VA embarked on a cultural transformation with respect to protecting its information. VA's Office of Information and Technology's Continuous Readiness in Information Security Program (CRISP) is the new operating model for protecting VA information and systems. CRISP embodies an integrated approach to protecting VA sensitive information from inappropriate exposure or loss and will be interwoven into the fabric of normal operations across VA.

Through CRISP, VA established a three pronged approach to improve information security. First, the program will ensure that those who have access to VA information systems have the appropriate level of access. Second, the program will publish clear documented plans for data breaches which will be regularly tested and improved. Lastly, the program will launch accessible, tailored, online information security training for all VA employees, contractors, volunteers, and affiliates which will help ensure that personnel are cognizant of their roles and responsibilities for protecting VA information and systems.

Completed 2012 Milestones

In FY 2012 VA aggressively implemented the CRISP program which has resulted in significant improvement in remediation of many of the information security deficiencies associated with its information security program with special emphasis on those which contributed to its material weakness in information technology security controls. In FY 2012, VA has either initiated or completed enterprise-wide actions addressing security management, segregation of duties, access controls, contingency planning, and configuration management. VA has also completed implementation of its Visibility to the Desktop and Visibility to the Server Initiatives which will assist in the timely identification and remediation of new vulnerabilities which all systems face daily.



### Planned 2013 Milestones

By 2013, VA plans to issue Directive 6500, *Managing Information Security Risk and Handbook 6500, Risk Management Framework for VA Information Systems – Tier 3* which will formally document and provide updated guidance on managing the risk associated with VA's information security program. (Q2)

By 2013, VA plans to complete the remaining actions necessary to fully remediate its deficiencies in security management, access controls, configuration management, segregation of duties, and contingency planning. (Q4)

### **GAO High-Risk Area 5: Management of Interagency Contracting**

When used correctly, interagency contracting--where one agency either uses another agency's contract directly or obtains contracting support services from another agency--can offer improved efficiency in the procurement process. By providing a simplified, expedited, and lower cost method of procurement, interagency contracting can help agencies save both time and administration costs versus awarding new contracts. This is particularly important at a time when agencies face growing workloads and slow growth in the acquisition workforce. Although precise numbers are unavailable, agencies reported spending at least \$53 billion in fiscal year 2009 using interagency contracts to acquire goods and services that support a wide variety of activities. GAO designated the management of interagency contracting as a high-risk area in 2005, due in part to the need for stronger internal controls, clear definitions of roles and responsibilities, and training to ensure proper use of this contracting method.

Specifically, GAO found that the Office of Management and Budget (OMB) and federal agencies lack reliable and comprehensive data to effectively leverage, manage, and oversee these contracts. In addition, agency officials expressed concerns to GAO about potential duplication when multiple agencies create separate contracts for similar products and services. Unjustified duplication needlessly increases costs to vendors, which they pass on to the government, and can result in missed opportunities to leverage the government's buying power. OMB is exploring options for improving the information available on existing interagency contracts to help agencies make better procurement decisions.

OMB and GSA have established corrective action plans that outline the steps they will take in response to GAO recommendations. OMB and federal agencies must continue to focus on addressing identified deficiencies in the use, management, and transparency of these contracts. Agencies must also take steps to ensure compliance with OMB's interagency contracting guidance to achieve the greatest value possible from this contracting method.



**VA's Program Response**  
**Estimated Resolution Timeframe: 2012**  
**Responsible Agency Official:**  
**Principal Executive Director, Office of Acquisition, Logistics, and Construction**

Completed 2012 Milestones

Management of Interagency Agreements (IAAs) for other than information technology actions was moved to the Acquisition Service – Frederick office. This realignment helps to ensure appropriate checks and balances are in place by providing increased oversight of the process. Information technology IAAs continue to be managed by the Technology Acquisition Center. Process improvements were established to ensure IAAs are fully integrated into eCMS. Legacy interagency agreements have been scanned and input into the system. New IAA actions are integrated as they are developed. Routine management reviews ensure IAAs are assigned eCMS numbers, acquisition documents are posted as they are prepared, and signed documents are subsequently included.

Planned 2013 Milestones

OALC will continue to monitor IAA integration into eCMS. This is now routine and will be accomplished without further reporting.



## APPENDIX

The Appendix lists selected reports pertinent to the high-risk areas discussed. However, the Appendix is not intended to encompass all GAO work in an area.

### **Improving and Modernizing Federal Disability Programs**

*High-Risk Series: An Update*, [GAO-11-278](#), February 2011.

*Military and Veterans Disability System: Pilot Has Achieved Some Goals, but Further Planning and Monitoring Needed*, [GAO-11-69](#), December 6, 2010.

*Military and Veterans Disability System: Worldwide Deployment of Integrated System Warrants Careful Monitoring*, [GAO-11-633T](#), May 4, 2011.

### **Strategic Human Capital Management**

*High-Risk Series: An Update*, [GAO-11-278](#), February 2011.

### **Managing Federal Real Property**

*High-Risk Series: An Update*, [GAO-11-278](#), February 2011.

*VA Real Property: Realignment Progressing, but Greater Transparency about Future Priorities Is Needed*, [GAO-11-197](#), January 31, 2011.

*Federal Real Property: The Government Faces Challenges to Disposing of Unneeded Buildings*, [GAO-11-370T](#), February 10, 2011.

*VA Real Property: Realignment Progressing, but Greater Transparency about Future Priorities Is Needed*, [GAO-11-521T](#), April 5, 2011.

### **Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures**

*High-Risk Series: An Update*, [GAO-11-278](#), February 2011.

*Cybersecurity: Continued Attention Needed to Protect Our Nation's Critical Infrastructure and Federal Information Systems*, [GAO-11-463T](#), March 16, 2011.

*Information Technology: Department of Veterans Affairs Faces Ongoing Management Challenges*, [GAO-11-663T](#), May 11, 2011.

### **Management of Interagency Contracting**

*High-Risk Series: An Update*, [GAO-11-278](#), February 2011.



## Letter from the Chief Financial Officer

November 15, 2012

The Department of Veterans Affairs (VA) is very pleased to have received its 14<sup>th</sup> consecutive unqualified ("clean") audit opinion on the Department's consolidated financial statements.

Following the elimination of three material weaknesses in 2010, and the reduction of significant deficiencies from five to two in 2011, VA made additional progress by reducing the number of significant deficiencies in 2012. The auditor also reported one significant deficiency, "undelivered orders," as a partial repeat condition and retitled it from "accrued operating expenses." The Department has taken corrective actions sufficient to address the reasonable estimation of the accrued operating expenses portion of unpaid obligations and therefore "accrued operating expenses" has been removed from the significant deficiency for this year. The Department has also taken corrective actions sufficient to eliminate one other significant deficiency, "loan guaranty reporting," previously cited last year.

Substantial work was done in 2012 on remediating the Department's one remaining material weakness, "information technology (IT) security controls." Improvements were cited by the auditors, but this material weakness will be carried forward into 2013. VA's success in 2012 reflects the dedication and hard work of staff throughout the Department. Congratulations to all who helped make 2012 a year of high achievement in VA financial management.

VA remains committed to meeting its four financial management goals: reducing operating costs, eliminating improper payments, strengthening internal controls, and enhancing data and analysis.



Since 2010, VA has used these four goals to establish and drive its annual suite of management initiatives. Following the completion of 7 of the 11 financial management initiatives in 2011, VA continued work during 2012 on the remaining 4 that are multi-year initiatives. The Systems to Drive Performance initiative was completed and moved to sustainment. This initiative delivered 17 unique dashboards that provide cost and workload program data to management and enhance decision-making. VA completed increments 3 and 4 of the Web-based Time and Attendance system initiative, and will complete the final increment – system testing – and implementation in 2013. Completion is also expected in 2013 on a final rule to implement electronic invoicing requirements. Progress is continuing on the multi-year initiative to modernize Fee Basis payment capabilities. The Department also continued its commitment to a well-trained financial management workforce, providing training to over 400 additional employees, bringing the total percentage trained since 2010 to 85 percent.

In 2012, VA established its highest financial priority – a new initiative to reduce improper payments in order to comply with the Improper



Payments Elimination and Recovery Act (IPERA). VA formed a task force, governed by the Chief Financial Officer, senior accountable officials, and program managers from VA's Administrations, to focus on increasing knowledge about VA improper payments, especially root causes, and on ways the Department can eliminate and reduce erroneous payments, ensure greater accuracy and improve precision of improper payment data, and adequately explain to stakeholders the causes of VA's improper payments. Action plans are also being developed and will be monitored during 2013 to improve compliance with IPERA.

In 2012, VA continued to ensure that all Recovery Act transparency, reporting, and accountability goals were met. By September 30, 2012, VA had made outlays totaling over \$1.7 billion (96 percent) of Recovery Act funds. For USAspending.gov, VA reported 100 percent of all required contract, grant, loan, and other assistance program spending, totaling \$96 billion. Additionally, VA exceeded reduced spending targets established by the Office of Management and Budget (OMB), implementing Executive Order 13589, "Promoting Efficient Spending." The Executive Order, dated November 15, 2011, directs agencies to cut waste in spending and identify opportunities to promote efficient and effective spending in specific areas, including travel, printing, supplies and materials, employee IT devices, promotional items, and executive fleet inventories. Mandated reductions in spending for management support contracts were also included. VA developed and executed a plan to reduce the costs associated with these activities and exceeded the total spending reduction target of \$173.4 million by an additional \$69 million. VA monitors spending monthly and reports the status to OMB quarterly.

VA's Franchise Fund is expected to receive its 15th successive unqualified audit opinion on its 2012 consolidated financial statements. In addition, the Supply Fund received an

unqualified opinion in 2011 and anticipates another unqualified opinion in 2012.

VA is dedicated to ensuring the proper stewardship of resources entrusted to it by Congress and the American people. The Department of Veterans Affairs is proud of its many accomplishments, but knows that a lot of work remains.

We will continue to improve financial stewardship and set ambitious goals designed to enhance performance. We are dedicated to promoting sound business practices and improving accountability, with the ultimate goal of providing more and better services to our Nation's Veterans.

A handwritten signature in black ink, reading "W. Todd Grams".

W. Todd Grams



## Consolidated Financial Statements

### DEPARTMENT OF VETERANS AFFAIRS

#### CONSOLIDATED BALANCE SHEETS (dollars in millions)

AS OF SEPTEMBER 30,	2012	2011
<b>ASSETS</b>		
<b>INTRAGOVERNMENTAL</b>		
Fund Balance with Treasury (Note 3)	\$ 40,574	\$ 40,211
Investments (Note 5)	9,309	10,032
Accounts Receivable, Net (Note 6)	40	6
Other Assets	799	784
<b>TOTAL INTRAGOVERNMENTAL ASSETS</b>	<b>50,722</b>	<b>51,033</b>
<b>PUBLIC</b>		
Cash (Note 4)	16	18
Investments (Note 5)	178	186
Accounts Receivable, Net (Note 6)	1,789	1,934
Direct Loans and Loan Guarantees, Net (Note 7)	1,996	2,105
Inventories and Related Property, Net (Note 8)	56	71
General Property, Plant and Equipment, Net (Note 9)	20,631	18,686
Other Assets	28	30
<b>TOTAL PUBLIC ASSETS</b>	<b>24,694</b>	<b>23,030</b>
<b>TOTAL ASSETS</b>	<b>\$ 75,416</b>	<b>\$ 74,063</b>
<b>Heritage Assets (Note 10)</b>		
<b>LIABILITIES</b>		
<b>INTRAGOVERNMENTAL</b>		
Accounts Payable (Note 24)	\$ 342	\$ 310
Debt (Note 11)	843	1,680
Other Liabilities (Notes 15 and 24)	1,352	1,009
<b>TOTAL INTRAGOVERNMENTAL LIABILITIES</b>	<b>2,537</b>	<b>2,999</b>
<b>PUBLIC</b>		
Accounts Payable (Note 24)	9,657	4,939
Liabilities for Loan Guarantees (Note 7)	5,561	5,062
Federal Employee and Veterans Benefits Liabilities (Notes 13 and 24)	1,763,614	1,535,591
Environmental and Disposal Liabilities (Note 14)	851	884
Insurance Liabilities (Note 17)	10,581	11,113
Other Liabilities (Notes 15 and 24)	3,936	3,773
<b>TOTAL PUBLIC LIABILITIES</b>	<b>1,794,200</b>	<b>1,561,362</b>
<b>TOTAL LIABILITIES</b>	<b>1,796,737</b>	<b>1,564,361</b>
<b>Commitments and Contingencies (Note 18)</b>		
<b>NET POSITION</b>		
Unexpended Appropriations – Earmarked Funds (Note 19)	-	-
Unexpended Appropriations – All Other Funds	4,131	12,048
Cumulative Results of Operations – Earmarked Funds (Note 19)	745	899
Cumulative Results of Operations – All Other Funds	(1,726,197)	(1,503,245)
<b>TOTAL NET POSITION</b>	<b>(1,721,321)</b>	<b>(1,490,298)</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 75,416</b>	<b>\$ 74,063</b>

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



<b>DEPARTMENT OF VETERANS AFFAIRS</b>		
<b>CONSOLIDATED STATEMENTS OF NET COST (dollars in millions)</b>		
<b>FOR THE YEARS ENDED SEPTEMBER 30,</b>	<b>2012</b>	<b>2011</b>
<b>NET PROGRAM COSTS BY ADMINISTRATION (Notes 21 &amp; 24)</b>		
Veterans Health Administration		
Gross Cost	\$ 56,888	\$ 56,240
Less Earned Revenue	(3,460)	(3,719)
Net Program Cost	53,428	52,521
Veterans Benefits Administration		
Gross Cost		
Program Costs	74,524	69,777
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	78,700	3,100
Less Earned Revenue	(1,666)	(2,027)
Net Program Cost	151,558	70,850
National Cemetery Administration		
Gross Cost		
Program Costs	294	279
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	(100)	(100)
Less Earned Revenue	-	-
Net Program Cost	194	179
Indirect Administrative Program Costs		
Gross Cost	1,972	2,112
Less Earned Revenue	(595)	(673)
Net Program Cost	1,377	1,439
<b>NET PROGRAM COSTS BY ADMINISTRATION BEFORE CHANGES IN VETERANS BENEFITS ACTUARIAL LIABILITY ASSUMPTIONS</b>	<b>206,557</b>	<b>124,989</b>
<b>CHANGES IN ACTUARIAL LIABILITY ASSUMPTIONS (Note 13)</b>		
<b>COMPENSATION:</b>		
Changes in Discount Rate Assumption	66,100	51,600
Changes in COLA Rate Assumption	(40,300)	4,000
Changes in Disability Claims Rates	123,400	-
<b>TOTAL COMPENSATION</b>	<b>149,200</b>	<b>55,600</b>
<b>BURIAL:</b>		
Changes in Discount Rate Assumption	200	200
Changes in COLA Rate Assumption	(100)	100
<b>TOTAL BURIAL</b>	<b>100</b>	<b>300</b>
<b>NET (GAIN)/LOSS FROM ACTUARIAL LIABILITY ASSUMPTIONS</b>	<b>149,300</b>	<b>55,900</b>
<b>NET COST OF OPERATIONS (Note 21)</b>	<b>\$ 355,857</b>	<b>\$ 180,889</b>

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



DEPARTMENT OF VETERANS AFFAIRS

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION (dollars in millions)

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	(Note 19) Earmarked Funds	All Other Funds	Eliminations	2012 Consolidated Total
<b>Cumulative Results of Operations</b>				
Beginning Balance	\$ 899	\$ (1,503,045)	\$ (200)	\$ (1,502,346)
<b>Budgetary Financing Sources</b>				
Appropriations Used	-	131,269	-	131,269
Nonexchange Revenue	-	8	-	8
Donations and Forfeitures of Cash and Cash Equivalents	23	-	-	23
Transfer In/Out Without Reimbursement	(2,830)	2,830	-	-
<b>Other Financing Sources (Nonexchange)</b>				
Donations and Forfeitures of Property	22	1	-	23
Transfers In/Out Without Reimbursement	-	-	-	-
Imputed Financing	-	1,795	-	1,795
Other	-	(367)	-	(367)
Total Other Financing Sources	(2,785)	135,536	-	132,751
Net Cost/(Benefit) of Operations	(2,631)	358,488	-	355,857
<b>Net Change</b>	<b>(154)</b>	<b>(222,952)</b>	<b>-</b>	<b>(223,106)</b>
Ending Balance – Cumulative Results	745	(1,725,997)	(200)	(1,725,452)
<b>Unexpended Appropriations</b>				
Beginning Balance	-	11,848	200	12,048
<b>Budgetary Financing Sources</b>				
Appropriations Received	-	125,255	-	125,255
Appropriations Transferred In/Out	-	185	-	185
Other Adjustments	-	(2,088)	-	(2,088)
Appropriations Used	-	(131,269)	-	(131,269)
Total Budgetary Financing Sources	-	(7,917)	-	(7,917)
<b>Total Unexpended Appropriations</b>	<b>-</b>	<b>3,931</b>	<b>200</b>	<b>4,131</b>
<b>Total Net Position</b>	<b>\$ 745</b>	<b>\$ (1,722,066)</b>	<b>\$ -</b>	<b>\$ (1,721,321)</b>

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



**DEPARTMENT OF VETERANS AFFAIRS**

**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION (dollars in millions)**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	(Note 19) Earmarked Funds	All Other Funds	Eliminations	2011 Consolidated Total
<b>Cumulative Results of Operations</b>				
Beginning Balance	\$ 892	\$ (1,448,295)	\$ (200)	\$ (1,447,603)
<b>Budgetary Financing Sources</b>				
Appropriations Used	-	124,513	-	124,513
Nonexchange Revenue	-	13	-	13
Donations and Forfeitures of Cash and Cash Equivalents	25	-	-	25
Transfer In/Out Without Reimbursement	(2,775)	2,775	-	-
<b>Other Financing Sources (Nonexchange)</b>				
Donations and Forfeitures of Property	24	2	-	26
Transfers In/Out Without Reimbursement	-	-	-	-
Imputed Financing	-	1,978	-	1,978
Other	-	(409)	-	(409)
Total Other Financing Sources	(2,726)	128,872	-	126,146
Net Cost/(Benefit) of Operations	(2,733)	183,622	-	180,889
<b>Net Change</b>	<b>7</b>	<b>(54,750)</b>	<b>-</b>	<b>(54,743)</b>
Ending Balance – Cumulative Results	899	(1,503,045)	(200)	(1,502,346)
<b>Unexpended Appropriations</b>				
Beginning Balance	-	14,185	200	14,385
<b>Budgetary Financing Sources</b>				
Appropriations Received	-	122,580	-	122,580
Appropriations Transferred In/Out	-	93	-	93
Other Adjustments	-	(497)	-	(497)
Appropriations Used	-	(124,513)	-	(124,513)
Total Budgetary Financing Sources	-	(2,337)	-	(2,337)
<b>Total Unexpended Appropriations</b>	<b>-</b>	<b>11,848</b>	<b>200</b>	<b>12,048</b>
<b>Total Net Position</b>	<b>\$ 899</b>	<b>\$ (1,491,197)</b>	<b>\$ -</b>	<b>\$ (1,490,298)</b>

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



**DEPARTMENT OF VETERANS AFFAIRS**

**COMBINED STATEMENT OF BUDGETARY RESOURCES (dollars in millions)**

**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Budgetary	Non-Budgetary Credit Reform Financing Account
<b>Budgetary Resources (Note 22)</b>		
Unobligated Balance brought forward, October 1	\$ 23,118	\$ 3,430
Adjustment to Unobligated balance brought forward, October 1	(10)	-
Unobligated balance brought forward, October 1, adjusted	23,108	3,430
Recoveries of Prior Year Unpaid Obligations*	14	-
Other Changes in Unobligated Balance	(327)	(160)
Unobligated balance from Prior Year Budget Authority, net	22,795	3,270
Appropriations	127,519	-
Borrowing Authority	-	313
Spending Authority from Offsetting Collections	5,233	3,457
<b>Total Budgetary Resources</b>	<b>\$ 155,547</b>	<b>\$ 7,040</b>
<b>Status of Budgetary Resources</b>		
Obligations Incurred*	\$ 139,630	\$ 3,034
Unobligated Balance, end of year		
Apportioned	12,673	-
Unapportioned	3,244	4,006
Total Unobligated Balance, end of year	15,917	4,006
<b>Total Status of Budgetary Resources</b>	<b>\$ 155,547</b>	<b>\$ 7,040</b>
<b>Change in Obligated Balance</b>		
Unpaid Obligations, brought forward, October 1 (gross)	\$ 17,876	\$ 292
Uncollected Customer Payments from Federal Sources, brought forward	(1,355)	(6)
Obligated Balance start of year (net), before adjustments	16,521	286
Adjustment to Obligated Balance, start of year	10	-
Obligated Balance start of year (net), as adjusted	16,531	286
Obligations Incurred*	139,630	3,034
Outlays (gross)	(132,596)	(3,016)
Change in Uncollected Customer Payments from Federal Sources	(236)	6
Recoveries of Prior Year Unpaid Obligations*	(14)	-
Obligated Balance, end of year		
Unpaid Obligations, end of year (gross)	\$ 24,906	\$ 310
Uncollected Customer Payments from Federal Sources, end of year	(1,591)	-
<b>Obligated Balance, end of year, (net)</b>	<b>\$ 23,315</b>	<b>\$ 310</b>

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**DEPARTMENT OF VETERANS AFFAIRS**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES (dollars in millions) (continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Budgetary	Non-Budgetary Credit Reform Financing Account
<b>Budget Authority and Outlays, net</b>		
Budget Authority, gross	\$ 132,753	\$ 3,770
Actual Offsetting Collections	(5,004)	(4,449)
Change in Uncollected Customer Payments from Federal Sources	(236)	6
Anticipated Offsetting Collections	-	-
<b>Budget Authority, net</b>	<b>\$ 127,513</b>	<b>\$ (673)</b>
Outlays, gross	\$ 132,596	\$ 3,016
Actual Offsetting Collections	(5,004)	(4,449)
Outlays, net	127,592	(1,433)
Distributed Offsetting Receipts	(3,161)	(304)
<b>Agency Outlays, net</b>	<b>\$ 124,431</b>	<b>\$ (1,737)</b>

\* Estimated recoveries of prior year unpaid obligations (not recorded) range from \$1,200 million-\$2,300 million for 2012 and range from \$1,100 million-\$2,100 million for 2011. The effect of recording the adjustments would be to increase "Recoveries of Prior Year Unpaid Obligations" and increase "Obligations Incurred" (see Note 22 for more information).

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



**DEPARTMENT OF VETERANS AFFAIRS**

**COMBINED STATEMENT OF BUDGETARY RESOURCES (dollars in millions)**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Budgetary	Non-Budgetary Credit Reform Financing Account
<b>Budgetary Resources (Note 22)</b>		
Unobligated Balance brought forward, October 1	\$ 23,791	\$ 2,373
Adjustment to Unobligated balance brought forward, October 1	-	-
Unobligated balance brought forward, October 1, adjusted	23,791	2,373
Recoveries of Prior Year Unpaid Obligations*	8	-
Other Changes in Unobligated Balance	(97)	(115)
Unobligated balance from Prior Year Budget Authority, net	23,702	2,258
Appropriations	126,003	(428)
Borrowing Authority	-	566
Spending Authority from Offsetting Collections	5,302	4,444
<b>Total Budgetary Resources</b>	<b>\$ 155,007</b>	<b>\$ 6,840</b>
<b>Status of Budgetary Resources</b>		
Obligations Incurred*	\$ 131,889	\$ 3,410
Unobligated Balance, end of year		
Apportioned	20,345	-
Unapportioned	2,773	3,430
Total Unobligated Balance, end of year	23,118	3,430
<b>Total Status of Budgetary Resources</b>	<b>\$ 155,007</b>	<b>\$ 6,840</b>
<b>Change in Obligated Balance</b>		
Unpaid Obligations, brought forward, October 1 (gross)	\$ 21,508	\$ 286
Uncollected Customer Payments from Federal Sources, brought forward	(1,440)	(7)
Obligated Balance start of year (net), before adjustments	20,068	279
Adjustment to Obligated Balance, start of year	-	-
Obligated Balance start of year (net), as adjusted	20,068	279
Obligations Incurred*	131,889	3,410
Outlays (gross)	(135,513)	(3,404)
Change in Uncollected Customer Payments from Federal Sources	85	1
Recoveries of Prior Year Unpaid Obligations*	(8)	-
Obligated Balance, end of year		
Unpaid Obligations, end of year (gross)	\$ 17,876	\$ 292
Uncollected Customer Payments from Federal Sources, end of year	(1,355)	(6)
<b>Obligated Balance, end of year, (net)</b>	<b>\$ 16,521</b>	<b>\$ 286</b>

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DEPARTMENT OF VETERANS AFFAIRS

COMBINED STATEMENT OF BUDGETARY RESOURCES (dollars in millions) (continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgetary	Non-Budgetary Credit Reform Financing Account
<b>Budget Authority and Outlays, net</b>		
Budget Authority, gross	\$ 131,305	\$ 4,582
Actual Offsetting Collections	(5,276)	(4,445)
Change in Uncollected Customer Payments from Federal Sources	85	1
Anticipated Offsetting Collections	-	-
<b>Budget Authority, net</b>	<b>\$ 126,114</b>	<b>\$ 138</b>
Outlays, gross	\$ 135,513	\$ 3,404
Actual Offsetting Collections	(5,276)	(4,445)
Outlays, net	130,237	(1,041)
Distributed Offsetting Receipts	(3,056)	(264)
<b>Agency Outlays, net</b>	<b>\$ 127,181</b>	<b>\$ (1,305)</b>

\* Estimated recoveries of prior year unpaid obligations (not recorded) range from \$1,200 million-\$2,300 million for 2012 and range from \$1,100 million-\$2,100 million for 2011. The effect of recording the adjustments would be to increase "Recoveries of Prior Year Unpaid Obligations" and increase "Obligations Incurred" (see Note 22 for more information).

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



## Notes to Consolidated Financial Statements

**For the Years Ended September 30, 2012, and 2011 (dollars in millions, unless otherwise noted)**

### 1. Summary of Significant Accounting Policies

#### Organization

The mission of the Department of Veterans Affairs (VA) is to provide medical care, benefits, social support, and lasting memorials to Veterans, their dependents, and beneficiaries [(38 U.S.C. Section 301(b) 1997)]. The Department is organized under the Secretary of VA. The Secretary's office includes a Deputy Secretary and has direct lines of authority over the Under Secretary for Health, the Under Secretary for Benefits, and the Under Secretary for Memorial Affairs. Additionally, six Assistant Secretaries, an Inspector General, a General Counsel, an Executive-In-Charge for Human Resources and Administration, and the chairmen of the Board of Contract Appeals and the Board of Veterans' Appeals support the Secretary.

#### Reporting Entity and Basis of Presentation

The VA consolidated financial statements, including the Combined Statements of Budgetary Resources, report all activities of VA components. VA components include the Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), National Cemetery Administration (NCA), and Indirect Administrative Program Costs. The consolidated financial statements meet the requirements of the Chief Financial Officers Act (CFO) of 1990 and the Government Management Reform Act (GMRA) of 1994. The principal financial statements have been prepared to report the financial position and results of operations of VA, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books

and records of VA in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that VA is a component of the U.S. Government, a sovereign entity. VA interacts with and is dependent upon the financial activities of the Federal Government as a whole. Therefore, these consolidated financial statements do not reflect the results of all financial decisions applicable to VA as though the Department were a stand-alone entity. VA's fiscal year end is September 30<sup>th</sup>.

#### Basis of Accounting

The principal financial statements are prepared in accordance with GAAP as promulgated by the Federal Accounting Standards Advisory Board (FASAB) and OMB Circular No. A-136, *Financial Reporting Requirements*, as revised. The Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, establishes a hierarchy of GAAP for Federal financial statements. The principal financial statements prepared in accordance with GAAP include the consolidated financial statements prepared on an accrual basis of accounting and the combined statements of budgetary resources which reflect the appropriation and consumption of budget and spending authority and other budgetary resources before eliminations.

The consolidated financial statements include the balance sheets, statements of net cost, and



statements of changes in net position. In order to prepare reliable consolidated financial statements, transactions occurring among VA components must be eliminated. All significant intra-entity transactions were eliminated from VA's consolidated financial statements. However, to remain consistent with the aggregate of the account-level information presented in budgetary reports the statements of budgetary resources are not consolidated but combined, therefore elimination of intra-entity transactions is not permitted.

#### **Budgets and Budgetary Accounting**

Budgetary accounting measures appropriation and consumption of budget/spending authority or other budgetary resources, and facilitates compliance with legal constraints and controls over the use of federal funds. Under budgetary reporting principles, budgetary resources are consumed at the time of purchase. Assets and liabilities that do not consume budgetary resources are not reported, and only those liabilities for which valid obligations have been established are considered to consume budgetary resources.

The Combined Statements of Budgetary Resources (SBR) are the basic financial statements that report the Department's Budgetary Resources, Status of Budgetary Resources, Net Outlays for the year ended and the Change in Obligated Balance as of year-end. Specific forms of budget authority that the Department receives are appropriations, borrowing authority and spending authority from offsetting collections. Details on the amounts shown in the Combined Statements of Budgetary Resources are included in the Required Supplementary Information section on the Schedule of Budgetary Activity shown by major account. The Combined Statements of Budgetary Resources are prepared on a combined basis, not a consolidated basis and

therefore, do not include intra-entity eliminations.

See Note 22 for further disclosure on Budgets and Budgetary Accounting.

#### **Revenues and Other Financing Sources**

Exchange revenue, which is primarily medical revenue, is recognized when earned from other federal agencies or the public as a result of costs incurred or services performed on their behalf. Medical revenue is earned by VA when services are provided and are billable to the first party (Veterans) and third party insurance companies. Under chapter 17, title 38, United States Code, 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.

Billable amounts are based on reasonable charges by locality for services provided as determined under the methodology prescribed by 38 CFR Regulation 17.101. 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 (CPI) to account for the historical nature of the data being utilized. The billable amounts by service provided are developed based on the classification of services as inpatient, outpatient, professional and surgical or non-surgical. The nationwide average rates used to determine billable amounts for services provided for inpatient care are updated annually effective October 1st and nationwide average rates for billable amounts for outpatient and professional care are updated annually effective January 1st. The updated charges are published by a Notice in the Federal



Register and the charges are available on the VHA Chief Business Office (CBO) website (<http://www1.va.gov/CBO/apps/rates/>). 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.

Exchange revenue also consist of: benefits revenue from reimbursement of education benefit programs from service member contributions that are transferred to the general fund account with the Department of the Treasury (Treasury); insurance revenue from insurance policy premiums paid by policyholders; and housing revenue from interest earned on direct loans.

Nonexchange revenue (e.g., donations) is recognized when received, and the related receivables, refunds, and offsets are recognized when measurable and legally collectible. Nonexchange revenue also consist of: benefits revenue from reimbursement of education benefit programs by Department of Defense (DoD) that are transferred to the general fund account with Treasury; insurance revenues from interest earned from Treasury on investments of insurance policy premiums; and housing revenue from interest earned from Treasury on uninvested balances in financing accounts and reestimates of subsidy.

Imputed financing sources consist of imputed revenue for expenses relating to legal claims paid by the Treasury Judgment Fund and post-retirement benefits for VA employees paid by the Office of Personnel Management (OPM).

#### **Transferring Budget Authority to Other Agencies**

VA, as the transferring (parent) entity, is a party to allocation transfers with DoD, the transferee (child) entity. Allocation transfers are legal delegations by one department of its authority

to obligate budget authority and outlay funds to another department. A separate fund account (transfer appropriation account) is created in the Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this transfer appropriation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived.

#### **Federal Credit Reform Act of 1990**

Direct loan obligations and loan guarantee commitments made after 1991, and the resulting direct loans or loan guarantees, are governed by the Federal Credit Reform Act of 1990 (the Credit Reform Act). The financial statement disclosures herein are also in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 2, *Accounting for Direct Loans and Guarantees*, as amended. The Credit Reform Act provides that the present value of the estimated net cash flows to be paid by VA for subsidy costs associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed as a result of its borrowing from Treasury. Direct loans and guaranteed loans receivable are reported net of an allowance for subsidy costs at present value, and loan guarantee liabilities are reported at present value.

The subsidy costs related to direct loans and guaranteed loans receivable consist of the interest rate differential between the loans to Veterans and the borrowing from Treasury, estimated default costs, net of recoveries, offsets from fees and collections, and other



estimated subsidy costs affecting cash flows. Adjustments to the allowance for subsidy costs affecting cash flows consist of fees received, foreclosed property acquired, loans written off, subsidy allowance amortization and reestimates of interest rates and application of loan technical/default provisions approved by OMB.

When the present value of cash inflows to VA is less than the present value of cash outflows made by VA, a subsidy cost is incurred by VA and reported as an allowance for subsidy costs that reduces direct loans and guaranteed loans receivable reported in the consolidated balance sheet. However, a negative subsidy occurs when the present value of cash inflows to VA exceeds the present value of cash outflows made by VA. The resulting negative subsidy is reported as an allowance for subsidy costs that increases direct loans and guaranteed loans receivable reported in the consolidated balance sheet.

The cash flow costs used to calculate the present value of the liability for loan guarantees and loan sale guarantees consist of the estimated default costs, net of recoveries, fees and other collections, adjustments for fees received, foreclosed property and loans acquired, claim payments to lenders, interest accumulation on the liability balance, modifications, changes in reestimates of interest rates and application of loan technical/default provisions approved by OMB.

Direct loans obligated before October 1, 1992, are not subject to the Federal Credit Reform Act. Direct loans obligated before October 1, 1992, are recorded at net realizable value of the remaining balance of amounts disbursed plus accrued and unpaid interest receivable. The allowance for loan losses on direct loans obligated before October 1, 1992, 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 reestimated each year as of the date of the financial statements. Loan losses are reestimated by program. Risk factors are evaluated for each program and separate loan year disbursed. Risk factors include historical loan experience, regional economic conditions, financial and relevant characteristics of borrowers, value of collateral to loan balance, changes in recoverable value of collateral and new events that would affect the loans' performance. A systematic methodology based on an econometric model is used to project default costs by risk category. Actual historical experience includes actual payments, prepayments, late payments, defaults, recoveries, and amounts written off.

#### **Fund Balance with Treasury**

Treasury performs cash management activities for all Federal Government agencies. The Fund Balance with Treasury (FBWT) represents the right of VA to draw on the Treasury for allowable expenditures. Trust fund balances consist primarily of amounts related to the Post-Vietnam Veterans Educational Assistance Program (VEAP) Trust Fund, the National Service Life Insurance (NSLI) Fund, the United States Government Life Insurance (USGLI) Fund, the Veterans Special Life Insurance (VSLI) Fund, the General Post Fund, and the National Cemetery Gift Fund. The use of these funds is restricted.

Revolving funds, used by the Supply Fund and Franchise Fund, finance a cycle of business-like operations through amounts received from the sale of products or services. The collections are used to finance its spending, usually on a self-sustaining basis. Revolving funds record the collections and the outlays in the same Treasury account. A revolving fund is a form of permanent appropriation receiving authority to spend their collections and do not generally receive appropriations.



Appropriated funds are general fund expenditure accounts established to record amounts appropriated by law for the general support of Federal Government activities and the subsequent expenditure of these funds. It includes spending from both annual and permanent appropriations.

Special funds are an appropriation account established to record appropriations, obligations, and outlays financed by the proceeds of special fund receipts which are dedicated collections by law for a specific purpose or program. Medical Care Collections Fund and Lease of Land and Building (NCA Facilities Operation Fund) are special funds.

The Status of Fund Balance with Treasury shown in Note 3 represents the VA's unobligated balances, obligated balances and deposit and clearing accounts. The unobligated and obligated balances presented in that section may not equal related amounts reported on the Combined Statements of Budgetary Resources (SBR). The unobligated and obligated balances reported on the SBR are supported by FBWT, as well as other budgetary resources that do not affect FBWT, primarily expired authority.

#### **Cash**

Cash consists of Canteen Service and Loan Guaranty Program amounts held in commercial banks, cash held by non-federal trusts as well as Agent Cashier advances at the VA field stations. Treasury processes all other cash receipts and disbursements. Amounts relating to the Loan Guaranty Program represent deposits with trustees for offsets against loan loss claims related to sold loan portfolios. Funds held by non-federal trusts are restricted and may be used only in accordance with the terms of the trust agreements.

#### **Investments**

Investments are reported at cost net of amortized premiums or discounts and accrued interest, which approximates market value, and are redeemable at any time for their original purchase price. Insurance program investments, which comprise most of the VA's investments, are in non-marketable Treasury special bonds and certificates. Interest rates for Treasury special securities are initially set based on average market yields for comparable Treasury issues. Special bonds, which mature during various years through the year 2025, are generally held to maturity unless needed to finance insurance claims and dividends. Other program investments are in securities issued by Treasury, with the exception of non-federal Trust investments in mutual funds and the Loan Guaranty Program investments in housing trust certificates. No securities have been reclassified as securities available for sale or early redemption. Additionally, no permanent impairments of securities have occurred.

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.

#### **Accounts Receivable**

Accounts receivable are reported at net realizable value measured as the carrying amount less an allowance for loss provision or contractual adjustment for medical care as considered necessary. Contractual adjustments



are estimated for Medical Care Collection Fund (MCCF) receivables due from patients and insurance companies using the allowance method. The allowance is determined based on the VA's historical experience and collection efforts and the contractual nature of the balance due. Uncollectible amounts are written off against the allowance for loss provision or contractual adjustment for medical care once VA determines an amount, or a portion thereof, to be uncollectible.

Accounts receivable consists of intragovernmental accounts receivable and public accounts receivable. Intragovernmental accounts receivable consists of amounts due from other Federal Government agencies primarily for reimbursement of costs and lease payments receivable. All amounts due from Federal Government agencies are considered fully collectible; therefore, no allowance for loss provision is recognized.

Public accounts receivable consists primarily of (a) amounts due for Veterans' health care, (b) amounts due for compensation, pension, and readjustment benefit overpayments, (c) amounts due for education benefits and readjustment overpayments and (d) other miscellaneous receivables due primarily for general fund advances, insurance, Loan Guaranty receivables and medical research.

VA is required by Public Law (P.L.) 96-466 to charge interest and administrative costs on benefit debts similar to charges levied on other debts owed the Federal Government. The VA's current policy is not to charge interest on compensation, pension debts and certain education benefits based on a July 1992 decision by the then-VA Deputy Secretary.

#### **Loans Receivable**

Loans receivable consist of direct loans and defaulted guaranteed loans receivable.

Included in direct loans are vendee loans, acquired loans, and Native American direct loans. These three types of loans receivable are part of the VA Loan Guaranty Program. Direct loans also include loans on Veterans' insurance policies. The loans receivable are secured by the underlying real estate and insurance policies. The present value of the cost VA will bear as guaranteed loans default is an element of the mortgage loan benefit that VA provides to Veterans. This cost is reflected in the financial statements as the liability for guaranteed loans and the allowance for subsidy for defaulted guaranteed loans included in the balance of loans receivable.

Vendee loans are direct loans issued to a third party borrower for the acquisition price of foreclosed real estate sold by VA after the transfer of the property to VA by a private sector mortgage lender upon default of a loan subject to the VA Loan Guaranty Program. Acquired loans are VA guaranteed loans in default that VA purchases from the private sector mortgage lender and services the loan with the Veteran directly after VA determines that the Veteran can service the debt service payments. Native American direct loans are special financing that enables Native Americans to purchase a home on federally recognized trust land.

Veterans that are government life insurance policyholders with permanent plan coverage or paid-up additional insurance can borrow against the cash value of their policy, creating an insurance policy direct loan. The loan amount may not exceed 94 percent of the cash surrender value of the policy or the paid-up additional insurance. Prior to November 2, 1987, policy loans were issued at fixed rates depending on the fund and time period. The remaining fixed rate loans are at 4 percent and 5 percent. All policy loans issued since November 2, 1987, have a variable interest rate



with a minimum of 5 percent and a maximum of 12 percent. Rate changes are tied to the ten-year constant maturities, U.S. Treasury Securities Index and may only change on October 1. The variable rate has been 5 percent since October 1, 2001.

The interest due is equal to the interest rate times the loan balance as of the loan anniversary date. Any interest for the year not paid within 20 days of the anniversary date is added to the loan balance. Policyholders may repay loans at their discretion as long as the loan amount plus accumulated interest does not exceed 94 percent of the cash surrender value. If this occurs, the policyholder is notified that their policy will be surrendered unless a minimum payment is received within 90 days. At the policyholder's death or the maturity of the policy, any loan indebtedness is deducted from the insurance proceeds.

Loans receivable for direct loans are recorded as funds are disbursed. The carrying amount of direct loans receivable includes the remaining balance of the amount disbursed, interest receivable, an allowance for loan losses using the allowance method for pre-1992 loans, the present value of an allowance for subsidy costs for post-1991 loans and the fair market value less cost to dispose of foreclosed property based on the present value of future cash flows from the property.

Loans receivable for defaulted guaranteed loans are recorded when amounts are disbursed by VA to fund its guaranty with the lender for defaulted loans and represents the net value of the assets related to the pre-1992 and post-1991 guaranteed loans that defaulted. The carrying amount of the guaranteed loans receivable includes the amount dispersed by VA for its guaranty under the defaulted loans, an allowance for loan losses using the allowance method for pre-1992 loans and the fair market value less cost to dispose of foreclosed property

based on the present value of future cash flows from the property.

For loans obligated prior to October 1, 1991, the loan loss allowance is estimated based on past experience and an analysis of outstanding balances. For loans obligated after September 30, 1991, the allowance for subsidy costs adjustment is due to the interest rate differential between the loans and borrowing from Treasury, the estimated delinquencies and defaults, net of recoveries, offsets from fees, and other estimated cash flows.

The provision for losses on vendee loans is based upon historical loan foreclosure results applied to the average loss on defaulted loans. The calculation is also based on the use of the average interest rate of U.S. interest-bearing debt as a discount rate on the assumption that the VA's outstanding vendee or direct loans will default over a 12-year period. For 2012 and 2011, VA determined that these vendee loans have sufficient equity, due to real estate appreciation and buy-down of principal, to minimize or eliminate any potential loss to VA.

The amount recorded for foreclosed property is estimated based upon the present value of future cash flows to be received upon the disposition of the property. To determine the future cash flows from a foreclosed property, VA obtains an independent appraisal of the property to determine fair market value which is reduced by estimated future carrying and disposal costs such as acquisition, management, selling and transfer costs and estimated gains or losses on property resale.

VA accrues interest on performing and non-performing loans receivable until the outstanding balance is paid in full. Performing loans receivable are those loans where the amount due on the outstanding balance is paid in full by the established due date. Non-performing loans receivable are those loans



where the amount due on the outstanding balance is not paid in full by the established due date which results in a delinquency of the indebtedness. Interest receivable is accrued on the non-performing loan balance until the amount due is paid to a current status, debt is paid in full or otherwise resolved through compromise, waiver of the charges or termination of collection action. VA charges a fixed interest rate on loans issued for the duration of the loan term, including any delinquency period. The interest rate is set at loan inception based on three benchmark interest rates tracked by VA. VA will apply payments received from the debtor first to penalties and administrative costs, second to interest receivable and third to outstanding debt principal.

The recorded value of loans receivable, net, and the value of assets related to direct 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 resulting in a realized gain or loss on sale.

#### **Inventories**

Inventories consist primarily of items such as Canteen Service retail store stock held for current sale and are reported at cost using the weighted-average cost method. Inventory that is excess, obsolete or unserviceable is reported at its estimated net realizable value. Upon disposal, any difference between the inventory's recorded amount and the value received for the inventory will be recognized as a gain or loss.

VA follows the purchase method of accounting for operating supplies, medical supplies, and pharmaceutical supplies in the hands of end

users. The purchase method provides that these items be expensed when purchased. VA defines an end user as a VA medical center, regional office, or cemetery.

#### **Property, Plant, and Equipment**

The majority of the general property, plant, and equipment are used to provide medical care to Veterans. Property, plant, and equipment, including transfers from other federal agencies, leasehold improvements, other structures not classified as buildings and capital leases are valued at net carrying cost. When the capitalization criteria are met, major additions, replacements, and alterations are capitalized, whereas routine maintenance is expensed when incurred.

VA has a significant construction project program for medical facilities, national cemeteries, and other veteran related projects. VA submits its major construction project plans for medical facilities and national cemeteries to Congress for approval prior to receiving appropriated funds. VA maintains separate appropriated fund accounts on each project, as authorized, for major and minor construction and non-recurring maintenance projects.

Construction project costs incurred during the design and development phases are recorded in the appropriate Construction Work-in-Process (WIP) accounts including all materials, supplies, services, capital equipment, transportation costs, incremental overhead or support costs, and other construction-related costs directly attributable to the project. The assets are transferred to either capitalized or non-capitalized property, plant, and equipment, as appropriate, when placed in service.

Construction projects completed in multiple phases are recorded as Construction WIP until the project phase is placed in service. Personal property and equipment not meeting the



capitalization criteria is expensed upon being placed in service.

Individual items are capitalized if the useful life is two years or more and the unit price is \$100 thousand or greater. Buildings are depreciated on a straight-line basis over estimated useful lives of 25 to 40 years. Equipment is also depreciated on a straight-line basis over its useful life, usually 5 to 20 years.

Internal use software is also subject to the \$100 thousand threshold for capital assets. The costs subject to capitalization are incurred during the software development phase, and include the design of the chosen path, programming development, installation of hardware and testing, and are accumulated in Software in Development until a project is successfully tested and placed in service. The capitalized costs are amortized on a straight-line basis, and the amortization term is in accordance with the planned life cycle established during the software's planning phase which generally ranges from 2 to 4 years. Preliminary design phase costs and post implementation costs are expensed as incurred.

Property, plant and equipment, including construction WIP, internal use software and capitalized lease assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying value of the long-lived asset or asset group is not recoverable, an impairment loss is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including quoted market values and third party independent appraisals, as considered necessary.

There are no restrictions on the use or convertibility of general property, plant, and

equipment. For disclosure regarding Heritage Assets see Note 10.

SFFAS No. 40, *Definitional Changes to Deferred Maintenance; Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment*, is effective for periods after September 30, 2011. This standard clarifies that repair activities should be included to better reflect asset management practices, and improve reporting on deferred maintenance and repairs activities not performed when they should have been or were scheduled to be, therefore, are put off or delayed for a future period. For additional disclosure see Required Supplementary Activities.

#### **Other Assets**

Intragovernmental Other Assets are reported at cost and consist primarily of Intragovernmental Advances - Federal and are primarily advances to the Army Corps of Engineers (Corps) and the General Services Administration (GSA). Public Other Assets are reported at cost and consist of Public Advance Payments made by VHA primarily to hospitals and medical schools under house staff contracts, grantees and beneficiaries, with the balance of the advances being made to employees on official travel.

#### **Accounts Payable**

Accounts payable are amounts owed by VA for goods and services received from, progress in contract performance made by, and rents due to other entities and recurring scheduled compensation, pension and education benefits payable to Veterans. Accounts payable do not include liabilities related to on-going continuous expenses such as employee's salaries, benefits, annuities for insurance programs, interest payable and loan guarantee losses and non-recurring Veterans compensation, pension and education benefits payable which are covered by other liabilities. When VA accepts title to goods, whether the goods are delivered or in



transit, VA recognizes a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed are estimated.

Intragovernmental accounts payable consists of amounts owed to other Federal Government agencies and accounts payable from cancelled appropriations. The remaining accounts payable consist of amounts due to the public. Intragovernmental and public accounts payable are covered by budgetary resources.

#### **Loan Guarantees**

VA provides loan guarantees under two types of guaranty programs. Under one 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 loan holder. If the loan holder acquires the property which 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 reports the liability on the guarantee of loans in accordance with the requirements of the Credit Reform Act. For these loans, the Liability for Loan Guarantees represents the present value of the estimated net cash outflows considered most likely to be paid by VA as a result of a claim against the guarantee on a defaulted loan. VA guarantees the loan against loss at foreclosure for which VA pays net cash flow up to a legally specified maximum based on the value of individual loans. VA will pay the lender the guarantee and foreclosure expenses.

The second loan guaranty program involves the sale of direct loans. VA will bundle vendee and acquired loans and sell them to a third party investor (Trust) pursuant to a sale agreement. Under the sale agreement, the Trust owns the mortgage loans acquired in the sale and will issue certificates backed by the mortgage loans and installment contracts. The certificates represent interests in the assets of the Trust and investors 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. It is at least reasonably possible that the proceeds from the sale of VA's loans will differ from the reported carrying value of those loans and the underlying value of their related assets resulting in a realized gain or loss on sale. 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.

VA reports the liability on the guarantee of loans sold under the Vendee Mortgage Trust and American Housing Trust programs in accordance with the requirements of the Credit Reform Act. For these loans, the Liability for Loan Guarantees represents the present value of the estimated net cash outflows considered most likely to be paid by VA arising from a claim against the guarantee. These loan sales contain two types of guarantees for which VA pays net cash flow. VA guarantees that the principal and interest payment due on a loan will be paid by the 15<sup>th</sup> of each month. If the payment is not made by the borrower, VA allows the loan servicer to take funds from a cash reserve account for the amount of the deficiency. VA also guarantees the loans against loss at foreclosure. Although VA will not buy back the loan, VA will pay the loan loss and foreclosure expenses.



### Insurance Liabilities

Insurance Liabilities for VA's life insurance programs include: policy reserves; unearned premiums; insurance dividends left on deposit and related interest payable; accrued interest payable on insurance policies and dividends payable to policyholders.

Actuarial reserve liabilities for VA's insurance programs for 2012 and 2011 are based on mortality and interest rate assumptions that vary by fund, type of policy, and type of benefit. The interest rate assumptions range from 2.25 to 5.0 percent. The mortality assumptions include the American Experience Table, the X-18 Table, the 1941 Commissioners Standard Ordinary (CSO) Table, the 1958 CSO Basic Table, the 1980 CSO Basic Table, and the 2001 Valuation Basic Male (VBM) Table.

National Service Life Insurance (NSLI) basic policy reserves for permanent plans are based on the American Experience Table with 3 percent interest, except for the Modified Life plans, which are based on the 1958 CSO Basic Table with 3 percent interest, and paid-up additions purchased by dividends, which are based on the 2001 VBM Table with 4 percent interest. The reserve for Term policies is based on the 2001 VBM Table with 4 percent interest and the age 70 rate (the capped premium) of \$6.18 per month per \$1,000 face amount.

United States Government Life Insurance (USGLI) permanent plan policy reserves are based on the American Experience Table with 3.5 percent interest and are held on a net single premium basis.

Veterans Special Life Insurance (VSLI) permanent plan policy reserves are based on the X-18 Table at 2.5 percent interest, except for paid-up additions, which are based on the 1980 CSO Basic Table with 5 percent interest. The reserve for Term policies is based on the

1980 CSO Basic Table with 5 percent interest and the age 70 rate (the capped premium) of \$5.87 per month per \$1,000 face amount.

Service-Disabled Veterans Insurance (S-DVI) permanent plan policy reserves are based on the 1941 CSO Table at 3.5 percent interest using rate book premiums. The reserve for 5-Year Term policies is based on varying ratios of the 1941 CSO Table at 3.5 percent interest using rate book premiums and is computed on a complete contract basis. The mortality ratios start at 250 percent for ages 50 and below and grade down to 100 percent of the table for ages 65 and older. The reserve for Term policies renewed at age 70 and over is based on the 1941 CSO Table with 3.5 percent interest and the age 70 Term capped premium of \$5.87 per month per \$1,000 face amount.

Veterans Reopened Insurance (VRI) basic policy reserves are based on an interest rate of 3.5 percent and a mortality basis that varies by segment ("J", "JR" or "JS") and by rating code within the "JR" segment. For "J", the basis is 100 percent of the 1958 CSO Basic Table. For "JR", the basis is the same as the rating code (150, 175, 200, 250, 300, 400 or 500 percent) of the Basic Table. For "JS", the basis is the American Experience Table, and the reserve is a single premium. Reserves for paid-up additions are based on the 2001 VBM Table and 4 percent interest for "J", the 1958 CSO Basic Table and 4 percent interest for "JR", and 150 percent of the 1958 CSO Basic Table and 4 percent interest for "JS".

The Veterans' Mortgage Life Insurance (VMLI) program is operated through the Veterans' Insurance & Indemnities (VI&I) fund. The reserve for VMLI policies is based on 500 percent of the 1958 CSO Basic Table at 2.5 percent interest.

A reserve for unearned premiums is held for premiums paid for coverage past the date of



the statement. It is comprised of an estimate for premiums paid less than one month in advance that are unearned at the end of the reporting period, and a reserve for premiums paid one month or more in advance computed from in-force master records.

Insurance dividends that are left on credit or deposit with VA accrue interest at a rate that varies by fund relative to the fund's investment portfolio earnings. For 2012 and 2011, the interest rates ranged from 4.25 percent to 5.5 percent

The Secretary of VA determines annually the excess funds available for dividend payment. Policyholders can elect to: (1) receive a cash payment; (2) prepay premiums; (3) repay loans; (4) purchase paid-up insurance; or (5) deposit the amount in an interest-bearing account. Policies in four of the administered programs are eligible for dividends: NSLI, USGLI, VSLI and VRI. The dividend authorization is based on an actuarial analysis of each program's claims and investment experience, compared to the mortality and interest assumptions utilized in that program, at the end of the preceding calendar year. Dividends are declared on a calendar year basis and paid on policy anniversary dates. A provision for dividends is charged to operations and an insurance dividend is established when gains to operations are realized in excess of those essential to maintain solvency of the insurance programs.

The reserve for Dividends Payable is an estimate of the present value of dividends accrued as of the valuation date. In accordance with GAAP requirements, VA records only that portion of the estimated policy dividend that applies to the current reporting period as a dividend liability. For 2012, a discount rate of 4 percent (5 percent VSLI), along with the appropriate accrual factor, was used. For 2011,

the discount rate was 5 percent for all funds, except USGLI, which was 4.5 percent. 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.

#### **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 non-vested 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, and therefore, these liabilities are not covered by budgetary resources.

#### **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 the Department of Labor (DOL) and are ultimately paid by VA.

Workers' compensation is comprised of two components: (1) the accrued liability which represents money owed by VA to DOL for claims paid by DOL on behalf of VA through the current fiscal year, and (2) the actuarial liability for compensation cases to be paid beyond the current year.

Future workers' compensation estimates are generated from an application of actuarial



procedures developed by DOL to estimate the liability for FECA benefits. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases and for potential cases related to injuries incurred but not reported. The liability is determined by utilizing historical benefit payment patterns related to a particular period to estimate the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds.

#### **Pension, Other Retirement Benefits, and Other Post-Employment Benefits**

Each employing federal agency is required to recognize its share of the cost and imputed financing of providing pension and post-retirement health benefits and life insurance to its employees. Factors used in the calculation of these pensions and post-retirement health and life insurance benefit expenses are provided by OPM to each agency.

VA's employees are covered under the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS); VA makes contributions according to both plan's requirements. CSRS and FERS are multi-employer plans administered by OPM. VA does not maintain or report information about the assets of the plans, nor does it report actuarial data for the accumulated plan benefits. That reporting is the responsibility of OPM.

#### **Veterans Benefits Liability**

VA provides compensation benefits to Veterans who are disabled by military service-related causes. Benefits are also provided to deceased Veterans' beneficiaries. These benefits are provided in recognition of a Veteran's military service. The liability for future compensation and burial payments is reported on VA's

balance sheet at the present value of expected future payments, and is developed on an actuarial basis. Various assumptions in the actuarial model, such as the total number of Veterans, estimated future military separations, the number of Veterans and dependents receiving payments, discount rates, cost of living adjustments, presumptive service conditions resulting in disability benefits coverage and life expectancy, impact the amount of the liability.

Discount rates used to measure the actuarial liabilities are based on spot rates derived from the 10-year average historical interest rate yield curve on Treasury securities at September 30 of each year for the 10-year historical period with maturities consistent with the period of expected future payments. As a result, each year for which expected future payments are projected has a separate discount rate associated with it. However, a single average discount rate is also disclosed that may be used for all projected future payments that results in a present value that is not materially different than the resulting present value using multiple-rates. Estimated liabilities for Veterans compensation and burial obligations in the financial statements are measured as of the end of the fiscal year based on June 30 beneficiary data that is adjusted for material known changes in the number of participants covered (enrollment) during the 4<sup>th</sup> quarter. The method used to measure the liabilities provides for consistency in the underlying relationship between discount rate, COLA, and the other economic assumptions. For 2012, valuation techniques or their application used to measure the fair value of the actuarial liabilities were consistently applied compared to the previous year.

From time to time, VA may determine it is preferable to make refinements to the valuation techniques or their application used to measure the fair value of the actuarial



liabilities because VA management concludes that the resulting measurements are equally or more representative of fair value of the actuarial liabilities in the circumstances and were due to improved computer software modeling capability and/or improved information. The resulting changes in fair value of the actuarial liabilities from the changes in valuation techniques or their application are treated as a change in estimate and accounted for on a prospective basis.

Congress established a process to guide the creation of new presumptive disability benefit payments through the Agent Orange Act of 1991, P.L. No. 102-4. The Secretary of VA relying on independent studies by the Institute of Medicine (IOM) determines whether presumptions of service connection are warranted and presumptive disability benefit payments are due. Upon determination by the Secretary of VA that presumptive disability benefit payments are due, there is a waiting period and a final regulation is issued. In accordance with the Agent Orange Act, the adjudication of cases based on the new presumption can begin and a liability is recognized.

SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting Gains and Losses from Changes in Assumptions, and Selecting Discount Rates and Valuation Dates* (SFFAS 33) applies to the actuarial liabilities recognized for Veterans compensation and burial obligations reported in VA's financial reports prepared pursuant to FASAB standards.

SFFAS 33 requires the display of gains and losses from changes in long-term assumptions used to measure liabilities for Veterans compensation and burial obligations, as separate line items on the Statements of Net Cost. The Standard also requires disclosure in notes to the financial statements of a

reconciliation of beginning and ending Veterans compensation and burial obligations balances, including all material components of expense "from experience" and "from assumptions changes" by significant programs and in total. In addition, SFFAS 33 provides standards for selecting the discount rate assumption to measure the Veterans compensation and burial obligations as of the reporting date and selecting a valuation date for estimating the obligation which will establish a consistent method for such measurements.

#### **Contingencies**

VA is a party in various administrative proceedings, legal actions, and claims brought against it. In the opinion of VA management and legal counsel, the ultimate resolutions of these proceedings, actions, and claims will not materially affect the financial position or results of VA operations other than as disclosed in Note 18, Contingencies.

#### **Non-Federal Trusts**

VA has entered into enhanced-use leases to maximize use of underutilized VA property. In these enhanced-use leases, the assets and liabilities were transferred to a non-federal trust. The assets, liabilities, and results of operations of these seven trusts are included in the accompanying consolidated financial statements.

#### **Application of Critical Accounting Estimates**

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



### Comparative Data

Certain amounts in the 2011 Consolidated Statement of Net Cost were reclassified from Indirect Administrative Program Costs to Veterans Benefits Administration Program Costs to conform to the 2012 direct appropriation and reporting presentation of general operating expenditure (GOE) funds for direct and reimbursable costs incurred to support VBA's programs. In 2011, all VA Staff Office support was appropriated within the same budgetary fund. The reclassification decreased Indirect Administrative Program Costs and increased Veterans Benefits Administration program costs in 2011. There was no other impact on the net position, net cost or budgetary resources reported in the consolidated or combined financial statements.

Similarly, Note 21 Net Program Costs by Administration has also been adjusted to reflect the effects of the reclassification discussed above. Public Costs and Intragovernmental Costs reported under Indirect Administrative Program Costs decreased with an offsetting increase in Public Costs and Intragovernmental Costs reported under Veterans Benefits Administration.

Certain amounts in the 2011 Consolidated Balance Sheet were reclassified from Intragovernmental and Public Other Liabilities to Intragovernmental and Public Accounts Payable to conform to the 2012 presentation in accordance with U.S. Standard General Ledger (USSGL) requirements. The reclassifications had no other effect reported in the consolidated or combined financial statements.

The calculation and presentation of the components of the Reconciliation of Veterans Compensation and Burial Actuarial Liabilities

shown in Note 13 were modified for 2012 to more closely align the VA presentation of Veterans Benefits Actuarial Liabilities with other agencies of the Federal Government for improved consistency in government-wide reporting of other post-employment benefits (OPEB). As a result, the 2011 presentation was also modified to conform to the 2012 presentation. The Statements of Net Cost and Note 21 Net Program Costs by Administration were modified to reflect the revised components, Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions and Changes in Actuarial Liability Assumptions; however, the Net Cost of Operations did not change.

Effective for 2012, the SBR presentation has changed to better align with the new format of the report on Budget Execution and Budgetary Resources (SF 133) as required by OMB. The new format has additional reconciliation requirements with budget execution information reported in the Budget of the United States to ensure the integrity of the numbers presented. As a result of the format changes, the 2011 data has been reclassified to conform to the 2012 presentation. There are no other effects reported in the consolidated or combined financial statements.

See Note 24 on Reclassifications for further discussion of the above items.

### Subsequent Events

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



**2. Non-Entity Assets**

Entity and Non-Entity assets have been combined on the balance sheet. Non-Entity assets relate primarily to state and local taxes and other employee payroll withholdings and personal funds of patients included in Fund Balance with Treasury; downward reestimates for the Veterans Housing Program included in Intragovernmental Accounts Receivable; and amounts due to Treasury for medical costs billed to Veterans included in Public Accounts Receivable.

There are offsetting liabilities in the consolidated balance sheet for the non-entity assets reported below. Offsetting liabilities are included in Intragovernmental Other Liabilities and Accounts Payable and Public Other Liabilities, Insurance Liabilities and Accounts Payable. There is no balance in the consolidated net position from the non-entity assets.

<b>Non-Entity Assets as of September 30,</b>	<b>2012</b>	<b>2011</b>
Fund Balance with Treasury	\$ 112	\$ 144
Intragovernmental Accounts Receivable	1	1
Public Accounts Receivable	68	63
<b>Total Non-Entity Assets</b>	<b>\$ 181</b>	<b>\$ 208</b>



### 3. Fund Balance with Treasury

#### Fund Balance with Treasury

as of September 30,

	2012	2011
<b>Entity Assets</b>		
Trust Funds	\$ 94	\$ 79
Revolving Funds	4,872	4,309
Appropriated Funds	35,143	35,407
Special Funds	293	272
Other Fund Types	60	-
<b>Total Entity Assets</b>	<u>40,462</u>	<u>40,067</u>
<b>Non-Entity Assets</b>		
Other Fund Types	112	144
<b>Total Non-Entity Assets</b>	<u>112</u>	<u>144</u>
<b>Total Entity and Non-Entity Assets</b>	<u>\$ 40,574</u>	<u>\$ 40,211</u>
<b>Reconciliation of VA General Ledger Balances with Treasury</b>		
Balance per VA General Ledger	\$ 40,386	\$ 43,456
Reconciled Differences, Principally Timing	118	(3,334)
Unreconciled Differences	70	88
<b>Fund Balance with Treasury</b>	<u>\$ 40,574</u>	<u>\$ 40,211</u>
<b>Status of Fund Balance with Treasury</b>		
Unobligated Balance		
Available	\$ 12,614	\$ 20,257
Unavailable	5,525	4,429
Obligated Balance Not Yet Disbursed	22,046	15,149
Deposit /Clearing Account Balances	389	376
<b>Fund Balance with Treasury</b>	<u>\$ 40,574</u>	<u>\$ 40,211</u>

### 4. Cash

#### Cash

as of September 30,

	2012	2011
Canteen Service	\$ 2	\$ 1
Agent Cashier Advance	14	17
<b>Total Cash</b>	<u>\$ 16</u>	<u>\$ 18</u>



5. Investments

**Investment Securities**  
as of September 30, 2012

	Cost	Amortization Method	Amortized (Premium)/Discount	Interest Receivable	Investments, Net	Market Value
<b>Intragovernmental Securities</b>						
Non-Marketable: Special Bonds	\$ 9,132	N/A	\$ -	112	9,244	\$ 9,244
Treasury Notes	65	Effective Interest	(1)	1	65	65
<b>Total</b>	<u>\$ 9,197</u>		<u>\$ (1)</u>	<u>113</u>	<u>9,309</u>	<u>\$ 9,309</u>
<b>Public Securities</b>						
Trust Certificates (Loan Guaranty)	\$ 140	N/A	\$ -	-	140	\$ 140
Mutual Funds (Non-Federal Trusts)	43	Straight-line	(5)	-	38	38
<b>Total</b>	<u>\$ 183</u>		<u>\$ (5)</u>	<u>-</u>	<u>178</u>	<u>\$ 178</u>

as of September 30, 2011

<b>Intragovernmental Securities</b>						
Non-Marketable: Special Bonds	\$ 9,821	N/A	\$ -	127	9,948	\$ 9,948
Treasury Notes	85	Effective Interest	(2)	1	84	84
<b>Total</b>	<u>\$ 9,906</u>		<u>\$ (2)</u>	<u>128</u>	<u>10,032</u>	<u>\$ 10,032</u>
<b>Public Securities</b>						
Trust Certificates (Loan Guaranty)	\$ 140	N/A	\$ -	-	140	\$ 140
Mutual Funds (Non-Federal Trusts)	51	Straight-line	(5)	-	46	46
<b>Total</b>	<u>\$ 191</u>		<u>\$ (5)</u>	<u>-</u>	<u>186</u>	<u>\$ 186</u>



**6. Accounts Receivable, Net**

**Accounts Receivable, Net  
as of September 30,**

	2012	2011
<b>Intragovernmental Accounts Receivable, Net</b>	\$ 40	\$ 6
<b>Public Accounts Receivable</b>		
Medical Care	\$ 2,224	\$ 2,265
Contractual Adjustment and Allowance for Loss Provision	(1,017)	(997)
Net Medical Care	1,207	1,268
Compensation and Pension	1,067	1,225
Allowance for Loss Provision	(665)	(846)
Net Compensation and Pension	402	379
Education Benefits	365	336
Allowance for Loss Provision	(269)	(132)
Net Education Benefits	96	204
Other	102	96
Allowance for Loss Provision	(18)	(13)
Net Other	84	83
Total Public Accounts Receivable	3,758	3,922
Total Contractual Adjustment and Allowance for Loss Provision	(1,969)	(1,988)
<b>Public Accounts Receivable, Net</b>	<b>\$ 1,789</b>	<b>\$ 1,934</b>

The Total Contractual Adjustment and Allowance for Loss Provision as a percentage of Total Public Accounts Receivable was approximately 52 percent and 51 percent at September 30, 2012 and 2011, respectively. The Medical Care Contractual Adjustment and Allowance for Loss Provision as a percentage of Total Medical Care related accounts receivable was approximately 46 percent and 44 percent at September 30, 2012 and 2011, respectively.

Included in the Medical Care Contractual Adjustment and Allowance for Loss Provision is an Allowance for Contractual Adjustment of \$593 million and \$561 million or approximately 57 percent and 52 percent, respectively of

Medical Care Collection Fund third party receivables of \$1.04 billion and \$1.08 billion at September 30, 2012 and 2011, respectively.

The Compensation and Pension Allowance for Loss Provision as a percentage of Total Compensation, Pension and Readjustment Benefit Overpayment-related accounts receivable was approximately 62 percent and 69 percent at September 30, 2012 and 2011, respectively. The Education Benefits Allowance for Loss Provision as a percentage of Total Education Benefits and Readjustment Benefit Overpayment-related accounts receivable was approximately 74 percent and 39 percent at September 30, 2012 and 2011, respectively.



## 7. Direct Loans and Loan Guarantees

As more fully discussed in Note 1 under the Loans Receivable and Loan Guarantees sections, the accounting for direct loans receivable and loan guarantee liabilities made after 1991, is governed by the Credit Reform Act. Disclosure of direct loans receivable and loan guarantee liabilities is provided in accordance with SFFAS 2, *Accounting for Direct Loans and Guarantees*, as amended.

VA operates the following direct loan and loan guaranty programs:

- Home Loans
- Vocational Rehabilitation and Employment
- Insurance

The VA Home Loans program is the largest of the VA loan programs. The Home Loan program provides loan guarantees and direct loans to Veterans, Servicemembers, relevant dependents, and limited non-veterans to purchase homes and retain homeownership on favorable market terms.

VA operates in the broader mortgage marketplace; as a result, the VA housing program is affected by the economic conditions in the housing market. These economic conditions have led to declining housing prices and tightening credit. The current mortgage market has not demonstrated a sustainable recovery; however, as home equity begins to recover, VA and loan servicers will be better able to use foreclosure-resolution and avoidance tools to improve the outcomes of servicing efforts offered to borrowers with delinquent VA guaranteed home loans.

VA projects, funds, and reports the long-term direct costs for these loans; that is, reestimates of loan lifetime costs incurred by the government from making VA loans. These reestimates of long-term costs are updated

annually and represent funds set aside to cover projected lifetime loan losses.

For the year ended September 30, 2012, VA reestimated the funds set aside for changes in projected lifetime cash flows mainly for loan guarantees for Veterans and Servicemembers based on VA's estimates of strong demand for refinanced loan guarantees, increases in home sales volume and home prices from a sustained housing recovery and demand for homes, historic low mortgage rates with normal increases, and changes in home inventory and foreclosure cash flows from fading legacy mortgage problems. VA performs economic modeling and analysis using available loan portfolio data and economic assumptions correlated with some key loan data (foreclosures, outlays and collections, home prices, interest rates, and loan prepayments and terms). These estimates are based on current conditions that may change in the future. Actual results could differ materially from estimated amounts

The Vocational Rehabilitation and Employment direct loans provide temporary financial assistance to eligible beneficiaries. Loans provided under this program are interest free and must be repaid within 10 months.

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

### Direct Loans

The following tables summarize the carrying amount of loans receivable related to pre-1992 and post-1991 direct loans. The carrying amount of direct loans receivable includes the remaining balance of the amount disbursed, interest receivable, an allowance for loan losses



using the allowance method (estimated uncollectible loans) for pre-1992 loans, the present value of an allowance for subsidy costs for post-1991 loans and the fair market value less cost to dispose of foreclosed property

based on the present value of future cash flows from the property. An analysis of loans receivable and the nature and amounts of the subsidy costs associated with the direct loans are provided in the tables that follow:

**Loans Receivable and Related Foreclosed Property and Insurance Policy Loans From Direct Loans as of September 30, 2012**

	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans, Net
Direct Loans Obligated Prior to 1992 (Allowance for Loss Method)	\$ 11	10	(1)	-	\$ 20
Insurance Policy Loans	423	10	-	-	433
<b>Total Loans Receivable and Related Foreclosed Property and Insurance Policy Loans, Excluding Direct Loans Obligated After 1991, Net</b>					<b>\$ 453</b>

	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans, Net
Direct Loans Obligated After 1991	\$ 653	15	24	7	\$ 699
<b>Total Loans Receivable and Related Foreclosed Property and Insurance Policy Loans from Direct Loans, Net</b>					<b>\$ 1,152</b>

**Loans Receivable and Related Foreclosed Property and Insurance Policy Loans From Direct Loans as of September 30, 2011**

	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans, Net
Direct Loans Obligated Prior to 1992 (Allowance for Loss Method)	\$ 13	10	(1)	-	\$ 22
Insurance Policy Loans	464	11	-	-	475
<b>Total Loans Receivable and Related Foreclosed Property and Insurance Policy Loans, Excluding Direct Loans Obligated After 1991, Net</b>					<b>\$ 497</b>

	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans, Net
Direct Loans Obligated After 1991	\$ 723	13	2	8	\$ 746
<b>Total Loans Receivable and Related Foreclosed Property and Insurance Policy Loans from Direct Loans, Net</b>					<b>\$ 1,243</b>



**Direct Loans Disbursed**

The total amount of new direct loans disbursed for the years ended September 30, 2012 and 2011 was \$159.7 million and \$270.7 million, respectively.

**Subsidy Expense for Post-1991 Direct Loans**

Subsidy expense declined significantly due to one-time estimation method adjustment in 2011 that did not recur in 2012. The one-time upward reestimate adjustment to loan years 1992 through 2006 of approximately \$700 million was required in 2011 since VA had actual experience data to adjust for a lack of

accurate cash flow data prior to 2006.

Input data and assumptions were changed based on analysis on loan performance and economic conditions in 2012. The changes in economic assumptions were marginal drivers in analysis of change in subsidy estimates for future potential bad loans. Actual home price appreciation, mortgage rate, and Treasury bond yield were better than their predicted values. There was no evidence of relevant VA foreclosure backlog to require related model adjustments.

The subsidy expense for direct loans is as shown:

**Direct Loan Subsidy Expense  
for the years ended September 30,**

	<b>2012</b>	<b>2011</b>
Interest Differential	\$ (28)	\$ (49)
Defaults	1	1
Fees*	(1)	(4)
Other**	25	45
<b>Subtotal</b>	<u>(3)</u>	<u>(7)</u>
Interest Rate Reestimates	4	(2)
Technical Reestimates	(19)	407
<b>Total Direct Loan Subsidy Expense</b>	<u>\$ (18)</u>	<u>\$ 398</u>

\* "Fees" expense for direct loans includes estimated down payments and other fees collected when homes are sold with vendee financing.

\*\* "Other" expense for direct loans includes the estimated loss of scheduled principal and interest when vendee loans are sold.

**Budgetary Subsidy Rates for Direct Loans by Component**

The subsidy rates disclosed below pertain only to the current year loans. 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 loans and prior year(s) loans. The subsidy expense reported in the current year also includes reestimates.



**Budgetary Subsidy Rates for Direct Loans by Component**

Interest Differential	(23.14%)
Defaults	10.11%
Fees	(0.83%)
Other	15.83%

**Allowance for Subsidy for Direct Loans (Post-1991)**

For these loans, the allowance for subsidy represents the difference between the balance of the direct loan and the present value of the estimated net cash flows to be paid by VA. The allowance for subsidy is the result of the interest rate differential between the loans and borrowing from Treasury, the estimated delinquencies and defaults, net of recoveries, offsets from fees, and other estimated cash flows. For 2012, the subsidy rate is (2.12)

percent for Veterans Housing Direct – Vendee Loans, (4.09) percent for Veterans Housing Direct – Acquired Loans, and (11.97) percent for Native American Direct. For 2011, the subsidy rate is (2.42) percent for Veterans Housing Direct – Vendee Loans, (0.13) percent for Veterans Housing Direct – Acquired Loans, and (13.65) percent for Native American Direct.

**Schedule for Reconciling Subsidy Cost Allowance Balances**

**Beginning Balance, Changes and Ending Balance**

	2012	2011
Beginning balance of the allowance	\$ (2)	\$ (713)
Subsidy expense for direct loans disbursed during the reporting years by component:		
Interest subsidy costs	(28)	(49)
Default costs (net of recoveries)	1	1
Fees and other collections	(1)	(4)
Other subsidy costs	25	45
Total of the above subsidy expense components	(3)	(7)
Adjustments:		
Fees received	4	4
Foreclosed property acquired	18	(5)
New Loans	5	-
Loans written off	(4)	(3)
Subsidy allowance amortization	(14)	309
Change in reestimate approved by OMB	(13)	8
Total Adjustments	(4)	313
Ending balance of the allowance before reestimates	(9)	(407)
Subsidy reestimates by component		
Interest rate reestimate	4	(2)
Technical/default reestimate	(19)	407
Total of the above reestimate components	(15)	405
Ending balance of the allowance	\$ (24)	\$ (2)



**Loan Guarantees**

The following tables summarize the carrying amount of loans receivable related to pre-1992 and post-1991 defaulted guaranteed loans and non-defaulted guaranteed loans. The carrying amount of the guaranteed loans receivable includes the amount dispersed by VA for its guaranty under the defaulted loans, an allowance for loan losses using the allowance method (estimated uncollectible loans) for pre-1992 loans and the fair market value less cost to

dispose of foreclosed property based on the present value of future cash flows from the property.

An analysis of loans receivable, loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy costs associated with loan guarantees are provided in the tables that follow:

**Loans Receivable and Related Foreclosed Property from Loan Guarantees as of September 30, 2012**

	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Defaulted Guaranteed Loans - Pre-1992 Guarantees (Allowance for Loss Method)	\$ 32	-	(10)	4	\$ 26
Defaulted Guaranteed Loans - Post-1991 Guarantees	5	-		813	818
<b>Total Loans Receivable and Related Foreclosed Property from Loan Guarantees</b>					<u>\$ 844</u>

**Loans Receivable and Related Foreclosed Property from Loan Guarantees as of September 30, 2011**

	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Defaulted Guaranteed Loans - Pre-1992 Guarantees (Allowance for Loss Method)	\$ 15	-	(14)	4	\$ 5
Defaulted Guaranteed Loans - Post-1991 Guarantees	5	-	-	852	857
<b>Total Loans Receivable and Related Foreclosed Property from Loan Guarantees</b>					<u>\$ 862</u>



**Foreclosed Property**

Prior to the foreclosure of property secured by a VA Loan Guarantee, VA obtains an independent appraisal of the property. This appraisal is reviewed by VA staff or delegated Staff Appraisal Reviewer to substantiate the fair market value. To determine the net value of the property, VA costs such as acquisition, management, and disposition of the property as well as estimated losses on property resale, are subtracted from the estimated fair market value. The amount recorded for foreclosed property is estimated based upon the present value of future cash flows to be received upon the disposition of the property. Future cash flows are estimated based on the estimated selling price less the amounts paid at foreclosure plus estimated costs to carry the property.

Recent volatility in the United States housing market could change the estimates and assumptions used for these calculations in the future, which could 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 years ended September 30, 2012, and 2011.

As of September 30, 2012, and 2011, the number of residential properties in VA's inventory was approximately 10,400 and 7,300, respectively. For 2012 and 2011, the average holding period from the date properties were conveyed to VA until the date properties were sold was approximately 8 months and 7 months, respectively. The number of properties for which foreclosure proceedings are in process was approximately 23,400 and 22,000 as of September 30, 2012, and 2011, respectively.

**Guaranteed Loans**

as of September 30,

	2012	2011
<u>Guaranteed Loans Outstanding:</u>		
Outstanding Principal of Guaranteed Loans, Face Value	\$ 286,626	\$ 247,658
Amount of Outstanding Principal Guaranteed	\$ 76,137	\$ 66,222
<u>New Guaranteed Loans Disbursed:</u>		
Outstanding Principal of Guaranteed Loans, Face Value	\$ 106,763	\$ 66,630
Amount of Outstanding Principal Guaranteed	\$ 27,402	\$ 17,190
Number of New Loans Disbursed	492,497	322,380
<b>Liabilities for Pre-1992 and Post-1991 Loan Guarantees, Excluding Loan Sale Guarantees (Present Value Method)</b>	<b>\$ 5,445</b>	<b>\$ 4,973</b>



### Loan Guarantee Modifications

OMB Circular No. A-11, section 185, specifies that modifications to loan guarantees result from the government's decision to alter the percentage of the loan it will guarantee. The subsidy cost of a modification is the difference between the net present value of the remaining estimated cash flows before and after the modification (i.e., post-modification liability minus pre-modification liability) and the change in carrying amount is recognized as a gain or a loss. A reduction in the loan guarantee liability due to a modification reflects as savings to VA resulting in a modification gain being recognized. An increase in the loan guarantee liability due to a modification reflects increased costs to VA resulting in a modification loss being recognized. The carry amount of the loan guarantee liability reflects the post-modification liability balance.

Multiple reestimate discount rates are used to calculate loan subsidy modification costs for existing loan guarantees from 1992 to 2012. The reestimate discount rate is either a weighted average rate (prior to 2001) or a single effective rate depending on the loan issuance year of the cash flows. The discount rates range between 2.31 percent to 7.59 percent. VA recognizes gains or losses on modification as described above. VA performed two loan modifications in 2012. The Honoring

### Subsidy Expense for Post-1991 Loan Guarantees

Pursuant to the Credit Reform Act, subsidy costs for new loan guarantees, net of up front funding fees, must be obligated at the time the loan is disbursed. The current and prior year upward reestimate was principally caused by a recovering housing market and unexpected demand of VA home loan products in FY 2012. Specifically, the Loan Guarantee Financing Account (4129) operating income deteriorated on lower foreclosure sales proceeds while

America's Veterans and Caring for Camp Lejeune Families Act extended the period of protections for members of uniformed services relating to mortgages, mortgage foreclosure, and eviction. Specifically, section 710 amended section 303 of the Servicemembers Civil Relief Act (SCRA) by extending the period in which a Servicemember may exercise SCRA protections from nine months after the period of service ends to one year. The amendments made by section 710 will expire on December 31, 2014, at which time the protection would revert to the original 90-day period noted under Section 303 of SCRA.

The VA Loan Guaranty Service amended its regulations related to modification of guaranteed housing loans in default via the Loan Guaranty Revised Loan Modification Procedures (RIN 2900-AN78). Specifically, changes were made to the requirements related to maximum interest rates on modified loans, and to items that may be capitalized in a modified loan amount. VA expects that Veteran borrowers would receive loan modifications (as opposed to alternatives to foreclosure and foreclosures) as result of this regulation change, their modified loans would remain in good standing and not result in a net loss to lenders or VA.

foreclosure claim total payments were consistent with expectations. The loan guarantee average funding fee rate deteriorated on higher demand for refinance loan guarantees. Deterioration in the average funding fee rate relative to budget contributed to upward reestimates. The subsidy expense for loan guarantees related to the Loan Guaranty Program is as shown:



**Guaranteed Loan Subsidy Expenses**  
for the years ended September 30,

	2012	2011
Defaults	\$ 1,693	\$ 1,011
Fees	(1,856)	(1,234)
Subtotal	<u>(163)</u>	<u>(223)</u>
Interest Rate Reestimates	13	(10)
Technical Reestimates	777	801
<b>Total Guaranteed Loan Subsidy Expenses</b>	<b>\$ 627</b>	<b>\$ 568</b>

**Budgetary Subsidy Rates for Loan Guarantees by Component**

The subsidy rates disclosed below pertain only to the loans guaranteed in the current year. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan

guarantees reported in the current year could result from disbursements of loans from both current year loan guarantees issued and prior year(s) loan guarantees issued. The subsidy expense reported in the current year also includes reestimates.

**Budgetary Subsidy Rates for Loan Guarantees**

Defaults	2.82%
Fees	(2.74)%

**Liability for Loan Guarantees (Post-1991)**

VA guarantees the loan against loss at foreclosure for which VA pays net cash flow up to a legally specified maximum based on the value of individual loans. VA will pay the lender the guarantee and foreclosure expenses. If an agreement can be made with the Veteran, VA may acquire the loan by refunding the lender for the loan. In November 2011, Congress enacted and the President signed PL 112-56 which included a change in the funding fees charged to Veterans who receive a guaranteed loan after November 22, 2011. This change in funding fee affected the cash flows of the

program and resulted in a change to the subsidy rate for 2012. Therefore, in 2012, there are two subsidy rates for guaranteed loans. For loans guaranteed between October 1 and November 22, 2011, the subsidy rate is (0.20) percent and for loans guaranteed after November 22, 2011 the subsidy rate is 0.28 percent. The subsidy rate for 2011 was (.31) percent. In the table below, the current year and prior year upward reestimate was principally caused by higher default costs and higher than projected losses on acquired properties as a result of the weak housing market.



**Schedule for Reconciling Loan Guarantee Liability Balances**

Beginning Balance, Changes and Ending Balance	2012	2011
Beginning balance of the liability	\$ 4,973	\$ 4,823
Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
Default costs (net of recoveries)	1,693	1,011
Fees and other collections	(1,856)	(1,234)
Total of the above subsidy expense components	(163)	(223)
Adjustments:		
Fees received	1,203	904
Foreclosed property and loans acquired	(464)	(468)
Claim payments to lenders	(817)	(908)
Interest accumulation on the liability balance	166	215
Change in reestimate approved by OMB	(222)	(161)
Modification	(4)	-
Other	(17)	-
Total Adjustments	(155)	(418)
Ending balance of the liability before reestimates	4,655	4,182
Subsidy reestimates by component		
Interest rate reestimate	13	(10)
Technical/default reestimate	777	801
Total of the above reestimate components	790	791
Ending balance of the liability	\$ 5,445	\$ 4,973

**Loan Sales**

VA owns mortgages and real estate on certain defaulted loans that were guaranteed by VA and have gone through the foreclosure process with the lender. VA sells the real estate to a third party owner and makes the direct loan for the underlying mortgage loan receivable. To reduce the administrative burden of servicing these loans, VA will bundle these loans and sell them to a third party investor (Trust) pursuant to a sale agreement. 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 and the underlying value of their related assets resulting in a realized gain or loss on sale.

Under the sale agreement, the Trust owns the mortgage loans and other property acquired in the sale and makes elections to treat certain of its assets as one or more Real Estate Mortgage Investment Conduits (REMIC) for U.S. Federal income tax purposes. In addition, the Trust will issue 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.

During the period 1992 through 2012, the total loans sold amounted to \$14.2 billion. VA recognized loan sale proceeds of \$198 million during 2012 resulting in a gain of \$8 million. VA recognized loan sale proceeds of \$187 million

during 2011 resulting in no gain or loss. As a result of the sale of loans receivable with a carrying amount of \$190 million and \$187 million in 2012 and 2011, respectively, the amount of guaranteed loans sold increased by the carrying amount of the loans receivable at the date of sale. The components of the loan sale and the outstanding balance for guaranteed loans sold are summarized in the tables below:

**Loan Sales**

**Years Ended September 30,**

	<b>2012</b>	<b>2011</b>
Loans Receivable Sold	\$ 190	\$ 187
Net Proceeds from Sale	(198)	(187)
<b>Gain on Receivables Sold</b>	<u>\$ (8)</u>	<u>\$ -</u>

**Outstanding Balance of Loan Sale Guarantees - Guaranteed Loans Sold**

**as of September 30,**

	<b>2012</b>	<b>2011</b>
Outstanding Balance Guaranteed Loans Sold, Start of Year	\$ 1,789	\$ 1,661
Sold to the Public	190	187
Payments, Repayments, and Terminations	(171)	(59)
<b>Outstanding Balance Guaranteed Loans Sold, End of Year</b>	<u>\$ 1,808</u>	<u>\$ 1,789</u>

**Subsidy Expense for Loan Sale Guarantees**

Pursuant to the Credit Reform Act, subsidy costs for new loan sale guarantees must be obligated

at the time the loan sale is closed. The subsidy expense for loan sale guarantees is below:

**Loan Sale-Guaranteed Loan Subsidy Expense**

**for the years ended September 30,**

	<b>2012</b>	<b>2011</b>
Defaults	\$ 6	\$ 5
Fees	14	-
Other	-	(1)
Subtotal	<u>20</u>	<u>4</u>
Interest Rate Reestimates	(2)	-
Technical Reestimates	(11)	26
<b>Total Loan Sale-Guaranteed Subsidy Expense</b>	<u>\$ 7</u>	<u>\$ 30</u>



**Liability for Loan Sale Guarantees (Post-1991)**

For these programs, the guaranteed loan sale liability represents the present value of the estimated net cash flows to be paid by VA as a result of the guarantee. These sales contain two types of guarantees. VA guarantees that the principal and interest payment due on a loan sold will be paid by the 15th of each

month. If not paid by the borrower, VA allows the loan servicer to take funds from cash reserve accounts for the deficient amount. VA also guarantees the loan against loss at foreclosure. VA will not buy back the loans but will pay off the loan loss and foreclosure expenses. The subsidy rate for 2012 and 2011 is 10.75 percent and 2.00 percent, respectively.

**Schedule for Reconciling Loan Sale Guarantee Liability Balances**

Beginning Balance, Changes and Ending Balance	2012	2011
Beginning balance of the liability	\$ 89	\$ 62
Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
Default costs (net of recoveries)	6	5
Fees	14	-
Other subsidy costs	-	(1)
Total of the above subsidy expense components	20	4
Adjustments:		
Claim payments to lenders	(29)	(28)
Interest accumulation on the liability balance	24	25
Change in reestimate approved by OMB	17	-
Gain on Loan Sales	8	-
Total Adjustments	20	(3)
Ending balance of the liability before reestimates	129	63
Subsidy reestimates by component		
Interest rate reestimate	(2)	-
Technical/default reestimate	(11)	26
Total of the above reestimate components	(13)	26
Ending balance of the liability	\$ 116	\$ 89



**Program Totals**

<b>Total Loans Receivable and Related Foreclosed Property, Net</b>		
<b>as of September 30,</b>	<b>2012</b>	<b>2011</b>
Total Direct Loans	\$ 1,152	\$ 1,243
Total Guaranteed Loans	844	862
<b>Total Loans Receivable and Related Foreclosed Property, Net</b>	<b>\$ 1,996</b>	<b>\$ 2,105</b>

<b>Total Subsidy Expense</b>		
<b>for the years ended September 30,</b>	<b>2012</b>	<b>2011</b>
Total Direct Loans	\$ (18)	\$ 398
Total Guaranteed Loans	627	568
Total Loan Sales	7	30
<b>Total Subsidy Expense</b>	<b>\$ 616</b>	<b>\$ 996</b>

<b>Total Liabilities for Loan Guarantees</b>		
<b>as of September 30,</b>	<b>2012</b>	<b>2011</b>
Total Loan Guarantee Liability	\$ 5,445	\$ 4,973
Total Loan Sale Guarantee Liability	116	89
<b>Total Liabilities for Loan Guarantees</b>	<b>\$ 5,561</b>	<b>\$ 5,062</b>

**Administrative Expense**

Administrative expense on direct and guaranteed loans for the fiscal years ended

September 30, 2012, and 2011 was \$143 million and \$142 million, respectively.

**8. Inventories and Related Property, Net**

<b>Inventories</b>		
<b>as of September 30,</b>	<b>2012</b>	<b>2011</b>
Held for Current Sale	\$ 54	\$ 68
Other	2	3
<b>Total Inventories</b>	<b>\$ 56</b>	<b>\$ 71</b>



**9. General Property, Plant and Equipment**

**General Property, Plant and Equipment**

as of September 30, 2012

	Cost	Accumulated Depreciation /Amortization	Net Book Value
Land and Improvements	\$ 1,006	\$ (186)	\$ 820
Buildings	24,129	(12,872)	11,257
Equipment	4,110	(2,181)	1,929
Other Structures and Capital Leases	3,314	(1,859)	1,455
Internal Use Software	707	(366)	341
Construction Work in Progress	4,505	-	4,505
Internal Use Software in Development	324	-	324
<b>Total Property, Plant, and Equipment</b>	<b>\$ 38,095</b>	<b>\$ (17,464)</b>	<b>\$ 20,631</b>

**General Property, Plant and Equipment**

as of September 30, 2011

	Cost	Accumulated Depreciation /Amortization	Net Book Value
Land and Improvements	\$ 896	\$ (142)	\$ 754
Buildings	22,019	(11,647)	10,372
Equipment	3,815	(1,940)	1,875
Other Structures and Capital Leases	3,033	(1,708)	1,325
Internal Use Software	472	(322)	150
Construction Work in Progress	4,041	-	4,041
Internal Use Software in Development	169	-	169
<b>Total Property, Plant, and Equipment</b>	<b>\$ 34,445</b>	<b>\$ (15,759)</b>	<b>\$ 18,686</b>

Depreciation and amortization expense totaled \$1.9 billion and \$1.9 billion in 2012 and 2011, respectively. Loss on disposition of assets

totaled \$101.3 million and \$110.5 million in 2012 and 2011, respectively.



## 10. Heritage Assets

Heritage assets are properties that possess one or more of the following characteristics: historical or natural significance; cultural; educational or aesthetic value; or significant architectural characteristics. VA has properties at medical centers and National Cemeteries that meet the criteria for heritage assets. Heritage assets allow VA to meet its responsibilities under the National Historic Preservation Act to administer federally owned, administered, or controlled prehistoric or historic resources in a spirit of stewardship for the inspiration and benefit of present and future generations.

Generally, additions to VA's heritage assets inventory result from field station surveys,

which identify items such as new collections or newly designated assets. VA classifies its heritage assets as: Art Collections (including artwork, archives, historic medical equipment, medals and awards, furniture, archaeological materials, and photographs); Buildings and Structures (including historic hospitals, quarters, lodges, and chapels); Monuments/Historic Flag Poles, Other Non-Structure Items (including rostrums, gates and historic walls); Archaeological Sites; and Cemeteries. According to VA's policy for heritage assets, only developed sections of National Cemeteries are classified as heritage assets.

Heritage Assets in Units					
as of September 30,	2011 Balance	2012 Additions	2012 Withdrawals	2012 Balance	2012 Condition
Art Collections	245	-	(213)	32	A
Buildings and Structures	1,535	571	(25)	2,081	*U
Monuments/Historic Flag Poles	1,006	587	-	1,593	A
Other Non-Structure Items	247	44	-	291	A
Archaeological Sites	35	-	(25)	10	A
Cemeteries	**164	-	-	**164	A
<b>Total Heritage Assets in Units</b>	<b>3,232</b>	<b>1,202</b>	<b>(263)</b>	<b>4,171</b>	

Explanation of Condition: A = Acceptable (No to slight deterioration); U=Unacceptable (Moderate to significant deterioration)

\*Buildings and Structures: Approximately 50% of VA's historic buildings and structures are unoccupied and risk deterioration. Many are in the "U" range.

\*\* This total accounts only for open, operational cemeteries, not those under development.



**11. Debt**

**Intragovernmental Debt**

as of September 30,

	2011 Beginning Balance	2011 Net Borrowing	2011 Ending Balance	2012 Net Borrowing	2012 Ending Balance
<b>Loan Guaranty Debt</b>					
Debt to the Treasury	\$ 1,649	\$ 25	\$ 1,674	\$ (837)	\$ 837
Debt to the Federal Financing Bank	5	-	5	-	5
<b>Total Loan Guaranty Debt</b>	<b>1,654</b>	<b>25</b>	<b>1,679</b>	<b>(837)</b>	<b>842</b>
<b>Direct Loans Debt – Vocational Rehabilitation Program</b>					
Debt to the Treasury	1	-	1	-	1
Debt to the Federal Financing Bank	-	-	-	-	-
<b>Total Direct Loans Debt</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>1</b>
<b>Total Debt</b>					
Debt to the Treasury	1,650	25	1,675	(837)	838
Debt to the Federal Financing Bank	5	-	5	-	5
<b>Total Debt</b>	<b>\$ 1,655</b>	<b>\$ 25</b>	<b>\$ 1,680</b>	<b>\$ (837)</b>	<b>\$ 843</b>

At September 30, 2012, and 2011, all debt is classified as intragovernmental debt. Except as noted above, VA had no debt due to any other Federal agency and all debt is covered by budgetary resources.

Loan Guaranty Program debt has a 30-year term from the date of issuance and bears interest at the Treasury securities rate at the time of borrowing. The interest rates on debt issued in 2012 ranged from 2.64 to 3.49 percent and 4.14 to 4.28 percent for debt issued in 2011. The interest rates on all outstanding debt issued ranged from 1.00 to 7.58 percent in 2012 and 1.00 to 7.58 percent in 2011. Interest expense was \$116.2 million for 2012 and \$142.2 million for 2011.

Vocational Rehabilitation Program Direct Loan debt has a 2-year term from the date of

issuance and bears interest at the Treasury securities rate at the time of borrowing. The interest rates on debt issued in 2012 was 1.00 percent and 1.49 percent for debt issued in 2011. The interest rate on all outstanding debt issued was 1.00 to 1.49 percent in 2012 and 2011. Interest expense was \$41 thousand for 2012 and \$56 thousand for 2011.

Net borrowings related to the Loan Guaranty Program debt and Direct Loans Program debt do not include any amounts that result from refinancing debt.

No debt was held by the public during 2012 or 2011. There were no redemptions or calls of debts before maturity or write-offs of debt owed to the Treasury.



## 12. Liabilities Not Covered By Budgetary Resources

### Liabilities Not Covered By Budgetary Resources

as of September 30,

	2012	2011
Workers' Compensation (FECA)*	\$ 2,463	\$ 2,327
Annual Leave	1,848	1,797
Judgment Fund	1,178	966
Environmental and Disposal Liabilities	851	884
Veterans Compensation and Burial	1,761,600	1,533,700
Insurance	1,293	1,161
Amounts due to Non-Federal Trust	148	155
<b>Total</b>	<b>\$ 1,769,381</b>	<b>\$ 1,540,990</b>

\* The actuarial estimate for workers' compensation provided by DOL was computed using an interest rate of 3.14 percent and 4.30 percent to discount the projected annual benefit payments as of September 30, 2012 and 2011, respectively.

Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided.

(FECA) Liability, Accrued FECA Liability for DOL funded costs not yet appropriated and Unfunded Employee Liability. The Accrued FECA Liability and Unfunded Employee Liability are Intragovernmental Liabilities totaling \$449 million and \$436 million at September 30, 2012, and 2011, respectively.

Total Unfunded Liabilities include Workers' Compensation (FECA) which is comprised of the actuarial Workers' Compensation

## 13. Federal Employee and Veterans Benefits Liabilities

### Federal Employee Benefits

VA is the employer entity that generates employee costs to be funded, not the administrative entity responsible for managing and accounting for VA employees' retirement, health insurance and life insurance benefit plans. As a result, VA recognizes the benefit costs for the reporting period in its financial statements in an amount equal to the service cost for its employees based on the benefit plan's actuarial cost method and assumptions applied to VA and provided by the administrative entity, OPM. The offset to the expense is an increase to an

intragovernmental imputed financing source entitled, Imputed Financing under Other Financing Sources (Nonexchange) in the Consolidated Statement of Changes in Net Position, representing the amount being financed directly through the benefit plan's administrative entity. The table below summarizes the imputed expenses reported by VA for its employees' benefit plans.



**Federal Employee Benefits: Imputed Expenses-Employee Benefits**

Years ended September 30,

	<b>2012</b>	<b>2011</b>
Civil Service Retirement System	\$ 312	\$ 375
Federal Employees Health Benefits	1,385	1,518
Federal Employees Group Life Insurance	3	2
<b>Total Imputed Expenses-Employee Benefits*</b>	<b>\$ 1,700</b>	<b>\$ 1,895</b>

\*The total imputed expenses in the table above, when combined with the Imputed Financing – Paid by Other Entities reported in the table reconciliation of judgment fund operating expense in Note 18 reconciles to Imputed Financing Costs reported in the Consolidated Statement of Changes in Net Position.

**Veterans Benefits**

Certain Veterans, who die or are disabled from military service-related causes as well as their dependents, receive compensation benefits. Also, Veterans are provided with burial flags, headstones/markers, and grave liners for burial in a VA national cemetery or are provided a burial flag, headstone/marker and a plot

allowance for burial in a private cemetery. These benefits are provided under Title 38, Part 2, Chapter 23 in recognition of a Veteran’s military service and are recorded as a liability on the balance sheet in the period the requirements are met.

**Federal Employee and Veterans Benefits Liabilities**

as of September 30,

	<b>2012</b>	<b>2011</b>
Workers’ Compensation (FECA)	\$ 2,014	\$ 1,891
Compensation	1,757,100	1,529,200
Burial	4,500	4,500
<b>Total Federal Employee and Veterans Benefits Liabilities</b>	<b>\$ 1,763,614</b>	<b>\$ 1,535,591</b>

VA provides certain Veterans and/or their dependents with pension benefits if the Veteran died or was disabled from nonservice-related causes, based on annual eligibility reviews. The actuarial present value of the future liability for pension benefits is a nonexchange transaction and is not required to be recorded on the balance sheet. The projected amount of future payments for pension benefits (presented for informational purposes only) as of September 30, 2012, and 2011 was \$92.8 billion and \$89.2 billion, respectively.

**Assumptions Used to Calculate the Veterans Benefits Liability**

Several significant actuarial assumptions were used in the valuation of compensation and burial benefits to calculate the present value of the liability. A liability was recognized for the projected benefit payments to: (1) those beneficiaries, including Veterans and survivors, currently receiving benefit payments; (2) current Veterans who will in the future become beneficiaries of the compensation program; and (3) a proportional share of those in active military service as of the valuation date who will become Veterans in the future. Future benefits



payments to survivors of those Veterans in classes (1), (2), and (3) above are also incorporated into the projection. The projected liability does not include any administrative costs. Actual administrative costs incurred annually are included in the Veterans Benefits Administration's Net Program Costs shown in the accompanying Statements of Net Cost.

The liability for future compensation and burial payments is reported on VA's balance sheet at the present value of expected future payments, and is developed on an actuarial basis. Discount rates at September 30, 2012, and 2011 were based on spot rates derived from the 10-year average historical interest rate yield curve on Treasury securities at September 30 of each year for the period 2003 to 2012 and 2002 to 2011 for September 30, 2012, and 2011, respectively. The spot rates derived from the 10-year average historical interest rate yield curve on Treasury securities for each year of expected future payments range from 1.92 percent to 4.48 percent and from 2.05 percent to 4.70 percent as of September 30, 2012, and 2011, respectively. These spot rates produced a single average discount rate of 4.31 percent and 4.53 percent as of September 30, 2012 and 2011, respectively that could be applied to the expected future cash flows to produce a present value that is not materially different than the present value using multiple rates. All calculations were performed separately by age for the Compensation and Burial programs.

The Veterans benefit liability is impacted by interest on the liability balance, changes in experience, changes in actuarial assumptions, prior service costs and amounts paid for costs included in the liability balance. Interest on the liability balance is based on the prior year liability balance multiplied by the single average discount rate used to compute the Veterans benefit liability balance for the prior year. Changes in experience include the number of Veterans and dependents receiving payments,

changes in degree of disability connected with military service and the impact of those changes on future years. Changes in actuarial assumptions include changes in the spot rates derived from the 10-year average historical interest rate yield curve on Treasury securities, cost of living adjustments, presumptive service conditions resulting in benefits coverage, mortality and disability claims rates. Prior service costs relate to new benefits due to administrative, judicial or legislative changes.

The total number of Veterans, estimated future military separations and total number of beneficiary participants are determined through actual and projected data. The amount of benefits by beneficiary category and age were based on current amounts being paid, future cost of living adjustments (COLA), change in degree of disability connected with military service and presumptive service conditions in existence at September 30, 2012, and 2011, respectively, resulting in benefits coverage to determine the average benefits per Veteran for each future time period, and changes in other factors that affect benefits. The average COLA rate used for all future years at September 30, 2012, and 2011 was 2.61 percent and 2.78 percent, respectively. COLA rates for future years are modeled to be consistent with the discount rate assumption described above.

Life expectancies of beneficiaries collecting benefits from the Compensation program were based upon studies of mortality experience of those beneficiaries between 2002 and 2008. Life expectancies of Veterans not yet collecting these benefits used in the calculation of the liability for future beneficiaries are based on mortality derived from the 2006 U.S. Life Table. Applying mortality improvements at a rate that varies by age of between 0.85 and 1.00 percent per annum brought both sets of mortality rates forward. In addition, rates of benefit termination of beneficiaries due to reasons other than mortality are also reflected.



Expected benefit payments have been explicitly modeled for the next 100 years. The Compensation projection only reflects benefits associated with military service through September 30, 2012.

The calculation and presentation of the components of the Reconciliation of Veterans Compensation and Burial Actuarial Liabilities shown in the table below were modified for 2012 to more closely align VA's presentation of Veterans Benefits Liabilities with other agencies of the Federal Government for improved consistency in government-wide reporting of other post-employment benefits (OPEB). As a result, the 2011 presentation was also modified to conform to the 2012 presentation. VA has a unique program that is not a defined benefit plan and has 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. The change in presentation had no other impact on net position, or budgetary resources in the consolidated or combined financial statements. The Statements of Net Cost were modified to reflect the revised components, Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions and Changes in Actuarial Liability Assumptions; however, the Net Cost of Operations did not change.

The reconciliation table that follows the narrative below indicates that total expense for 2012 of \$280.8 billion increased \$169.7 billion over 2011 expense of \$111.1 billion. The increase was primarily attributable to higher disability claims rates, experience changes due to Veterans counts and the number of claims processed and a lower discount rate partially offset by a lower COLA rate.

The higher disability claims rates are based on emerging experience from initial and reopened

claims for the three new presumptive conditions related to Agent Orange. The VA has prioritized the processing of the claims backlog related to Agent Orange which is forecasted through 2015, thereby resulting in the large increase in the assumption costs for 2012. The experience loss for 2012 was caused by the unprecedented number of disability cases processed in 2012 and exceeded the forecasted claims estimated in the actuarial model assumptions for future periods. VBA's efforts to reduce the backlog of pending claims, including the large number of claims from eligible Veterans with preexisting conditions that were recently added to the list of presumptive conditions contributed to the increase in the experience loss. As a result, an upward revision in claims rates for future periods was required for the emerging experience which is estimated to remain at a high level through 2015.

At September 30, 2012, the 10-year average rate used to compute the yield curve spot rates declined and the single average discount rate declined 22 basis points from 4.53 percent to 4.31 percent, resulting in a higher present value of expected future cash outflows than in 2011. The COLA rate assumptions reflect estimated future inflation and are based on and consistent with the decline in the 10-year average historical interest rate yield curve on Treasury securities. The COLA rates declined to 2.61 percent in 2012 from 2.78 percent in 2011 and the rate is applied to future periods. In addition, a single year assumption for the COLA rate is applied in 2013 based on inflation during 2012. The inflation assumption for 2012 is based on the partial year of experience that is known at the time the liability estimate is produced. The partial year of experience known for 2012 is 1.54 percent compared to 3.66 percent in 2011. As a result, the COLA rate assumptions produced a lower expense in 2012 compared to 2011.



While the COLA rates for 2011 declined to 2.78 percent from 2.86 percent in 2010, the partial year of experience known at the time the liability estimate was produced resulted in an assumption of 3.66 percent and applied to the 2012 forecast year. This single year rate

produced a net increase in the COLA rate assumption in 2011 when a decrease in the COLA rate assumption would otherwise be expected since the COLA rate declined in 2011 from 2010.

**Reconciliation of Veterans Compensation and Burial Actuarial Liabilities  
For the Year Ended September 30,**

	<u>Compensation</u>	<u>Burial</u>	<u>TOTAL</u>
<b>Liability at October 1, 2010</b>	\$ 1,470,500	\$ 4,300	\$ 1,474,800
<b>Expense:</b>			
Interest on the Liability Balance*	69,500	200	69,700
<b>Actuarial (Gain)/Loss from Current Year Activity</b>			
Changes in Experience (Veterans Counts, Status)*	(14,400)	(100)	(14,500)
Changes in Assumptions:			
Changes in Discount Rate Assumption	51,600	200	51,800
Changes in COLA Rate Assumption	4,000	100	4,100
Net (Gain)/Loss from Changes in Assumptions	55,600	300	55,900
<b>Total Expense</b>	110,700	400	111,100
<b>Less Amounts Paid*</b>	(52,000)	(200)	(52,200)
<b>Net Change in Actuarial Liability</b>	58,700	200	58,900
<b>Liability at September 30, 2011</b>	<b>1,529,200</b>	<b>4,500</b>	<b>1,533,700</b>
<b>Expense:</b>			
Interest on the Liability Balance**	69,300	200	69,500
<b>Actuarial (Gain)/Loss from Current Year Activity</b>			
Changes in Experience (Veterans Counts, Status)**	61,700	(100)	61,600
Changes in Assumptions:			
Changes in Discount Rate Assumption	66,100	200	66,300
Changes in COLA Rate Assumption	(40,300)	(100)	(40,400)
Changes in Disability Claims Rates	123,400	-	123,400
Net (Gain)/Loss from Changes in Assumptions	149,200	100	149,300
<b>Prior Service Costs (Adjustment to Benefits)**</b>	400	-	400
<b>Total Expense</b>	280,600	200	280,800
<b>Less Amounts Paid**</b>	(52,700)	(200)	(52,900)
<b>Net Change in Actuarial Liability</b>	227,900	-	227,900
<b>Liability at September 30, 2012</b>	<b>\$ 1,757,100</b>	<b>\$ 4,500</b>	<b>\$ 1,761,600</b>

\* The sum of these changes represents Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions on the Statement of Net Cost for 2011.

\*\* The sum of these changes represents Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions on the Statement of Net Cost for 2012.



#### 14. Environmental and Disposal Liabilities

VA had unfunded environmental and disposal liabilities in the amount of \$851 million and \$884 million as of September 30, 2012, and 2011, respectively. The majority of the unfunded liabilities involve asbestos removal, lead abatement, replacement of underground oil and gasoline tanks, decommissioning of waste incinerators, and decontamination of equipment prior to disposal.

While some facilities have applied prevailing state regulations that are more stringent than Federal guidelines, the Occupational Safety and Health Administration and Environmental Protection Agency regulations are the legal base 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, possibly materially, 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.

Technical Bulletin (TB) 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, as amended by TB 2011-2, was issued on September 28, 2006, and is effective for periods beginning after September 30, 2012. TB 2006-1 requires all Federal entities that own tangible property, plant, and equipment (PP&E) that contain asbestos to disclose liabilities related to friable and nonfriable asbestos cleanup costs deemed probable, but not reasonably estimable consistent with SFFAS 5, SFFAS 6, and Technical Releases No. 2, No. 10 and No. 11. VA does not believe adoption of the TB requirements will have a material impact on its consolidated and combined financial statements.

#### 15. Other Liabilities

Other liabilities are liabilities not reported elsewhere in the Consolidated Balance Sheets. They consist of Funded and Unfunded

Liabilities. Funded liabilities are generally considered to be current liabilities. Unfunded liabilities are generally considered to be non-current liabilities.

#### Other Intragovernmental Funded Liabilities

as of September 30,

	2012	2011
Deposit and Clearing Account Liabilities	\$ 315	\$ (4)
Accrued Expenses - Federal	6	13
Deferred Revenue	15	33
Resources Payable to Treasury	189	169
Custodial Liabilities	69	187
Credit Reform Act Subsidy Reestimates*	192	64
Accrued VA Contributions for Employee Benefits	117	111
<b>Total Other Intragovernmental Funded Liabilities</b>	<b>\$ 903</b>	<b>\$ 573</b>

\* The subsidy amount for each guaranteed loan is reestimated annually to ensure amounts reflect the actual losses on guaranteed loans. Based on the reestimated amounts, additional subsidy funds are provided for or excess funds are returned to Treasury.



**Other Intragovernmental Unfunded Liabilities**

as of September 30,

	2012	2011
Accrued FECA Liability	\$ 441	\$ 425
Unfunded Employee Liability	8	11
<b>Total Other Intragovernmental Unfunded Liabilities</b>	<u>\$ 449</u>	<u>\$ 436</u>
<b>Total Other Intragovernmental Liabilities</b>	<u>\$ 1,352</u>	<u>\$ 1,009</u>

**Other Public Funded Liabilities**

as of September 30,

	2012	2011
Accrued Funded Annual Leave	\$ 19	\$ 19
Accrued Expenses	153	255
Accrued Salaries and Benefits	490	475
Capital Lease Liability	10	10
Other	90	96
<b>Total Other Public Funded Liabilities</b>	<u>\$ 762</u>	<u>\$ 855</u>

**Other Public Unfunded Liabilities**

as of September 30,

	2012	2011
Accrued Unfunded Annual Leave*	\$ 1,848	\$ 1,797
Amounts due to non-Federal trust	148	155
Judgment Fund-Unfunded**	1,178	966
<b>Total Other Public Unfunded Liabilities</b>	<u>\$ 3,174</u>	<u>\$ 2,918</u>
<b>Total Other Public Liabilities</b>	<u>\$ 3,936</u>	<u>\$ 3,773</u>

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

\*\* The Judgment Fund liability amount represents the estimate for future payments on legal cases that will be paid by the Treasury Judgment Fund on behalf of VA (see Note 18, Contingencies).



**16. Leases**

VA has both capital and operating leases. The capital lease liability was \$10 million and \$10 million as of September 30, 2012, and 2011, respectively. Capital leases consist primarily of information and computer technology, medical equipment, office equipment and real property. The liabilities are classified in Other Public Funded Liabilities in Note 15 since capital leases entered into after 1991 are required to be fully funded in the first year of the lease.

Operating leases consist of equipment and real property leases. Operating equipment leases generally consist of medical and office equipment with terms of five years or less. Operating real property leases generally consist of Veterans medical facilities and clinics, regional and district offices and administrative facilities.

VHA accounts for 84.4 percent, VBA accounts for 10.9 percent, Indirect Administrative Program offices account for 4.4 percent and NCA accounts for the balance of the operating real property leases. These real property leases generally have lease terms ranging from one year to twenty years and are subject to annual appropriation of funds by Congress. Approximately 75.2 percent of the real property

leases have a lease term of five years or less; approximately 18.8 percent have lease terms of six to ten years; and approximately 3.3 percent have lease terms of eleven to fifteen years. Certain leases contain renewal or termination options. Annual base rent is generally flat over the lease term; however, certain leases contain rent escalation clauses. The leases also require VA to reimburse common area costs and real estate taxes over a base year or pay the costs directly.

Future commitments for real property and equipment operating leases are based on leases in effect as of September 30, 2012. Due to the number of equipment operating leases and the decentralization of records, the future commitment for equipment leases has been estimated using the expense from 2012 in lieu of actual amounts being available. VA's 2012 operating lease costs were \$608 million for real property rentals and \$146 million for equipment rentals.

The 2011 operating lease costs were \$545 million for real property rentals and \$118 million for equipment rentals. The following chart represents VA's projected operating lease commitments or costs for the next five years:

Leases:		
Year	Real Property	Equipment
2013	\$519	\$146
2014	452	146
2015	407	146
2016	378	146
2017	357	146
2018 and Thereafter	327	-



## 17. Insurance Programs

Through VA, the Government administers six life insurance programs: the United States Government Life Insurance (USGLI) program, the National Service Life Insurance (NSLI) program, the Veterans Special Life Insurance (VSLI) program, and the Veterans Reopened Insurance (VRI) program, which cover Veterans who served during World War I, World War II, and the Korean Conflict eras, and also the Service-Disabled Veterans Insurance (S-DVI) program and the Veterans Mortgage Life Insurance (VMLI) program, which cover severely disabled Veterans and are open to new issues. VMLI is part of the Veterans Insurance & Indemnities (VI&I) fund.

In addition, VA supervises the Servicemembers Group Life Insurance (SGLI) and the Veterans Group Life Insurance (VGLI) programs, which provide coverage to members of the uniformed armed services, reservists, and post-Vietnam Veterans and their families. All SGLI insureds are automatically covered under the Traumatic Injury Protection (TSGLI) program, which provides for insurance payments to members who suffer a serious traumatic injury in service. VA has entered into a group policy with the Prudential Insurance Company of America to administer these programs.

Premiums for the SGLI and VGLI programs are set by mutual agreement between VA and Prudential. SGLI premiums for active duty personnel and their spouses are deducted from the Servicemember's pay by the Armed Services components through the DoD. DoD, through the Defense Finance and Accounting Service (DFAS), remits collected premiums to VA, which are then transmitted to Prudential. Prudential records the premiums and maintains investments in their accounting records separate and independent from the VA reporting entity. VA monitors Prudential's insurance reserve balances to determine their

adequacy and may increase or decrease the amounts retained by Prudential for contingency purposes. The reserves for the contingent liabilities are recorded in Prudential's accounting records and are not reflected in the VA reporting entity because the risk of loss on these programs is assumed by Prudential and its reinsurers through the terms and conditions of the group policy. Prudential administers the TSGLI program under an Administrative Services Only agreement with VA. Under the law, DoD pays for any claim costs for this program in excess of premiums collected.

The Secretary of VA determines the claim costs that are traceable to the extra hazards of duty in the uniformed services, on the basis of the excess mortality incurred by members and former members of the uniformed armed services insured under SGLI, above what their mortality would have been under peacetime conditions. The costs so identified by the Secretary are paid by the uniformed services, not from the Servicemembers' premiums, as are all other programs costs.

The insurance reserves for the administered programs are reported as liabilities covered by budgetary resources, while part of the S-DVI and VI&I reserves are reported as liabilities not covered by budgetary resources. Reserves for SGLI and VGLI are maintained in Prudential's financial records since the risk of loss is assumed by Prudential and its reinsurers. United States Code, Title 38, requires that the Life Insurance programs invest in Treasury securities.

Actuarial reserve liabilities for the administered life insurance programs are based on the mortality and interest assumptions that vary by fund, type of policy, and type of benefit. The interest assumptions range from 2.25 to 5 percent. The mortality assumptions include the



American Experience Table, the 1941  
Commissioners Standard Ordinary (CSO)  
Table, the 1958 CSO Basic Table, the 1980 CSO

Basic Table, the 2001 CSO Table and the 2001  
Valuation Basic Male (VBM) Table.

**Insurance Liability (Reserve) Balances  
as of September 30, 2012**

Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	\$ 5,661	\$ 75	\$ 41	\$ 5,777
USGLI	5	2	-	7
VSLI	1,497	6	13	1,516
S-DVI	510	6	693	1,209
VRI	203	1	2	206
VI&I	201	-	-	201
Subtotal	\$ 8,077	\$ 90	\$ 749	\$ 8,916
Unearned Premiums				59
Insurance Dividends Left on Deposit and Related Interest Payable				1,521
Dividends Payable to Policyholders				84
Unpaid Policy Claims				1
Insurance Liabilities reported on the Consolidated Balance Sheet				10,581
Less Liability not Covered by Budgetary Resources				(1,293)
Liability Covered by Budgetary Resources				\$ 9,288

**as of September 30, 2011**

Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	\$ 6,187	\$ 84	\$ 47	\$ 6,318
USGLI	8	2	-	10
VSLI	1,528	7	15	1,550
S-DVI	484	6	646	1,136
VRI	227	1	2	230
VI&I	114	-	-	114
Subtotal	\$ 8,548	\$ 100	\$ 710	\$ 9,358
Unearned Premiums				65
Insurance Dividends Left on Deposit and Related Interest Payable				1,587
Dividends Payable to Policyholders				101
Unpaid Policy Claims				2
Insurance Liabilities reported on the Consolidated Balance Sheet				11,113
Less Liability not Covered by Budgetary Resources				(1,161)
Liability Covered by Budgetary Resources				\$ 9,952



**Insurance In-Force**

The amount of insurance in-force is the total face amount of life insurance coverage provided by each administered and supervised program as of the end of the fiscal year. It includes any paid-up additional coverage provided under these policies. The supervised programs' policies and face value are not reflected in the VA reporting entity because the risk of loss on these programs is assumed by Prudential and its reinsurers through the terms and conditions of the group policy. As a result, the information provided below under the Supervised Programs

is for informational purposes only and is unaudited. Prudential and its reinsurers provided coverage to 6,009,819 and 6,103,250 policy holders with a face value of \$1.3 trillion and \$1.3 trillion for the years ended September 30, 2012, and 2011, respectively. The face value of the insurance provided by Prudential and its reinsurers represents 99 percent and 99 percent of the total insurance in-force as of September 30, 2012, and 2011, respectively. The number of policies represents the number of active policies remaining in the program as of the end of each fiscal year.

	2012 Policies	2011 Policies	2012 Face Value	2011 Face Value
<b>Supervised Programs (UNAUDITED)</b>				
SGLI Active Duty	1,525,000	1,560,000	\$ 588,489	\$ 604,138
SGLI Ready Reservists	771,500	774,500	268,153	271,826
SGLI Post Separation	93,000	88,000	34,812	33,097
SGLI Family - Spouse	1,095,000	1,128,000	108,012	111,320
SGLI Family - Children	2,098,000	2,126,000	20,980	21,260
TSGLI*	-	-	229,650	233,450
VGLI	427,319	426,750	62,700	60,694
<b>Total Supervised</b>	<b>6,009,819</b>	<b>6,103,250</b>	<b>\$ 1,312,796</b>	<b>\$ 1,335,785</b>
<b>Administered Programs</b>				
NSLI	586,450	665,394	\$ 7,174	\$ 8,040
VSLI	149,947	158,765	2,055	2,141
S-DVI	241,224	227,887	2,499	2,340
VRI	23,983	27,605	249	283
USGLI	2,165	2,958	6	8
VMLI	2,466	2,395	299	179
<b>Total Administered</b>	<b>1,006,235</b>	<b>1,085,004</b>	<b>\$ 12,282</b>	<b>\$ 12,991</b>
<b>Total Supervised and Administered Programs</b>	<b>7,016,054</b>	<b>7,188,254</b>	<b>\$ 1,325,078</b>	<b>\$ 1,348,776</b>

\*TSGLI coverage is a rider attached to SGLI coverage, so policies under SGLI also have TSGLI.

**Policy Dividends**

The Secretary of VA determines annually the excess funds available for dividend payment.

Policy dividends for 2012 and 2011 were \$189 million and \$229 million, respectively.



**18. Commitments and Contingencies**

VA is a party in various administrative proceedings, legal actions, and tort claims arising from various sources including: disputes with contractors, challenges to compensation and education award decisions, loan guaranty indemnity debt cases, and allegations of medical malpractice. Certain legal matters to which VA may be a named party are administered and, in some instances, litigated by the Department of Justice. Generally, amounts (more than \$2.5 thousand for Federal Tort Claims Act cases) to be paid under any decision, settlement, or award are funded from the Judgment Fund, which is maintained by Treasury. Medical malpractice cases comprised 90 percent and 78 percent of the amounts funded on behalf of VA by the Judgment Fund in 2012 and 2011, respectively. Contract dispute payments for 2012 and 2011 were \$4.3 million and \$8.8 million, respectively. The discrimination case payments for 2012 and 2011 were \$0.9 million and \$4.2 million, respectively. VA uses various accepted actuarial methods to estimate the liability resulting from medical malpractice and other tort claim exposure. VA discounted future estimated

payments using U.S. Treasury spot rates as of September 30, 2012, and 2011.

VA has recorded a liability for pending legal claims that are estimated to be paid by the Judgment Fund. This liability is established for all pending claims and the actuarial projection of potential legal claims determined to be probable whether reimbursement is required or not. This liability was \$1.18 billion for 2012 and \$966 million for 2011. The contract and personnel law cases where there was at least a reasonable possibility that a loss may occur were 13 cases totaling \$203.0 million for 2012 and 12 cases totaling \$69.2 million for 2011. A patent infringement lawsuit, regarding the alleged use of patented technology for healthcare treatment of servicemembers and Veterans, is currently pending at the Court of Federal Claims. The estimated amount or range of potential liability cannot reasonably be made at this time. VA is also required to record an operating expense and imputed financing source for the Judgment Fund's pending claims and settlements. Judgment Fund accounting is shown below:

<b>Judgment Fund</b>				
<b>For the Years Ended September 30,</b>				
	<b>2012</b>		<b>2011</b>	
Fiscal Year Settlement Payments	\$	100	\$	96
Less Contract Dispute and "No Fear" Payments		(5)		(13)
Imputed Financing-Paid by Other Entities*		95		83
Increase (Decrease) in Liability for Claims		207		168
<b>Operating Expense</b>	<b>\$</b>	<b>302</b>	<b>\$</b>	<b>251</b>

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

It is the opinion of VA's management that resolution of pending legal actions as of

September 30, 2012, will not materially affect VA's operations or financial position when



consideration is given to the availability of the Judgment Fund appropriation to pay some court-settled legal cases. The 2012 tort payments were \$95 million and 2011 tort payments were \$83 million.

Any payments due that may arise relating to cancelled appropriations will be paid out of the current year's appropriations in accordance with the provisions of the Expired Funds Control Act of 1990. The amount of unobligated and obligated authority relating to appropriations cancelled on September 30, 2012, and 2011 was \$329.4 million and \$96.6 million, respectively.

VA provides medical care to Veterans on an "as available" basis, subject to the limits of the

annual appropriations. In accordance with 38 CFR 17.36 (c), VA's Secretary makes an annual enrollment decision that defines the Veterans, by priority, who will be treated for that fiscal year subject to change 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 2009-2012, the average medical care cost per year was \$39 billion.

## 19. Earmarked Funds

SFFAS 27, *Identifying and Reporting Earmarked Funds*, requires disclosure of all earmarked funds for which VA has program management responsibility. The U.S. Treasury does not set aside assets to pay future expenditures associated with earmarked funds. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, and are required by statute to be used for designated activities or purposes. They are accounted for separately from the Government's general revenues. VA's earmarked funds consist of trusts, special and revolving funds and remain available over time. The "trust" funds do not involve a fiduciary relationship with an individual or group but are

designated exclusively for a specific activity, benefit, or purpose. The investments (Treasury Securities) are assets of earmarked funds that are issued as evidence of specific earmarked receipts from fund activities by the earmarked fund and provide the fund the authority to draw upon the Treasury for future authorized expenditures related to the fund's specific purpose. The investments (Treasury Securities) are not general fund assets of the Federal Government, since their use is restricted to the funds' purpose, and are not non-entity assets. When the earmarked fund redeems its Treasury Securities to make expenditures, the Treasury will finance those expenditures in the same manner that it finances all other expenditures.



The VA's Earmarked Funds are as follows and the classification of each fund into the grouping of Insurance, Medical Care, Benefits and Burial as shown in the condensed financial statements that follow is designated in the "Purpose of Fund" column below.

Earmarked Fund Name	Treasury Symbol	Authority	Purpose of Fund	Financing Sources
<b>Medical Care Collections Fund</b>	36x5287	P.L. 105-33 111 Stat 665	Medical Care - Third-party and patient co-payments for medical services.	Public, primarily insurance carriers.
<b>Cemetery Gift Fund</b>	36x8129	38 U.S.C. 1007	Burial - Donations for Veterans cemeteries.	Public donors.
<b>National Service Life Insurance Fund</b>	36x8132	38 U.S.C. 720	Insurance - Premiums insure WWII Veterans.	Public, Veterans.
<b>Post-Vietnam Era Education Assistance Program</b>	36x8133	38 U.S.C. 1622	Benefits - Subsidizes the cost of education to Veterans.	Veterans, DoD.
<b>U.S. Government Life Insurance</b>	36x8150	38 U.S.C. 755	Insurance - Premiums insure WWI Veterans.	Public, Veterans.
<b>Veterans Special Life Insurance Fund</b>	36x8455	38 U.S.C. 723 101-228	Insurance - Premiums insure Korean conflict Veterans.	Public, Veterans.
<b>General Post Fund, National Homes</b>	36x8180	38 U.S.C. 101-228	Medical Care - Donations for patient benefits.	Public, mostly Veterans.
<b>Canteen Service Revolving Fund</b>	36x4014	38 U.S.C. 78	Medical Care -Operates the canteen services at hospitals.	Revenue from sales.
<b>National Cemetery Administration Facilities Operation Fund</b>	36x5392	P.L. 108-454	Burial - Proceeds benefit land and buildings.	Proceeds from leases.
<b>Service-Disabled Veterans Insurance Fund</b>	36x4012	38 U.S.C. 1922	Insurance - Provides insurance to Veterans with service-connected disabilities.	Public, Veterans.
<b>Servicemen's Group Life Insurance</b>	36x4009	38 U.S.C. 1965	Insurance - Provides insurance to active duty, ready reservists, retired reservists and cadets attending service academies and ROTC.	Public, Veterans.
<b>Veterans Reopened Insurance Fund</b>	36x4010	38 U.S.C. 1925	Insurance - Provides insurance to World War II and Korea Veterans.	Public, Veterans.
<b>Enhanced-Use Lease Trusts</b>	N/A	38 U.S.C 8162	Medical Care - Lease underutilized VA property.	Public.



The following tables provide condensed information on assets, liabilities, fund balances, net costs, and changes in fund balances related to Cumulative Results of Operations – Earmarked Funds in the Consolidated Statements of Changes in Net Position:

<b>Balance Sheet – Earmarked Funds</b>					
<b>as of September 30, 2012</b>					
	<b>Insurance</b>	<b>Medical Care</b>	<b>Benefits</b>	<b>Burial</b>	<b>Total Earmarked Funds</b>
<b>Assets:</b>					
Fund Balance with Treasury	\$ 62	\$ 265	\$ 65	\$ 1	\$ 393
Investments with Treasury	9,244	65	-	-	9,309
Other Assets	437	1,368	-	4	1,809
<b>Total Assets</b>	<b>\$ 9,743</b>	<b>\$ 1,698</b>	<b>\$ 65</b>	<b>\$ 5</b>	<b>\$ 11,511</b>
<b>Liabilities and Net Position:</b>					
Payables to Beneficiaries	\$ 187	\$ 27	\$ 1	\$ -	\$ 215
Other Liabilities	10,382	169	-	-	10,551
<b>Total Liabilities</b>	<b>10,569</b>	<b>196</b>	<b>1</b>	<b>-</b>	<b>10,766</b>
Unexpended Appropriations	-	-	-	-	-
Cumulative Results of Operations	(826)	1,502	64	5	745
<b>Total Liabilities and Net Position</b>	<b>\$ 9,743</b>	<b>\$ 1,698</b>	<b>\$ 65</b>	<b>\$ 5</b>	<b>\$ 11,511</b>

<b>Statement of Net Cost – Earmarked Funds</b>					
<b>for the Year Ended September 30, 2012</b>					
Gross Program Costs	\$ 1,057	\$ 449	\$ 1	\$ -	\$ 1,507
Less Earned Revenues	951	3,186	1	-	4,138
<b>Net Program Costs</b>	<b>106</b>	<b>(2,737)</b>	<b>-</b>	<b>-</b>	<b>(2,631)</b>
Costs Not Attributable to Program Costs	-	-	-	-	-
<b>Net Cost/(Benefit) of Operations</b>	<b>\$ 106</b>	<b>\$ (2,737)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (2,631)</b>

<b>Statement of Changes in Net Position – Earmarked Funds</b>					
<b>for the Year Ended September 30, 2012</b>					
<b>Net Position Beginning of Period</b>	<b>\$ (720)</b>	<b>\$ 1,552</b>	<b>\$ 64</b>	<b>\$ 3</b>	<b>\$ 899</b>
Budgetary and Other Financing Sources	-	(2,787)	-	2	(2,785)
Net Cost/(Benefit) of Operations	106	(2,737)	-	-	(2,631)
<b>Change in Net Position</b>	<b>(106)</b>	<b>(50)</b>	<b>-</b>	<b>2</b>	<b>(154)</b>
<b>Net Position End of Period</b>	<b>\$ (826)</b>	<b>\$ 1,502</b>	<b>\$ 64</b>	<b>\$ 5</b>	<b>\$ 745</b>



<b>Balance Sheet – Earmarked Funds</b>					
<b>as of September 30, 2011</b>					
	<b>Insurance</b>	<b>Medical Care</b>	<b>Benefits</b>	<b>Burial</b>	<b>Total Earmarked Funds</b>
<b>Assets:</b>					
Fund Balance with Treasury	\$ 45	\$ 239	\$ 65	\$ 1	\$ 350
Investments with Treasury	9,948	84	-	-	10,032
Other Assets	478	1,433	-	2	1,913
<b>Total Assets</b>	<b>\$ 10,471</b>	<b>\$ 1,756</b>	<b>\$ 65</b>	<b>\$ 3</b>	<b>\$ 12,295</b>
<b>Liabilities and Net Position:</b>					
Payables to Beneficiaries	\$ 190	\$ 33	\$ 1	\$ -	\$ 224
Other Liabilities	11,001	171	-	-	11,172
<b>Total Liabilities</b>	<b>11,191</b>	<b>204</b>	<b>1</b>	<b>-</b>	<b>11,396</b>
Unexpended Appropriations	-	-	-	-	-
Cumulative Results of Operations	(720)	1,552	64	3	899
<b>Total Liabilities and Net Position</b>	<b>\$ 10,471</b>	<b>\$ 1,756</b>	<b>\$ 65</b>	<b>\$ 3</b>	<b>\$ 12,295</b>

<b>Statement of Net Cost – Earmarked Funds</b>					
<b>for the Year Ended September 30, 2011</b>					
Gross Program Costs	\$ 1,054	\$ 548	\$ 2	\$ -	\$ 1,604
Less Earned Revenues	965	3,371	1	-	4,337
<b>Net Program Costs</b>	<b>89</b>	<b>(2,823)</b>	<b>1</b>	<b>-</b>	<b>(2,733)</b>
Costs Not Attributable to Program Costs	-	-	-	-	-
<b>Net Cost/(Benefit) of Operations</b>	<b>\$ 89</b>	<b>\$ (2,823)</b>	<b>\$ 1</b>	<b>\$ -</b>	<b>\$ (2,733)</b>

<b>Statement of Changes in Net Position – Earmarked Funds</b>					
<b>for the Year Ended September 30, 2011</b>					
<b>Net Position Beginning of Period</b>	\$ (631)	\$ 1,455	\$ 65	\$ 3	\$ 892
Budgetary and Other Financing Sources	-	(2,726)	-	-	(2,726)
Net Cost/(Benefit) of Operations	89	(2,823)	1	-	(2,733)
<b>Change in Net Position</b>	<b>(89)</b>	<b>97</b>	<b>(1)</b>	<b>-</b>	<b>7</b>
<b>Net Position End of Period</b>	<b>\$ (720)</b>	<b>\$ 1,552</b>	<b>\$ 64</b>	<b>\$ 3</b>	<b>\$ 899</b>



## 20. Exchange Transactions

### Exchange Revenues

Although VA recognizes full cost per SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, VHA has legislated 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 that are in the best interest of the Federal Government.

The Office of Financial Policy within VA's Office of Finance established policy requiring a four-part biennial self certification program to be implemented by VHA. The first part of the certification program requires each medical facility to certify whether charges established by VHA are sufficient to recover the full cost of providing services. The second part requires each medical facility to certify that its cost accounting procedures comply with SFFAS 4. Any medical facility with a fully functional Decision Support System (DSS) that produces timely (i.e. current year) data will be able to certify compliance with this requirement. The third part requires each medical facility to certify its compliance with Federal pricing policies and that it has fully disclosed situations where it does not comply with those policies as required by SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. The fourth part requires each medical facility to certify whether its enhanced health care sharing contracts recover full cost or market price as defined in OMB Circular A-25, *User Charges*.

### Public Exchange Transactions

VA's Loan Guaranty Program collects certain fees that are set by law. The loan guarantee funding fees collected for 2012 and 2011 were \$1.18 billion and \$917 million, respectively. The loan guarantee lender participation fees

collected for 2012 and 2011 were \$1.8 million and \$1.6 million, respectively.

VA's Loan Guaranty Program collects rental fees on a small number of properties during the period when the property is titled to VA.

NCA leases lodges at eight cemeteries to not-for-profit groups for no fee. These not-for-profit groups are required to provide the upkeep on the lodges and pay the costs for utilities, insurance, minor repairs, maintenance and any other costs associated with the lodges. NCA has agricultural licenses at eight cemeteries to private sector entities, for which it receives rental payments; one agricultural license to the state of Colorado at no cost, and one permit to the Federal Aviation Administration (FAA) at no cost. NCA also leases buildings at two cemeteries, one to a private sector entity for which it receives rental payments, and one to a not-for-profit group that is responsible for the historic preservation of the building at no cost to NCA.

VA's Medical Care Collections Fund, "Conforming Amendments," changed the language of specific sections of 38 USC Chapter 17 to substitute "reasonable charges" for "reasonable cost." The VHA Chief Business Office (CBO) is responsible for implementing and maintaining these reasonable charges for billing third-party payers for services provided to insured Veterans for treatment of nonservice-connected conditions.

Reasonable charges are used to bill for reimbursable health care services, non-federal workers' compensation, tortfeasor and no-fault or uninsured motorists insurance cases.

Reasonable charges are based on provider charges in the market area of each VA facility. Under regulations issued pursuant to section



1729 and published at section 17.101, title 38, Code of Federal Regulations, third party payers may elect to pay VA's billed charges (less applicable deductible or co-payment amounts) for the care and services provided to Veterans. Alternatively, third party payers may elect to pay VA an amount, generally known as usual and customary, that it would pay to other providers for care and services in the same geographic area.

Cost-based per diems are calculated annually to produce rates used to bill for medical care or services provided by VA:

- (a) in error or on tentative eligibility;
- (b) in a medical workers' compensation (other than federal), 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 Department of Defense 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 a national cost allocation report.

#### **Intragovernmental Exchange Transactions**

Intragovernmental costs relate to the source of goods and services purchased by VA and not to the classification of related intragovernmental revenue. Classification of revenue and/or costs as "Intragovernmental" or "With the Public" is determined on a transaction by transaction basis for disclosure purposes. Classification of preceding transactions in a product's life cycle

will not have an impact on classification of subsequent transactions. The purpose of this classification is to enable the Federal Government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

VA and DoD have authority to enter into agreements and contracts for the mutual use or exchange of use of hospital and domiciliary facilities and other resources. The providing agency shall be reimbursed for the cost of the health care resources based on the methodology agreed to by VA and DoD. Facility directors have the flexibility to consider local conditions and needs and the actual costs of providing the services. VA's General Counsel has determined that full cost recovery is not mandated. VHA captures the total amount of reimbursements received under DoD sharing agreements, but the total amount billed below full cost is not readily available. VHA is in the process of developing mechanisms to report this information in the future. VBA collects funding from DoD in order to administer certain education programs. DoD transferred \$364.4 million and \$380.0 million during 2012 and 2011, respectively, for the Post-Vietnam Era Education Assistance Program, Reinstated Entitlements Program for Survivors and the New GI Bill for Veterans.

When VA furnishes medical care or services for beneficiaries of other federal agencies, and that care or service is not covered by an applicable local sharing agreement, the billing rates used are determined and published annually by the VHA CFO. Similar to the tort rates, interagency billing rates are determined from cost and workload data in the Cost Distribution Report.



21. Net Program Costs by Administration

Schedule of Net Program Costs by Administration					
For the Period Ending September 30, 2012 (Dollars in Millions)	Veterans Health Administration	Veterans Benefits Administration	National Cemetery Administration	Indirect Administrative Program Costs	Total
<b>Program Costs</b>					
<b>Intragovernmental Costs</b>	\$ 8,329	\$ 318	\$ 49	\$ 547	\$ 9,243
<b>Less Earned Revenues</b>	(106)	(1,141)	-	(402)	(1,649)
<b>Net Intragovernmental Program Costs</b>	8,223	(823)	49	145	7,594
<b>Public Costs</b>	48,559	74,206	245	1,425	124,435
<b>Veterans Benefits Actuarial Costs, Excluding Changes in Actuarial Assumptions (Note 13)</b>	-	78,700	(100)	-	78,600
<b>Less Earned Revenues</b>	(3,354)	(525)	-	(193)	(4,072)
<b>Net Public Program Costs</b>	45,205	152,381	145	1,232	198,963
<b>Net Program Cost by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions</b>	53,428	151,558	194	1,377	206,557
<b>Net (Gain)/Loss from Actuarial Liability Assumptions (Note 13)</b>	-	149,200	100	-	149,300
<b>Net Cost of Operations</b>	\$ 53,428	\$ 300,758	\$ 294	\$ 1,377	\$ 355,857



Schedule of Net Program Costs by Administration					
For the Period Ending September 30, 2011 (Dollars in Millions)	Veterans Health Administration	Veterans Benefits Administration	National Cemetery Administration	Indirect Administrative Program Costs	Total
<b>Program Costs</b>					
<b>Intragovernmental Costs</b>	\$ 7,719	\$ 1,627	\$ 31	\$ 299	\$ 9,676
<b>Less Earned Revenues</b>	(68)	(1,181)	-	(514)	(1,763)
<b>Net Intragovernmental Program Costs</b>	7,651	446	31	(215)	7,913
<b>Public Costs</b>	48,521	68,150	248	1,813	118,732
<b>Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)</b>	-	3,100	(100)	-	3,000
<b>Less Earned Revenues</b>	(3,651)	(846)	-	(159)	(4,656)
<b>Net Public Program Costs</b>	44,870	70,404	148	1,654	117,076
<b>Net Program Cost by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions</b>	52,521	70,850	179	1,439	124,989
<b>Net (Gain)/Loss from Actuarial Liability Assumptions (Note 13)</b>	-	55,600	300	-	55,900
<b>Net Cost of Operations</b>	\$ 52,521	\$ 126,450	\$ 479	\$ 1,439	\$ 180,889



## 22. Disclosures Related to the Statements of Budgetary Resources

### OMB Required Changes to the Statement of Budgetary Resources

Effective for 2012, the SBR presentation has changed to better align with the new format of the report on Budget Execution and Budgetary Resources (SF 133) as required by OMB. In the new SBR format, significant balances and underlying detail lines from the SF 133 are aggregated to the major categories deemed most significant for broad government-wide display purposes. The new format also has additional reconciliation requirements with budget execution information reported in the Budget of the United States to ensure the integrity of the numbers presented. As a result of the format changes, the 2011 data has been reclassified to conform to the 2012 presentation. There are no other effects on the consolidated or combined financial statements.

### Budgetary Accounting

Budgetary resources, which include new budget authority, unobligated balances, direct spending authority, and obligation limitations, are forms of authority given to VA allowing it to incur obligations. Budget authority is provided by Federal law to enter into financial obligations that will result in immediate or future outlays involving Federal Government funds. Budget authority may be classified by the period of availability (1-year, multiple-year, no-year or available until expended), by the timing of congressional action (current or permanent), or by the manner of determining the amount available (definite or indefinite).

Budget authority from appropriations is the most common form of providing for the specific amount of money authorized by Congress for approved work, programs, or individual projects. Appropriations do not represent cash actually set aside in the Treasury for purposes specified in the appropriation act; they represent amounts that VA may obligate during

the period of time specified in the respective appropriation acts. An appropriation may make funds available from the general fund, special funds, or trust funds.

Borrowing authority is budget authority enacted to permit VA to borrow money and then to obligate against amounts borrowed. It may be definite or indefinite in nature. The funds are borrowed from the Treasury and Federal Financing Bank.

Spending authority from offsetting receipts and collections is budget authority that permits VA to obligate and expend funds from sources that are not appropriated. Offsetting collections are authorized by law to be credited to appropriation or fund expenditure accounts. They result from (1) business-like transactions or market-oriented activities with the public, (2) intragovernmental transfers, and (3) collections from the public that are governmental in nature but required by law to be classified as offsetting. Collections resulting from business-like transactions with the public and other government accounts are also known as reimbursements. Laws authorizing offsetting collections make them available for obligation to meet the account's purpose without further legislative action.

Offsetting collections include reimbursements, transfers between federal and trust fund accounts, offsetting governmental collections, and refunds. For accounting purposes, earned reimbursements are also known as revenues. These offsetting collections are netted against gross outlays in determining net outlays from such appropriations.

Offsetting receipts are collections that are offset against gross outlays but are not authorized to be credited to expenditure accounts. Offsetting receipts are deposited in



receipt accounts. Like offsetting collections, they result from (1) businesslike transactions or market oriented activities with the public, (2) intragovernmental transfers, and (3) collections from the public that are governmental in nature but required by law to be classified as offsetting receipts.

The Status of Budgetary Resources reflects the obligations incurred, the unobligated balances at the end of the period that remain available, and unobligated balances at the end of the period that are unavailable except to adjust or liquidate prior year obligations. Unobligated balances currently unavailable may become available subject to apportionment by OMB and allotment by VA.

Apportionments are distributions made by OMB of amounts available for obligation in an appropriation or fund account.

Apportionments divide amounts available for obligation by specific time periods (usually quarters), activities, projects, objects, or a combination thereof. The amounts so apportioned limit the amount of obligations that may be incurred.

Upon apportionment and allotment, obligations can be incurred. Obligations represent a commitment that creates a legal liability for VA to pay for goods and services ordered or received, or a legal duty on the part of VA that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of VA. An obligation is the amount of orders placed, contracts awarded, services received, and other transactions occurring during a given period that would require payments during the same or future period. Obligational authority is an amount carried over from one year to the next if the budget authority is available for obligation in the next fiscal year. Not all obligational authority that becomes available in a fiscal year is obligated

and paid out in that same year. Balances are described as (1) obligated, (2) unobligated, or (3) unexpended.

An obligated balance is the amount of obligations already incurred for which payment has not yet been made, including undelivered orders and other unliquidated obligations. Budget authority that is available for a fixed period expires at the end of its period of availability, but the obligated balance of the budget authority remains available to liquidate obligations for 5 additional fiscal years. At the end of the fifth fiscal year, the account is closed and any remaining balance is canceled.

An unobligated balance is the portion of obligational authority that has not yet been obligated. For an appropriation account that is available for a fixed period, the budget authority expires after the period of availability ends but its unobligated balance remains available for 5 additional fiscal years for recording and adjusting obligations properly chargeable to the appropriations period of availability such as to record previously unrecorded obligations or to make upward or downward adjustments in previously recorded obligations, such as contract modifications properly within scope of the original contract. At the end of the fifth fiscal year, the account is closed and any remaining balance is canceled.

Unexpended balance represents the sum of the obligated and unobligated balances.

Outlay is the amount of checks, disbursement of cash, or electronic transfer of funds to liquidate a Federal obligation. Under the Credit Reform Act, the credit subsidy cost is recorded as an outlay when a direct or guaranteed loan is disbursed. Outlays during a fiscal year may be for payment of obligations incurred in prior years (prior-year obligations) or in the same year.



The caption, Appropriations under Budgetary Resources, in the Combined Statements of Budgetary Resources, does not agree to the caption Budgetary Financing Sources – Appropriations Received in the Consolidated Statements of Changes in Net Position. The amount in the Combined Statement of Budgetary Resources includes appropriations from the General Fund and Special Receipt Funds, while the Consolidated Statements of Changes in Net Position includes appropriations from the General Fund only.

The caption, Spending Authority from Offsetting Collections under Budgetary Resources in the Combined Statement of Budgetary Resources, does not agree to the caption Earned Revenue in the Consolidated Statements of Net Cost. The amount in the Combined Statement of Budgetary Resources includes Credit Reform subsidies for interest, fees and principal as required by Treasury reporting requirements, while the Consolidated Statements of Net Cost includes interest only.

**Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations**  
**Years Ended September 30,**

Category A, Direct consists of amounts requested to be apportioned by each calendar quarter in the fiscal year. Category B, Direct consists of amounts requested to be apportioned on a basis other than calendar quarters, such as activities, projects, objects, or a combination of these categories.

	<b>2012</b>	<b>2011</b>
Category A, Direct	\$ 70,827	\$ 68,345
Category B, Direct	66,823	61,707
Reimbursable	5,014	5,247
<b>Total Obligations</b>	<b>\$ 142,664</b>	<b>\$ 135,299</b>

**Adjustments to Budgetary Resources and Prior Year Recoveries**

Prior year recoveries consist of cancellations or downward adjustments of obligations incurred in prior fiscal years and recoveries of prior year paid obligations (i.e., cash refunds). Anticipated resources are required to be apportioned by OMB before they can be used. Once apportioned by OMB, they have to be allotted back down to the appropriate facilities or specific program offices. This authority cannot be used until funds are deobligated or refunded and realized. These adjustments relate to the open phase only of multi-year and no-year appropriations beyond the first year of availability of budgetary authority and the expired phase of annual and multi-year appropriations. No-year appropriations have no expiration of budgetary authority unless cancelled by Congress.

VA's systems require modification to properly account for the prior year recoveries as provided by Treasury and the guidance in the Treasury Financial Manual. VA has completed the technical assessment process and has begun to develop detailed requirements to modify its core accounting system. When an automated systems solution is implemented, VA will be enabled to properly identify prior year recoveries, systematically monitor reapportioned budget authority and track both for internal and external financial reporting.

In the interim, VA has implemented a manual review process to identify prior year recoveries and quantify an estimated range of transactions that would be accounted for as and meet the definition of a prior year recovery. Based on the review process, estimated recoveries of prior



year unpaid obligations (not recorded) range from \$1.2 billion-\$2.3 billion for 2012 and range from \$1.1 billion-\$2.1 billion for 2011. The effect of recording the adjustments would be to increase "Recoveries of Prior Year Unpaid Obligations" and increase "Obligations Incurred" in the Combined Statement of Budgetary Resources.

For 2012 and 2011, VA appropriations were subjected to a rescission of \$1.8 billion and \$384.3 million, respectively, under the provisions of P.L. 112-10 and P.L. 111-117, *The Department of Defense and Full-Year Continuing Appropriations Act, 2012 and 2011*, respectively.

#### **Borrowing Authority**

The Loan Guaranty Program had borrowing authority of \$1.32 billion and \$1.47 billion as of September 30, 2012 and 2011, respectively. The interest rates on the borrowing authority range from 2.64 to 3.49 percent for 2012 and 4.14 to 4.28 percent for 2011. Principal repayment is expected over a 30-year period from the date of issuance of debt. Direct Loans under the Vocational Rehabilitation Program had borrowing authority of \$3.13 million and \$3.05 million as of September 30, 2012, and 2011, respectively. The interest rate on the borrowing authority was 1.00 percent for 2012 and 1.49 percent for 2011. Principal repayment is expected over a 2-year period from the date of issuance of debt. The Loan Guaranty Program 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 loans generally had a duration of one year, and repayment was made from offsetting collections.

#### **Permanent Indefinite Appropriations**

VA has four housing benefit programs that have permanent and indefinite appropriations to cover unexpected losses.

#### **Use of Unobligated Balances of Budget Authority**

Available unobligated balances on the Statement of Budgetary Resources (SBR) are comprised of current fiscal year apportioned funds for annual, multi-year, and no-year appropriations from Congress as well as revolving and trust funds. Other balances not available are comprised of unobligated funds that were not apportioned by OMB for 2012 use and appropriated unobligated amounts that have expired, which generally are not available for new obligations, but can be used to increase existing obligations under certain circumstances.

Unobligated VA funds are available for uses defined in VA's 2012 Appropriation Law (P.L. 112-10). These purposes include: Veteran's medical care, research, education, construction and maintenance of VA buildings, Veterans and dependents benefits, Veterans life insurance, loan guaranty programs, Veterans burial benefits, and administrative functions. Various obligation limitations are imposed on individual VA appropriations.

#### **Explanation of Differences between the Statement of Budgetary Resources and the Budget of the US Government**

Obligations were increased by \$20.3 million for 2011 on the Combined Statement of Budgetary Resources to reverse the adjustment recorded in 2010 which was also not reflected in the FACTS II data used to prepare the President's Budget. No other differences were identified as of the preparation date of the financial statements.



**Undelivered Orders at the End of a Period**

The amount of budgetary resources obligated for undelivered orders at the end of 2012 and 2011 was \$12.7 billion and \$10.5 billion, respectively.

**Contributed Capital**

The amount of contributed capital received during 2012 consisted of donations in the amount of \$43.7 million to the General Post Fund, \$1.4 million to the National Cemetery Gift Fund and \$ 1.3 million to the Supply Fund. The amount of contributed capital received during 2011 consisted of donations in the amount of \$48.8 million to the General Post Fund, \$0.2 million to the National Cemetery Gift Fund and \$2.0 million to the Supply Fund.



### 23. Reconciliation of Net Cost of Operations to Budget

The objective of the information shown below is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a

reconciliation of budgetary obligations and non-budgetary resources available to VA with its net cost of operations.

<b>DEPARTMENT OF VETERANS AFFAIRS</b>		
<b>RECONCILIATION OF NET COSTS OF OPERATIONS TO BUDGET</b>		
<b>For the Years Ended September 30,</b>	<b>2012</b>	<b>2011</b>
<b>Resources Used to Finance Activities</b>		
Obligations Incurred	\$ 142,664	\$ 135,299
Less Spending Authority from Offsetting Collections and Adjustments	(9,697)	(9,643)
Obligations Net of Offsetting Collections and Adjustments	132,967	125,656
Less Offsetting Receipts	(3,465)	(3,320)
Net Obligations	129,502	122,336
Donations of Property	23	26
Transfers-out	-	-
Imputed Financing	1,795	1,978
Other Financing Sources	(367)	(409)
<b>Total Resources Used to Finance Activities</b>	<b>130,953</b>	<b>123,931</b>
<b>Resources That Do Not Fund Net Cost of Operations</b>		
Change in Amount of Goods, Services and Benefits Ordered But Not Yet Provided	(1,942)	(1,067)
Resources that Finance the Acquisition of Assets	(6,921)	(7,339)
Resources that Fund Expenses Recognized in Prior Periods	(2,332)	(2,190)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	4,892	4,708
Total Resources that Do Not Fund Net Cost of Operations	(6,303)	(5,888)
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>124,650</b>	<b>118,043</b>
<b>Costs That Do Not Require Resources in the Current Period</b>		
Increase in Annual Leave Liability	51	64
Increase (Decrease) in Environmental and Disposal Liability	(33)	5
Reestimates of Credit Subsidy Expense	563	1,242
Increase in Exchange Revenue Receivable from the Public	39	(342)
Increase (Decrease) in Veterans Benefits and Other Noncurrent Liabilities	228,418	59,252
Depreciation and Amortization	1,895	1,880
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	284	590
Loss on Disposition of Assets	101	111
Other	(111)	44
<b>Total Costs That Do Not Require Resources in the Current Period</b>	<b>231,207</b>	<b>62,846</b>
<b>Net Cost (Benefit) of Operations</b>	<b>\$ 355,857</b>	<b>\$ 180,889</b>



## 24. Reclassifications

### **Presentation of New VBA Appropriation Fund in the Statement of Net Cost**

Beginning in 2012, Congress appropriated general operating expenditure (GOE) funds directly to VBA for direct and reimbursable costs incurred to support VBA's programs. These appropriated funds are separate from the appropriation for other VA Staff Office support costs.

In 2011, all VA Staff Office support was appropriated within the same budgetary fund. Since Congress has made a clear distinction between funding of general staff office costs and those costs directly attributable to VBA programs, VA has reclassified comparable 2011 direct and reimbursable costs incurred to support VBA's programs that are funded by separate appropriation in 2012 in the Consolidated Statements of Net Cost. The reclassification decreased Gross Cost reported under Indirect Administrative Program Costs and increased Gross Cost reported under Veterans Benefits Administration by \$2.38 billion to conform to the 2012 presentation. There was no other impact on the net position; net cost or budgetary resources reported as a result the reclassification.

Similarly, Note 21 Net Program Costs by Administration has also been adjusted to reflect the effects of the reclassification discussed above. Public Costs reported under Indirect Administrative Program Costs decreased \$1.79 billion and Public Costs reported under Veterans Benefits Administration increased by \$1.79 billion to conform to the 2012 presentation. Intragovernmental Costs reported under Indirect Administrative Program Costs decreased \$0.59 billion and Intragovernmental Costs reported under Veterans Benefits Administration increased by

\$0.59 billion to conform to the 2012 presentation.

### **Accounts Payable**

During 2012, VA identified certain transactions within Other Liabilities that are more appropriately included within Accounts Payable based on Treasury USSGL guidance. The corrections resulted in the reclassification of \$287 million of Intragovernmental Other Liabilities to Intragovernmental Accounts Payable and \$3.80 billion of Public Other Liabilities to Public Accounts Payable for 2011 in the Consolidated Balance Sheet to conform to the 2012 presentation. The reclassifications had no other effect on net position, net costs or budgetary resources in the Consolidated and Combined Financial Statements.

### **Presentation of Change in Veterans Benefits Actuarial Liability in the Statement of Net Cost**

The calculation and presentation of the components of the Reconciliation of Veterans Compensation and Burial Actuarial Liabilities shown in Note 13 were modified for 2012 to more closely align VA's presentation of Veterans Benefits Actuarial Liabilities with other agencies of the Federal Government for improved consistency in government-wide reporting of other post-employment benefits (OPEB). As a result, the 2011 presentation was also modified to conform to the 2012 presentation. The Statements of Net Cost and Note 21 were modified to reflect the revised components, Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions and Changes in Actuarial Liability Assumptions; however, the Net Cost of Operations did not change.

Veterans Benefits Actuarial Costs, Excluding Changes in Actuarial Assumptions is reflected as a component of Net Program Costs within the Statements of Net Cost and includes the captions: Interest on the Liability Balance;



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*Part III - Notes to Consolidated Financial Statements*

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Changes in Experience; Prior Service Costs; and Less Amounts Paid from the table in Note 13.

Changes in Actuarial Liability Assumptions represents the Net (Gain)/Loss from Changes in Assumptions from the table in Note 13 and is presented separately within the Statements of Net Cost as required by SFFAS 33.



VA Office of Inspector General

OFFICE OF AUDITS & EVALUATIONS



# Department of Veterans Affairs

*Audit of VA's  
Consolidated Financial  
Statements for Fiscal  
Years 2012 and 2011*

November 8, 2012  
12-01284-13



**Department of  
Veterans Affairs**

**Memorandum**

**Date:** November 8, 2012  
**From:** Assistant Inspector General for Audits and Evaluations (52)  
**Subj:** Audit of VA's Consolidated Financial Statements for Fiscal Years 2012 and 2011  
**To:** Secretary of Veterans Affairs (00)

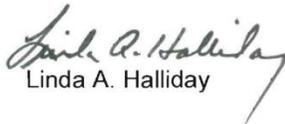
1. We contracted with the independent public accounting firm, CliftonLarsonAllen LLP, to audit VA's consolidated financial statements as of September 30, 2012 and 2011, and for the years then ended. This audit is an annual requirement of the Chief Financial Officers Act of 1990. The results of CliftonLarsonAllen LLP's audit are presented in the attached reports.

2. CliftonLarsonAllen LLP provided an unqualified opinion on VA's fiscal year 2012 and 2011 consolidated financial statements. With respect to internal control, CliftonLarsonAllen LLP identified one material weakness, information technology security controls, which is a repeat condition. They also reported one significant deficiency, undelivered orders, as a partial repeat condition and retitled it from accrued operating expenses. The department has taken corrective actions sufficient to address the reasonable estimation of the accrued operating expenses portion of unpaid obligations and therefore accrued operating expenses have been removed from the significant deficiency for this year. The department has also taken corrective actions sufficient to eliminate one other significant deficiency, loan guaranty reporting, previously cited last year.

3. CliftonLarsonAllen LLP reported that VA did not substantially comply with the Federal financial management systems requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. They also noted instances of non-compliance with the Debt Collection Improvement Act of 1996. They referenced a violation of the Antideficiency Act, as identified by the department, and an Office of Inspector General report citing less than full compliance with the Improper Payments Elimination and Recovery Act. They also noted a potential issue concerning compliance with 38 U.S.C. § 3732 and 38 C.F.R. § 36.4301, and the Loan Guaranty Service has requested a legal opinion on the matter from VA's Office of General Counsel.



4. CliftonLarsonAllen LLP is responsible for the attached audit reports dated November 8, 2012, and the conclusions expressed in the reports. We do not express opinions on VA's financial statements, internal control, or compliance with FFMI. We also do not 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 fiscal year 2013 audit of VA's consolidated financial statements.

  
Linda A. Halliday

Attachments



CliftonLarsonAllen LLP  
www.cliftonlarsonallen.com

### Independent Auditor's Report

To the Secretary  
and Inspector General  
Department of Veterans Affairs

We have audited the accompanying consolidated balance sheets of the Department of Veterans Affairs (VA) as of September 30, 2012 and 2011, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the years then ended. These financial statements are the responsibility of VA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VA as of September 30, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 8, 2012, on our consideration of VA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or compliance. Those reports are an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the U.S. and OMB 07-04, as amended, require that VA's Management's Discussion and Analysis (MD&A), Required Supplementary Stewardship Information (RSSI), and Required Supplementary Information (RSI), be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board who 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



MD&A, RSSI and RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

All other information exclusive of the consolidated financial statements, MD&A, RSSI and RSI listed in the table of contents is presented for additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

*CliftonLarsonAllen LLP*

Calverton, Maryland  
November 8, 2012



CliftonLarsonAllen LLP  
www.cliftonlarsonallen.com

### Independent Auditor's Report on Internal Control Over Financial Reporting

To the Secretary  
and Inspector General  
Department of Veterans Affairs

We have audited the financial statements of the Department of Veterans Affairs (VA) as of and for the year ended September 30, 2012, and have issued our report thereon dated November 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

VA management is responsible for designing, implementing, and maintaining internal control to provide reasonable assurance that the broad control objectives of Federal Manager's Financial Integrity Act (FMFIA) are met.

In planning and performing our audit, we considered VA's internal control over financial reporting by obtaining an understanding of the design effectiveness of internal controls, determined whether these controls had been placed in operation, assessed control risk, and performed tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of VA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of VA's internal control over financial reporting.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness, and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to



prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control 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 in Section 1 to be a material weakness in internal control over financial reporting.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below in Section 2 to be a significant deficiency.



## SECTION 1 – MATERIAL WEAKNESS

### 1. Information Technology (IT) Security Controls (Repeat Condition)

The 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. Internal controls over these operations are essential to ensure the integrity, confidentiality, and reliability of critical data while reducing the risk of errors, fraud and other illegal acts. Our review of IT controls covered general and selected business process application controls across 22 selected VA medical centers, regional offices and data centers. As noted in prior years' audits, VA continues to have weaknesses in Security Management, Access Controls, Configuration Management and Contingency Planning controls designed to protect mission-critical systems from unauthorized access, alteration, or destruction.

Our current year audit identified security weaknesses that were corrected in some locations and for certain control activities. Examples of VA improvements in its IT control environment include adopting a Continuous Readiness in Information Security Program (CRISP) to ensure continuous monitoring year-round, and establishing a team to oversee the CRISP initiative and resolve the IT material weakness. As part of the CRISP initiative, we noted improvements related to role-based and security awareness training, contingency plan testing, reducing the number of outstanding Plans of Action and Milestones (POA&Ms), developing initial baseline configurations, reducing the number of IT individuals with outdated background investigations, and improving data center web application security. However, the CRISP initiative was not launched until March 2012 and the noted improved processes have not been implemented for an entire fiscal year. Moving forward, VA needs to ensure a proven process is in place to sustain the improvements achieved thus far. VA also needs to continue to address control deficiencies exist in other areas across all VA locations.

We continue to find control deficiencies in Security Management, Access Controls, Configuration Management and Contingency Planning. Most importantly, we continue to identify significant technical weaknesses in databases, servers and network devices that support transmitting financial and sensitive information between VA's Medical Centers, Regional Offices and Data Centers. Many of these weaknesses may be attributed to inconsistent enforcement of an agency-wide information security program across the enterprise and ineffective communication between VA management and the individual field offices. Therefore, VA needs to improve its monitoring process to ensure controls are operating as intended at all facilities and communicate security deficiencies to the appropriate personnel to implement corrective actions.

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.



- Baseline configurations, including implementation of the Federal Desktop Core Configuration, were not consistently implemented to mitigate significant system security risks and vulnerabilities across the facilities.
- Change control policies and procedures for authorizing, testing and approving system changes were not consistently implemented for networks and mission critical system hardware and software.

#### *Access Controls*

- Password standards were not consistently implemented and enforced across multiple VA systems, including the network domain, databases, and key financial applications. In addition, multi-factor authentication for remote access had not been implemented across the agency.
- Inconsistent reviews of networks and financial application user access resulted in numerous generic, system, and inactive user accounts that were not removed from the system, and users with access rights that were not appropriate.
- Proper completion of user access requests were not consistently performed to eliminate conflicting roles and enforce principles of least system privilege.
- Lack of monitoring of access in the production environment for individuals with elevated application privileges for a major application.

#### *Security Management*

- Security management documentation, including the risk assessments and system security plans were outdated and did not accurately reflect the current system environment or federal standards.
- The Regional Office General Support Systems (GSS) did not conduct a timely security impact analysis prior to a major file system structure change.
- Background reinvestigations were not performed timely and tracked effectively. In addition, personnel were not receiving the proper level of investigation for their sensitivity levels of their positions.
- Scheduled completion dates for POA&Ms were updated without written justification and supporting documentation was not adequate to justify POA&M closures.

#### *Contingency Planning*

- Contingency plan documentation had not been updated to reflect lessons learned from the contingency and disaster recovery tests, and detailed recovery procedures for all system priority components had not been documented and/or did not reflect current operating conditions.
- Backup tapes were not encrypted prior to being sent to offsite storage at selected facilities and data centers.

#### **Criteria:**

OMB Circular A-130, Appendix III, *Security of Federal Automated Information Resources*, states that "Agencies shall implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications."



The Federal Information Security Management Act of 2002 (FISMA) requires that each agency 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;
- Security awareness training to inform personnel of the information security risks associated with their activities and their responsibilities in complying with organizational policies and procedures designed to reduce these risks;
- 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 no less than annually;
- A process of 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 in applications have impacted facilities and management's ability to consistently remediate IT security deficiencies across the VA enterprise. For example, VA's complex and disjointed financial system architecture has resulted in a lack of common system security controls and inconsistent maintenance of IT mission critical systems. Consequently, VA continues to be challenged with consistent and proactive enforcement of established policies and procedures throughout its geographically dispersed portfolio of legacy applications and newly implemented systems. The continued reorganization of components within the VA, such as centralization of the data centers and shift of control from the Medical Center level to the Veterans Integrated Service Network (VISN) and region levels and from the Regional Office level to the Network Service Center level, has caused delays in communicating established policies with personnel throughout the VA. In addition, VA lacks an effective and consistent corrective action process for identifying, coordinating, correcting, and monitoring known internal security vulnerabilities on databases, web applications, and networks infrastructures.

**Effect:**

By not effectively implementing and enforcing IT policies and procedures, there is an increased risk that financial and personally identifiable information may be inadvertently or deliberately misused and may result in improper disclosure or theft without detection. Additionally, inappropriate or unnecessary changes may be made to key financial information systems, which could result in materially misstated financial information.



**Recommendations:**

The Assistant Secretary for 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:

- Consistent with CRISP objectives, implement improved mechanisms to continuously identify and remediate security deficiencies on VA's network infrastructure, database platforms, and Web application servers.
- Implement an improved patch and vulnerability management program to address security deficiencies identified during our assessments of VA's Web applications, database platforms, and network infrastructure.
- Implement improved processes to ensure that workstations are consistently patched, updated and configured to minimize security risks and are in compliance with Federal Desktop Core Configuration requirements.
- Implement improved control procedures to ensure the consistent approval and testing during development and application of system changes to VA financial applications and networks.
- Implement improved processes for the periodic review of network and financial applications to identify and remove generic and inactive accounts on systems and networks. Recertify that access remains appropriate and is restricted to necessary personnel.
- Implement improved processes to ensure the proper completion and retention of the user access request forms that enforce principles of least system privilege, prior to system access being granted.
- Implement monitoring controls of access in production environment for individuals with elevated system privileges.
- Implement improved processes to ensure compliance with VA policy for password and security configuration baselines on the domain controls, operating systems, databases, applications and network devices.
- Implement two-factor authentication for remote access throughout the agency.
- Implement improved processes for reviewing and updating key security documentation, including risk assessments and system security plans on an annual basis. Such updates will ensure all required information is included and accurately reflects the current environment, new security risks, and applicable federal standards.
- Implement processes to ensure security impact assessments are completed in a timely manner when significant system changes occur.
- Implement processes to ensure that facilities track reinvestigations for employees and contractors in high risk positions and the Security Investigation Center (SIC) initiates all reinvestigations in a timely manner. Additionally, implement processes for facilities to accurately and timely report any changes in position sensitivity levels and ensure the position descriptions are appropriately marked for position risk and sensitivity levels in accordance with the OPM Position Designation Automation Tool (PDAT).
- Implement improved processes to ensure that closed POA&Ms are adequately supported with appropriate documentation. In addition, implement processes to ensure adequate justification is documented for updating POA&M completion dates.
- Implement improved processes for annual or as needed review and update of contingency plans to ensure all required information is included and accurately represents the current environment and critical components.
- Develop and implement a process for ensuring the encryption of backup data prior to transfer offsite.



## SECTION 2 – SIGNIFICANT DEFICIENCY

### 1. Undelivered Orders (Partial Repeat Condition)

#### **Condition:**

##### *Liquidation of Obligations*

VA obligates its budgetary resources when it enters into a binding legal agreement, such as a contract with a third party. At the end of the agreement period, any previously obligated but undisbursed amounts (also known as Undelivered Orders or UDOs) associated with completed or cancelled purchase orders or projects should be deobligated, enabling the unused funds to become available for other agency program needs. When the unneeded obligations continue to remain on VA's books, they are considered to be inactive or invalid obligations. During our testing of the UDO balances at September 30, 2012, we noted a number of instances in which the UDO balance should have been deobligated because the goods or services had been received or the amount recorded was subsequently considered invalid and deobligated by management after year-end.

#### **Criteria:**

VA Financial Policies and Procedures Manual, Volume II, Chapter 5, Section 050204 states that, "VA will perform monthly reviews and reconciliations to ensure that open obligations, to include UDOs and delivered unpaid obligations, are valid and appropriate and adjustments are made as necessary."

OMB Circular A-123, *Management Responsibility for Internal Controls*, requires that management be responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

#### **Cause:**

Management did not actively monitor and implement the financial close-out of the completed projects after the goods/services had been provided. According to VA management, the outstanding obligation cannot be closed out until the contract is officially reviewed and closed by the Contracting Office. The office administering the contract should close out a contract consistent with Federal Acquisitions Regulations Part 4. 804 Closeout of Contract files. However, management did not make the necessary estimates if its contract administration in the normal course of business does not provide for the transactions to be recorded and reported in accordance with generally accepted accounting principles at period-end.

#### **Effect:**

Without an effective review and validation process, VA's estimates of its UDOs may be significantly misstated. The accompanying financial statements have not been corrected for the effect of these errors. We were able to perform sufficient testing to ensure the net impact of these errors was not material to the financial statements as a whole.



**Recommendations:**

We recommend that VA management:

- Implement VA's recent Financial Policies and Procedures Obligations Policy issued in September, 2012 requiring monthly reviews and reconciliations of obligations recorded in FMS to ensure the accounting information is valid and proper; dollar amounts accurately reflect the status of the obligation; time frame for the obligation is valid; obligations are reconciled to source documents; and aged obligations are valid and recorded correctly. In addition, the procedures should include a reconciliation of the obligations recorded in the medical centers' general ledger to the purchase orders placed by the National Acquisition Center (NAC) with third party vendors.
- Implement controls to ensure that NAC and the medical centers personnel work jointly and collaboratively to review and monitor inactive projects and open obligations. The status of all such projects and obligations reviewed, including the general ledger entries resulting from such reviews, should be determined and conclusions documented quarterly. Management should also ensure that completed projects and deliveries of equipment are being timely communicated, properly reviewed and reconciled to facilitate the timely close out of projects, the liquidation of unexpended obligations, and the accurate financial accounting and reporting for such business events in the general ledger.
- Revise VA's procurement and contracting policies and procedures to clearly outline what is considered a reasonable timeframe between the following: 1) obligation of funds, 2) procurement action and contract award, and 3) anticipated delivery/completion dates. Policies and procedures should also include directives on how to adequately monitor and ensure the timely closeout of contracts based on the receipt of contracted deliverables and the period of performance in the contract.
- Where timely contract close out is not achievable at period-end, an estimation methodology should be established to ensure the reasonableness of the UDO balance included in the financial statements.

**STATUS OF PRIOR YEAR'S CONTROL DEFICIENCIES**

As required by *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have reviewed the status of VA's corrective actions with respect to the findings and recommendations included in the prior year Independent Auditor's Report on Internal Control over Financial Reporting dated November 10, 2011.

The prior year report identified a material weakness in the area of Information Technology Security Controls. While VA has made progress on this material weakness, it is repeated as a material weakness this year.

**AGENCY COMMENTS AND OUR EVALUATION**

In commenting on a draft of this report VA management concurred with the facts and conclusions in our report. We did not audit VA's response and, accordingly, we express no opinion on it.



\*\*\*\*\*

We also noted certain other nonreportable matters involving internal control over financial reporting that we will communicate in a separate letter to VA management.

This report is intended solely for the information and use of the management of VA, the VA Office of Inspector General, the Government Accountability Office, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*

Calverton, Maryland  
November 8, 2012



CliftonLarsonAllen LLP  
www.cliftonlarsonallen.com

### Independent Auditor's Report on Compliance and Other Matters

To the Secretary  
and Inspector General  
Department of Veterans Affairs

We have audited the financial statements of the Department of Veterans Affairs (VA) as of and for the year ended September 30, 2012, and have issued our report thereon dated November 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The management of VA is responsible for complying with laws and regulations applicable to the VA. As part of obtaining reasonable assurance about whether VA's financial statements are free of material misstatements, we performed tests of VA's compliance with certain provisions of laws and regulations, non-compliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 07-04, as amended. We limited our tests of compliance to those provisions and we did not test compliance with all laws and regulations applicable to VA. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

Except as discussed below, the results of our tests of compliance with laws and regulations described in the preceding paragraph disclosed no instances of reportable noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin 07-04, as amended.

The management of VA is also responsible for ensuring that VA's financial management systems substantially comply with the Federal Financial Management Improvement Act of 1996 (FFMIA). Under FFMIA, we are required to report whether the financial management systems used by VA substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The objective of our audit was not to provide an opinion on compliance with FFMIA. Accordingly, we do not express such an opinion. However, except for matters described below, where VA did not substantially comply with applicable Federal financial management systems requirements, the results of our work disclosed no other instances in which VA's financial management systems did not substantially comply with Federal accounting standards and the United States SGL at the transaction level.



## 1. Non-compliance with FFMIA

### Financial Management Systems

We have concluded that VA's financial management systems do not substantially comply with the Federal financial management systems requirements as required by FFMIA Section 803(a) for the following reasons:

- As reported in our report on internal control over financial reporting, VA has a material weakness over "Information Technology (IT) Security Controls." This is a repeat finding.
- Although VA has made significant progress in remediating significant deficiencies, VA has one significant deficiency in internal control over financial reporting, which is a partial repeat finding.
- VA's complex and disjointed financial system architecture has resulted in a lack of common system security controls and inconsistent maintenance of IT mission critical systems. Consequently, VA continues to be challenged with consistent and proactive enforcement of established policies and procedures throughout its geographically dispersed portfolio of legacy applications and newly implemented systems. As a result, certain financial statement line items may not be readily re-created and supported by audit trails of detailed financial transactions. Not all current systems can be readily accessed and used without extensive manipulation, and manual processing and reconciliation. Some examples of issues we found include:
  - VA is not properly recording recoveries or downward adjustments because the Financial Management System (FMS) limits the total apportionment authority that can be recorded to the amount of appropriations received. Further, FMS is not currently programmed to separately identify and report recoveries and is not recording the apportionment, allotment, suballotment and distribution of recovered funds.
  - The Benefits Delivery Network (BDN) system is not designed to keep a complete history of education benefit related transactions. Detail transaction data on Chapter 34 and 35 education benefit expense could not be retrieved.
  - The fixed asset system (FAS) can not readily provide reports on additions, deletions or current depreciation to support effective and efficient reconciliation of account balances and the investigation of discrepancies.
  - The Veterans Health Information Systems & Technology Architecture (VistA) does not provide VA management with the ability to effectively and efficiently monitor Medical Care Collection Fund (MCCF) activities at the transaction level. Although billing and collection functions have been centralized at the Consolidated Patient Accounting Centers (CPACs) to achieve better revenue cycle management and improve VA's internal controls and quality assurance over its revenue processes, CPAC personnel cannot generate combined reports for all the facilities under their purview. Reports must be separately generated for individual medical facilities, which lead to inefficiencies in operations and financial management. Further, a nationwide report at a sufficient level of detail cannot be generated to aggregate the MCCF transactions residing in the multiple instances of VistA used throughout VA.



## 2. Non-compliance with Debt Collection Improvement Act

### **Condition:**

We tested various sample transactions for compliance with the Debt Collection Improvement Act of 1996 (DCIA), and noted the following exceptions:

- Interest and administrative costs are required to be charged to VA's delinquent debtors. The rates are determined by the Treasury on a yearly basis. However, for 88 sample items out of a total of 90 sample selections tested, VBA did not charge interest or administrative costs on delinquent payments from veterans related to certain receivables for Compensation, Pension, and Education.

### **Criteria:**

Public Law 96-466 and Title 38 U.S.C § 501(a) and §5315, and 38 CFR 1.919 require VA to charge interest and administrative costs on any amount owed to the United States.

### **Cause:**

This has been a long standing issue and is based on a former VA Deputy Secretary's instruction in July 1992 that VA not charge interest or administrative costs on veteran debts.

### **Effect:**

VA is noncompliant with the Debt Collection Improvement Act of 1996.

### **Recommendation:**

We recommend that VA:

- Implement policies and procedures to assess applicable interest and administrative costs or propose a legislative remedy to request a waiver of these requirements.

### **Other Matters**

- In 2012, VA identified a violation of the Antideficiency Act, 31 U.S.C. 1341(a), concerning the combination of two minor construction projects into one major construction project that did not have the required Congressional approval. This incident occurred at the Miami VA Medical Center. VA is in the process of reporting the violation as prescribed by OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*.
- The VA Office of Inspector General, in a report dated March 14, 2012, reported that VA did not fully comply with the Improper Payments Elimination and Recovery Act, (IPERA), 31 U.S.C. 3321.
- During our testing of VA's foreclosed property acquired by the Loan Guaranty Service (LGY), we identified a potential issue of non-compliance concerning VA's "cost factor." VA uses the cost factor in calculating the amount it will pay lenders when it accepts



conveyance of foreclosed properties resulting from defaulted guaranteed loans. VA uses the cost factor to estimate VA's acquisition and disposal costs (including losses sustained on resale), which are then deducted from a property's fair market value, consistent with 38 U.S.C. § 3732 and 38 C.F.R. § 36.4301. VA has been using the current cost factor of 11.87% for several years, including through the recent housing crisis, and did not use its most recent calculation for 2012, which was significantly higher. LGY management has relied on broad authority, as outlined in 38 USC 3720, as providing them authority to determine whether or not to use the most recent cost factor calculation. LGY has requested an opinion on this matter from VA's Office of General Counsel.

\*\*\*\*\*

This report is intended solely for the information and use of the management of VA, the VA Office of Inspector General, the Government Accountability Office, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*

Calverton, Maryland  
November 8, 2012



**Department of  
Veterans Affairs**

**Memorandum**

Date: **NOV 08 2012**

From: Executive in Charge, Office of Management, and Chief Financial Officer (004)

Subj: Report of the Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Years 2012 and 2011

To: Assistant Inspector General for Auditing (52)

1. The Office of Management has reviewed the Report of the Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Years 2012 and 2011, and we are pleased with the receipt of an unqualified opinion. We are also pleased to have met the 2012 reporting timeline established by the Office of Management and Budget. Please extend to your staff and the staff of CliftonLarsonAllen, LLP our appreciation for their detailed planning, hard work, and cooperation during this year's audit.

2. VA senior officials and program managers in the Administrations and affected staff offices are aware of the unqualified audit opinion. As a result of the dedicated efforts of staff throughout the Department, only one material weakness remains. We will continue to focus on completing corrective actions as detailed in the remediation plans for the remaining material weakness, Information Technology (IT) Security Controls. For this repeat material weakness, the existing remediation plan will be revised and expanded, as needed, to address the findings and recommendations in your audit report.

3. Thank you again for your efforts in another successful conclusion of the audit cycle.

  
W. Todd Grams



## Required Supplementary Stewardship Information (Unaudited)

(dollars in millions, unless otherwise noted)

### 1. Non-Federal Physical Property

Annually, VA provides funding to state governments for the purchase, construction, or major renovation of physical property owned by

the state. In most cases these grant programs involve matching funds from the states.

Grant Program Costs					
Years Ended September 30,	2012	2011	2010	2009	2008
State Extended Care Facilities	\$ 66	\$ 54	\$ 242	\$ 163	\$ 162
Veterans Cemeteries (NCA)	47	44	49	40	37
<b>Total Grant Program Costs</b>	<b>\$ 113</b>	<b>\$ 98</b>	<b>\$ 291</b>	<b>\$ 203</b>	<b>\$ 199</b>

The Extended Care Facilities Grant Program assists states in acquiring facilities to provide domiciliary, nursing home, and other day health care for Veterans, and to expand, remodel, or alter existing buildings to provide domiciliary, nursing home, hospital, and day health care for Veterans in state homes. VA participates in two grant-in-aid programs for states. VA may participate in up to 65 percent of the cost of construction or acquisition of state nursing homes or domiciliaries or in renovations of existing state homes. Over the last five fiscal years, the State Home Construction Grant Program has awarded grants in excess of \$687 million. VA also provides per diem payment for the care of eligible Veterans in state homes.

Since, the cemetery program was established in 1980, VA has awarded grants totaling more

than \$530 million to 42 states, four tribal organizations and three territories. The program provides up to 100 percent of the cost to establish, expand, or improve state or tribal Veterans cemeteries. State or tribal organizations provide the land and agree to operate the cemeteries.

### 2. Human Capital

Investment in human capital is comprised of expenses for education and training programs for the general public that are intended to increase or maintain national economic productive capacity. It does not include expenses for internal Federal education and training of civilian employees.



Part III - Required Supplementary Stewardship Information

**Veterans and Dependents Education**

Years Ended September 30,

	2012	2011
<b>Program Expenses</b>		
Education and Training-Dependents of Veterans	\$ 444	\$ 567
Vocational Rehabilitation and Education Assistance	11,727	11,259
Administrative Program Costs	389	370
<b>Total Program Expenses</b>	<u>\$ 12,560</u>	<u>\$ 12,196</u>
<b>Program Outputs (Participants)</b>		
Dependent Education	94,618	96,078
Veterans Rehabilitation	85,436	81,097
Veterans Education	871,188	822,808

**Veterans and Dependents Education**

Years Ended September 30,

	2010	2009
<b>Program Expenses</b>		
Education and Training-Dependents of Veterans	\$ 477	\$ 464
Vocational Rehabilitation and Education Assistance	9,031	4,393
Administrative Program Costs	348	304
<b>Total Program Expenses</b>	<u>\$ 9,856</u>	<u>\$ 5,161</u>
<b>Program Outputs (Participants)</b>		
Dependent Education	81,974	82,345
Veterans Rehabilitation	77,176	72,803
Veterans Education *	634,038	822,738

\*Due to the implementation of the new Post 9/11 GI Bill during 2009, total participants in the Veterans Education Program for 2009 may include two records for a single participant who switches from the Montgomery GI Bill (MGIB) to the Post-9/11 GI Bill mid-year.



**Veterans and Dependents Education**

Years Ended September 30,

	<b>2008</b>
<b>Program Expenses</b>	
Education and Training-Dependents of Veterans	\$ 451
Vocational Rehabilitation and Education Assistance	3,102
Administrative Program Costs	<u>251</u>
<b>Total Program Expenses</b>	<u><u>\$ 3,804</u></u>
<b>Program Outputs (Participants)</b>	
Dependent Education	80,409
Veterans Rehabilitation	68,826
Veterans Education	459,594

**Program Outcomes**

VA's education and training programs are intended to provide higher education to dependents that might not be able to participate otherwise. Veterans' rehabilitation and employment programs are provided to service-disabled Veterans; they are designed to improve employability and promote independence for the disabled. Educational programs for active duty personnel, reservists, and Veterans provide higher education assistance to those who are eligible under the new Post-9/11 GI Bill, MGIB and the Veterans Educational Assistance Program. Education and training assistance is provided to dependents of

Veterans who died of service-connected disability or whose service-connected disability was rated permanent and total. The Vocational Rehabilitation and Employment program provides evaluation services, counseling, and training necessary to assist Veterans in becoming employable and maintaining employment to the extent possible. The program is open to Veterans who have a 10 percent or greater service-connected disability rating and are found to have a serious employment handicap. The Veterans Education program provides educational assistance to eligible Servicemembers and Veterans, and eligible family members.



### 3. Health Professions Education

#### Health Professions Education

Years Ended September 30,

	2012	2011	2010	2009	2008
<b>Program Expenses</b>					
Physician Residents and Fellows	\$ 663	\$ 637	\$ 584	\$ 547	\$ 508
Associated Health Residents and Students	153	114	113	99	88
Instructional and Administrative Support	851	819	794	707	623
<b>Total Program Expenses</b>	<b>\$ 1,667</b>	<b>\$ 1,570</b>	<b>\$ 1,491</b>	<b>\$ 1,353</b>	<b>\$ 1,219</b>
<b>Program Outputs</b>					
Health Professions Rotating Through VA:					
Physician Residents and Fellows	37,104	36,984	36,600	35,099	34,003
Medical Students	21,502	20,516	21,267	20,567	18,135
Nursing Students	32,349	25,931	33,580	31,380	28,320
Associated Health Residents and Students	25,839	31,869	23,416	22,916	20,946
<b>Total Program Outcomes</b>	<b>116,794</b>	<b>115,300</b>	<b>114,863</b>	<b>109,962</b>	<b>101,404</b>

#### Program Outcomes

VA's education mission contributes to high quality health care of Veterans by providing a climate of scientific inquiry between trainees and teachers; application of medical advances more readily through an academic setting; supervised trainees who provide clinical care; and educational programs that enable VA to recruit highly qualified health care professionals.

The VHA conducts education and training programs to enhance the quality of care provided to Veterans within the VA health care system. Building on the long-standing, close relationships among VA and the Nation's academic institutions, VA plays a leadership role in defining the education of future health care professionals that helps meet the changing needs of the Nation's health care delivery system. Title 38 U.S.C. mandates that VA assist in the training of health professionals for its own needs and those of the Nation. Through its

partnerships with affiliated academic institutions, VA conducts the largest education and training effort for health professionals in the Nation, training over 115,000 individuals each year. Of the 152 VA medical centers and the 6 independent outpatient clinics (IOCs), 124 hospitals and 3 IOCs are affiliated with 114 of the 136 allopathic medical schools and 15 of the 26 osteopathic medical schools. In addition, more than 40 other health professions are represented by affiliation agreements with more than 1,800 colleges and universities. Many have their health profession degrees and contribute substantially to VA's ability to deliver cost-effective and high-quality patient care during their advanced clinical training at VA.



#### 4. Research and Development (R&D)

Investments in research and development comprise those expenses for basic research, applied research, and development that are

intended to increase or maintain national economic productive capacity or yield other benefits.

Program Expense Year Ended September 30, 2012				
	Basic	Applied	Development	Total
Medical Research Service	\$ 191.0	\$ 92.0	\$ -	\$ 283.0
Rehabilitative Research and Development	6.7	52.0	36.6	95.3
Health Services Research and Development	-	88.6	-	88.6
Cooperative Studies Research Service	40.4	75.2	-	115.6
Medical Research Support	-	581.0	-	581.0
<b>Total Program Expenses</b>	<b>\$ 238.1</b>	<b>\$ 888.8</b>	<b>\$ 36.6</b>	<b>\$ 1,163.5</b>

Program Expense Year Ended September 30, 2011				
	Basic	Applied	Development	Total
Medical Research Service	\$ 166.1	\$ 80.0	\$ -	\$ 246.1
Rehabilitative Research and Development	8.7	68.6	47.4	124.7
Health Services Research and Development	-	85.3	-	85.3
Cooperative Studies Research Service	43.2	80.3	-	123.5
Medical Research Support	-	579.8	-	579.8
<b>Total Program Expenses</b>	<b>\$ 218.0</b>	<b>\$ 894.0</b>	<b>\$ 47.4</b>	<b>\$ 1,159.4</b>

Program Expense Year Ended September 30, 2010				
	Basic	Applied	Development	Total
Medical Research Service	\$ 202.9	\$ 97.5	\$ -	\$ 300.4
Rehabilitative Research and Development	6.4	50.6	35.0	92.0
Health Services Research and Development	-	91.0	-	91.0
Cooperative Studies Research Service	34.0	63.6	-	97.6
Medical Research Support	-	581.0	-	581.0
<b>Total Program Expenses</b>	<b>\$ 243.3</b>	<b>\$ 883.7</b>	<b>\$ 35.0</b>	<b>\$ 1,162.0</b>



*Part III - Required Supplementary Stewardship Information*

**Program Expense  
Year Ended September 30, 2009**

	<b>Basic</b>	<b>Applied</b>	<b>Development</b>	<b>Total</b>
Medical Research Service	\$ 164.4	\$ 89.6	\$ -	\$ 254.0
Rehabilitative Research and Development	5.6	42.7	32.7	81.0
Health Services Research and Development	-	80.0	-	80.0
Cooperative Studies Research Service	33.3	61.7	-	95.0
Medical Research Support	-	510.0	-	510.0
<b>Total Program Expenses</b>	<b>\$ 203.3</b>	<b>\$ 784.0</b>	<b>\$ 32.7</b>	<b>\$ 1,020.0</b>

**Program Expense  
Year Ended September 30, 2008**

	<b>Basic</b>	<b>Applied</b>	<b>Development</b>	<b>Total</b>
Medical Research Service	\$ 155.3	\$ 84.7	\$ -	\$ 240.0
Rehabilitative Research and Development	4.8	36.6	28.0	69.4
Health Services Research and Development	-	76.7	-	76.7
Cooperative Studies Research Service	32.9	61.0	-	93.9
Medical Research Support	-	411.0	-	411.0
<b>Total Program Expenses</b>	<b>\$ 193.0</b>	<b>\$ 670.0</b>	<b>\$ 28.0</b>	<b>\$ 891.0</b>

In addition, VHA researchers received grants from the National Institutes of Health in the amount of \$457 million and \$254 million in other grants during 2012. These grants went directly to researchers and are not considered part of the VA entity. They are being disclosed here but are not accounted for in the financial statements.



**Program Outputs/Outcomes**

For 2012, VA's R&D general goal related to stewardship was to ensure that VA's Pre-clinical Research and Clinical Research Program (excluding CSP) met the needs of the Veteran population and contributed to the Nation's knowledge about disease and disability. Target

levels were established for the: (1) percent of funded research projects relevant to VA's health-care mission in designated research areas and (2) number of research and development projects. Strategies were developed in order to ensure that performance targets would be achieved.

**Research and Development Measures-Actual**

Years Ended September 30,

	2012	2011	2010	2009	2008
Percent of Funded Research Projects Relevant to VA's Health-Care Mission	100.0%	100.0%	100.0%	100.0%	100.0%
Number of Research and Development Projects	2,249	2,200	2,350	2,193	1,956

VA's Pre-clinical Research and Clinical Research Program's (excluding CSP) goal is to be the premier research organization, leading our Nation's efforts to discover knowledge and create innovations that promote and advance the health and care of Veterans and the Nation. To achieve this goal, VA targets research

projects that address special needs of Veteran patients and balance research resources among basic and applied research to ensure a complementary role between the discovery of new knowledge and the application of these discoveries to medical practice.



## Required Supplementary Information (Unaudited)

(dollars in millions, unless otherwise noted)

### 1. Deferred Maintenance and Repairs

The Federal Accounting Standards Advisory Board (FASAB) issued SFFAS No. 40, *Definitional Changes to Deferred Maintenance; Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment*, effective for periods after September 30, 2011. This standard clarifies that repair activities should be included to better reflect asset management practices, and improve reporting on 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, 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 repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading 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 which include VHA, VBA, NCA, and Indirect Administrative Program Costs. It is VA 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 Surveys, which are inspections of property, plant and equipment based on generally accepted methods and standards consistently applied, to assign condition ratings and estimate costs for each fixed asset to correct deficiencies. The costs assigned "D" (poor) and "F" (critical) ratings, qualify for reporting as deferred maintenance and repairs.

#### Deferred Maintenance and Repairs

As of September 30,	2012	2011
General PP&E	\$ 5,911	\$ 5,719
Heritage Assets	740	698
<b>Total Deferred Maintenance and Repairs</b>	<b>\$ 6,651</b>	<b>\$ 6,417</b>



2. Schedule of Budgetary Activity Year Ended September 30, 2012

	Total Budgetary Resources	Obligations Incurred	Spending Authority from Offsetting Collections and Adjustments	Obligated Balance Net, Oct. 1	Obligated Balance Net, Sept. 30	Total Outlays
<b>Veterans Health Administration</b>						
Medical Admin 0152	\$ 5,682	\$ 5,327	\$ 38	\$ 893	\$ 894	\$ 5,288
Medical Care 0160	43,776	42,715	178	5,139	7,477	40,199
Medical Facilities 0162	5,503	5,390	19	3,128	3,185	5,314
Information Technology 0167	3,317	3,182	67	1,785	1,634	3,266
All Other	6,468	3,057	405	2,984	3,029	2,607
<b>Total</b>	<b>\$ 64,746</b>	<b>\$ 59,671</b>	<b>\$ 707</b>	<b>\$ 13,929</b>	<b>\$ 16,219</b>	<b>\$ 56,674</b>
<b>Veterans Benefits Administration</b>						
Compensation, Pension, & Burial Benefits 0102	\$ 64,168	\$ 59,167	\$ -	\$ 278	\$ 4,691	\$ 54,754
Readjustment Benefits 0137	13,695	11,140	365	100	545	10,330
Direct Loan Financing 4127	389	301	1,070	7	-	(762)
Guaranteed Loan Financing 4129	6,284	2,495	3,054	279	306	(586)
National Service Life Insurance Fund 8132	1,157	1,156	177	1,181	1,089	1,071
All Other	8,356	5,924	2,141	1,045	907	3,921
<b>Total</b>	<b>\$ 94,049</b>	<b>\$ 80,183</b>	<b>\$ 6,807</b>	<b>\$ 2,890</b>	<b>\$ 7,538</b>	<b>\$ 68,728</b>
<b>National Cemetery Administration</b>						
<b>Total</b>	<b>\$ 321</b>	<b>\$ 302</b>	<b>\$ 3</b>	<b>\$ 178</b>	<b>\$ 194</b>	<b>\$ 283</b>
<b>Indirect Administrative Program Costs</b>						
General Operating Expenses 0151	\$ 2,465	\$ 2,381	\$ 376	\$ 542	\$ 403	\$ 2,144
Supply Fund 4537	1,949	1,127	1,296	(279)	(513)	65
All Other	(943)	(1,000)	508	(443)	(216)	(1,735)
<b>Total</b>	<b>\$ 3,471</b>	<b>\$ 2,508</b>	<b>\$ 2,180</b>	<b>\$ (180)</b>	<b>\$ (326)</b>	<b>\$ 474</b>
<b>Total of all Administrations</b>	<b>\$ 162,587</b>	<b>\$ 142,664</b>	<b>\$ 9,697</b>	<b>\$ 16,817</b>	<b>\$ 23,625</b>	<b>\$ 126,159</b>



## Summary of Financial Statement Audit and Management Assurances

The following tables provide a summary of audit-related or management-identified material weaknesses and the non-compliance with FFMIA and Federal financial management system requirements outlined in the 2012 Performance and Accountability Report. The title of each material weakness is consistent throughout this section and in the entire document. The material weakness and the associated remediation plan is the same as the audit-related material weakness.

During 2012, VA continued its remediation plans to correct the one material weakness identified in prior years for "Information Technology (IT) Security Controls." As of September 30, 2012, VA continues to report this material weakness.

No new material weaknesses were found in the design or operation of internal controls during 2012 as a result of VA's annual assessment of internal control over financial reporting, operations, laws and regulations, and financial management systems requirements in accordance with FMFIA sections 2 and 4. Under FFMIA Section 803(a) for 2012, VA reported non-compliance with Federal financial management system requirements related to the material weakness for "Information Technology (IT) Security Controls". VA also reported non-compliance with Federal accounting standards related to the Debt Collection Improvement Act.

**Table 1 - Summary of Financial Statement Audit**

Audit Opinion	<b>Unqualified</b>				
Restatement	<b>No</b>				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
IT Security Controls	✓				✓
<i>Total Material Weaknesses</i>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>

**Table 2 - Summary of Management Assurances**

<b>Effectiveness of Internal Control over Financial Reporting (FMFIA – 2)</b>						
Statement of Assurance	<b>Unqualified</b>					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Total Material Weaknesses</i>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Effectiveness of Internal Control over Operations (FMFIA – 2)</b>						
Statement of Assurance	<b>Unqualified</b>					



Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Total Material Weaknesses</i>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Conformance with Financial Management System Requirements (FMFIA – 4)</b>						
Statement of Assurance	<b>Conform except for the non-conformance findings below</b>					
Material Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IT Security Controls *	✓					✓
<i>Total Material Non-Conformances</i>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>Compliance with Federal Financial Management Improvement Act (FFMIA)</b>						
	Agency			Auditor		
Overall Substantial Compliance	<b>No</b>			<b>No</b>		
1. System Requirements	<b>No</b>					
2. Accounting Standards	<b>Yes</b>					
3. USSGL at Transaction Level	<b>Yes</b>					

\*Note: Material weaknesses and their associated remediation plans are the same as audit-related material weaknesses.



## Schedule of Spending (Unaudited)

The Schedule of Spending (SOS) presents an overview of how and where VA is spending money. The data used to populate this schedule is the same underlying data used to populate the SBR. The SOS presents total budgetary resources, gross outlays, and fiscal year to date total obligations for the reporting entity.

The budgetary information in this schedule is presented on a combined basis consistent with the account-level information presented on the Report on Budget Execution and Budgetary Resources (SF-133) and the SBR. Consolidation, which involves line by line elimination of inter entity balances is not permitted for this schedule.

Credit reform financing accounts are material to VA's financial statements, therefore the budgetary accounts and non-budgetary credit reform accounts are presented separately similar to the presentation in the SBR.

As some of the implementation and reporting details of the SOS are still being developed, OMB has directed the schedule be included in Other Accompanying Information to permit VA to explore the optimal means of implementation and reporting. Comparative schedules are not required for 2012; however, comparative schedules will be required starting in 2013.

The SOS is presented in two sections as required for CFO Act agencies in 2012. The first section is entitled "What Money is Available to Spend?" This section of the SOS presents total budgetary resources that were available to spend reconciled to obligations incurred as shown in the Status of Budgetary Resources section of the SBR.

The second section is entitled "How was the Money Spent?" This section of the SOS presents services or items that were purchased within each VA administration consistent with the SBR and classified by the OMB Budget Object Class (BOC) as defined in Circular No. A-11. The most significant BOCs are presented separately within each VA administration with the remaining BOCs presented in aggregate as "Other" within each administration.

The line items in the second section of the SOS will reconcile to obligations incurred in the SBR. "Total Spending" on the SOS equals "Gross Outlays" in the SBR. "Amounts Remaining to be Spent" on the SOS represent the difference between gross outlays and obligations incurred.

The following table summarizes the Schedule of Spending for the year ended September 30, 2012.



**DEPARTMENT OF VETERANS AFFAIRS**

**SCHEDULE OF SPENDING – UNAUDITED (dollars in millions)  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Budgetary	Non-Budgetary Credit Program
<b>What Money is Available to Spend?</b>		
Total Resources	\$ 155,547	\$ 7,040
Less Amount Available but Not Agreed to be Spent	(12,673)	-
Less Amount Not Available to be Spent	(3,244)	(4,006)
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 139,630</b>	<b>\$ 3,034</b>
<b>How was the Money Spent?</b>		
<i>Veterans Health Administration</i>		
Personnel Compensation and Benefits	\$ 27,529	\$ -
Other Contractual Services	11,580	-
Supplies and Materials	8,784	-
Land and Structures	3,231	-
Equipment	2,058	-
Rent, Communications and Utilities	1,869	-
Grants, Subsidies and Contributions	1,300	-
Other	1,040	-
<i>Veterans Benefit Administration (Including Veterans Benefits, Life Insurance, Housing Credit and Administration)</i>		
Insurance Claims and Indemnities*	53,721	777
Grants, Subsidies and Contributions**	13,329	532
Interest and Dividends	2,817	116
Personnel Compensation and Benefits	1,787	-
Land and Structures	4	1,415
Other Contractual Services	623	144
Other	237	32
<i>National Cemetery Administration</i>		
Personnel Compensation and Benefits	128	-
Other Contractual Services	88	-
Grants, Subsidies and Contributions	28	-
Other	39	-
<i>Indirect Program Administration</i>		
Other Contractual Services	637	-
Personnel Compensation and Benefits	673	-
Supplies and Materials	490	-
Equipment	318	-
Other	286	-
Total Spending	132,596	3,016
Amounts Remaining to be Spent	7,034	18
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 139,630</b>	<b>\$ 3,034</b>

\*Primarily Veterans' pension and disability compensation costs, insurance program costs and loan guaranty program losses.

\*\*Primarily Veterans' educational readjustment benefit programs, special adaptive housing costs and loan subsidy and reestimate costs.



## Improper Payments Elimination and Recovery Act (IPERA) of 2010

### Narrative Summary of Implementation Efforts for 2011 Agency Plans for 2013-2015

The Department of Veterans Affairs (VA) is the second largest Federal agency and has a diverse universe of payment types. It is a balancing act for VA to ensure Veterans and their families continue to receive benefits in a timely manner while making progress towards reducing/preventing improper payments. Due to the agency's highly complex payment environment, it is a challenge to meet previously established reduction targets.

VA has many programs and activities in place to prevent improper payments. These include data matching programs with the Social Security Administration (SSA) and the Internal Revenue Service, recovery auditing, and the implementation of software designed to detect improper payments. Moreover, VA has recently had an analysis conducted by the independent Recovery Accountability and Transparency Board (RATB) with the result of a "six sigma" accuracy rate on a statistically significant sample of Compensation and Pension (C&P) payments where part of the payment is based on beneficiary dependents.

Although much has been accomplished at VA to control improper payments, much more remains to be done. In the 2011 PAR, VA reported \$2.4 billion in improper payments with an overall Improper Payment (IP) rate of 2.65 percent. This was an increase of \$271 million or 1.7 percent over the amounts reported in 2010. While trends are showing the IP rates are continuing to increase, actual IP amounts are decreasing. For 2012, VA estimates a total of

\$2.2 billion in improper payments and an IP rate of 3.4 percent.

In March 2012, VA's OIG completed its review of VA's compliance with IPERA and determined VA is not in compliance. Accordingly, VA made elimination of improper payments its top financial priority. To best support this priority and VA's commitment to comply with IPERA, the Department formed a task force governed by the Chief Financial Officer and senior accountable officials and program managers within VA's Administrations. All are focused on IPERA compliance and identification of root causes of improper payments and corrective actions. Since the OIG report, task force summits have been held to increase our knowledge of improper payments – types of improper payments, what types are avoidable, what types aren't, and root causes. These actions will set the stage for our work in the coming years. During this drive to increase our knowledge, we may initially uncover additional causes of improper payments, but this is unavoidable if we want to fully grasp the extent of the problem and be able to address it.

Beginning in 2012 and continuing in 2013 the group will:

1. Increase knowledge about VA improper payments especially root causes.
2. Focus on ways the Department can eliminate and reduce erroneous payments.
3. Further review the improper payment data and totals to ensure greater accuracy and improve precision.



4. Adequately explain to stakeholders, the causes of VA's improper payments by program to help them better understand VA's payment environment.
5. Determine how to better institutionalize IPERA program activities to achieve objectives.

The group will also review programs and establish achievable improper payment reduction goals to establish corrective action plans and determine if legal and regulatory changes are needed to stop the issuance of improper payments.

At the Administration level, the Veterans Health Administration (VHA) has also dedicated resources towards reducing improper payments. VHA actively works with program managers and field personnel to effectively implement corrective action plans to reduce improper payments and has significantly increased its program oversight designed to identify and prevent improper payments.

In 2012, VHA drove significant reductions in improper payments in its Other Contractual Services, Prosthetics, State Home Per Diem Grants, and Supplies and Materials programs. VHA has also worked aggressively to improve internal controls over its Beneficiary Travel program and Non-VA Care Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA) program. In the Non-VA Care Fee program, VHA worked closely with the Office of Information and Technology to successfully implement software enhancements and has developed process improvements and increased staff training that has positively impacted payment accuracy.

The Veterans Benefits Administration (VBA) formed internal teams to support the elimination of improper payments.

The teams' goals are to accomplish the following:

- Make improvements to VBA programs, and identify and report improper payments.
- Provide recommendations on potential VBA procedural changes that can be implemented to reduce overpayments.
- Provide recommendations for changes in regulations and/or laws that impact VBA programs in an effort to reduce improper payments.

In 2012, VBA further intensified its efforts to reduce improper payments by analyzing reportable programs and existing controls for possible improvements. The Insurance and Loan Guaranty programs, which were reportable in prior years, made considerable improvements. The Insurance program improper payment rate is 0.01 percent due to the high quality work performed by Insurance Specialists and the controls established by the Insurance Service Internal Control Staff (ICS). ICS intensifies traditional management controls (e.g., internal system edits, supervision, performance reviews, and quality control reviews) resulting in improved effectiveness and efficiency. The Loan Guaranty program was below the reportable threshold in 2012.

The National Cemetery Administration (NCA) continued to make elimination of improper payments its priority. NCA has a solid internal control program and has been under IPERA reporting thresholds for a number of years. NCA actively supports the initiative's taskforce. NCA contributes to policy changes that may strengthen VA's approach and support the elimination of improper payments.



**Section I. This section briefly describes the risk assessments performed for the risk-susceptible programs based on OMB’s IPERA guidance thresholds, highlighting changes from last year’s report.**

**VHA**

A risk assessment baseline was established for all 25 VHA programs in 2011. Eighteen programs (totaling \$6.7 billion) were considered to be low risk and are not susceptible to significant improper payments. These programs will be reassessed in 2014. Seven of the 25 programs were determined to be highly susceptible to significant improper payments. The VHA high-risk programs are Beneficiary Travel, CHAMPVA, Non-VA Care Fee, State Home Per Diem Grants, Supplies and Materials, Prosthetics, and Other Contractual Services.

**VBA**

VBA conducted risk assessments of all six Veterans benefit programs to identify areas susceptible to significant improper payments. The predominant risk factor for VBA’s assessment was to consider known program information and the benefit program’s improper payment data reported in 2011. Of

VBA’s six programs, five were considered high risk and one low risk. Compensation and Pension, Education, Vocational Rehabilitation and Employment (VRE), and Insurance were considered to be highly susceptible to the issuance of improper payments. Loan Guaranty was considered to be low risk and not susceptible to significant improper payments.

**NCA**

NCA conducts risk assessments on its Headstone Marker and Graveliner programs annually. In doing so, NCA can ensure there are no instances where the results meet the reporting threshold. All other NCA funds payments generally are for payroll, purchase card transactions, and/or contract payments. NCA has a sound internal control program over its purchase card payments which, at this time, are also at or below the micro purchase level and deemed non reportable.

**Section II. This section briefly describes the statistical sampling process conducted to estimate the improper payment rate for each high-risk program identified, highlighting changes from last year’s report.**

**VHA**

Prior to selecting a statistical sample, VHA received concurrence from OMB on VHA’s sample design, sample size, and measurement methodology for 2012. Data for 2011 was used to ensure an accurate representation of a full year’s data.

VHA used a two-stage sampling methodology for its high risk programs. A matrix was developed for VHA’s operational programs (i.e., Beneficiary Travel, Other Contractual Services, Prosthetics, and Supplies and Materials) to ensure coverage in each program selected for sampling.

In the first stage, VHA used the RATS-STATS statistical software to select eight facilities using the Rao, Hartley, and Cochran sampling selection method. Using this approach, 147 VHA facilities were randomly categorized into eight groups weighted by the total dollar of invoices and then within each group, one facility was selected for review.

Due to their unique processes and complexity, CHAMPVA, Non-VA Care Fee, and the State Home Per Diem Grants programs were sampled using a slightly different approach.



- For the CHAMPVA program, payments are centralized at the VHA Health Administration Center requiring only a simple random sample to be conducted.
- For the Fee program, a separate group of eight medical facilities was selected using the RATS-STATS software. Purchase care auditors along with contractors conducted the reviews.
- For the State Home Per Diem Grants program, 10 State Veterans Homes were selected across 13 medical facilities using the RATS-STATS software.

In the second stage, simple random sampling was used to draw a sample of sufficient size to yield an estimate with a 90 percent confidence level and a margin of error of plus or minus 2.5.<sup>1</sup>

Using this methodology, each payment within a medical facility has an equal probability of being selected from VA's Financial Management System. VHA used the Audit Command Language software to select the second stage sample.

In response to the OIG report on VA's compliance with the IPERA, VHA adjusted the calculation of improper payment rates in 2012 by using sample projected estimates of the total payment values in the denominator instead of the known population total payment values. Also, sampling weights were calculated based on the payment amounts instead of the record counts. Projection results are accomplished by a statistician using the RATS-STATS software.

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<sup>1</sup>VA OIG report dated March 14, 2012, stated that VHA needed larger sample sizes to meet OMB's precision targets of 90 percent confidence level and 2.5 percent margin of error. OMB approved VHA's 2012 sampling methodology prior to the OIG finding. VHA will update the sampling plan in 2013 to fully incorporate OIG's recommendation to pull larger sample sizes to meet OMB's precision targets.

The statistical sampling processes for estimating the VBA high-risk program improper payment rates are detailed below

### VBA

#### **1. Compensation and Pension Services**

There were no changes from 2011 in the estimation and sampling methodologies of improper payments for this program.

VBA's calculation for the estimated improper payment rate, for both the Compensation and Pension programs, is based upon the actual dollar amounts of debt referred to the VA Debt Management Center (DMC) and 50% of the total erroneous payments identified in VBA's Systemic Technical Accuracy Review (STAR) program. The 50% from STAR is the amount of debt assumed to be "written off" due to administrative error; therefore, it is included in the total amount of erroneous payments. The remaining 50% of the debt, identified through the STAR program, is reflected in total debt amounts that are provided by the Debt Management Center (DMC), all of which are included in the total number calculation of VBA improper payments. Debts identified through DMC reports can include erroneous payments spanning multiple years, as in overpayments associated with VA's matching programs.

#### **2. Education Service**

A random sample of existing education claims processed was examined. The sample size was designed with a confidence level of 90 percent with a  $\pm 2.5$  percent confidence interval. The sample size was computed using the following formula:  $SS = Z^2 * (p * q) / C^2$ . A Z value of 1.645 was used to obtain a confidence level of 90 percent, p is the estimated error rate of 8 percent, q= 1-p (92 percent), and c= confidence interval of  $\pm 2.5$  percent. An error rate of no more than 2 percent was expected. However, to ensure a sample size was large enough to meet statistical rigor, an error rate of 8 percent was used in the



event an error rate higher than 2 percent was identified. As a result, a random sample of 319 claims was required to achieve the desired confidence level. As a change from 2011, the Education Service proportionally stratified the sample by benefit type.

### 3. Vocational Rehabilitation and Employment Service (VRE)

To estimate the value of improper payments, all

accounts receivables established during 2011 for the VRE program were considered. VRE reported all payments made due to amended awards for subsistence allowance and reviewed re-entrance awards. It is currently the best available methodology to identify underpayments.

### 4. Insurance Service

The Insurance program conducts 100 percent review of disbursements.

## Section III. This section describes VA's IPERA Corrective Action Plan for each of the identified high-risk programs to reduce the estimated rate and amount of improper payments for each type of root cause of error identified.

Last year VHA incorrectly reported payment errors in the Other Contractual Services program that were attributed to miscoding of cost centers and budget object codes, even though these errors did not result in budgetary or financial misstatements. VHA asserts that the payments in question were made to the proper recipients, in the proper amounts and at the proper times. Therefore, the program should not have been reported in Table 1 of the 2011 PAR. The Other Contractual Services program is being reported in the PAR as it was determined to be a high risk program for IPERA purposes, but was excluded from Table 1 as it did not meet the reporting thresholds of the table.<sup>2</sup>

Additionally, two of the five VBA programs determined susceptible to significant improper payments were evaluated and had estimated improper payments that did not exceed the IPERA and OMB A123, Appendix C reporting thresholds. The VBA Education program had a rate of zero percent with no identified improper

<sup>2</sup> The risk assessment determined the Other Contractual Services program to be potentially susceptible to significant improper payments but after conducting a statistically valid review of sampled payments, VHA determined the program is low risk to improper payments.

payments in the sample testing. VBA attributes the significant improvement in the reduction of improper payments from 2011 to two key factors:

- As VA employees charged with processing Post-9/11 GI Bill benefit claims gained experience, accuracy rates increased.
- A reduction in manual data entries as a result of enhancements to the Long Term Solution (LTS) system used to process Post-9/11 GI Bill benefit claims.

The VBA Insurance program had an improper payment rate of 0.01 percent and \$200 thousand in estimated improper payments.

Other VA high-risk programs with reportable identified errors and corrective action plans are outlined below.

### VHA

#### 1. Beneficiary Travel

VHA identified 47 payments in error totaling \$2,865 resulting in an estimated improper payment rate of 8.72 percent. The root cause of errors identified in the Beneficiary Travel program was the result of:

### **Documentation and Administrative Errors**

Noncompliance with policies and procedures resulted in 78 percent of improper payments in Beneficiary Travel. The majority of these errors were attributed to omission of the beneficiary travel clerk or certifying official's required signatures on VA Form 70-3542D. This error occurred due to lack of oversight on the authorizing and payment end of the process and misunderstanding of program requirements. Seventeen percent of the improper payments resulted from lack of documentation to substantiate the payment. Five percent of improper payments resulted from payments made to recipients for the wrong amount.

### **Corrective Action Plan**

To resolve these issues, VHA is developing a one claims processing solution, and Purchased Care at the Health Administration Center (PC at HAC) is bringing the audit function in-house to be completed by a team of auditors with subject matter expertise located at field sites. This audit team will significantly increase the number of Non-VA Care audits, enhance the communication between purchased care staff and the field sites, and provide a link to the Field Assistance Program to improve standardization of processes, thereby reducing improper payments.

VHA will implement the following actions to ensure greater compliance with program requirements and reduce risk to the organization.

- A robust standardized audit process will be created to support the national collection of results covering all aspects of program operations and payments. Veterans Integrated Service Networks (VISNs) will be responsible for auditing their own facilities and will be required to follow audit procedures that will ensure inter-rater reliability. The full audit program is expected to be established by June 2013.
- Comprehensive standard operating procedures for use in the management of

the Beneficiary Travel Program will be developed and provided to appropriate staff throughout the organization. The expected completion is January 2013.

- Documentation supporting Beneficiary Travel claims is generally available within internal systems. However, as a result of the review, VHA will incorporate additional guidance and training as to where supporting information can be found. VHA will also revise policies and procedures to ensure requests for information and responses regarding agency-wide systems are coordinated and vetted through appropriate national program offices. Implementation will be accomplished by March 2013.
- Due to Congressionally mandated increases in mileage reimbursement rates in late 2008 and increased utilization of VA health care, VA has experienced a dramatic growth in the Beneficiary Travel program that has strained current processes and controls. VHA had identified areas for improvement and has been developing enhanced internal controls and guidance for improved local administration to reduce risk for improper provision of benefits.
- A supplemental tool to the Veterans Health Information Systems and Technology Architecture (Vista) Beneficiary Travel application will be created to help ensure more accurate claims processing by implementing a standardized online mileage determination mechanism. National release of the Dashboard is anticipated by December 2012.
- Regulations will be revised to incorporate legislated program changes and clarify identified areas of potential confusion. VA anticipates publication of proposed rules in 2013.
- Enhancements to electronic travel claims processing system are being developed to address identified system limitations. Changes include improving processing and reporting capabilities, supporting enhanced benefits administration, and decreasing risk



for improper payments. The software is expected to be released in November 2012.

- The implementation of data mining tools for national level reviews based on six potential beneficiary behaviors will be used as the basis for defining and implementing improved reporting and internal controls. The initial tool is scheduled for release by December 2012 with other behaviors to be released as they are fully developed.
- A long term (3-5 years) automated solution is being created to allow self-service and improved electronic travel claims processing from claim to payment. Business rules for this project have been completed, and it is pending IT funding.

## 2. CHAMPVA

VHA identified five payments in error totaling \$153, which resulted in an estimated improper payment rate of 3.42 percent improper payments in the CHAMPVA program. This was a result of:

### Documentation and Administrative Errors

Improper payments were due to the use of incorrect vendor information, or data entry error.

### Verification errors

Improper payments were due to failure to verify other health insurance or beneficiary information.

### Corrective Action Plan

VHA has implemented several corrective actions to ensure greater compliance with program requirements and reduce risk to the organization.

- Standardized audits will be conducted on a regular basis to identify opportunities to improve processes that reduce improper payments.

- Existing VHA capability will be leveraged to establish interfaces for accurate and timely data matches with the Centers for Medicare and Medicaid Services (CMS), DoD, and VBA.
- Automated business rules will be implemented to reduce the amount of manual input. This enhancement will reduce improper payments due to eligibility errors.
- Implementation of Medicare Crossover will continue. This corrective action was first implemented in 2011 and increased electronic claims data receipt by more than 50 percent.

### 3. Non-VA Care Fee

VHA identified 307 payments in error totaling \$69,366, which resulted in an estimated improper payment rate of 12.03 percent. Improper payments in the Non-VA Care Fee program resulted from:

### Documentation and Administrative Errors

Seventy-two percent of improper payments resulted from incorrect application of payment methodologies and use of an incorrect payment schedule to price a claim. Fifteen percent of improper payments resulted from incomplete or missing clinical authorization documentation to approve non-VA services. Twelve percent of improper payments resulted from data entry errors, improper invoicing or coding errors, and errors resulting from incorrect use of the Resource Based Relative Value Scale (RBRVS). Less than one percent of errors occurred as a result of insufficient or missing clinical documentation.

Many of the audit discrepancies can be attributed to the manual nature of claims processing and the current technology. The current decentralized claims processing system, with multiple software products in place, is the root cause of many errors. The Non-VA Care

Fee program has more than 2,000 claims processors distributed across 132 Non-VA Care Fee program processing centers. Given such a working environment, with multiple decentralized software products in place, the direct enforcement and responsibility of ensuring compliance with Non-VA Care Fee policies and procedures is sporadic and problematic.

#### **Corrective Action Plan**

The Healthcare Claims Processing System (HCPS) Project is developing a system which will substantially automate business processes for the payment of Non VA Healthcare claims, strengthening internal controls and significantly reducing improper payments. The project is currently in development and is scheduled to roll out a full production release to a VISN pilot site in December 2014 followed by a national rollout starting in mid-2015.

Additionally, VHA will implement the following actions to ensure greater compliance with program requirements and reduce risk to the organization.

- PC at HAC will assess the recommendations of the National Association of Public Administrators reports and recommend an organizational model that best meets the needs of the Non-VA Care Program.
- Implementation of the Quality Corrective Action Program (QCAP). This internal PC at HAC program is designed to identify quality initiatives through various audit findings and reviews. The QCAP facilitates the development of appropriate corrective action teams and processes, and tracks and trends results with the use of an automated tool. Full implementation is scheduled to be complete by the end of 2012.
- The interim solution, Fee Basis Claims System (FBCS), is a graphical user interface based system that is layered on top of the VistA Fee system. The VistA Fee Application Software was deployed more than 20 years ago and was not designed for the sophistication and volume of claims that VHA is now processing. As a result, VHA has developed a full set of business requirements for a replacement system under the Health Care Efficiency transformational initiative. This initiative will address more timely claims processing, elimination of duplicate payments, and reduction of manual entry and data entry errors.
- In August 2012, PC at HAC commenced with FBCS Optimization in a national rollout. FBCS Optimization is the next stage in a nationwide effort to improve and standardize the processes associated with the use of FBCS for claims processing across VHA in support of the Non-VA Care Program Offices in the field.
- The national implementation of FBCS included an initial three-week training course on FBCS procedures that was provided to site Non-VA Care Fee staff during rollout. Supplemental online training was also provided. Ongoing FBCS training has been incorporated to share any recently installed patches and updates to process changes.
- PC at HAC established a Field Assistance Program in 2011 and expanded it in 2012 to provide enhanced site visits designed to improve local operations by assessing site Non-VA Care claims processes and assisting with the development of effective internal controls. Findings are tracked at all sites to measure trends and identify lessons learned to share with all sites for training course development.
- In conjunction with Central Fee, PC at HAC developed a duplicate payment report, accessed through a user-friendly tool called SnapWeb, which identifies potential improper duplicate payments.
- The Non-VA Care Fee Program Academy is the primary training program provided to VISN and VAMC Fee employees nationwide. The Non-VA Care Fee Program Academy is organized into a four-tiered, progressive level of curriculums designed to improve



performance, enhance internal controls and be in compliance with program policies.

- The National Non-VA Care Fee Program Office (NNPO) intranet site has been expanded to include updated training materials, procedure guides, notices, and FBCS alerts. This information is available to the field to alert staff to any changes and provide status of multiple projects related to Non-VA Care Fee.
- In September 2010, the VHA Chief Business Office (CBO) awarded a contract to conduct additional current year audits for the VHA CBO to do the following:
  - Provide assessment of claims pricing accuracy data.
  - Assess effectiveness of business practices.
  - Develop baseline data for future metrics.

This contract assesses reimbursement of claims paid on behalf of the National Fee Program Office. This assessment is used to determine if the methods for the payment and processing of medical claims are in compliance with the established Fee Program pricing/payment methodologies and procedures.

- In January 2011, a contract was awarded to assist VA in establishing an enhanced program integrity function to reduce fraud, waste, and abuse through implementation of industry standard applications and processes.

#### 4. State Home Per Diem Grants

VHA identified 42 payments in error totaling \$1,680,756, which resulted in an estimated improper payment rate of 4.75 percent. Improper payments in the State Home Per Diem Grants program resulted from:

##### **Documentation and Administrative Errors**

Sixty-four percent of improper payments resulted from lack of documentation to

substantiate the payment. Thirty percent of improper payments resulted from applying an incorrect daily cost of care rate or using the incorrect number of days in a month to calculate the payment. Six percent of improper payments resulted from incomplete documentation where application forms were not being received from the State Home within 10 days of admission, were not being signed by a VA clinical official, were not date stamped and no other documentation was provided to verify authorization. The root causes for improper payments were determined to be a lack of understanding of program requirements by the staff at the VAMC of jurisdiction who were delegated authority to process payments; non-standardized processes and procedures; and the reliance on a manual processing system resulting in variances of payment calculations and processing.

##### **Corrective Action Plan**

To resolve these issues, CBO Purchased Care staff has launched a number of initiatives to include:

- Development of a plan to increase effective communication flow with VA and non-VA stakeholders. Monthly conference calls are conducted to provide training and guidance to VISN and VAMC staff on processing State Home applications and payment invoices.
- VHA Handbook 1601SH.01, *State Veterans Home Perdiem Payment Program*, was released to VA facilities in August 2011. The handbook defines and standardizes procedures associated with the authorization of State Home applications and per diem payment processing actions.
- The development of a State Home Per Diem Grants program standard operating procedures, desk procedures, fact sheets and quick reference guide will be completed in the first quarter of 2013. As

of June 2012, Financial Quality Assurance Managers are auditing the payment accuracy and compliance of completing the 10-10SH application.

- A memorandum was signed by VHA senior leadership on May 5, 2012, to ensure that all applications submitted and approved as of October 2012 are reviewed for accuracy and proper documentation supporting the level of care and associated per diem payment.
- Monthly State Home Per Diem Grants conference calls will be conducted to report audit findings and provide guidance and education to VISNs and VAMCs. Quarterly conference calls with State Home Administrators will start by the first quarter of 2013.
- A new comprehensive VA Intranet State Home Per Diem Program Web site was developed for use by VA Central Office, VISNs, and VAMCs.

## 5. Supplies and Materials

VHA identified eight payments in error totaling \$8,680, which resulted in an estimated improper payment rate of 5.49 percent. Improper payments in the Supplies and Materials program resulted from:

### **Documentation and Administrative Errors**

Eighty-four percent of improper payments resulted from lack of documentation. Six percent of improper payments resulted from non-compliance with VHA policies and procedures. VHA identified errors where receipts lacked required signatures. Six percent of improper payments resulted from payment of an incorrect amount. Four percent of improper payments resulted from the purchase of ineligible goods.

### **Corrective Action Plan**

VHA addressed specific errors at each facility where they occurred. Additionally, VHA developed national purchase card training packages through VA's Talent Management System for cardholders to complete prior to

receiving a purchase card. Purchase card holders will also complete reinforcement training annually.

VHA is reviewing the national purchase card regulations to revise receiving report processing for expendable items. The VHA's National Purchase Card Manager is preparing an inquiry to the National VA Inquiry System for VHA Financial Policy. Expendable items are purchased by the card holder and usually delivered to the service or program office without being processed by the warehouse. This change would not preclude the tracking of expendable items as the purchase card holder will have to account for the purchases, certify, and reconcile charges. Approving Officials would also certify that purchased items have been received, and charges are reconciled.

### **VBA**

Historically, VA has reported Compensation and Pension as separate programs for IPERA. The majority of the reported improper payments amounts were from actual debts established and not based on statistical sampling methodologies. The system VA uses to develop program debt amounts does not contain sufficient detail to appropriately assign the debt to either the Compensation or Pension program; therefore VBA used percentages derived from a small sample of debts to attribute debt to the programs. Because the sampling methodology was non-random and rudimentary, VBA has determined this assignment methodology is not a statistically valid means of determining debt amounts. With no valid means of splitting the programs, VBA will not split the improper payment estimates of the two programs for 2012 IPERA reporting purposes in Table 1 that follows this reporting section. Together, the Compensation and Pension Service Programs identified errors that resulted in an improper payment rate of 2.58 percent. The corrective action plans and root causes of the identified improper payments are outlined separately in this section. In 2013, VBA will enhance its data



gathering and sampling methodologies for Compensation and Pension to ensure we have the ability to more accurately report information on the IPERA program. As part of this effort, in early fiscal year 2013 VBA will engage a statistician to assist in developing statistically valid payment samples for testing high-risk programs. VBA will report on the Compensation and Pensions programs separately when these changes are fully implemented.

### 1. Compensation Service

The Compensation Program improper payments resulted from:

#### Documentation and Administrative Errors

Improper payments can occur when VA fails to process beneficiary requests in a timely manner (e.g. change in dependency). Most underpayments were due to processing errors made when granting initial decisions on claims.

#### Authentication Errors

One cause of overpayments was the implementation of the Fugitive Felon Program (FFP). Created by Public Law 107-103, Veterans Education and Benefits Expansion Act of 2001, FFP prohibits Veterans and their dependents who are fugitive felons from receiving specified Veterans' benefits. The law requires VA to terminate awards retroactively from the date the beneficiary became a fugitive felon.

Another key cause of overpayments is beneficiary's incarceration. Title 38 USC 5313 requires VBA to reduce or terminate beneficiary benefits if they have been incarcerated in excess of 60 days for conviction of a felony. The reduction begins on the 61<sup>st</sup> day of incarceration and continues until the beneficiary is released.

It is important to note that these errors cannot be identified in advance, as VBA has no

database to access incarcerated or fugitive felons' records.

#### Verification Errors

Overpayments can occur when VA does not receive timely notification of a Veteran's death. Examples include:

- A Veteran died and VA subsequently released payment(s) prior to receiving notification of the death.
- VA received notification of the death too late in the monthly processing cycle to prevent the release of the next month's payment.
- A beneficiary's surviving spouse remarried. If the surviving spouse does not notify VA of a change in marital status in a timely manner, payments will continue thereby creating an overpayment.

#### Corrective Action Plan

VBA continues to improve training programs in an attempt to reduce processing and other types of errors. Centralized training materials are periodically updated. VBA implemented the following actions to strengthen efficiency at Regional Offices (ROs):

- Skills Certification Program - Managers continue to track individual tasks of each VBA employee who is involved in processing of Veterans' claims.
- Quality Review Team (QRT) – In 2011, VBA implemented a pilot program to conduct local quality reviews within 12 ROs. During the pilot program, the QRTs performed quality reviews prior to authorization to ensure correct benefits were paid. In 2012, QRTs were implemented at all ROs to improve claims processing accuracy.

VBA formed a new internal work group to analyze necessary improvements, and plans to seek assistance from an outside contractor to analyze processes and design needed controls to mitigate future improper payments.

VBA analyzes the results of Quality Assurance (QA) reviews and provides detailed feedback to ROs through a variety of methods including monthly Systematic Technical Accuracy Review (STAR) error reporting, which requires follow-up and corrective action. VBA also updates training materials regularly to address error trends.

## **2. Pension Service**

The Pension Service improper payments resulted from:

### **Documentation and Administrative Errors**

Overpayments and underpayments identified during quality reviews of pension claims are minimal and are normally attributed to incorrect grants or denials, income incorrectly counted, effective date or payment rate errors, and/or late dependency changes.

### **Verification Errors**

The existing pension program design contributes to a significant number of overpayments due to beneficiaries' failure to report changes. VBA has both internal and external controls to identify reporting discrepancies. Most pension recipients are required to file an Eligibility Verification Report (EVR) reporting actual income from the previous year and anticipated current year income. The number of EVRs mailed to pensioners is based on those who report receipt of income other than Social Security or medical expenses other than Medicare Part B. In 2011, VBA sent approximately 140,223 EVRs to pensioners to complete.

The Pension program creates overpayments due to late reporting of income changes due to statutory and regulatory provisions:

- Reductions in payment rates are effective the first of the month following receipt of a change in income. As a result, an overpayment is created retroactive to the effective date of the change.
- Failure to return an EVR results in retroactive termination of the award and

overpayment from the beginning of the calendar year.

It is important to note two main contributing factors to the creation of improper payments that VA is unable to mitigate:

- Lack of timely notification, often received from a third party which involves due process.
- Income matches with the Internal Revenue Service (IRS), which are completed one to two years after payment, as the IRS information is not available until that time.

### **Corrective Action Plan**

VBA analyzes the results of QA reviews and provides detailed feedback to ROs through a variety of methods including monthly STAR error reporting, which requires follow-up and corrective action. VBA also updates training materials regularly to address error trends.

VBA is analyzing necessary improvements through the work group's effort during 2012 and plans to seek assistance from an outside contractor to analyze processes and design needed controls to mitigate future improper payments.

## **3. Vocational Rehabilitation and Employment Service (VRE)**

The VRE Program identified errors that resulted in an improper payment rate of 3.22 percent. Improper payments resulted from:

### **Documentation and Administrative Errors**

VRE improper payments result from only this type of error category. Many of these improper payments are the result of training facilities incorrectly certifying rates of training for Veterans.

In 2011 VRE used the QA program to assess fiscal errors and identify error trends and reasons for improper payments. This information was then used to conduct refresher training with the primary intent to further reduce improper payments.



Part IV - Improper Payments Elimination and Recovery Act (IPERA) of 2010

**Corrective Action Plan**

As part of the corrective action plan, the VRE QA Web Application was implemented in April 2012. It accomplishes the following:

- Facilitates sampling and tracking of cases for review.

- Facilitates the QA review.
- Automates the analysis and reporting of results.
- Provides post review actions in local and national training requirements, policy adjustments, and procedure enhancements.

**Section IV. The table below identifies VA's IPERA reportable programs. This information includes prior years' outlays, percent of improper payments, and dollar amounts of improper payments as well as estimates for the next three years.**

**Table 1**  
**Improper Payment (IP) Reduction Outlook 2011 –2015 (Based on 2010 –2014 data)**  
(\$ in millions)

Program	2011 (based on 2010 actual data)			2012 (based on 2011 actual data)			2013 (based on 2012 estimated data)			2014 (based on 2013 estimated data)			2015 (based on 2014 estimated data)		
	OUTLAYS (\$) <sup>(1)</sup>	IP %	IP \$	OUTLAYS (\$) <sup>(1)</sup>	IP %	IP \$	OUTLAYS (\$) <sup>(1)</sup>	IP % <sup>(6,7)</sup>	IP \$ <sup>(6,7)</sup>	OUTLAYS (\$) <sup>(1)</sup>	IP %	IP \$	OUTLAYS (\$) <sup>(1)</sup>	IP %	IP \$
Compensation & Pension <sup>(2)</sup>	67,597	1.28 <sup>(3)</sup>	863.30	53,737	2.03 <sup>(4)</sup>	1090.00	60,901	1.57 <sup>(4)</sup>	957.70	64,483	1.57	1,010.50	68,573	1.56	1,069.20
		0.23	157.80		0.55	295.10		0.34	209.60		0.35	226.40		0.35	242.90
Gross Amount		1.51	1,021.10		2.58	1,385.10		1.91	1,167.30		1.92	1,236.90		1.91	1,312.10
Education <sup>(6)</sup>	10,2990	1.5	154.5	10,001	0.00 <sup>(5)</sup>	0.00	11,691	0.05	5.85	13,061	0.05	6.53	13,315	0.05	6.66
		0.60	61.7		0.00	0.00		0.05	5.84		0.05	6.53		0.05	6.66
Gross Amount		2.10	216.2		0.00	0.00		0.10	11.69		0.10	13.06		0.10	13.32
VRE	820	7.00	57.40	768	1.61 <sup>(5)</sup>	12.35	959	1.35	12.95	1,067	1.00	10.67	1,172	0.75	8.79
		0.00	0.00		1.61	12.39		1.50	14.39		1.00	10.67		0.75	8.79
Gross Amount		7.00	57.40		3.22	24.74		2.85	27.34		2.00	21.34		1.50	17.58
Beneficiary Travel	879	0.86	7.50	828	8.56	70.90	870	8.50	74.00	913	8.00	73.00	959	7.60	72.30
		0.01	0.10		0.16	1.30		0.00	0.00		0.00	0.00		0.00	0.00
Gross Amount		0.87	7.60		8.72	72.20 <sup>(8)</sup>		8.50	74.00		8.00	73.00		7.60	72.30
CHAMPVA	770	0.84	6.40	849	0.35	3.00	910	2.00	18.20	990	2.00	19.80	1,089	1.50	16.30
		0.19	1.50		3.07	26.10		1.00	9.10		0.50	5.00		0.50	5.50
Gross Amount		1.03	7.90		3.42	29.10 <sup>(9)</sup>		3.00	27.30		2.50	24.80		2.00	21.80
Non-VA Care Fee	4,205	10.17	427.80	4,290	5.48	235.00	4,303	8.00	344.20	4,538	7.50	340.40	4,738	7.50	355.40
		2.26	95.10		6.55	281.00		1.90	81.80		2.30	104.40		2.20	104.20
Gross Amount		12.43	522.90		12.03	516.00 <sup>(10)</sup>		9.90	426.00		9.80	444.80		9.70	459.60
State Home Per	713	12.94	92.30	787	3.62	28.50	854	9.00	76.90	926	4.50	41.70	1,005	4.00	40.20

Diem Grants		0.75	5.30		1.13	8.90		0.00	0.00		0.00	0.00		0.00	0.00
Gross Amount		13.69	97.60		4.75	37.40 <sup>(11)</sup>		9.00	76.90		4.50	41.70		4.00	40.20
Supplies and Materials	1,626	13.6	221.10	2,052	5.30	108.90	2,154	9.00	193.90	2,262	9.00	203.60	2,375	9.00	213.80
		0.0	0.00		0.19	3.80		0.00	0.00		0.00	0.00		0.00	0.00
Gross Amount		13.6	221.10		5.49	112.70 <sup>(12)</sup>		9.00 <sup>13</sup>	193.90		9.00	203.60		9.00	213.80

**Note:** Overpayments are reported in the shaded cells, and underpayments are reported below the shaded cells.

- (1) For some VBA programs, dollars reported are payments, not necessarily outlays.
- (2) Dependency and Indemnity Compensation is included with Compensation & Pension.
- (3) In 2011, Pension under reported improper payments. The improper payment rate reported was 1% and should have been 8.98%. After an OIG audit in March 2012, VA decided to no longer split the reporting for Compensation and Pension programs in Table 1 since the majority of improper payments were from debts established and the prior-year methodology to split between the two programs was determined to contain errors. Bringing forward the data from 2011 in this year's Table 1, of the \$1,021 million estimated improper payments for the combined Compensation and Pension programs, \$390.2 million of this total is from the corrected IP rate for Pensions.
- (4) IP rate increase reflects the fact that VBA did not process Income Verification Matches (IVM) during 2009 and 2010. The approximate number of IVM claims to be processed in 2012 and 2013 are 95,000.
- (5) Education program IP rate for 2012 reflects results of 2011 data analyzed where no improper payments were identified. Since there are no program changes anticipated, the estimated reduction target for future years is projected at 0.10 percent
- (6) Education program IP review procedures were improved in FY 2012 based on the recommendations from a VAOIG review of improper payment review procedures. Though the FY 2012 review was statistically valid, additional opportunities to improve education program IP reviews are being evaluated to further improve the accuracy of IP reviews in future fiscal years. Education program IP criteria differs from other programs in that payments that were originally correct when issued, and later changed due to a change in enrollment, are not considered improper payments. This contributed significantly to the reduction in improper payments as reported in previous fiscal years.
- (5) VRE drop in IP rate for 2012 may be attributable to the change in sampling methodology.
- (6) VHA improper payment percentages and amounts are based on sampling weights detailed in section II. Overpayments and underpayments have been rounded to equal the projected absolute amount.
- (7) Based on OMB's direction, VHA reported non-compliance errors as improper payments in 2011 and 2012. These payments were made in the correct amount, to the correct entity, and for the right reason and are neither overpayments nor underpayments. The estimated improper payment amount resulting from these errors are non-monetary, and do not have a recoverable amount tied to them as corrective actions are internal. However, these errors are reported as overpayments, which may skew the perception of the amount of improper payments that are recoverable in the VHA programs.
- (8) The Beneficiary Travel program has a margin of error (MOE) of 5.58 percent; meaning that at a 90 percent confidence interval, the improper payment amount is between \$26.0 million and \$118.5 million for 2012.
- (9) CHAMPVA has a MOE of 4.94 percent; meaning that at a 90 percent confidence interval, the improper payment amount is between \$0 and \$71.0 million for 2012.
- (10) Non-VA Care Fee has a MOE of 3.43 percent; meaning that at a 90 percent confidence interval, the improper payment amount is between \$369.1 million and \$663.0 million for 2012.



- (11) State Home Per Diem Grants has a MOE of 3.74 percent; meaning that at a 90 percent confidence interval, the improper payment amount is between \$8.0 million and \$66.8 million for 2012.
- (12) Supplies and Materials has a MOE of 5.19 percent; meaning that at a 90 percent confidence interval, the improper payment amount is between \$6.2 million and \$219.2 million for 2012.
- (13) The increase in the improper payment percentage for Supplies and Materials in 2013 is due to the higher MOE experienced in 2012 and described in footnote 7. For 2014 and 2015, reduction targets will be reassessed based on 2013 results.

## Section V. This section describes VA's Recapture of Improper Payments.

### VHA

VHA has a payment recapture audit program in place to identify and collect overpayments. The plan consists of two types of activities— internal and external activities. Internal activities are conducted by VHA's CBO and VA's Financial Services Center (FSC). External activities are conducted through the payment recapture audit contingency contracts for specific high-risk programs.

#### 1. VHA Chief Business Office:

The VHA CBO is responsible for several programs that designate VHA as a payer of health care services and as a provider of health care services. The Veteran-focused programs include Non-VA Fee Basis, the Foreign Medical Program, and the State Home Per Diem Program. Veteran-dependent focused programs include CHAMPVA and Spina Bifida. The VHA CBO currently implements multiple mitigation strategies intended to proactively reduce the occurrence of, and retroactively correct, improper payments.

The VHA CBO has had payment recapture audit contingency contracts covering all payer programs in place for many years. These initially covered non-VA inpatient services only but have been expanded to include outpatient services as well. In addition to the recoveries garnered from these audits, the VHA CBO has used these audits to conduct additional training, determined appropriate future technology requirements and standardized

business processes. The VHA CBO has also been developing a structured fraud, waste, and abuse program with the intent of implementing healthcare claims scoring tools and predictive modeling to identify and decrease erroneous claims. A contract has been awarded to begin the technology assessment to implement these tools. Analysis will be initially conducted post-payment and will move to a pre-payment process to avoid making improper payments.

**Non-VA Care Program:** The VHA CBO Purchased Care Program Office worked closely with each VISN to identify overpayments by reviewing internal reports and providing the results to the VISNs for review and verification of payments. VHA CBO internal reports include:

- Monthly potential outliers reports.
- Monthly inpatient potential improper payment reports.
- Post payment duplicate payments report.

**CHAMPVA Program:** To identify overpayments, VA's PC at HAC reviews the following audits.

- A quarterly possible duplicate payment audit.
- A monthly proper payment audit.
- An ongoing weekly high-dollar audit for all claims over \$100,000.
- The quarterly bills of collection audit.

**VA Outpatient Recovery Audit, Fiscal Years 2010 and 2011:** In September 2010, VHA awarded the first Outpatient Recovery Audit contract as a firm-fixed price contract for a

percentage of the collections. This contract covers outpatient claims with dates of service from October 1, 2009 through September 30, 2011. PC at HAC will have two active recovery audit contracts working in the first quarter of FY 13, for outpatient recovery audits for FY 10-FY11 and the Select Duplicate Claims recovery audit contract for FY 06 through FY 11.

### **VBA**

The Compensation and Pension Services conduct recapture audits by matching beneficiary's payment records to other Government databases that potentially identify ineligible beneficiaries. Current matches include the Social Security Administration (SSA) master death file, SSA prison match, Federal Bureau of Prisons, and IRS. When a match between two records is confirmed, VBA will take steps to verify the data, and when required, adjust the case and establish a receivable for collection.

VBA systems are not designed to identify and track receivables based on the source of identification (i.e., recapture audits compared to receivables identified through other means); therefore, VBA is not able to provide specific amounts that were identified by matches and their collection status. VBA is analyzing the system changes required to capture more debt details to report improper payments identified through recapture audit activities.

In November 2011, VBA awarded a contract for the analysis of Compensation and Pension payments to determine whether it is feasible to implement a traditional recapture audit program using an outside contractor. The analysis of the program concluded that a traditional external contract recapture audit program for the Compensation and Pension Programs would not be feasible or cost-effective.

In its final report, the contractor provided additional recommendations to enhance VBA's internal recapture audit program. These

recommendations include performing certain data matches more often, developing more robust matching criteria to match a number of data points instead of a single data point, and exploring other potential data sources. VBA is evaluating these recommendations and will implement them if practical and cost-effective.

### **Financial Services Center (FSC)**

The VA FSC is a franchise fund (fee-for-service) organization which does not receive funding in the annual appropriations act. The FSC offers a wide range of financial and accounting products and services to both VA and other Government agencies.

The FSC operates several payment review processes and performs various performance measure reviews of vendor payments using statistical sampling to verify payment accuracy and timeliness on either a monthly or quarterly basis. FSC staff review the file of commercial vendor payments scheduled for payment three times daily for payment amounts \$50 and greater. These payments are matched against other payments and against the previous 90 days of disbursed payments to identify and prevent duplicate payments before their submission to Treasury for disbursement. Duplicate payments identified through this process are cancelled before the payments are sent to the vendor. The FSC also performs several post-payment reviews to detect improper payments:

- Payment files for \$2,500 and greater are reviewed quarterly. They are matched against disbursed payments over the previous two fiscal years to identify duplicate payments.
- Various performance measure reviews of payments are conducted using statistical sampling to verify their accuracy and timeliness. Most of these reviews include monthly or quarterly accuracy analyses using a cost-effective method of stratified random sampling that has a 95 percent Confidence Level Factor on FSC-issued certified, matched, and permanent change of station (PCS) travel payments. There are additional reviews



performed on FSC-issued payments under \$2,500 paid without a certifying officer certification, and high-dollar payments to individuals.

- Reviews are conducted on FSC-issued interest penalty payments over \$50 to determine if interest was actually due to the vendor.
- Vendor statements are reviewed to recover any outstanding prior fiscal year vendor credits not previously collected.
- VA-wide employee performance/incentive award payments are reviewed to identify duplicate award payments.

The FSC continues to benefit from efficiencies and improved performance gained through centralization of VA's commercial vendor payments. By centralizing most VA vendor payment activities, the FSC has greater visibility over payment processing, which enhances

payment recapture audits through improved access to source documents to validate improper/duplicate payments.

#### **Debt Management Center**

The VA Debt Management Center (DMC), a franchise fund, is the single point of contact for VA debt collection. The DMC offers accounts receivable products and services for VBA and VHA through highly automated systems.

This includes dunning notices offsetting Veterans benefits and Treasury tools of the Treasury Offset Program (TOP) and Private Collection Agencies for Veteran-based debt. The DMC is an advocate for the recovery of debts owed to VA, in the most efficient and cost-effective manner possible, while maintaining a high quality of customer service to our Nation's Veterans and their families.



**Table 2**  
**Payment Recapture Audit Reporting**  
**(\$ in millions)**

Program or Activity <sup>(1)</sup>	Type of Payment (contract, grant, benefit, loan or other)	Amount Subject to Review for 2012 Reporting	Actual Amount Reviewed and Reported (2012)	Amount Identified for Recovery (2012)	Amount Recovered (2012)	% of Amount Recovered out of Amount Identified (2012)	Amount Outstanding (2012)	% of Amount Outstanding out of Amount Identified (2012)	Amount Determined Not to be Collectable (2012)	% of Amount Determined Not to be Collectable out of Amount Identified (2012)	Amounts Identified for Recovery (2004-2011)	Amounts Recovered (2004-2011)	Cumulative Amounts Identified for Recovery (2004-2012)	Cumulative Amounts Recovered (2004-2012)	Cumulative Amounts Outstanding (2004-2012)	Cumulative Amounts Determined Not to be Collectable (2004-2012)
Beneficiary Travel	Benefit	\$492	\$459	\$0.087	\$0.065	75%	\$0.022	25%	0	0%	n/a	n/a	\$0.087	\$0.065	\$0.022	0
CHAMPVA <sup>(2)</sup>	Benefit	\$993	\$993	\$9.8	\$4.8	49%	\$4.5	45%	\$0.558	6%	\$11.3	\$9.7	\$21.0	\$14.5	\$5.4	\$1.3
Non-VA Care Fee	Benefit	\$126.9	\$126.9	\$0.046	\$0.046	100%	0	0%	0	0%	\$56.3 <sup>(3)</sup>	\$44.7 <sup>(3)</sup>	\$56.3	\$44.7	\$11.6	0
State Home Per Diem Grants	Grant	\$570.8	\$570.8	\$0.011	\$0.011	100%	0	0%	0	0%	n/a	n/a	\$0.011	\$0.011	0	0
Supplies and Materials	Other	\$586.7	\$586.3	\$0.075	\$0.072	95%	\$0.003	5%	\$0.001	0%	n/a	n/a	\$0.075	\$0.072	\$0.003	\$0.001
All Other VHA Programs	Other	\$5,255	\$5,253	\$1.0	\$0.994	90%	\$0.105	10%	0	0%	n/a	n/a	\$1.1	\$0.994	\$0.105	0
FSC Other Activities <sup>(4)</sup>	Other	\$2,548	\$2,548	\$0.472	\$0.379	80%	\$0.094	20%	0	0%	n/a	n/a	\$0.472	\$0.379	\$0.094	0

**Notes:**

- (1) 2012 is the first year the FSC is reporting recovery data as part of VHA’s internal payment recapture efforts. FY 2012 data is as of May 31, 2012. All prior year recovery data (2004-2011) is reported in Table 6 of this report. Additionally, 2012 identified recovered amounts for Non-VA Care Fee and State Home Per Diem Grants is incomplete due to CBO’s audit contingency contracts not in effect for 2012. Efforts are underway to improve tracking and monitoring of VHA’s bills of collections to more accurately report future payment recapture efforts.
- (2) CHAMPVA 2012 data are as of July 31, 2012. Prior year recovery data consist of 2011 only as recovery data is not available prior to 2011.
- (3) Non-VA Care Fee prior year recovery data (2004-2011) are carried forward from VA’s 2011 Performance and Accountability Report.
- (4) FSC Other Activities identifies FSC recapture efforts in funds other than VHA or VHA recapture efforts that could not be tracked by specific programs.



**Table 3**  
**Payment Recapture Audit Targets**

Program or Activity	Type of Payment	2012 Amount Identified	2012 Amount Recovered	2012 Recovery Rate (Amount Recovered/Amount Identified)	2013 Recovery Rate Target	2014 Recovery Rate Target	2015 Recovery Rate Target
Beneficiary Travel	Benefit	87,064	65,162	75%	85%	85%	85%
CHAMPVA <sup>(1)</sup>	Benefit	9,811,994	4,799,396	49%	85%	85%	85%
Non-VA Care Fee	Benefit	45,911	45,881	100%	85%	85%	85%
State Home Per Diem Grants	Grant	11,485	11,485	100%	85%	85%	85%
Supplies and Materials	Other	75,174	71,603	95%	85%	85%	85%
All Other VHA Programs	Other	1,099,218	994,109	90%	85%	85%	85%
FSC Other Activities	Other	472,505	378,565	80%	85%	85%	85%

Notes:

- (1) All 2012 data are as of May 31, 2012, except for CHAMPVA 2012 data, which are as of July 31, 2012. Additionally, 2012 identified recovered amounts for Non-VA Care Fee and State Home Per Diem Grants is incomplete due to CBO’s audit contingency contracts not in effect for 2012. Efforts are underway to improve tracking and monitoring of VHA’s bills of collections to more accurately report future payment recapture efforts.

**Table 4**  
**Aging of Outstanding Overpayments**

Program or Activity	Type of Payment (contract, grant, benefit, loan or other)	2012 Amount Outstanding (0-6 months)	2012 Amount Outstanding (6 months to 1 year)	2012 Amount Outstanding (over 1 year)
Beneficiary Travel	Benefit	21,536	359	0
CHAMPVA	Benefit	3,722,562	731,578	0
Non-VA Care Fee	Benefit	30	0	0
State Home Per Diem Grants	Grant	0	0	0
Supplies and Materials	Other	3,453	0	0
All Other VHA Programs	Other	103,330	1,779	0
FSC Other Activities	Other	93,841	98	0
NCA Operations Fund	Other	298	0	0



**Table 5**  
**Disposition of Recaptured Funds**

Program or Activity	Type of Payment (contract, grant, benefit, loan or other)	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury
Beneficiary Travel	Benefit	n/a	n/a	n/a	n/a	n/a	n/a
CHAMPVA	Benefit	n/a	n/a	n/a	n/a	n/a	n/a
Non-VA Care Fee	Benefit	n/a	n/a	n/a	n/a	n/a	n/a
State Home Per Diem Grants	Grant	n/a	n/a	n/a	n/a	n/a	n/a
Supplies and Materials	Other	n/a	n/a	n/a	n/a	n/a	n/a
All Other VHA Programs	Other	n/a	n/a	n/a	n/a	n/a	n/a

**Notes:**

(1) Title 38 of the U.S. Code allows VHA to retain and use the recovery funds as no-year funding. This significant benefit to VA assures that lengthy collection activities, typically required to conduct these recovery actions, do not negatively impact the ability to use these funds. In addition, this benefit guarantees strong participation by assuring full recovery for medical facilities.

**Table 6**  
**Overpayments Recaptured Outside of Payment Recapture Audits**  
**(\$ in millions)**

Source of Recovery	Amount Identified (2012)	Amount Recovered (2012)	Amount Identified (2004-2011)	Amount Recovered (2004-2011)	Cumulative Amount Identified (2004-2012)	Cumulative Amount Recovered (2004-2012)
Supply Fund (1)	\$14.07	\$6.46	\$187.52	\$172.24	\$201.59	\$178.70
CBO (2)	\$5.99	\$5.99	\$8.37	\$8.37	\$14.36	\$14.36
FSC (3)	\$9.97	\$9.15	\$35.10	\$31.20	\$45.07	\$40.35

**Note:**

(1) For the Supply Fund:  
The VA Office of Acquisition and Logistics (OAL) works with the OIG Office of Contract Review (OCR) to recover funds owed VA due to (1) defective pricing – whether the prices for the items awarded were based on accurate, complete, and current disclosures by the contractor during contract negotiations;



and (2) price reduction violations – whether the contractor complied with the terms and conditions of the price reductions clause. As part of the OIG post-award contract reviews, staff also looks for and collects overcharges that were the result of the contractor charging more than the contract price. Other reviews conducted by OCR include health care resource proposals, claims, and special purpose reviews. In 2012, this audit recovery program recovered over \$6 million.

- The Amount Subject to Review (column 2) represents contract sales of only those contracts reviewed, which resulted in a recovery by the OCR.
- The Amounts Identified for Recovery 2012 data (column 4) were the results of reports issued during the period of July 1, 2011, through June 30, 2012.
- The Amounts Recovered 2012 data (column 5) were collected during the period of July 1, 2011, through June 30, 2012. Some collections applied to prior years Amounts Identified for Recovery.
- The reported recoveries did not result from the direct operations or activities of the following VA programs: (1) Compensation; (2) Dependency and Indemnity Compensation; (3) Pension; and (4) Insurance.

(2) CBO overpayments captured outside of payment recapture audits consists of unsolicited funds received.

(3) FSC prior year recovery data (2004-2011) are carried forward from VA’s 2011 Performance and Accountability Report.

## Section VI. This section describes the steps VA is taking to hold managers and leadership accountable for reducing and recovering improper payments.

### VHA

The elimination of improper payments and improvement of IPERA reporting is a top priority for VA. It is the Department’s number one financial management initiative for 2012. A task force has been created and VA’s Office of Management is managing this VA-wide Elimination of Improper Payments Initiative. In support of this initiative and the Department’s commitment to compliance with IPERA, the following activities are currently in progress or are under development.

- An internal work group, governed by the senior accountable officials and program managers, focuses on IPERA compliance, determines root causes of improper payments, and establishes corrective action plans, where appropriate.
- Contractual support is being obtained to assist the Department’s efforts to resolve non-compliant IPERA issues, to include working with

a statistician to improve estimation and sampling methodologies.

- Programs are being reviewed to identify actions that are needed to achieve previously unmet reduction targets.

The Executive-in-Charge, Office of Management, and Chief Financial Officer has been designated as the senior agency official who will be accountable for VA’s progress on this plan and achievement of compliance with IPERA.

### **1. Beneficiary Travel**

The previously described audit program, improved policy guidance, and training will require increased program understanding and oversight at all levels of the organization including front-line program managers, auditors, facility and VISN Directors, and



appropriate VA Central Office organizations to ensure requirements are met. Each level of management establishes internal control requirements and expectations with regular review from the next higher level when developing, or presented with, audit and report data. Increased use of the Beneficiary Travel benefit has made payments highly visible to leadership at all levels in VA. Significant information technology resources have been committed to reduce inappropriate payments, and training solutions have been initiated. VISN and VAMC leadership will ensure appropriate training has been completed by employees with the Beneficiary Travel claims processing menu.

## **2. Purchased Care Programs: CHAMPVA, Non-VA Care Fee, and State Home Per Diem Grants**

In June 2011, the Deputy Chief Business Officer for Purchased Care realigned all business lines into a single operating entity, merging administration of legacy Health Administration Center programs with the National Non-VA Care Fee Program Office and other Purchased Care programs. The reorganization included the creation of the Directorate of Program Oversight and Informatics whose key function centers around the reduction of improper payments. This directorate enhances audit and reporting capabilities and quality improvements based on a comprehensive risk and internal controls program, audit programs, and program integrity using automated analytical tools.

The State Home Per Diem Grants program managers are optimistic that recently established initiatives will help to significantly reduce improper payments over the next year by conducting ongoing audits and monitors to track improvements and communicate audit findings through the Audit Review Committee to State Home managers, coordinators, and payment processors. Recommended corrective action items will be pursued with responsible field staff. VAMCs will issue bills of collection to

recover overpayments and Purchased Care staff will track the recoupment of funds.

## **3. Supplies and Materials**

Annually, VHA publishes a Director Executive Career Field performance plan to communicate to senior executives the expectations of VA. The plan includes the goal of financial stewardship, which is to support the overall Departmental goal of best practices in financial and business processes. Each VISN (network) will ensure continual monitoring of facility performances on key financial and business compliance indicators and will be required to assign individualized requirements to appropriate business units where specific actions or improvements are needed.

### **VBA**

The Under Secretary for Benefits' continued emphasis on accountability and integrity at every level underscores the commitment to achieving the goals set forth in IPERA. VBA continues to report progress through Monthly Performance Reviews with the Deputy Secretary. In addition to the monthly reviews, annual information is shared in the Performance and Accountability Report detailing VBA-wide effort and commitment to reduce the occurrence of improper payments.

VBA is committed to ensure that its managers are held accountable for reducing and recovering improper payments. This is accomplished in a number of ways.

## **1. Compensation and Pension Services**

Regional Office Directors, Veterans Service Center Managers, and all management personnel share the same performance standards with respect to the management of delivery for compensation and pension benefits. Non-supervisory field employees have performance standards that measure them against quality and timeliness standards.



Within both Compensation and Pension Services, management and staff are responsible for measuring quality, development of counter measures and training, and development of legislative and technological changes where possible to avoid, reduce, and recover overpayments.

## 2. Education Service

Performance accountability measures, including payment accuracy, are set at the Administration level for directors of the offices that process education claims. Directors are then charged with the responsibility of setting measures for their subordinates. The Education Service has developed nationwide performance standards including payment accuracy for personnel who process claims.

## 3. Vocational Rehabilitation and Employment Service (VRE)

Performance accountability measures, including payment accuracy, are set at the Administration level for directors of all ROs. Directors are then

charged with the responsibility of setting measures for their subordinates. VRE has developed standardized nationwide performance standards including payment accuracy.

## 4. Insurance Service

Insurance service managers are held accountable for reducing and recovering improper payments, as evidenced by the Insurance Program’s low improper payment rate of 0.01 percent. There are several operational measures as part of the Insurance Service Director’s performance plan, one of which is the accuracy of insurance disbursements. Accuracy of insurance disbursements is also a part of the Insurance Operations Managers’ performance plan and is included in the performance of the Insurance employees who are responsible for initiating payments. In addition, a critical element of all Insurance managers’ performance is the management and accountability of internal controls.

### Section VII. A. This section describes the information systems and other infrastructure that VA is using to reduce improper payments.

#### VHA

##### 1. Beneficiary Travel

As noted in the program’s corrective action plan, VHA has numerous projects underway that will further standardize Beneficiary Travel processes and procedures and provide for increased internal control and oversight at various levels of the organization, thereby reducing risk for improper payments.

**Beneficiary Travel Audit Tool:** In June 2011, a Beneficiary Travel Audit Tool with associated training was released to all VHA field stations. This tool provides field stations the ability to

review and audit any information contained in the VistA Beneficiary Travel fields, such as the total and average cost per patient or ZIP Code, review patient and clinic usage trends, patient outliers, and travel clerk processing information.

#### **VistA Beneficiary Travel Application Program Enhancements:**

Enhancements to the electronic travel claims processing system will address identified system limitations and provide improved processing capabilities. These enhancements will improve and automate eligibility determinations and provide

a solution to identify and appropriately apply or waive deductibles. A series of reporting enhancements will enable end users to develop an authorization and tracking method for Special Mode Transportation authorization and Special Mode Transportation vendor billing, capture information about denied claims, and improve local and national-level reporting capabilities.

**Beneficiary Travel Dashboard:** A newly created dashboard will help the VHA Travel Office process travel claims more efficiently and accurately. It is a Web-based application that displays a configurable list of the closest VHA facilities, as well as the clinical specialties offered at each facility. When configured, the clinical specialties can be viewed by highlighting the facility name. The dashboard integrates with VistA travel claim functionality to provide information to facilitate processing of travel claims.

**Data Mining Tools:** Tools and protocols address six identified potential claimant behaviors that impact provision of beneficiary travel mileage reimbursement. The behaviors in question occur when claimants:

- “Unbundle” appointments by scheduling them on multiple days even though they could be scheduled on the same day, and drop-in for medical services without a scheduled appointment.
- Provide incorrect income information, which may render them eligible for Beneficiary Travel benefits irrespective of their service-connected rating; have a service-connected disability rating of less than 30 percent or have a non-service-connected disability; or have an annual income higher than the VA pension level.
- Frequently change their addresses in order to increase their Beneficiary Travel payments.
- Choose a VA facility for care that is further than the closest VA facility providing the same care, or receive care at multiple facilities concurrently or sequentially. Some of these Veterans may have been denied Beneficiary

Travel benefits at some of the facilities; moreover, the care sought may be similar at each facility.

- Travel together (in the same vehicle) but file Beneficiary Travel claims separately.
- File for Beneficiary Travel benefits for multiple visits occurring on the same day. Improper Beneficiary Travel payments may occur when the time needed to travel roundtrip is longer than the time between the appointments.

The tools extract data from a variety of VHA sources. The extracted data elements are correlated and subjected to a statistical analysis to identify Veterans who demonstrate behaviors that have the potential for creating inappropriate payments. The lists of identified Veterans will be shared with VISNs and field facilities on a monthly basis for review, action, and reporting back to the Program Office for tracking, trending and national level reporting.

**Vet Traveler:** This application will implement a solution that replaces the existing Beneficiary Travel application while adding and providing Veteran self-service, workflow, and business rules for claims processing and approval; enhances electronic funds transfer payment processes; and supports the ability for the Veteran to receive advance authorization for trips.

## 2. CHAMPVA

CHAMPVA’s Claims Processing and Eligibility (CP&E) system continues to undergo improvements to ensure proper payments are made to include a new Eligibility and Enrollment System Improvement project as part of the Veterans Relationship Management Transformational Initiative.

PC at HAC is partnering with the FSC to develop a new claims processing system that will reduce improper payments through automation and improved standardization of business processes. Because CHAMPVA claims processing will not be integrated into this new



system for several years, VHA continued to require Information technology funding for CP&E enhancements to remain current with industry standards in both quality and timeliness. PC at HAC has greatly increased the volume of electronic claims receipts, which reduces manual input and potential errors. PC at HAC is currently funded and working on adding front- end business rules to further enhance the CP&E system which will automate staff decisions for consistency with policy and procedures and ensure proper payments. CHAMPVA is the secondary/tertiary payer for approximately 50 percent of claims adjudicated. A new initiative to mitigate erroneous claims adjudication in these cases is in the planning stages and projected to be implemented in 2013. Through specialization, PC at HAC will establish highly trained teams for claims adjudication when CHAMPVA is the secondary/tertiary payer. The anticipated outcome is a reduction in improper payments related to manual miscalculations and inexperience with coordination of benefit claims. Finally, the new Eligibility and Enrollment System when fully funded will provide automated interfaces with VBA, the Department of Defense and the Centers for Medicare and Medicaid Services systems. These are all authoritative sources for data required to appropriately adjudicate CHAMPVA eligibility. The Eligibility and Enrollment System Improvement project requires additional funding for information technology to automate business rules, and to improve accuracy of eligibility and enrollment determinations by reducing manual tasks and implementing automated interfaces.

### 3. Non-VA Care Fee

PC at HAC is partnering with the FSC to develop a new claims processing system that will reduce improper payments through automation and improved standardization of business

processes. PC at HAC has developed a full set of business requirements for this emergent claims processing system under the Health Care Efficiency transformational initiative. This initiative will address more timely claims processing, elimination of duplicate payments, and reduction of manual entry and data entry errors.

PC at HAC information systems are continuously evaluated for improvements in system processes and capabilities to minimize output errors. PC at HAC is conducting a business case analysis in conjunction with the pending results of several contracts that might indicate the need for a modernized information system and infrastructure that could provide centralized claims processes.

#### **FBCS Enhancements and VA Transformation:**

The full implementation of Fee Basis Claims System (FBCS) enhancements in 2011 for Non-VA Care Fee claims processing has resulted in significant savings, improved processing and reporting, greatly reduced documentation errors, avoidance of duplicate claims, automated justification and authorization, significant improvements in inventory management, and automated claims editing.

These initiatives resulted in a savings of \$155 million. Enhancements included:

- Updates from the OIG Exclusionary List incorporated into the system more frequently.
- Alert to warn clerks that they have entered a payment amount greater than billed charges.
- Alert when attempting to pay zero dollars on a contract claim.
- Automated Centers for Medicare and Medicaid Services pricing in FBCS: National release in June 2012.

***FBCS Improper Payment Enhancements in Development include:***

- Automated calculation of Millennium Bill pricing amounts.
- Automated inpatient episode of care payment calculation (e.g., DRG vs. per diem).
- Enhanced contract claim management functionality as part of the Fee Data/Project Hero enhancement – currently in field testing. System restrictions on marking Millennium Bill and unauthorized claims as contract claims.
- Interface with VistA IFCAP that enhances obligation management.
- Interface with the Computerized Patient Record System that pulls referral requests into the authorization system.
- Program Integrity Tool enhancement for fraud, waste, and abuse detection.
- Enhanced logic for identifying potential duplicate claims.
- Automated denial for untimely filed Millennium Bill and unauthorized claims.
- A feature that prevents selection of authorization when the claim date(s) of service do not fall within the authorization's validity period.

**4. State Home Per Diem Grants**

PC at HAC is partnering with the FSC to develop a new claims processing system that will reduce improper payments through automation and improved standardization of business processes.

**5. Supplies and Materials**

VA has information systems and infrastructure in place to reduce improper payments.

During July 2011, VA completed installation of a set of information technology patches that will enhance segregation of duties when obligations are made using VA Form 1358 as an obligation tool. No segregation of duties errors were identified in the 2012 IPERA review.

**VBA**

**1. Compensation and Pension Services**

VBA has information systems and infrastructure to reduce improper payments. VETSNET is the suite of applications that facilitates the entire Compensation and Pension claims process. These applications are used for new claimants as well as for those beneficiaries who have corporate records, including converted corporate records. Within the suite, the end user can establish and develop claims, process the rating decision, authorize the award, document notification letters, and transmit payment information to Treasury, accomplishing the necessary accounting. Through these activities, data is stored and shared between applications to support start-to-end claims processing, customer service, and notification.

The corporate database is the current and future data repository for VBA business transactions, and is central to Compensation and Pension operations.

**2. Education Service**

Due to legislation that mandated the full implementation of the Post-9/11 GI Bill by August 1, 2009, and the lack of a payment system to process the benefit, VA implemented a manual payment process that relied heavily on job aids and manual calculations. This resulted in an increase of improper payments in 2009 and 2010 due to calculation errors and duplicate payments. The manual payment process was an interim solution pending the development and release of a permanent benefit processing and payment system (Long Term Solution (LTS)). Beginning on March 31, 2010, LTS began implementation in stages, with each stage providing more functionality and automation.

The first release on March 31, 2010, was deployed on a limited basis and processed benefit claims that had not previously been paid, Post-9/11 GI Bill benefits. The second release on June 30, 2010 began converting all Post-9/11 GI Bill claims into the LTS system



providing automated eligibility, entitlement, and payment calculations. By the end of summer 2010, the old system of manual calculations and job aids was discontinued. However, the actual payments were still processed manually and did not eliminate the possibility of human error.

The third release on November 1, 2010, provided increased functionality by automatically feeding enrollment information into the LTS system from the VA On Line Certification of Enrollment (VA-OnCE) system. This release eliminated errors caused by manual input of enrollment information into LTS. The fourth release on December 17, 2010, automated the processing of payments by feeding the payment information directly into the Benefits Delivery Network system (BDN) and eliminated human intervention. This reduced the possibility of improper payments. Education Service developed and implemented a rules-based automated claims processing system for Chapter 30 benefits. The goal of this system is to automatically process up to 40 percent of all enrollments and changes in enrollment for Chapter 30 benefits. While the principal effect of implementation is to reduce processing times, it also reduces erroneous payments associated with Chapter 30 benefits claims. A similar automated claims processing capability in LTS for Post-9/11 benefit claims was released on September 2012, which is expected to further reduce improper payments.



**Section VIII. This section describes the statutory and regulatory barriers that limit VA's corrective actions in reducing improper payments and the actions taken to remove those barriers' effects.**

**VBA**

**1. Pension Service**

Although program design is not one of the three error categories for reporting improper payments in Appendix C to OMB Circular A-123, it is a major cause of overpayments in VA's pension program. Based on current program design, VA pays pension benefits based on a beneficiary's projected income and medical expenses as determined at the beginning of the reporting period. At the end of the reporting period, VA adjusts retroactively pension benefits based on any changes in the beneficiary's income and medical expenses. Because the program adjusts benefits dollar-for-dollar based on changes in a beneficiary's annual income which are unforeseen at the beginning of the reporting period, it routinely creates temporary underpayments and overpayments.

By law, 38 U.S.C. §1521, pension benefits are reduced dollar-for-dollar based on a beneficiary's annual income. Under current law, adjustments to payments are effective the first of the month following the month of the change in income or net worth. Additionally, benefits are paid forward based on the beneficiary's past income and estimate of anticipated income. As a result, an award

adjustment due to changes in income is always necessary after the fact. While this process does create overpayments, we believe it should not be changed since the program is designed to timely provide supplemental income based on current need. Likewise, the Constitutional requirement to provide due process to claimants where adjustment or termination of their award is required codified at 38 C.F.R. §3.103(b), results in continued payment at improper rates for a minimum of 60 days following discovery. However, when the award is processed, adjustment is effective on the first of the month subsequent to the month in which the change of circumstance occurred. Because the principles of due process are mandated by the Constitution, continued payments during the due process notification period are a necessary cost of administering the program.

**2. Compensation, Education, Insurance, Vocational Rehabilitation and Employment Services, Beneficiary Travel, CHAMPVA, Non-VA Care Fee, State Home Per Diem Grants, and Supplies and Materials.**

There are no known statutory or regulatory barriers limiting VA's ability to implement corrective actions in reducing improper payments associated with these programs.

**Section IX. This section describes additional comments, if any, on overall agency efforts, specific programs' best practices, or common challenges identified, as a result of IPERA implementation.**

Many of VHA improper payments did not result in a recoverable amount that could be established as a receivable and collected back

from the vendor through VA's debt collection procedures. The table below takes the percentage of improper payments that could be



recoverable and multiplies it by the outlays to show the projection of recoverable improper payments.

Non-VA Care: Less than 1 percent of errors occurred as a result of insufficient or missing

clinical documentation. This error category demonstrated noteworthy improvement over the 2011 findings, reducing the error rate from 22 percent to less than 1 percent.

**Table 7**  
**Recoverable Improper Payments for 2012 (Based on 2011 data)**  
 (\$ in millions)

Program	Outlays \$	Recoverable IP % <sup>(2)</sup>	Recoverable IP \$ <sup>(1)</sup>
Beneficiary Travel	828	0.41	3.40
CHAMPVA	849	0.35	2.97
Non-VA Care Fee	4,290	5.76	247.1
State Home Per Diem Grants	787	0.40	3.15
Supplies and Materials	2,052	0.22	4.51

**Notes to Recoverable Improper Payment Table:**

<sup>(1)</sup> A recoverable improper payment is an improper payment that can be established as a receivable and collected back from the recipient through the VA's debt collection procedures. VA defines a debt as a claim for money owed to the government arising out of the VA activities. VA uses a number of debt collection tools, including:

- Internal Offset
- Treasury Offset Program
- Treasury Cross Servicing

<sup>(2)</sup> Recoverable percentages are based on results as reported in Table 1 multiplied by the total projected estimated error rate.



## Definitions

### Definitions of Supporting Measures

Please note: Key Measures are defined in the Key Measures Data Table (see page II-108). The below measures are Supporting Measures.

#### **Accuracy Rate of Decisions (Services)**

This measure represents the percent of cases completed accurately for Veterans who receive Chapter 31 (disabled Veterans receiving vocational rehabilitation) services and/or educational/vocational counseling benefits under several other benefit chapters. Accuracy of service delivery is expressed as a percent of the highest possible score (100) on cases reviewed. (VRE)

#### **Accuracy rate of Vocational Rehabilitation Program Completion Decisions**

This measure is designed to monitor the accuracy of decisions made to declare a Veteran rehabilitated or discontinued from a program of services. (VRE)

#### **Alternative Dispute Resolution (ADR) participation rate in the informal stage of the Equal Employment Opportunity (EEO) complaint process**

This measure represents the percentage of EEO complaints in which both the agency and the employee agreed to use ADR in an effort to reach a mutually satisfactory outcome to the complaint. (Departmental Management)

#### **Amount billed for health care services provided to DoD beneficiaries at VA facilities (\$ millions)**

This measure is the total fiscal year amount billed to DoD facilities for VA facilities providing care to DoD beneficiaries.

#### **Appeals decided per Veteran Law Judge**

This measure represents the total number of decisions, remands, dismissals, and vacatur issued by the Board of Veterans' Appeals, divided by the total number of Veteran Law Judges. (BVA)

#### **Appeals resolution time (From NOD to Final Decision) (Average Number of Days)**

This measure represents the average length of time it takes the Department to process an appeal from the date a claimant files a Notice of Disagreement (NOD) until a case is finally resolved, including resolution at a regional office or by a final decision by the Board. (BVA/Compensation and Pension)

#### **Average processing time for VA regulations requiring advance notice and public comment (2-stage) (number of months)**

This performance measure records the average time it takes VA program offices to publish their regulations. The time starts when the Office of Regulation Policy and Management in the Office of General Counsel issues a public Regulation Identification Number (RIN) and ends when a final rule is published in the *Federal Register*. It does not include time spent in planning or research prior to issuance of a RIN.

The Administrative Procedure Act (APA) requires Federal agencies to provide advance notice of their intended regulations by publishing proposed rules in the *Federal Register* and affording members of the public an opportunity to provide written comments on the agency's proposals. Agencies must then consider the public's comments and respond to them in a second publication, which constitutes the final rule that will become the agency's regulation. This 2-stage process also includes two 90-day reviews by OMB pursuant to Executive Order 12866, Regulatory Planning and Review. (Departmental Management)

#### **Average processing time for VA regulations without advance notice and public comment (1-stage) (number of months)**

This performance measure records the average time it takes VA program offices to publish their regulations. The time starts when the Office of Regulation Policy and Management in the Office of General Counsel issues a public RIN and ends when a final rule is published in the *Federal Register*. It does not include time spent in planning or research prior to issuance of a RIN. The APA exempts certain kinds of Federal regulations from the requirements to provide advance notice and an opportunity for the public to comment. These regulations can be



published in the *Federal Register* as final rules and become effective without being preceded by proposed rules. This 1-stage process includes only one 90-day review by OMB and can be accomplished more quickly than the 2-stage process. Accordingly, the average processing times for these kinds of regulations are measured separately. (Departmental Management)

**Burial claims processed – average days to complete**

This measure represents the average length of time (in days) it takes to process burial allowance claims from the date the claim is received by VA to the date the claim is completed. (End Product 160)(VBA/Burial)

**BVA Cycle Time (Average Number of Days)**

BVA cycle time measures the time a case spends at the Board, other than the time the case file is in the possession of a Veterans Service Organization. (BVA)

**Compensation and Pension National accuracy rate – fiduciary work**

This measure represents a percentage of field examinations and account audits completed nationally and determined to be technically accurate. The accuracy rate for the nation is a compilation of the Pension and Fiduciary Service's review of a sampling of field examinations and account audits completed by the six fiduciary hubs and the Manila fiduciary activity. Accuracy rate is determined by dividing the total number of cases with no errors by the number of cases reviewed. (Compensation and Pension)

**Compensation entitlement claims – average days to complete**

The average length of time (in days) it takes to complete claims for entitlement to compensation that require a disability or death rating determination. It is measured from the date the claim is received by VA to the date the decision is completed. The measure is calculated by dividing the total number of days recorded from receipt to completion by the total number of cases completed. (Compensation)

**Compensation maintenance claims – average days to complete**

The average length of time (in days) it takes to complete claims for compensation that do not require a rating determination. It is measured from the date the claim is received by VA to the date the decision is completed. The measure is calculated by dividing the total number of days recorded from receipt to completion by the total number of cases completed. (Compensation)

**Conversion rate of disabled SGLI members to VGLI**

This measure represents the rate at which recently separated Servicemembers covered under the Servicemembers' Group Life Insurance (SGLI) program who have service-connected disabilities that may prevent them from obtaining life insurance coverage from the private industry convert to the Veterans' Group Life Insurance (VGLI) program after their separation from military service. (Insurance)

**Cumulative percent decrease in greenhouse gas emissions (GHG)**

Executive Order 13514 requires Federal agencies to inventory, track and report on GHG emissions, and to set GHG emissions reduction targets. VA's target, approved by OMB and the White House Council on Environmental Quality in 2010, is a 30 percent reduction in emissions between 2010 and 2020 for Scopes 1 and 2 combined. Emissions are measured in tons of carbon dioxide equivalent (tons CO<sub>2</sub>E). (Departmental Management)

**Customer satisfaction survey scores**

Customer satisfaction scores (measured on a scale of 1 through 5, with 5 being the highest possible score) are based on surveys returned to OIG by the principals impacted by investigations, audits and evaluations, health care inspections, and contract reviews. In instances where customer surveys are returned with lower than anticipated ratings, management may follow up with survey participants to identify any issues that caused low ratings and possible solutions. (OIG)

**Default Resolution Efficiency Ratio**

The default resolution efficiency ratio measures the efficiency of joint servicing efforts by VA and VA-guaranteed loan servicers in helping borrowers with defaulted VA-guaranteed loans. The default resolution efficiency ratio compares the amount of dollars saved in potential claim payments as a result



of the joint servicing efforts to the amount of dollars spent providing the joint servicing efforts. (Loan Guaranty)

**Dollar value of 1<sup>st</sup> and 3<sup>rd</sup> party collections**

Medical care received within VHA has a co-payment attached in some cases. This co-payment is referred to as 1<sup>st</sup> party collections. In addition, for Veterans who have other insurance, as appropriate, those insurance companies are billed for services. Those collections are referred to as 3<sup>rd</sup> party collections. (Medical Care)

**Education Call Center – Abandoned Call rate**

The ratio of calls which are terminated by the caller before reaching a live agent to the total number of calls received at the destination. (Education)

**Education Claims Completed Per FTE**

This measure represents the number of original and supplemental education claims completed divided by the number of direct FTE in the Presidential Budget. (Education)

**Employment Rehabilitation Rate**

The employment rehabilitation rate is calculated as follows: (1) the number of disabled Veterans who successfully complete VA's vocational rehabilitation program and acquire and maintain suitable employment divided by (2) the total number leaving the program from the following two case statuses 5: rehab to employability or 6: employment services— both those rehabilitated plus discontinued cases with a plan developed in one of two case statuses (Rehabilitation to Employability, or Employment Services) minus those individuals who benefited from but left the program under one of two conditions: (a) the veteran accepted an employment position incompatible with disability limitations, (b) the veteran is employable but has informed VA that he/she is not interested in seeking employment, or is not employed and not employable for medical or psychological reasons. (VR&E)

**Gross Days Revenue Outstanding (GDRO) for third party collections**

GDRO compares cash flow and level of receivables. For VHA, it represents the number of days to collect from Third Party payors measured from the Bill Authorization Date to Payment Date. GDRO is

widely used in the health care industry as it specifically defines the age of outstanding receivables and the number of accounts receivable liquidation days. (Medical Care)

**Independent Living Rehabilitation Rate**

The independent living rehabilitation rate is calculated as follows: (1) the number of disabled Veterans who successfully complete VA's vocational rehabilitation program with disabilities for whom employment is infeasible but who obtain independence in their daily living with assistance from the program divided by (2) the total number leaving the program from case status 4 (independent living)—both those rehabilitated plus discontinued cases with a plan developed in independent living. (VR&E)

**Lender Satisfaction with VA Loan Guaranty Program**

This measure represents the percent of VA participating lenders who indicate via survey that they are "very satisfied" or "somewhat satisfied" with the VA Loan Guaranty Program. (Loan Guaranty)

**Monetary benefits (dollars in millions) from audits, investigations, contract reviews, inspections, and other evaluations**

Monetary benefits represent the actual and potential monetary benefits identified during the conduct of OIG investigations, audits, inspections, contract reviews, and other evaluations. (OIG)

**Montgomery GI Bill (MGIB) usage rate for Veterans who have passed their 10-year eligibility period**

The MGIB usage rate is derived by dividing the number of Veterans who have received benefits and are beyond their 10-year delimiting date by the number of all Veterans who have participated in the MGIB program and whose 10-year period in which to use the benefit has expired. (Education)

**National Accuracy Rate – burial claims processed**

This measure represents the percentage of burial claims (EP 160) completed and determined to be technically accurate. Accuracy rate is determined by dividing the total number of cases with no errors by the number of cases reviewed. (VBA/Burial)



**National accuracy rate (Compensation maintenance claims)**

This measure represents claims processing accuracy for compensation claims that do not require a rating decision. Review criteria include: addressing all issues, VCAA-compliant development, correct decision, correct effective date, and correct payment date if applicable. Accuracy rate is determined by dividing the total number of cases with no errors in any of these categories by the number of cases reviewed. (Compensation)

**National accuracy rate - pension entitlement claims**

This measure represents claims processing accuracy for pension claims that normally require a disability or death rating determination. Review criteria include: addressing all issues, VCAA-compliant development, correct decision, correct effective date, and correct payment date if applicable. Accuracy rate is determined by dividing the total number of cases with no errors in any of these categories by the number of cases reviewed. (Pension)

**National Call Center Customer Satisfaction Overall Score**

This measure represents the overall customer's experience and enables VA to assess key attributes such as courtesy of the representative; knowledge of the representative; overall concern of the customer's needs; usefulness of the information provided to address the problem, question, or request; timeliness of resolving the problem, question, or request; and promptness in speaking with customers. These key attributes will help to identify process improvements throughout the National Call Centers. In addition, this measure represents the overall customer's experience with VBA's Veterans Relationship Management technology transformation efforts (e.g., Virtual Hold, Customer Relationship Management/Unified Desktop, etc.) and will further enable VA to identify processes and industry best practices for implementation. (Compensation)

**Number of arrests, indictments, convictions, criminal complaints, pretrial diversions, and administrative sanctions**

This number represents the output resulting from the conduct of an OIG investigation into allegations

of criminal activities related to programs and operations of VA or into allegations against senior VA officials and other high profile matters of interest to Congress and the Department. (OIG)

**Number of disbursements (death claims, loans, and cash surrenders) per FTE**

This measure is calculated by dividing the number of disbursements -- which includes death claims, loans, and cash surrenders -- by the total number of FTE who process those disbursements. (Insurance)

**Number of Health Care Associated Complications**

This measure cannot be calculated reliably. The Office of Analytics and Business Intelligence is committed to developing, testing, and validating a composite HAC rate in keeping with the goals of the Partnership for Patients.

**Number of Homeless Veterans on any given night**

Homelessness is very difficult to quantify given the inherent transient nature of this problem. The "number of Homeless on any given night" is an estimate of the number of actual homeless based on a survey that currently combines findings from the Department of Housing and Urban Development estimates and the CHALENG survey which is comprised of two components; a Participant Survey completed by VA staff and community providers, officials, and volunteers targeting feedback from providers of homeless services and a Consumer Survey completed by the Homeless Veteran focused on the Veteran's perceived needs and feedback on available services. (Medical Care and Departmental Management)

**Number of material weaknesses**

Audits are performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and the requirements of the OMB Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," as amended. This measure reports how many material weaknesses are identified each year in VA's consolidated financial statements. (Departmental Management)



**Number of reports (audit, inspection, evaluation, contract review, and Combined Assessment Program (CAP) reports) issued that identify opportunities for improvement and provide recommendations for corrective action**

This measure shows the number of reports issued by the OIG in which substantive corrective actions, in the form of audit, inspection, evaluation, contract review and CAP report recommendations are documented and which require remedial action by the Department. (OIG)

**Obligations per unique patient user**

This measure represents the average cost of total obligations for medical care divided by unique patients served. (Medical Care)

**Overall satisfaction rate (Compensation)**

This measure represents the percentage of respondents to the Compensation and Pension customer satisfaction survey who were "very satisfied" or "somewhat satisfied" with the way VA handled/is handling their compensation claim. (Compensation)

**Overall satisfaction rate (Pension)**

This measure represents the percentage of respondents to the Compensation and Pension customer satisfaction survey who were "very satisfied" or "somewhat satisfied" with the way VA handled/is handling their pension claim. (Pension)

**Payment accuracy rate**

This measure assesses how well decisions reflect payment at the proper rate for the correct period of time. (Education)

**Percentage of beneficiaries that believe their VA educational assistance has been either very helpful or helpful in the attainment of their educational or vocational goal**

This measure will determine the proportion of beneficiaries who report their VA educational benefits helped them accomplish their educational or vocational goal. (Education)

**Percentage of beneficiaries very satisfied or somewhat satisfied with the way VA handled their education claim**

This measure represents the national percentage of respondents to the education customer satisfaction survey who were "very satisfied" or "somewhat satisfied" with the way VA handled their education benefits claim. (Education)

**Percentage of prosecutions successfully completed**

This measure represents those cases referred for prosecution for which a conviction, pretrial diversion, or a deferred prosecution was obtained. (OIG)

**Percentage of recommendations implemented within 1 year to improve efficiencies in operations through legislative, regulatory, policy, practices, and procedural changes in VA**

This measure represents the percentage of recommendations made in OIG reports that are implemented by the Department within 1 year in order to improve operations. (OIG)

**Percentage of recommended recoveries achieved from post-award contract reviews**

This measure represents the percentage of recommended recoveries from post-award contract reviews that are actually billed and collected by the Department. (OIG)

**Percentage of responses to pre- and post-hearing questions that are submitted to Congress within the required timeframe**

Before or after a VA witness testifies at a Congressional hearing, a member of Congress may have questions that need to be answered in writing known as questions for the record. OCLA monitors the timeliness of VA's responses to pre-and post-hearing questions. (Departmental Management)

**Percentage of testimony submitted to Congress within the required timeframe**

OCLA monitors the timeliness of VA's submission of subject matter expert testimony for Congressional committee hearings. (Departmental Management)



**Percentage of title 38 reports that are submitted to Congress within the required timeframe**

OCLA monitors the timeliness of VA's submission of title 38 congressionally mandated reports to Congress. Congressionally mandated reports are reports or studies that Congress directs VA to submit, either through statutory language or language contained in reports that accompany a statute. Reports may be one-time or recurring with deadlines established by Congress. (Departmental Management)

**Percentage of VA employees who are Veterans**

This is the percentage of employees who are entitled to statutory types of preference in the Federal service based on certain active military service. (Departmental Management)

**Percent Condition Index (owned buildings)**

This measure is calculated by comparing the cost of repair needs to plant replacement value as defined by the Federal Real Property Council guidance. Facilities with low repair costs compared to their overall value are considered in better operating condition and would have a higher condition index. (Departmental Management)

**Percent increase in number of enrolled Veterans participating in telehealth**

This measure represents the change in percentage of the number of Veterans receiving identified telehealth services in the year being reported in relation to the baseline year (percent increase or decrease).

**Percent of annual major construction operating plan executed**

This measure represents planned major construction awards compared to actual awards for the given fiscal year.

**Percent of annual milestones achieved towards deployment and implementation of an automated GI bill benefits delivery system**

This percentage represents the number of Post 9/11 GI Bill milestones delivered during the fiscal year divided by the number of Post 9/11 GI Bill milestones planned to be delivered during the fiscal year. (Departmental Management)

**Percent of available Veteran electronic records which can be accessed through Virtual Lifetime Electronic Record (VLER) capabilities through "Blue Button" functionality**

Results will be calculated using 100 percent of available Veteran electronic records. The numerator is the number of available Veteran electronic records that can be accessed through VLER. The denominator is the total number of available virtual Veteran electronic records (Departmental Management)

**Percent of claims processed through the automated claims processing system (Education)**

This percentage represents the number of Post-9/11 GI Bill claims processed through the Long-Term Solution divided by the number of education claims received. (Education)

**Percent of claims where a portion of the required forms were filed electronically**

This measure represents the percentage of claims from Servicemembers, Veterans and their beneficiaries, and other designated individuals submitted using the Internet. (Compensation and Pension)

**Percent of clinic "no shows" and "after appointment cancellations" for OEF/OIF Veterans**

Missed Opportunities and No Shows are clinic appointments scheduled for a patient visit, but the patient did not complete the appointment and did not call to cancel the appointment in advance (No Show). Because the appointment was not cancelled timely there was no opportunity to schedule a different patient into that appointment opening resulting in a "missed opportunity" to provide health care and other services. (Medical Care)

**Percent of concurrence actions completed on time**

OCLA monitors the percent of its on-time approvals for correspondence to Congress. (Departmental Management)

**Percent of current year electricity consumption generated with renewable energy sources**

This measure is calculated by summing all qualifying renewable electricity consumption, dividing by the



sum of all electricity consumption, and expressing the result as a percentage. (Departmental Management)

**Percent of eligible OEF/OIF PTSD patients evaluated at required intervals for level of symptoms**

The percentage of OEF/OIF combat Veterans being treated in VA for PTSD who have their level of PTSD symptoms evaluated and recorded at required intervals. (Medical Care)

**Percent of Eligible Patient Evaluations Documented within 14 days of New MH Patient Index Encounter**

This measure represents the percent of Veterans not seen in a Mental Health clinic at the administrative parent facility in the prior 24 months (new) presenting with a request for mental health services or those who are referred for specialty mental health services and are then seen by an MH professional qualified to provide a full MH evaluation and specialty MH care within 15 days of their referral.\* (\*The immediate safety and health care needs of the Veteran are addressed at the time of the initial visit.) (Medical Care)

**Percent of eligible patients screened at required intervals for alcohol misuse**

The percentage of Veterans seeking care in VA who were screened annually for signs and or symptoms of alcohol misuse utilizing the AUDIT C evidence-based screening instrument. (Medical Care)

**Percent of eligible patients screened at required intervals for depression**

The percentage of Veterans seeking care in VA screened annually for signs and or symptoms of depression utilizing the PHQ2 or PHQ9 evidence based screening instrument. (Medical Care)

**Percent of eligible patients screened at required intervals for PTSD**

The percentage of Veterans seeking care in VA who were screened for PTSD utilizing the PC-PTSD evidence based screening instrument. The Veteran must be screened annually for the first 5 years after most recent date of service separation and then every 5 years after the first 5 years. (Medical Care)

**Percent of employees in mission critical and key occupations who participated in a competency based training program within the last 12 months**

Mission Critical/Key Occupations are those occupations that have been identified from the workforce that are critical to support the mission and the accomplishment of VA's agency goals, objectives, and initiatives.

Competency Based Training Program is a program that contains competencies pertaining to the knowledge, skills, and abilities needed to build a highly competent organization capable of meeting current and future challenges. (Departmental Management)

**Percent of federally recognized Native American tribes contacted by VA for outreach purposes**

The percent represents the number of Federally Recognized Native American tribes that were contacted. The total number of Federally Recognized tribes is 564. (Departmental Management)

**Percent of funeral directors who respond that national cemeteries confirm the scheduling of the committal service within 2 hours**

This measure represents the percent of funeral directors who respond that the amount of time it typically takes to confirm the scheduling of an interment is less than 2 hours. (Burial)

**Percent of gravesites that have grades that are level and blend with adjacent grade levels**

This percentage represents the number of gravesites that are level and blend with adjacent grade levels divided by the number of gravesites assessed. (Burial)

**Percent of headstone and marker applications from private cemeteries and funeral homes received electronically**

This percentage represents the number of applications for headstones and markers to be placed in private cemeteries that are received electronically (Internet or toll-free fax) divided by the total number of applications received. (Burial)



**Percent of headstones and markers that are delivered undamaged and correctly inscribed**

This percentage represents the number of headstones and markers that are undamaged and correctly inscribed when received, divided by the number of headstones and markers ordered. (Burial)

**Percent of headstones and/or markers in national cemeteries that are at the proper height and alignment**

This percentage represents the number of headstones and markers in national cemeteries that are at the proper height and alignment divided by the total number assessed. (Burial)

**Percent of headstones, markers, and niche covers that are clean and free of debris or objectionable accumulations**

This percentage represents the number of headstones, markers, and niche covers that are clean and free of debris or objectionable accumulations divided by the total number assessed. (Burial)

**Percent of IDES participants who will be awarded benefits within 30 days of discharge**

This measure represents participants in the Integrated Disability Evaluation System program awarded VA compensation benefits within 30 days after their date of discharge.

**Percent of milestones achieved in deploying and implementing the Client Relations Management System (CRMS)**

This percentage represents the number of CRMS milestones delivered during the fiscal year divided by the number of CRMS milestones planned to be delivered during the fiscal year. (Departmental Management)

**Percent of milestones achieved in deploying and implementing the Virtual Lifetime Electronic Record (VLER)**

This percentage represents the number of VLER milestones delivered during the fiscal year divided by the number of VLER milestones planned to be delivered during the fiscal year. (Departmental Management)

**Percent of milestones achieved towards deployment and implementation of a paperless disability claims processing system**

This percentage represents the number of Veteran Benefits Management System (VBMS) milestones delivered during the fiscal year divided by the number of VBMS milestones planned to be delivered during the fiscal year. (Departmental Management)

**Percent of milestones completed towards development of one new objective method to diagnose mild Traumatic Brain Injury (TBI)**

This percentage represents the number of milestones completed to date divided by the total number of milestones to be achieved (Medical Care).

**Percent of Montgomery GI Bill or Post 9/11 GI Bill participants who successfully completed an education or training program**

This measure represents the percentage of service members and Veterans who received Post-9/11 GI Bill or Montgomery GI Bill education benefits and obtained a degree or certificate.

**Percent of national cemetery buildings and structures that are assessed as "acceptable" according to annual Facility Condition Assessments**

The percentage represents the number of facilities (buildings and structures) at national cemeteries that are assessed as acceptable divided by the total number of facilities assessed.

An NCA facility (building or structure) is "acceptable" if the overall grade from the Facility Condition Assessment, Building, and Structure Score Sheet is a "C" or better and there are no critical areas scored "D" or "F". (Burial)

**Percent of NonVA claims paid in 30 days**

The percentage of Non-VA claims which were processed within 30 days, this percentage includes the processing time for paid claims (Medical Care).

**Percent of OEF/OIF Veterans with a primary diagnosis of PTSD who receive a minimum of 8 psychotherapy sessions within a 14-week period**

This measure represents the percent of OEF/OIF Veterans seeking care in VA with a primary diagnosis of PTSD who have received at least 8 individual



evidence based psychotherapy sessions over the span of a 14 week period. (Medical Care)

**Percent of patients who report being seen within 20 minutes of scheduled appointments at VA health care facilities**

This measure represents the percent of patients who report in the Survey of Health Care Experiences of Patients (SHEP) that they were seen by the provider within 20 minutes or less of their scheduled appointment time. (Medical Care)

**Percent of Presidential Memorial Certificate applications that are processed within 20 days of receipt**

This percentage represents the number of applications for Presidential Memorial Certificates (PMC) processed within 20 days of receipt of the application divided by the total number of applications for PMCs received. (Burial)

**Percent of respondents who agree or strongly agree that the quality of the headstone or marker received from VA was excellent**

This measure represents the number of survey respondents who agree or strongly agree that the quality of the headstone or marker received from VA is excellent divided by the total number of survey respondents, expressed as a percentage. (Burial)

**Percent of respondents who agree or strongly agree that the quality of the Presidential Memorial Certificate received from VA was excellent**

This measure represents the number of survey respondents who agree or strongly agree that the quality of the PMC received from VA is excellent divided by the total number of survey respondents, expressed as a percentage. (Burial)

**Percent of respondents who would recommend the national cemetery to Veteran families during their time of need**

This measure represents the percent of survey respondents who agree or strongly agree that they would recommend the national cemetery to Veteran families during their time of need. (Burial)

**Percent of separating Servicemembers that are provided with VA and DoD benefit information within 6 months of the expiration of their term of service (ETS) through the eBenefits portal**

This is a joint VA/DoD effort that measures the percentage of Servicemembers provided benefit and service information within 6 months of the expiration of their term of service through eBenefits Portal. The VA/DoD Identity Repository system and eBenefits portal are the mechanisms used to track and provide targeted benefit and service information messages to Servicemembers. (Benefits Assistance Service)<sup>3</sup>

**Percent of space utilization as compared to overall space (owned and direct-leased)**

This measure is calculated by comparing owned and direct-leased square feet not needed to the owned and direct-leased square feet available. (Departmental Management)

**Percent of Total Hearings that are Conducted via Video Conference**

This measure is calculated by dividing the number of hearings conducted by video conference by the total number of hearings held. Hearings are held either by video conference, in person in the field, or in person at BVA's Washington, DC office. (BVA)

**Percent of total procurement dollars awarded to service-disabled Veteran-owned small businesses**

This number represents the percentage of total dollars spent with service-disabled Veteran-owned small businesses based on total small business eligible dollars reported. Data are obtained from the Federal Procurement Data System-Next Generation (FPDS-NG), provided by the Federal Procurement Data Center at <https://www.fpds.gov>. Final data are based on the Small Business Administration (SBA) Goaling Report. "Service-disabled Veteran-owned small business concern means a small business concern"—(1) Means a small business concern (i) Not less than 51 percent of which is owned by one or more service-disabled Veterans or, in the case of

<sup>3</sup> This is a new VBA business line that manages the delivery of benefits information related to Compensation/Pension, Insurance, Education, Loan Guaranty, and Vocational Rehabilitation & Employment benefits.



any publicly owned business, not less than 51 percent of the stock of which is owned by one or more service-disabled Veterans; and (ii) The management and daily business operations of which are controlled by one or more service-disabled Veterans or, in the case of a service-disabled Veteran with permanent and severe disability, the spouse or permanent caregiver of such Veteran. In addition, some businesses may be owned and operated by an eligible surviving spouse. (2) Service-disabled Veteran means a Veteran, as defined in 38 U.S.C. 101(2), with a disability that is service-connected, as defined in 38 U.S.C. 101(16). In addition, service-disabled Veteran-owned small businesses participating in set-asides or subcontracts authorized by VAAR 819.7001 must be listed on the VetBiz.gov Vendor Information Pages (VIP) Database. (Departmental Management)

**Percent of total procurement dollars awarded to Veteran-owned small businesses**

This number represents the percentage of total dollars spent with Veteran-owned small businesses based on total small business eligible dollars reported. Data are obtained from the FPDS-NG, provided by the Federal Procurement Data Center at <https://www.fpds.gov>. Final data are based on the SBA Goaling Report. "Veteran-owned small business concern means a small business concern—(1) Not less than 51 percent of which is owned by one or more Veterans (as defined at 38 U.S.C. 101(2)) or, in the case of any publicly owned business, not less than 51 percent of the stock of which is owned by one or more Veterans; and (2) The management and daily business operations of which are controlled by one or more Veterans. In addition, Veteran-owned small businesses participating in set-asides or subcontracts authorized by VAAR 819.7001 must be listed on the VIP Database. (Departmental Management)

**Percent of VA Hospitals whose unplanned readmissions rates are less than or equal to other hospitals in their community**

The Readmission Rate measure is a weighted composite of the 30-day unplanned Readmission Rates for Acute Myocardial Infarction, Heart Failure, and Pneumonia calculated using the methodology adopted by the Centers for Medicare and Medicaid Services (CMS) and reported on their Hospital

Compare website in July, 2012. CMS methodology includes adjustment for factors that determine risk of admission, and is based on a rolling 3-year average of rates. Hospitals with fewer than 25 eligible cases are not reported due to the poor reliability of estimates of performance (Medical Care).

**Percent of VA IT systems that automatically reuse all redundant client information in other systems**

This percentage represents the number of IT systems using a common identity management solution divided by the number of IT systems that are planned to use a common identity management solution. (Departmental Management)

**Percent of Veterans who report "yes" to the Shared Decision-making questions in the Inpatient SHEP survey**

This measure looks at Veterans who indicated whether their doctors or other health providers discussed with them the pros and cons of each choice for their treatment or health care and which choice was best for them. (Medical Care)

**Percent of Veterans who successfully obtain resident status as a result of vouchers distributed through the U.S. Department of Housing and Urban Development and Veterans Affairs Supportive Housing (HUD-VASH) program**

This measure represents the percent of homeless Veterans who use Housing Choice Voucher (HCV) rental assistance through HUD with case management and clinical services provided by VA. (Medical Care)

**Percent of VHA clinical health care professionals who have had VA training prior to employment**

This performance measure represents the response received from VA's All-Employee Survey for current VA employees who took part in a training or educational program based partly or entirely in VA before becoming a VA employee (programs include paid and unpaid **internships, residencies, fellowships, or clinical or administrative rotations**). (Medical Care)

**Program Review Accuracy Rate (Housing)**

This measure represents the overall accuracy rate of Loan Guaranty operations across Loan Production,



Construction & Valuation, Loan Administration, and Specially Adapted Housing. For the number of oversight items reviewed across these areas, it represents the percentage of which were found to have no errors. (Loan Guaranty)

**Progress toward researching, developing, and implementing innovations in clinical practice that ensure improved access to health care for Veterans, especially in rural areas**

This percentage represents the number of milestones completed to date divided by the total number of milestones to be achieved (Medical Care).

**Rate of homeownership for Veterans compared to that of the general population**

This measure represents the percentage of Veterans who own their homes compared to the percentage of the general non-Veteran population who own their homes. (Loan Guaranty)

**Ratio of non-mission dependent assets to total assets**

This measure is calculated by comparing the number of non-mission dependent assets to total assets. (Departmental Management)

**Ratio of operating costs per gross square foot**

This measure is calculated by dividing operating costs by owned and direct-leased square feet. Operating and maintenance costs are actual costs based on roads and grounds maintenance, utility plant operations, rent, energy, cleaning and janitorial services, and recurring maintenance and repairs. (Departmental Management)

**Rehabilitation Rate**

The rehabilitation rate calculation is as follows: (a) the number of disabled Veterans who successfully complete VA's vocational rehabilitation program and acquire and maintain suitable employment and Veterans with disabilities for which employment is infeasible but who obtain independence in their daily living with assistance from the program divided by (b) the total number of Veterans leaving the program—both those rehabilitated plus discontinued cases with a plan developed in one of three case statuses (Independent Living, Rehabilitation to Employability, or Employment

Services) minus those individuals who benefited from but left the program and have been classified under one of two "maximum rehabilitation gain" categories: (1) the Veteran accepted an employment position incompatible with disability limitations, (2) the Veteran is employable but has informed VA that he/she is not interested in seeking employment, or is not employed and not employable for medical or psychological reasons (VR&E)

**Return on investment (monetary benefits divided by cost of operations in dollars)**

This measure represents the monetary benefits derived from inspections, reports, investigations, evaluations and other oversight performed by OIG divided by the cost of doing those activities. (OIG)

**Serious Employment Handicap (SEH) Rehabilitation Rate**

The serious employment handicap rehabilitation rate calculation is as follows: (1) the number of disabled Veterans with a serious employment handicap who successfully complete VA's vocational rehabilitation program and acquire and maintain suitable employment and Veterans with disabilities for whom employment is infeasible but who obtain independence in their daily living with assistance from the program divided by (2) the total number of disabled Veterans with a serious employment handicap leaving the program—both those rehabilitated plus discontinued cases with a plan developed in one of three case statuses (Independent Living, Rehabilitation to Employability, or Employment Services) minus those individuals with a serious employment handicap who benefited from but left the program under one of three conditions: the Veteran (a) reached "maximum rehabilitation gain" due to choosing to be employed in a job that is not suitable, (b) reached "maximum rehabilitation gain" due to being unemployed but employable and not seeking employment, or not employable for medical or psychological reasons, or (c) elected to discontinue his or her VR&E plan to pursue educational goals utilizing Post 9/11 GI Bill Benefits (Chapter 33). (VRE)

**Speed of Entitlement Decisions in average days**

This measure represents the average number of days from the time the application is received until the



Veteran is notified of the entitlement decision.  
(VR&E)

**Success Rate of Automated Certificate of Eligibility (ACE) System**

This measure represents the percent of successful Certificate of Eligibility determinations processed via the ACE system. (Loan Guaranty)

**Total amount expended for health care services rendered to VA beneficiaries at a DoD facility (\$ millions)**

This measure is the total fiscal year amount of care VA facilities purchased for VA beneficiaries from DoD facilities (Medical Care).

**Veterans' Satisfaction Level with the VA Loan Guaranty Program**

This measure represents the percentage of Veterans answering the Loan Guaranty customer satisfaction survey who were "very satisfied" or "somewhat satisfied" with the process of obtaining a VA home loan. (Loan Guaranty)

**Veterans' Satisfaction with the Vocational Rehabilitation and Employment Program**

This measure represents the percent of Veterans who answered "very satisfied" or "somewhat satisfied" overall with the VRE program (of those who completed or withdrew from the program). (VRE)

**Workers' Compensation Lost Time Case Rate (LTCR)**

The Lost Time Case Rate (LTCR) represents the number of OWCP lost time injury and illness cases per 100 employees. The rates are calculated separately by dividing the number of lost time cases by the number of employees. The resulting number is then multiplied by 100, for a rate per 100 employees. OPM provided OSHA with the data on the average number of employees for each department and independent agency for each fiscal year. The Lost Time case numbers are derived from claims submitted to Office of Workers' Compensation Programs (OWCP) involving lost production days and with "case create" dates from each fiscal year (less denied cases).



## Definitions of Financial and Other Terms

### Accounts payable

This term is defined as the money VA owes to vendors and other Federal entities for products and services purchased. This is treated as a liability on the balance sheet. (Financial)

### Accounts receivable

This term is defined as the amount of money that is owed to VA by a customer (including other Federal entities) for products and services provided on credit. This is treated as a current asset on the balance sheet and includes such items as amounts due from third-party insurers for Veterans' health care and from individuals for compensation, pension, and readjustment benefit overpayments. (Financial)

### Acquired loans

This term is defined as VA-guaranteed loans in default that VA purchases from the private sector mortgage lender and services the loan with the Veteran directly after VA determines the Veteran can service the debt service payments. This type of loan is part of the VA loan guaranty program. (Financial)

### Allowance

This term is defined as the amounts included in the President's budget request or projections to cover possible additional proposals, such as statutory pay increases and contingencies for relatively uncontrollable programs and other requirements. As used by Congress in the concurrent resolutions on the budget, allowances represent a special functional classification designed to include amounts to cover possible requirements, such as civilian pay raises and contingencies. Allowances remain undistributed until they occur or become firm, then they are distributed to the appropriate functional classification(s). (Financial)

### Apportionment

This term is defined as a distribution made by OMB of amounts available for obligation in an appropriation or fund account. Apportionments

divide amounts available for obligation by specific time periods (usually quarters), activities, projects, objects, or a combination thereof. The amounts so apportioned limit the amount of obligations that may be incurred. (Financial)

### Appropriated funds

This term is defined as general fund expenditure accounts established to record amounts appropriated by law for the general support of Federal Government activities and the subsequent expenditure of these funds. It includes spending from both annual and permanent appropriations. (Financial)

### Appropriation

This term is defined as the specific amount of money authorized by Congress for approved work, programs, or individual projects. (Financial)

### Appropriation Authority

This term is defined as the authority granted by Congress for the agency to spend Government funds. (Financial)

### Average daily census

The number is the average number of patients enrolled in the specified programs over the course of the year. Specified programs include Home and Community-Based Care programs (e.g., Home-Based Primary Care, Purchased Skilled Home Health Care, Spinal Cord Injury Home Health Care, Adult Day Health Care (VA and Contract), Home Hospice, Outpatient Respite, Community Residential Care, and Homemaker/Home Health Aide Services). (Medical Care)

### Balance sheet

This term is defined as a summary of all the assets the agency owns and the liabilities owed against those assets as of a point in time (the end of the fiscal year for VA is September 30). This statement always shows two consecutive fiscal year snapshots so the reader can compare the information. There is no "owners' equity" in a Federal agency as there is in a non-government company. However, we instead report our "net position," which is the amount of unexpended appropriation authority. (Financial)



### **Baseline (Performance)**

The process of establishing through statistical analysis, research, or other empirical evidence, the basis for a performance target. The baselining process most often occurs when a new measure is being developed.

### **Budget Authority**

This term is defined as the authority provided by law to enter into obligations that will result in immediate or future outlays involving Federal Government funds, except that budget authority does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government. The basic forms of budget authority are appropriations, authority to borrow, and contract authority. Budget authority may be classified by the period of availability (1-year, multiple-year, no-year), by the timing of congressional action (current or permanent), or by the manner of determining the amount available (definite or indefinite). (Financial)

### **Budgetary resources**

Budgetary resources are forms of authority given to an agency allowing it to incur obligations. Budgetary resources include new budget authority, unobligated balances, direct spending authority, and obligation limitations. (Financial)

### **CARES – Capital Asset Realignment for Enhanced Services**

CARES is the VA program designed to assess Veteran health care needs in VHA Networks, identify service delivery options to meet those needs in the future, and guide the realignment and allocation of capital assets to support the delivery of health care services. (Medical Care)

### **Chief Financial Officers Act of 1990**

This legislation was enacted to improve the financial management practices of the Federal Government and to ensure the production of reliable and timely financial information for use in the management and evaluation of Federal programs. (Financial)

### **Earmarked funds**

This term is defined as funds where VA has program management responsibility and that are financed by

specifically identified revenues, often supplemented by other financing sources, and are required by statute to be used for designated activities or purposes. They are accounted for separately from the Government's general revenues. VA's earmarked funds consist of trusts, special, and revolving funds and remain available over time. The U.S. Treasury does not set aside assets to pay future expenditures associated with earmarked funds. (Financial)

### **Exchange Revenue**

Exchange revenues arise when a Federal entity provides goods and services to the public or to another government entity for a price. (Financial)

### **Federal Credit Reform Act of 1990**

This legislation was enacted to improve the accounting for costs of Federal credit programs. (Financial)

### **Federal Financial Management Improvement Act (FFMIA)**

The FFMIA requires agencies to produce timely and reliable financial statements that demonstrate their compliance with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government standard general ledger. If an agency believes its systems are not FFMIA-compliant, it must develop a remediation plan to achieve compliance within 3 years. (Financial)

### **Federal Information Security Management Act of 2002 (FISMA)**

The purposes of this act are to:

- Provide a comprehensive framework for ensuring the effectiveness of information security controls over information resources that support Federal operations and assets.
- Recognize the highly networked nature of the current Federal computing environment and provide effective Governmentwide management and oversight of the related information security risks, including coordination of information security efforts throughout the civilian, national security, and law enforcement communities.



- Provide for development and maintenance of minimum controls required to protect Federal information and information systems.
- Provide a mechanism for improved oversight of Federal agency information security programs.
- Acknowledge that commercially developed information security products offer advanced, dynamic, robust, and effective information security solutions, reflecting market solutions for the protection of critical information infrastructures important to the national defense and economic security of the nation that are designed, built, and operated by the private sector.
- Recognize that the selection of specific technical hardware and software information security solutions should be left to individual agencies from among commercially developed products. (Information Security)

**Federal Information Systems Control Audit Manual (FISCAM)**

This manual describes the computer-related controls that auditors should consider when assessing the integrity, confidentiality, and availability of computerized data. It is a guide applied by GAO primarily in support of financial statement audits and is available for use by other government auditors. It is not an audit standard. (Information Security)

**Federal Managers' Financial Integrity Act (FMFIA) of 1982**

This legislation requires Federal agencies to establish processes for the evaluation and improvement of financial and internal control systems in order to ensure that management control objectives are being met. (Financial)

**Franchise Fund**

VA's fund is comprised of six enterprise centers that competitively sell common administrative services and products throughout the Federal Government. The funds are deposited into the Franchise Fund. The Centers' operations are funded solely on a fee-for-service basis. Full cost recovery ensures they are self-sustaining. (Departmental Management)

**Fund Balance with the Treasury**

This term is defined as the aggregate amount of funds in VA's accounts with the Department of the Treasury for which it is authorized to make expenditures and pay liabilities. This account includes clearing account balances and the dollar equivalent of foreign currency account balances. (Financial)

**Government Management Reform Act of 1994**

This legislation was enacted to provide more effective and efficient executive branch performance in reporting financial information to Congress and committees of Congress. (Financial)

**Heritage Assets**

Heritage Assets are unique and are generally expected to be preserved indefinitely. Heritage assets may have historical or natural significance; be of cultural, educational, or artistic importance; or have significant architectural characteristics. (Financial)

**Integrated Electronic Health Record (iEHR)**

The integrated Electronic Health Record (iEHR) program is a collaborative partnership between the Department of Veterans Affairs and Department of Defense to modernize health care information systems and achieve significant improvement in the capturing, storing and sharing of electronic health information. The iEHR will provide unprecedented value to patients, clinicians, and the Agencies involved. iEHR will reduce the burden felt by Service members and Veterans to track and maintain their health information and records.

**Interagency Program Office (IPO)**

IPO serves as the single point of accountability in the development and implementation of the integrated Electronic Health Record (iEHR) and Virtual Lifetime Electronic Health Record (VLER) Health systems, capabilities, and initiatives. This includes all current and future joint health IT implementations such as the James A. Lovell Federal Health Care Center in North Chicago, IL with the objective of achieving full interoperability between DoD and VA.



#### **Intragovernmental assets**

These assets arise from transactions among Federal entities. These assets are claims of the reporting entity against other Federal entities. (Financial)

#### **Intragovernmental liabilities**

These liabilities are claims against the reporting entity by other Federal entities. (Financial)

#### **Inventory**

An inventory is a tangible personal property that is (1) held for sale, including raw materials and work in process, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. (Financial)

#### **Management (or internal) controls**

This term is defined as safeguards (organization, policies, and procedures) used by agencies to reasonably ensure that (1) programs achieve their intended results; (2) resources are used consistent with agency mission; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported, and used for decision making. (Financial)

#### **Material weakness**

This term is defined as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. (Financial)

#### **Memorial Service Network**

NCA's field structure is geographically organized into five Memorial Service Networks (MSN). The national cemeteries in each MSN are supervised by the MSN Director and staff. The MSN offices are located in Philadelphia, Pennsylvania; Atlanta, Georgia; Indianapolis, Indiana; Denver, Colorado; and Oakland, California. The MSN Directors and staff provide direction, operational oversight, and

engineering assistance to the cemeteries located in their geographic areas. (Burial)

#### **National Institute of Standards and Technology (NIST) and its Computer Security Division**

NIST is a non-regulatory Federal agency within the U.S. Commerce Department's Technology Administration. NIST's mission is to promote U.S. innovation and industrial competitiveness by advancing measurement science, standards, and technology in ways that enhance economic security and improve our quality of life. The Computer Security Division is one of eight divisions within NIST's Information Technology Laboratory. The mission of the Computer Security Division is to improve information systems security. (Information Security)

#### **Native American loans**

This term is defined as direct loans that are special financing enabling Native Americans to purchase a home on Federally recognized trust land. This type of loan is part of the VA loan guaranty program. (Financial)

#### **Net cost of operations**

Net cost of operations is the gross cost incurred by VA less any exchange revenue earned from its activities. The gross cost of a program consists of the full cost of the outputs produced by that program plus any non-production costs that can be assigned to the program. (Financial)

#### **Net position**

Net position comprises the portion of VA's appropriations represented by undelivered orders and unobligated balances (unexpended appropriations) and the net results of the reporting entity's operations since inception, plus the cumulative amount of prior period adjustments (cumulative results of operations). (Financial)

#### **Net program cost**

Net program cost is the difference between a program's gross cost and its related exchange revenues. If a program does not earn any exchange revenue, there is no netting and the term used might be total program cost. (Financial)



### **Notes to the Consolidated Financial Statements**

The notes provide additional disclosures that are necessary to make the financial statements more informative and not misleading. The notes are an integral part of the financial statements. (Financial)

### **Obligations**

Obligations represent the amount of orders placed, contracts awarded, services received, and other transactions occurring during a given period that would require payments during the same or future period. (Financial)

### **Offsetting collections**

Offsetting collections include reimbursements, transfers between Federal and trust fund accounts, offsetting governmental collections, and refunds. For accounting purposes, earned reimbursements are also known as revenues. These offsetting collections are netted against gross outlays in determining net outlays from such appropriations. (Financial)

### **Offsetting receipts**

Offsetting receipts are collections that are offset against gross outlays but are not authorized to be credited to expenditure accounts. Offsetting receipts are deposited in receipt accounts. Like offsetting collections, they result from (1) businesslike transactions or market-oriented activities with the public, (2) intragovernmental transfers, and (3) collections from the public that are governmental in nature but required by law to be classified as offsetting receipts. Offsetting receipts are offsets to gross budget authority and outlays, usually at the Department or Administration level, but some are unavailable for expenditure. Unlike offsetting collections, offsetting receipts cannot be used without being appropriated. (Financial)

### **OMB Circular No. A-123**

OMB issued Circular No. A-123 to provide guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls. (Financial)

### **OMB Circular No. A-127**

OMB issued Circular No. A-127 to prescribe policies and standards for executive departments and

agencies to follow in developing, operating, evaluating, and reporting on financial management systems. (Financial)

### **OMB Circular No. A-130, Appendix III**

OMB issued Circular No. A-130, Appendix III to establish a minimum set of controls to be included in Federal automated information security programs; assign Federal agency responsibilities for the security of automated information; and link agency automated information security programs and agency management control systems established in accordance with OMB Circular No. A-123. (Information Security)

### **Outlay**

Outlay is the amount of checks, disbursement of cash, or electronic transfer of funds made to liquidate a Federal obligation. Outlays also occur when interest on the Treasury debt held by the public accrues and when the Government issues bonds, notes, debentures, monetary credits, or other cash-equivalent instruments in order to liquidate obligations. (Financial)

### **Program evaluation**

This term is defined as an assessment, through objective measurement and systematic analysis, of the manner and extent to which Federal programs achieve intended outcomes. (Departmental Management)

### **Prompt Payment Act**

The Prompt Payment Final Rule (formerly OMB Circular No. A-125, "Prompt Payment") requires executive departments and agencies to pay commercial obligations within certain time periods and to pay interest penalties when payments are late. (Financial)

### **Property, Plant, and Equipment**

Property, plant, and equipment consist of tangible assets, including land, that have estimated useful lives of 2 years or more, not intended for sale in the ordinary course of operations, and have been acquired or constructed with the intention of being used, or being available for use, by the reporting entity. (Financial)



**PTSD – Post-Traumatic Stress Disorder**

PTSD is an anxiety disorder that can occur following the experience or witnessing of life-threatening events, such as military combat, natural disasters, terrorist incidents, serious accidents, or violent personal assaults such as rape. People who suffer from PTSD often relive the experience through nightmares and flashbacks, have difficulty sleeping, and feel detached or estranged. These symptoms can be severe enough and last long enough to significantly impair the person’s daily life. Common PTSD stressors in Veterans include war zone stress (e.g., combat and exposure to mass casualty situations), the crash of a military aircraft, or sexual assault. VA is committed to providing an integrated, comprehensive, and cost-effective continuum of care for Veterans with PTSD. (Medical Care)

**Research and Development**

Research and development investments are expenses included in the calculation of net costs to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new and improved products and processes, with the expectation of maintaining or increasing national economic productivity capacity or yielding other future benefits. (Financial)

**Revolving funds**

This term is defined as a fund used to finance a cycle of business-like operations through collections of amounts received from the sale of products or services. The collections are used to finance its spending, usually on a self-sustaining basis. Revolving funds record the collections and the outlays of revolving funds in the same Treasury account. A revolving fund is a form of permanent appropriation receiving authority to spend the collections; the fund does not generally receive appropriations. (Financial)

**Significant Deficiency**

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s

financial statements, that is more than inconsequential, will not be prevented or detected by the entity’s internal control. (Financial)

**Special funds**

This term is defined as an appropriation account established to record appropriations, obligations, and outlays financed by the proceeds of special fund receipts, which are dedicated collections by law for a specific purpose or program. Medical Care Collections Fund and Lease of Land and Building (NCA Facilities Operation Fund) are special funds. (Financial)

**State and Tribal Organization Veterans Cemeteries**

State and Tribal Organization Veterans Cemeteries, which complement VA’s system of national cemeteries, provide burial options for eligible Veterans and their family members. These cemeteries may be established by States or Tribal Organizations with the assistance of VA’s Veterans Cemetery Grants Program (VCGP). The VCGP provides grants to states and tribal organizations of up to 100 percent of the cost of establishing, expanding, or improving State and Tribal Organization Veterans Cemeteries. (Burial)

**Statement of Budgetary Resources**

This term is defined as a financial statement that provides assurance that the amounts obligated or spent did not exceed the available budget authority, obligations and outlays were for the purposes intended in the appropriations and authorizing legislation, other legal requirements pertaining to the account have been met, and the amounts are properly classified and accurately reported. (Financial)

**Statement of Changes in Net Position**

This term is defined as a financial statement that provides the manner in which VA’s net costs were financed and the resulting effect on the Department’s net position. (Financial)

**Statement of Net Costs**

This term is defined as a financial statement that provides information to help the reader understand the net costs of providing specific programs and activities, and the composition of and changes in these costs. (Financial)



#### **Statement of Written Assurance**

A statement of written assurance is required by the FMFIA. Each year, the head of each executive agency must prepare a statement that the agency's systems of internal accounting and administrative control fully comply with the requirements of the law, or that they do not comply. In the latter case, the head of the agency must provide a report that identifies (1) the material weaknesses in the agency's system of internal accounting and administrative controls and (2) the plans and schedules for correcting any such weaknesses. (Financial)

#### **Status of Budgetary Resources**

This term is defined as the obligations incurred, the unobligated balances at the end of the period that remain available, and unobligated balances at the end of the period that are unavailable except to adjust or liquidate prior year obligations. (Financial)

#### **Stewardship Property, Plant, and Equipment (PP&E)**

This term is defined as assets whose physical properties resemble those of general PP&E that are traditionally capitalized in financial statements. However, due to the nature of these assets, (1) valuation would be difficult and (2) matching costs with specific periods would not be meaningful. Stewardship PP&E consists of heritage assets, national defense PP&E, and Stewardship Land. (Financial)

#### **Telehealth**

This term is defined as the use of electronic communications and information technology to provide and support health care when distance separates the participants. It includes health care practitioners interacting with patients, and patients interacting with other patients. (Medical Care)

#### **Telemedicine**

This term is defined as the provision of care by a licensed independent health care provider who directs, diagnoses, or provides clinical treatment via electronic communications and information technology when distance separates the provider and the patient. (Medical Care)

#### **Traumatic Brain Injury**

A structural and/or physiological disruption of brain function resulting from an external force.

#### **Unobligated Balances**

This term is defined as balances of budgetary resources that have not yet been obligated. (Financial)

#### **VA Domiciliary**

A VA domiciliary provides comprehensive health and social services in a VA facility for eligible Veterans who are ambulatory and do not require the level of care provided in nursing homes. (Medical Care)

#### **VA Hospital**

A VA hospital is an institution that is owned, staffed, and operated by VA and whose primary function is to provide inpatient services. Note: Each division of an integrated medical center is counted as a separate hospital. (Medical Care)

#### **VA National Cemetery**

A VA national cemetery provides gravesites for the interment of deceased Veterans and their eligible family members. VA's 131 national cemeteries are national shrines that are important sites for patriotic and commemorative events. (Burial)



**VA Regional Office**

A VA regional office is located in each state plus Puerto Rico and the Philippines. The regional offices receive and process claims for VA benefits. (VBA)

**Vendee loans**

This term is defined as direct loans issued by VA to a third-party borrower for the acquisition price of foreclosed real estate sold by VA after the transfer of the property to VA by a private sector mortgage lender upon default of a loan subject to the VA Loan Guaranty Program. (Financial)

**Veterans Integrated Service Network (VISN)**

VA's 21 VISNs are integrated networks of health care facilities that provide coordinated services to Veterans to facilitate continuity through all phases of health care and to maximize the use of resources. (Medical Care)

**Virtual Lifetime Electronic Record (VLER)**

VLER is a multi-faceted business and technology initiative that includes a portfolio of health, benefits, personnel, and administrative information sharing capabilities. It provides Veterans, Service members, their families, care-givers, and service providers with a single source of information for health and benefits in a way that is secure and is authorized by the Veteran or Service member. (VBA)



## Abbreviations and Acronyms

**ACSI**

American Customer Satisfaction Index

**AFGE**

American Federation of Government Employees

**ALS**

Amyotrophic Lateral Sclerosis

**AMC**

Appeals Management Center

**ARRA**

American Recovery and Reinvestment Act of 2009

**BDD**

Benefits Delivery at Discharge

**BDN**

Benefits Delivery Network

**BHIE**

Bi-Directional Health Information Exchange

**BOSS**

Burial Operations Support System

**BPA**

Blanket Purchase Agreement

**BVA**

Board of Veterans' Appeals

**C&A**

Certification and Accreditation

**C&P**

Compensation and Pension

**CAMS**

Capital Asset Management System

**CAP**

Combined Assessment Program

**CARES**

Capital Asset Realignment for Enhanced Services

**CBOC**

Community-based Outpatient Clinic

**CFS**

Consolidated Financial Statements

**CHAMPVA**

Civilian Health and Medical Program of the Department of Veterans Affairs

**CIO**

Chief Information Officer

**CMOP**

Consolidated Mail Outpatient Pharmacy

**COOP**

Continuity of Operations Plan

**COTS**

Commercial Off-the-Shelf

**COVERS**

Control of Veterans Records System

**CPGI**

Clinical Practice Guideline Index

**CPEP**

Compensation and Pension Examination Program

**CSRS**

Civil Service Retirement System

**DMDC**

Defense Manpower Data Center

**DIC**

Dependency and Indemnity Compensation

**DOOR**

Distribution of Operational Resources

**EA**

Enterprise Architecture

**E-GOV**

Electronic Government

**EVM**

Earned Value Management



**EVR**

Eligibility Verification Reports

**EWL**

Electronic Wait List

**F&FE**

Fiduciary and Field Examination

**FASAB**

Federal Accounting Standards Advisory Board

**FASB**

Financial Accounting Standards Board

**FDC**

Fully Developed Claims

**FECA**

Federal Employees' Compensation Act

**FERS**

Federal Employees Retirement System

**FFMIA**

Federal Financial Management Improvement Act

**FHIE**

Federal Health Information Exchange

**FISMA**

Federal Information Security Management Act

**FMS**

Financial Management System

**FRPC**

Federal Real Property Council

**FSC**

Financial Services Center

**FTE**

Full-time Equivalent

**GAO**

Government Accountability Office

**GPRA**

Government Performance and Results Act

**HAC**

Health Administration Center

**HIPAA**

Health Information Portability and Accountability Act

**HRPP**

Human Research Protection Program

**IDES**

Integrated Disability Evaluation System

**IHS**

Indian Health Service

**IPERA**

Improper Payments Elimination and Recovery Act

**IVM**

Income Verification Match

**JFMIP**

Joint Financial Management Improvement Program

**LGY**

Loan Guaranty

**LTC**

Long-Term Care

**MCCF**

Medical Care Collections Fund

**MSN**

Memorial Service Network

**MTF**

Military Treatment Facility

**NAC**

National Acquisition Center

**NAGE**

National Association of Government Employees

**NCA**

National Cemetery Administration

**NDMS**

National Disaster Medical System

**NRP**

National Response Plan



**OAI**  
Organizational Assessment and Improvement

**OBO**  
Office of Business Oversight

**OEF/OIF/OND**  
Operation Enduring Freedom/Operation Iraqi Freedom/Operation New Dawn

**OGC**  
Office of General Counsel

**OIG**  
Office of Inspector General

**OLCS**  
On Line Certification System

**OWCP**  
Office of Workers' Compensation Program

**PAID**  
Personnel and Accounting Integrated Data

**PAR**  
Performance and Accountability Report

**PMAS**  
Project Management Accountability System

**PMC**  
Pension Maintenance Center

**PMP**  
Project Management Plan

**PP&E**  
Property, Plant & Equipment

**PPA**  
Prompt Payment Act

**PTSD**  
Post-Traumatic Stress Disorder

**QA**  
Quality Assurance

**RPO**  
Regional Processing Office

**RVSR**  
Rating Veterans Service Representative

**SAH**  
Specially Adapted Housing

**SAM**  
Strategic Asset Management

**SCI**  
Spinal Cord Injury

**SCIP**  
Strategic Capital Investment Plan

**SFFAS**  
Statement of Federal Financial Accounting Standards

**SGLI**  
Servicemembers' Group Life Insurance

**SMC**  
Strategic Management Council

**SPAWAR**  
Space and Naval Warfare Systems Center

**SSA**  
Social Security Administration

**STAR**  
Systematic Technical Accuracy Review

**TBI**  
Traumatic Brain Injury

**TOP**  
Treasury Offset Program

**VAMC**  
VA Medical Center

**VARO**  
VA Regional Office

**VBA**  
Veterans Benefits Administration

**VBMS**  
Veterans Benefits Management System

**VCAA**  
Veterans Claims Assistance Act

**VETSNET**  
Veterans Services Network



**VGLI**

Veteran's Group Life Insurance

**VLER**

Virtual Lifetime Electronic Record

**VHA**

Veterans Health Administration

**VistA**

Veterans Information System and  
Technology Architecture

**VRM**

Veterans Relationship Management

**VR&E**

Vocational Rehabilitation and Employment

**VSSC**

VHA Support Service Center



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The Performance and Accountability Report is published by the Department of Veterans Affairs, Office of Management, Office of Performance Management (048), 810 Vermont Avenue, NW, Washington, DC 20420-1000.

An electronic version of this report is available on the [Web](http://www.va.gov/budget/report) at [www.va.gov/budget/report](http://www.va.gov/budget/report)

Questions about this report should be directed to VA's Office of Performance Management at 202-461-7389

Data

### Veteran Population by State As of September 30, 2012

(in thousands)

