

U.S. Department of Veterans Affairs



**Fiscal Year 2024
Agency Financial Report**



ABOUT THE COVER

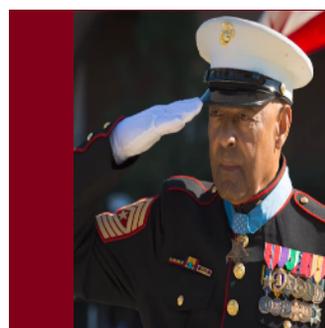
Each year, the Veterans Day National Committee selects a commemorative Veterans Day poster from designs submitted by artists nationwide for the annual Veterans Day Poster Contest. In addition to donning the walls of Department of Veterans Affairs (VA) facilities, military installations, and municipal buildings in cities and towns across America, the poster also serves as the cover of the official program for the Veterans Day commemoration at Arlington National Cemetery on November 11, 2024.

The theme of this year's Veterans Day observance is "A Legacy of Loyalty and Service." The winning design was created by Myisha Godette, a retired, disabled Army Veteran from Queens, New York.

Myisha's design was driven by a desire to represent all who have served. "As a Veteran, I've sometimes felt underrepresented, prompting me to consider how best to incorporate inclusivity and the essence of loyalty and service," she said. "Ultimately, I chose to symbolize the shared experience of Service members—past, present, and future—with elements like the American Flag, military "dog tags," and the enduring strength of Veterans, embodied by a solid, dark concrete background in my design."

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MESSAGE FROM VA'S SECRETARY



THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

November 15, 2024



On behalf of the dedicated employees who work tirelessly to serve the Nation's Veterans, I am privileged to present the United States Department of Veterans Affairs' (VA or the Department) Fiscal Year (FY) 2024 Agency Financial Report (AFR). This report offers financial and performance information demonstrating our commitment to fiscal transparency and responsibility as we uphold VA's mission "To fulfill President Lincoln's promise to care for those who have served in our Nation's military and for their families, caregivers, and survivors."

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

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

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

Lastly, I am pleased to announce the Department received its 26th consecutive unmodified audit opinion from independent public accounting firm CliftonLarsonAllen for the FY 2024 financial statement audit. This audit signifies that VA's financial statements are fairly presented in all material aspects. With this achievement in mind, VA continues to strive for financial management excellence, actively addressing any material weaknesses, significant deficiencies, and noncompliance identified by the auditors. Detailed remediation efforts are provided in the Management's Statement of Assurance on page 29 of this AFR.

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

Sincerely,

(/s/) Denis McDonough

ABOUT THE AGENCY FINANCIAL REPORT

The VA Fiscal Year (FY) 2024 Agency Financial Report (AFR) provides fiscal and summary performance results that enable the President, Congress, and the American people to assess our accomplishments for the reporting period October 1, 2023 through September 30, 2024. The AFR consists of the following three primary sections.

- *Management's Discussion and Analysis:* showcases VA's mission, organizational structure, and the dedicated work of VA employees in support of the Nation's Veterans. It provides an overview of financial results, summary-level performance information, management assurance regarding internal controls, and forward-looking information.
- *Financial Section:* details the VA's financial position as of the fiscal year ended September 30, 2024. This section presents VA's FY 2024 audited financial statements and footnote disclosures along with the results of the independent auditors' report.
- *Other Information:* contains the Office of Inspector General's (OIG) VA Management and Performance Challenges, a summary of financial statement audit and management assurances, and Payment Integrity Information Act Reporting, among other requirements.

Pursuant to the Office of Management and Budget (OMB) Circular No. A-136, the Department chose to produce an AFR and an Annual Performance Plan and Report (APP&R). The FY 2024 APP&R will be provided along with the Congressional Budget Justification in February 2025. The AFR, APP&R, and Congressional Budget Justification are available on VA's website at www.va.gov/performance/.

FOR MORE INFORMATION

Information about VA's programs is available at www.va.gov.

VA's social media pages:

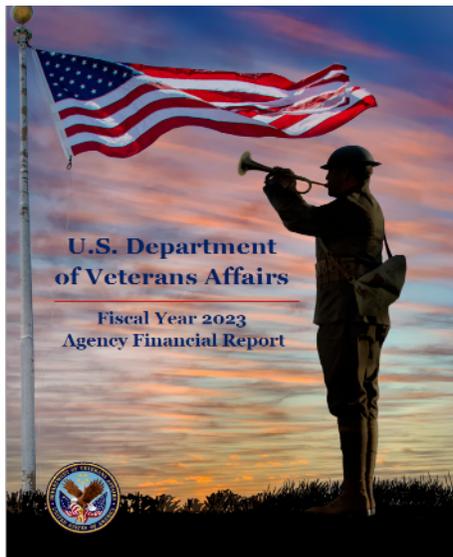
-  <https://www.facebook.com/VeteransAffairs>
-  <https://twitter.com/DeptVetAffairs/>
-  <http://www.blogs.va.gov/VAntage/>
-  <https://www.flickr.com/photos/VeteransAffairs/>
-  <https://www.youtube.com/user/DeptVetAffairs>
-  <https://www.instagram.com/deptvetaffairs/>



Help us improve!

After reading the AFR, please consider providing comments and suggestions by completing the AFR survey anonymously. It is located at [Agency Financial Report - U.S. Department of Veterans Affairs \(va.gov\)](https://www.va.gov/agency-financial-report).

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING



VA is proud to announce that its FY 2023 AFR was awarded the Association of Government Accountants' (AGA) [Certificate of Excellence in Accountability Reporting](#) (CEAR) at a ceremony held on May 16, 2024. The CEAR is the highest form of recognition in Federal Government management reporting, and FY 2023 is the fifth consecutive year in which VA received this distinguished award. VA also won a Best-in-Class award for the presentation of the most important forward-looking information. The AGA, in conjunction with the Chief Financial Officers Council and OMB, established the CEAR Program to improve accountability through streamlined, effective reporting that clearly shows agency accomplishments with taxpayer dollars and the challenges that remain.



Certificate of Excellence in Accountability Reporting®

presented to the

U.S. Department of Veterans Affairs

in recognition of outstanding effort in preparing the Agency Financial Report for fiscal year 2023



(/s/) Andrew Lewis

Andrew Lewis, CGFM, CPA
Chair, CEAR Board

(/s/) Ann M. Ebberts

Ann M. Ebberts, MS, PMP
Chief Executive Officer, AGA



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Chair, CEAR Board

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Ann M. Ebberts, MS, PMP
Chief Executive Officer, AGA



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Honoring Sergeant Major L. John Canley

Pictured Above: John Canley saluting.

John Canley was the first living Black Marine to receive the Medal of Honor—50 years after he demonstrated valor in Vietnam.

In 1953, at age 15, Canley borrowed his older brother's credentials to enlist in the Marines. Inspired to join after watching the 1949 John Wayne movie "Sands of Iwo Jima," he served three combat tours.

By January 1968, when his company of mostly teenage troops was deployed to the city of Huế in central Vietnam during the Tet offensive, he had already served in Japan and South Korea.

During the Battle of Huế, Canley, already wounded, repeatedly rushed across fire-swept terrain to carry fellow wounded Marines to safety. When his commanding officer was severely wounded, he took command and led the 150-man company during three days of counterattacks against North Vietnamese positions, bringing relief to his surrounded comrades.

Twice in full view of the enemy, Canley scaled a wall to draw fire and expose the North Vietnamese positions. Armed with grenades, he charged enemy machine gun nests, allowing his comrades to escape while he rescued the wounded.

For his undaunted courage, selfless sacrifice, and unwavering devotion to duty, he was awarded the Medal of Honor on October 17, 2018.

Canley passed away on May 11, 2022. We honor his service.

MISSION

“To fulfill President Lincoln’s promise to care for those who have served in our Nation’s military and for their families, caregivers, and survivors.”

VA’s mission statement is adapted from President Lincoln’s immortal words, delivered in his second inaugural address more than 155 years ago. We care for Veterans, their families, and survivors—men and women who have responded when their Nation needed help. VA’s mission is clear-cut, direct, and historically significant. It is a mission that every employee is proud to fulfill.



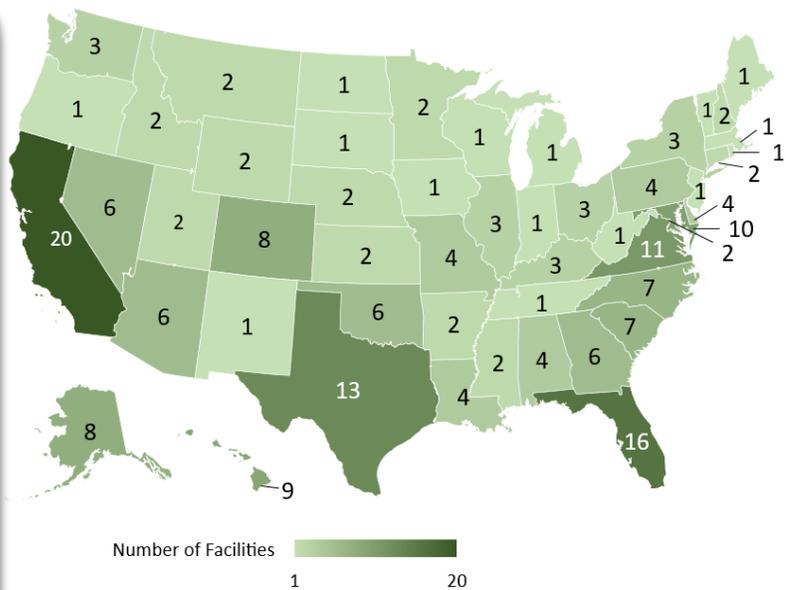
VA carries out four specific missions to make good on that commitment: Veterans benefits, health care, national cemeteries, and our fourth mission. VA’s fourth mission, supported by all the Administrations, is to improve the Nation’s [preparedness](#) for response to war, terrorism, national emergencies, and natural disasters by developing plans and taking actions to ensure continued service to Veterans, as well as to support national, state, and local emergency management, public health, safety, and homeland security efforts.

ORGANIZATION

VA is comprised of three Administrations responsible for delivering services to Veterans—[Veterans Benefits Administration](#) (VBA), [Veterans Health Administration](#) (VHA), and the [National Cemetery Administration](#) (NCA)—and Staff Offices that support the Department.

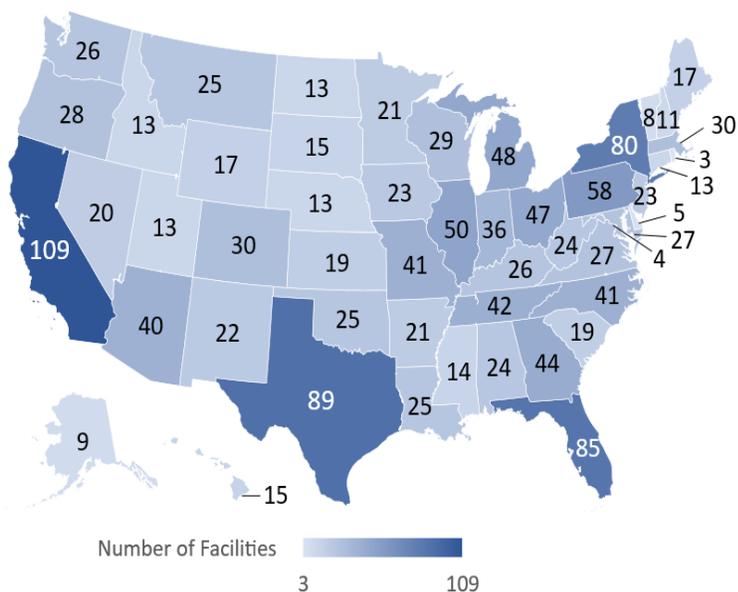
VBA provides various benefits to Veterans and their families. These benefits include military-to-civilian transition assistance services, Disability Compensation, pension, fiduciary services, educational opportunities, Veteran readiness, and employment (VR&E) services, home loan guarantee and life insurance. VBA has 216 facilities in the United States, Guam, Puerto Rico, and the Philippines.

Social Media Links: 



The U.S. heat map shows the number of VBA facilities in each U.S. state. Additional VBA facilities can be found in Guam, Puerto Rico, and the Philippines.

MANAGEMENT'S DISCUSSION AND ANALYSIS
ORGANIZATION



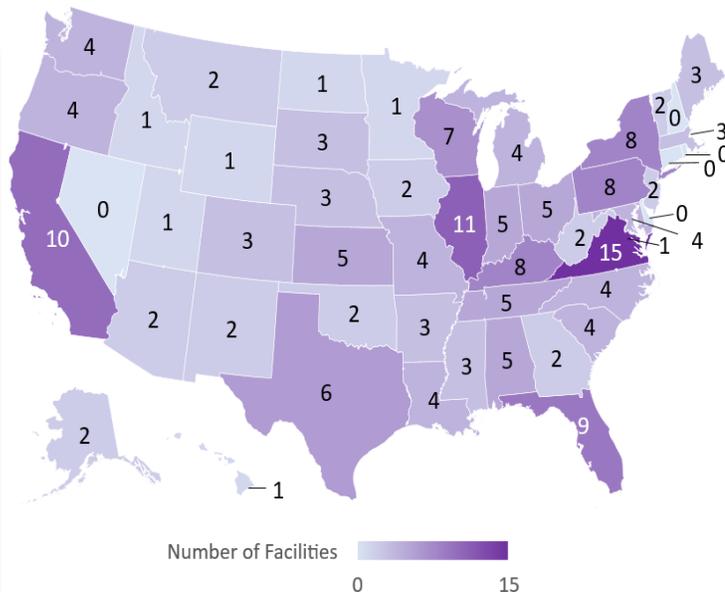
The U.S. heat map shows the number of VHA facilities in each U.S. state. Additional VHA facilities can be found in Puerto Rico, Virgin Islands, American Samoa Islands, the Philippines, and Mariana Islands.

VHA provides a broad range of primary care, specialized care, and related medical and social support services that are uniquely related to Veterans' health or special needs. VHA also advances medical research and development in ways that support Veterans' needs by pursuing research in areas that most directly address the diseases and conditions that affect Veterans. VHA has 1,507 health care facilities including VA medical centers (VAMC) and outpatient sites.

Social Media Links: [YouTube](#) [Facebook](#) [Twitter](#) [LinkedIn](#) [Instagram](#)

NCA provides burial and memorial benefits to Veterans and their eligible family members. These benefits include burial at national cemeteries, headstones and markers, Presidential Memorial Certificates, outer burial receptacles, and medallions. VA runs 155 national cemeteries and 35 soldiers' lots and monument sites in the United States and Puerto Rico. NCA also awards cemetery grants to state and tribal Veterans' cemeteries.

Social Media Links: [Facebook](#) [YouTube](#) [Twitter](#) [LinkedIn](#) [Instagram](#)



The U.S. heat map shows the number of NCA facilities in each U.S. state and the District of Columbia. Two additional NCA facilities can be found in Puerto Rico.

THE VETERAN JOURNEY

The [Veteran Journey](#) is an integrated approach offered to ensure Veterans receive the support they need through each phase of life. VBA, VHA, and NCA provide a wide range of programs and initiatives tailored to the Veteran's specific stages of life. By providing comprehensive resources and assistance, the VA aims to empower Veterans to lead fulfilling lives after their military service. See below for a sample of the programs available to Veterans, which are mapped to the Administrations by icon.



ACTIVE-DUTY PROGRAMS

-  **Pre-Deployment Health Assessments:** Ensures Service members' medical readiness before deployment.
-  **Servicemembers Group Life Insurance (SGLI):** Provides low-cost life insurance coverage to active-duty members.
-  **Traumatic Servicemembers' Group Life Insurance (TSGLI):** Offers financial support to Service members who have experienced traumatic injuries.



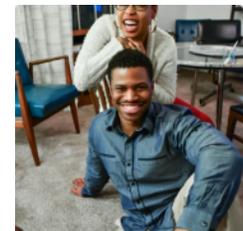
TRANSITION PROGRAMS

-  **Transition Assistance Program (TAP):** Provides comprehensive support for Service members transitioning to civilian life, including employment assistance, education benefits, and health care information.
-  **Veterans Employment Center:** Assists Veterans and transitioning Service members in finding employment opportunities.
-  **Veteran Readiness & Employment (VR&E):** Helps Veterans with service-connected disabilities prepare for, find, and maintain suitable employment.



CIVILIAN LIFE PROGRAMS

-  **Health Care:** Provides Veterans with comprehensive medical services, mental health care, preventive care, and pharmacy benefits.
-  **Home Loans:** Offers home loan guarantees and other housing-related programs to help Veterans purchase, build, repair, or adapt homes.
-  **Education Benefits:** Includes the Post-9/11 GI Bill (PGIB) and Montgomery GI Bill (MGIB) programs.
-  **Disability Compensation Program:** Provides financial assistance to wartime Veterans with service-connected disabilities.

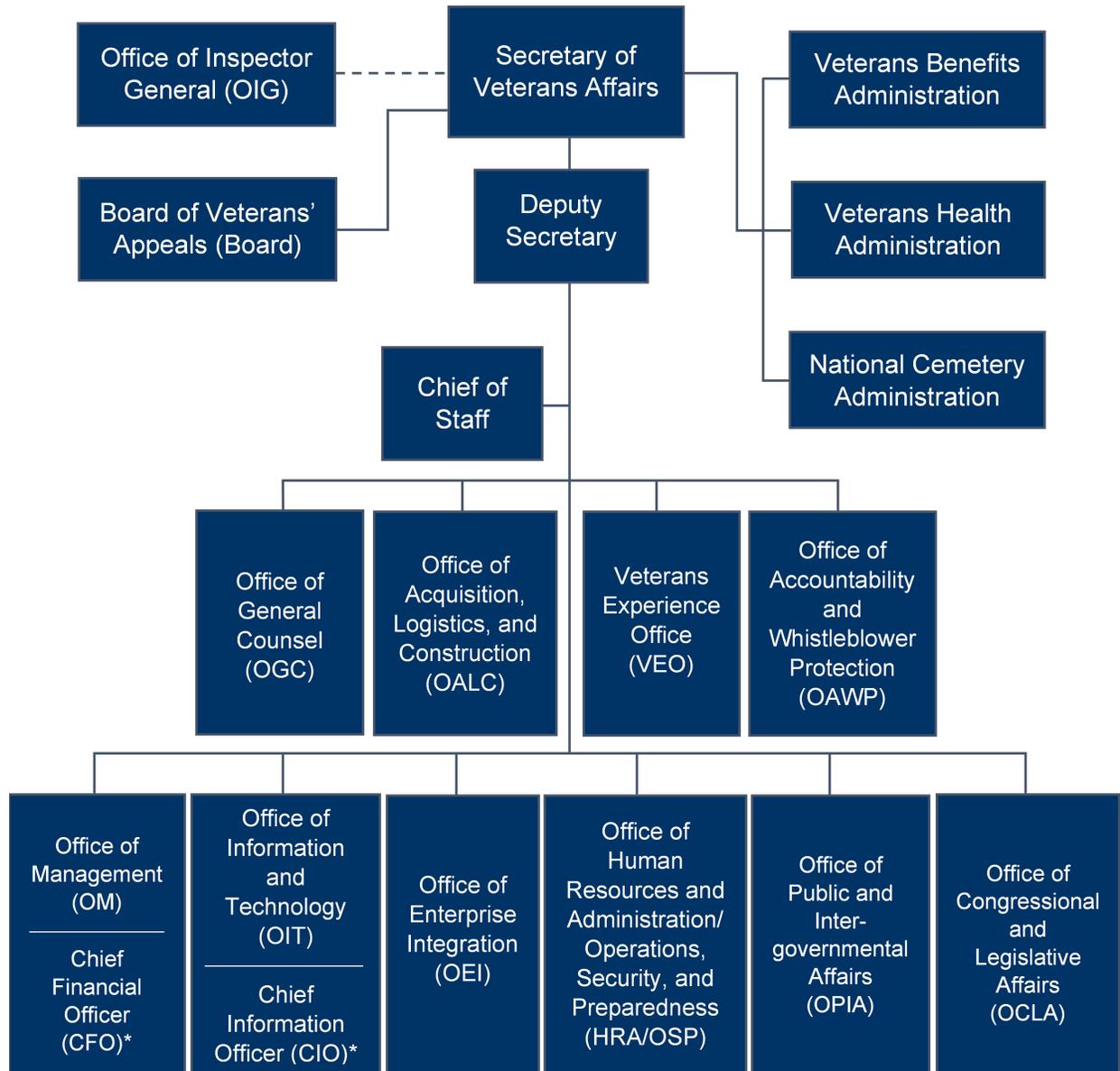


RETIREMENT AND BURIAL PROGRAMS

-  **VA Pension:** Provides financial assistance to wartime Veterans with limited income, including those who have reached retirement age.
-  **VA Caregiver Support:** Supports caregivers of disabled Veterans, including access to respite care, training, and counseling services.
-  **VA Burial Benefits:** Offers various benefits for eligible Veterans and their family members, including burial allowances, cemetery plots, and memorial items.



DEPARTMENT OF VETERANS AFFAIRS ORGANIZATIONAL STRUCTURE



* The CFO and CIO are included in the organization chart, as they are key positions in relation to the content of the AFR.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

The Government Performance and Results Act Modernization Act (GPRAMA) requires CFO Act agencies to develop long-term strategic plans that detail the agency's goals, strategies, and objectives. VA updates the Strategic Plan every 4 years, approximately 1 year after a new Presidential term begins, to accurately reflect the priorities of the new administration. In FY 2023 and FY 2024, VA operated under the [FY 2022-28 Strategic Plan](#).

VA tracks performance metrics against the goals, strategies, and objectives and presents results in the [APP&R](#), which shows how VA measures and monitors its activities against the long-range plan. This AFR will cover a high-level summary of VA's performance results as follows:

- **FY 2023:** VA presents final performance results in the following sections: *Strategic Goal Results Summary* and *Performance and the Financial Connection*.
- **FY 2024:** VA presents preliminary Quarter 3 or Quarter 4 performance results with the latest available data in the following sections: *Agency Priority Goals (APG)* and *Performance and the Financial Connection*.

On the following page, VA presents the strategic goals and objectives from the FY 2022–FY 2028 Strategic Plan. The icons in the *VA Strategic Goals & Objectives* graphic are used throughout this section to map the strategic goals toward achieving the APGs.



DID YOU KNOW?

Women have served in the U.S. military since the American Revolution. Despite their longstanding service, many women Veterans struggle to feel recognized, respected, and valued as Veterans in civilian life.

That's why Army combat Veteran Brooke Jackson Kahn founded She's the Veteran, an organization with a mission to empower and improve the lives of women Veterans through community building, mental health support, and groundbreaking research.

Women Veterans face unique challenges that are often overlooked, including a higher likelihood of developing Post-traumatic Stress Disorder (PTSD), becoming homeless, and struggling with hunger compared to their male counterparts.

Since its launch in 2020, She's the Veteran has been providing a supportive community for women Veterans in South Carolina, a state home to over 45,000 women who served. The organization hosts monthly skill-based activities such as fishing, horseback riding, and shooting clays. The activities are designed to help participants retrain their brains and turn negative experiences into positive ones.



 VA STRATEGIC GOALS & OBJECTIVES	
MISSION STATEMENT: To fulfill President Lincoln's promise to care for those who have served in our nation's military and for their families, caregivers, and survivors.	
FY 2022 - FY 2028 STRATEGIC PLAN	
	Goal 1: VA consistently communicates with its customers and partners to assess and maximize performance, evaluate needs and build long-term relationships and trust.
Objective 1.1: (Consistent and Easy to Understand Information) VA and partners use multiple channels and methods to ensure information about benefits, care, and services is clear and easy to understand and access.	
Objective 1.2: (Lifelong Relationships and Trust) VA listens to Veterans, their families, caregivers, survivors, Service members, employees, and other stakeholders to project future trends, anticipate needs and deliver effective and agile solutions that improve their outcomes, access, and experiences.	
	Goal 2: VA delivers timely, accessible, high-quality benefits, care, and services to meet the unique needs of Veterans and all eligible beneficiaries.
Objective 2.1: (Underserved, Marginalized and At-Risk Veterans) VA emphasizes the delivery of benefits, care, and services to underserved, marginalized, and at-risk Veterans to prevent suicide and homelessness, improve their economic security, health, resiliency, and quality of life and achieve equity.	
Objective 2.2: (Tailored Delivery of Benefits, Care, and Services Ensure Equity and Access) VA and partners will tailor the delivery of benefits and customize whole health care and services for the recipient at each phase of their life journey.	
Objective 2.3: (Inclusion, Diversity, Equity, Accessibility) VA will enhance understanding of Veteran needs and eliminate disparities and barriers to health, improve service delivery and opportunities to enhance Veterans' outcomes, experiences, and quality of life.	
Objective 2.4: (Innovative Care) VA will improve understanding of Veteran specific illnesses and injuries to develop and adopt innovative new treatments that prevent future illness and enhance Veteran outcomes.	
Objective 2.5: (Value and Sustainability) VA, with community partners, will deliver integrated care and services, balancing resources to ensure sustainability while continuing to deliver value and improve health and well-being outcomes of Veterans.	
	Goal 3: VA builds and maintains trust with stakeholders through proven stewardship, transparency and accountability.
Objective 3.1: (VA is Transparent and Trusted) VA will be the trusted agent for service and advocacy for our Nation's heroes, caregivers, families, survivors, and Service members to improve their quality of life and ensure end of life dignity.	
Objective 3.2: (Internal and External Accountability) VA will continue to promote and improve organizational and individual accountability and ensure a just culture.	
	Goal 4: VA will transform business operations by modernizing systems and focusing resources more efficiently to be competitive and to provide world-class customer service to Veterans and its employees.
Objective 4.1: (Our Employees Are Our Greatest Asset) VA will transform its human capital management capabilities to empower a collaborative culture that promotes information sharing, diversity, equity, and inclusion and a competent, high-performing workforce to best serve Veterans and their families.	
Objective 4.2: (Data is a Strategic Asset) VA will securely manage data as a strategic asset to improve VA's understanding of customers and partners, drive evidence-based decision-making, and deliver more effective and efficient solutions.	
Objective 4.3: (Easy Access and Secure Systems) VA will deliver integrated, interoperable, secure, and state-of-the-art systems to ensure convenient and secure access and improve the delivery of benefits, care, and services.	
Objective 4.4: (Evidence Based Decisions) VA will improve governance, management practices, and make evidence-based decisions to ensure quality outcomes and experiences and efficient use of resources.	

AGENCY PRIORITY GOALS (APG)

The GPRAMA requires VA to select four to five APGs every 2 years and review performance on a quarterly basis to evaluate progress and update implementation strategies. VA's FY 2024 – FY 2025 APGs are discussed below and mapped by icons to the strategic goals and objectives that support them. To learn more about VA's APGs, visit [Performance.gov](https://www.performance.va.gov).

CONNECT VETERANS TO THE SOONEST AND BEST CARE



VA will deliver the soonest and best care to Veterans, through continuously improving processes and technology that impact Veteran access to direct and community care. By September 30, 2025, VA will reduce or sustain average wait times for direct and community care and will improve Veteran satisfaction with timeliness of care. In FY 2024, direct care wait times improved for mental health, primary care, and specialty care by 16.3%, 22.7%, and 12.3%, respectively, compared to the FY 2023 baseline.

VETERANS WITH MILITARY ENVIRONMENTAL EXPOSURES



To recognize and honor the sacrifices of Veterans, VA is committed to the delivery of exceptional, high-quality, and preventive health care services, access to disability and related benefits for eligible Veterans, and support of research that enhances scientific understanding of the health outcomes of Military Environmental Exposures (MEE), and development of treatments and preventive strategies. By September 30, 2025, VA will ensure that at least six million VHA enrollees will have a documented toxic exposure screening, proportionately screening Women Veterans. In FY 2024, 5.7 million enrollees have received the toxic exposure screening, an increase of 2 million over the FY 2023 baseline. VA has consistently met or exceeded milestones for the total number of enrollees screened ahead of schedule.

DISABILITY CLAIMS DIGITAL EXPERIENCE



VA will improve the digital customer experience and build trust in VA during the disability claims process. By September 30, 2025, VA will increase the Disability Compensation Claims Survey trust score, increase available online claim application types, enhance online claim status capabilities, and improve usability of the online claim applications. As of FY 2024, VA increased the total number of online forms for disability compensation by 77% from the FY 2023 baseline, and more Veterans are able to complete an online disability application in a single session.

END VETERAN HOMELESSNESS



VA is committed to ending homelessness among Veterans because it is our Nation's duty to ensure all Veterans have a place to call home. By September 30, 2025, VA will place at least 76,000 unique Veterans into permanent housing and ensure that at least 90% of at-risk Veterans are prevented from becoming homeless. During 2023 and 2024, over 46,000 and nearly 48,000 Veterans were placed into permanent housing, respectively.

PREVENT VETERAN SUICIDE



VA's top clinical priority is preventing Veteran suicide, which requires a public health approach, combining community and clinical-based interventions. For FY 2024 and FY 2025, VA established new measures to track progress toward this APG. By September 30, 2025, VA will achieve at least a 75% distribution rate of Lethal Means Safety resources to VA's network of clinical providers and community partners and increase the completion of timely suicide screenings in VHA ambulatory clinics by at least 10%. As of FY 2024, VA has increased the completion of timely screenings by nearly 5%.

VHA HIRE FASTER AND MORE COMPETITIVELY

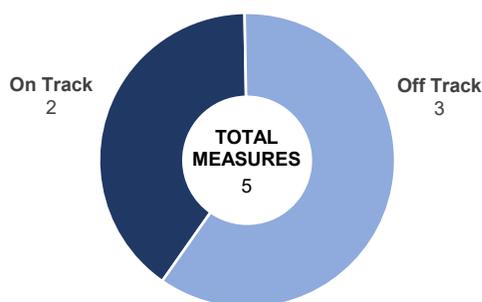


For FY 2024 and FY 2025, VA established new measures to track progress toward this APG. VA will invest in VHA's pipeline; establish affordable position inventory; invest in VHA hiring manager experiences; and improve applicant experiences to strengthen hire faster and more competitively. By September 30, 2025, VHA will achieve 100% placement of VHA trainees in mental health and primary care scholarship programs; increase the number of VHA standardized staffing functions from 3 to 40, with developed and validated staffing models; and achieve candidate satisfaction improvements on the VA Entrance and Onboarding Survey.

STRATEGIC GOAL RESULTS SUMMARY

The results presented in this section are derived from performance data in the FY 2023 APP&R and are aligned with the strategic goals in the FY 2022–FY 2028 Strategic Plan. For each measure in the APP&R, VA sets a target that helps drive continuous improvement. On track measures are those where the target has been met or exceeded. Off track measures represent areas for improvement.

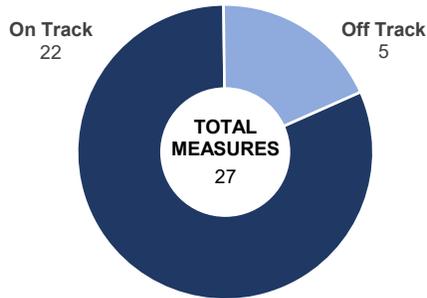
STRATEGIC GOAL 1: *VA consistently communicates with its customers and partners to assess and maximize performance, evaluate needs, and build long-term relationships and trust.*



VA's off-track measures under this goal primarily relate to Strategic Objective 1.2—Lifelong Relationships and Trust. Off-track measures include overall trust in VA; Veterans, their families, caregivers, and survivors felt like valued customers when receiving needed care or services; and ease to receive VA care or services. To drive improvements in these performance measures, VA will continue to supply timely and relevant information through customer communications and strategic partnerships, including community-driven

Veteran organizations. Additionally, VA will sustain Veterans Experience Action Center (VEAC) events, which are collaborative outreach events that include representation from VHA, VBA, NCA, the Board, and community partners. VA will scale VEAC events through a train-the-trainer model for VA facilities, providing more Veterans one-on-one support by training local facilities to conduct their own events.

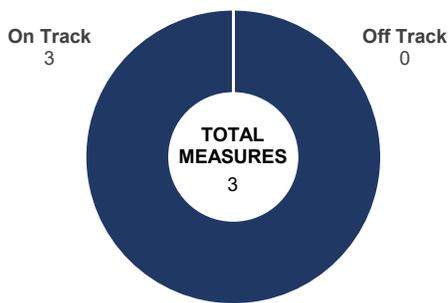
STRATEGIC GOAL 2: *VA delivers timely, accessible, high-quality benefits, care, and services to meet the unique needs of Veterans and all eligible beneficiaries.*



VA's off-track measures under this goal primarily relate to Strategic Objective 2.1—Underserved, Marginalized, and At-Risk Veterans. Off-track measures include the percentage of pension rating claims processed within 125 days and the percentage of housing vouchers allocated that resulted in a homeless Veteran obtaining permanent housing. VA is continuing to modernize claim application forms through enhanced automation, which will result in faster benefit decisions. For homeless Veterans, VA will

expand collaborative case management models of care, which expand capacity by allowing internal and external partners to provide a portion of the services offered to Veterans who have received a housing voucher.

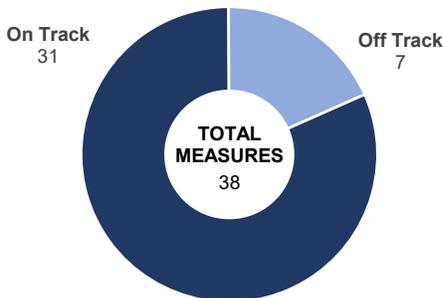
STRATEGIC GOAL 3: *VA builds and maintains trust with Stakeholders through proven stewardship, transparency, and accountability.*



The measures under this Strategic Goal, which align to Strategic Objective 3.2—Internal and External Accountability, were all on-track. Over the last two years, OAWP significantly improved its investigative processes by increasing training and professional development for its investigators and established an Investigative Attorney Division to review investigation reports for legal sufficiency. Based on these and other improvements, OAWP eliminated its backlog and decreased the average

number of days it takes to complete an investigation from 166 in FY 2022 to just 81 days in FY 2023.

STRATEGIC GOAL 4: *VA ensures governance, systems, data, and management best practices improve experiences, satisfaction, accountability, and security.*



VA's off-track measures under this goal primarily relate to Strategic Objective 4.1—Our Employees are Our Greatest Asset and reflect performance related to VA workforce time-to-hire. Even when time-to-hire was longer than desired, VA still executed the hiring necessary to the benefit of the Veteran community, our ultimate customer. VA leveraged multiple recruitment tools to include the PACT Act, which allows VA to offer competitive salaries to attract and retain top talent, and various direct and special hiring authorities to quickly fill mission critical occupations.

With decreasing turnover rates, preserving experienced talent helped to bring about success for VA in providing improved health care and benefits to Veterans.

PERFORMANCE AND FINANCIAL CONNECTION

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

VETERANS HEALTH ADMINISTRATION

PERFORMANCE HIGHLIGHT

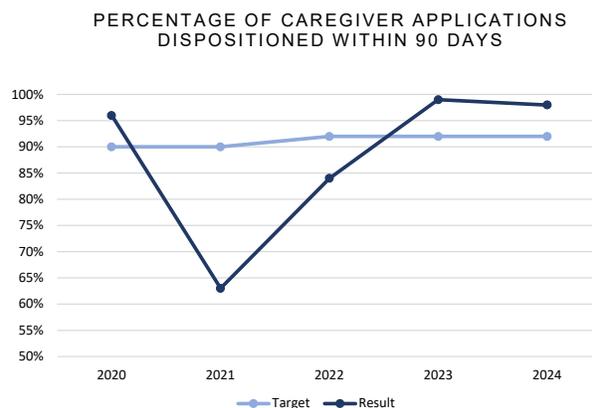


Total VHA budgetary resources were \$179.6 billion and \$163.7 billion and total gross costs were \$156.2 billion and \$136.4 billion for FY 2024 and FY 2023, respectively, for activities related to providing a broad range of primary care, specialized care, and related medical and social support services. Activities performed by VHA help VA to achieve objectives for all Strategic Goals 1, 2, 3, and 4.

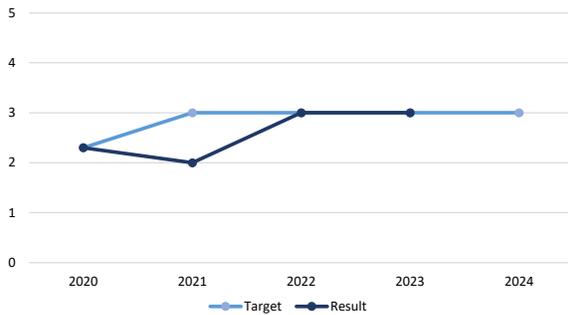
Two areas of focus for VHA in alignment with the Department's APGs are (1) caregiver support and (2) suicide prevention through mental health services. For FY 2024, VHA received \$2.4 billion, an increase of \$556 million from FY 2023, for services to help empower family caregivers of eligible Veterans. VHA received \$559 million in budgetary resources, an increase of \$61 million over FY 2023, to enhance suicide prevention outreach activities. In FY 2024 and FY 2023, costs related to caregiver support and suicide prevention services amounted to \$2.2 billion and \$1.7 billion, respectively, which aided in the following accomplishments.

VHA offers the Program of Comprehensive Assistance for Family Caregivers (PCAFC) to provide enhanced clinical support for family caregivers of eligible Veterans. PCAFC caregiver benefits may include a monthly stipend, access to health care insurance, mental health counseling, certain beneficiary travel benefits, and 30 days of respite care per year.

VA tracks the percentage of PCAFC applications dispositioned within 90 days. As illustrated in the graphic at right, VHA experienced a 350% increase in applications in FY 2021 that resulted in the metric becoming off-track. Since FY 2021, VA increased capacity to process the influx of applications through improved staff hiring and training. In FY 2024, VHA exceeded its target for the caregiver application metric by processing 98% of applications within 90 days. In FY 2025, VHA will focus on maintaining its application disposition rate and providing technical support to the few remaining facilities working to reach the 92% target.



AVERAGE IMPROVEMENT IN MENTAL HEALTH SYMPTOMS IN THE 3-4 MONTHS AFTER START OF MENTAL HEALTH TREATMENT



VA tracks improvement in self-reported mental health symptoms in the 3 to 4 months after the start of mental health treatment with patients scoring improvement on a scale of 1 to 5, one being minimal and five being maximal. This metric is used as one indicator of positive clinical outcomes of mental health treatment in the first 3 months of care. In FY 2023, VA met its target with a mental health symptom improvement rate of 3, remaining consistent with the prior year.

VA will maintain its focus on suicide prevention through mental health services in the upcoming years. In addition, VA will make training available in suicide risk identification and lethal means safety (for example, gun locks) for Community Care Network (CCN) providers.



DID YOU KNOW?

The Veterans Crisis Line is accessible to all Veterans regardless of whether they are enrolled in VA health care or benefits. For more information visit veteranscrisisline.net.



PERFORMANCE IN ACTION



Ramon Gallimore with two dogs in the PAWS program.

Ramon Gallimore spent 30 years in the Marine Corps, deploying multiple times. He bottled up a lot of things during those years. “I had a real rough childhood, witnessing a lot of horrible things,” he says, including the loss of his mother months before deployment. When he left the military, the pain he had compartmentalized surfaced, and he was diagnosed with PTSD. Coming to VA for help, he got more than a helping hand. He got a helping paw.

Gallimore is part of a pilot program at West Palm Beach VA called [Puppies Assisting Wounded Service Members \(PAWS\)](#). A novel therapeutic approach, Veterans with PTSD train service dogs for fellow Veterans. It helps participants feel a sense of purpose and self-worth through helping others.

Gallimore gets to witness what his work does for other Veterans. “Seeing a service dog in action, like alerting a Veteran during a fire alarm drill, was incredible. It showed me the profound difference these dogs can make,” he says.

And at the same time, it is helping him. “Working with the dogs and handling them, seeing them respond to commands, was a breakthrough for me,” he says. “My PTSD episodes became shorter, and my anxiety levels dropped significantly.” Gallimore’s experience shows the pilot program is a win for the trainers and those receiving the service dogs.

VETERANS BENEFITS ADMINISTRATION

PERFORMANCE HIGHLIGHT



Total VBA budgetary resources were \$234.7 billion and \$220.6 billion and total gross costs were \$192.9 billion and \$165.6 billion for FY 2024 and FY 2023, respectively, for activities related to providing various benefits to Veterans and their families. Activities performed by VBA help VA to achieve objectives for Strategic Goals 1, 2, and 3.

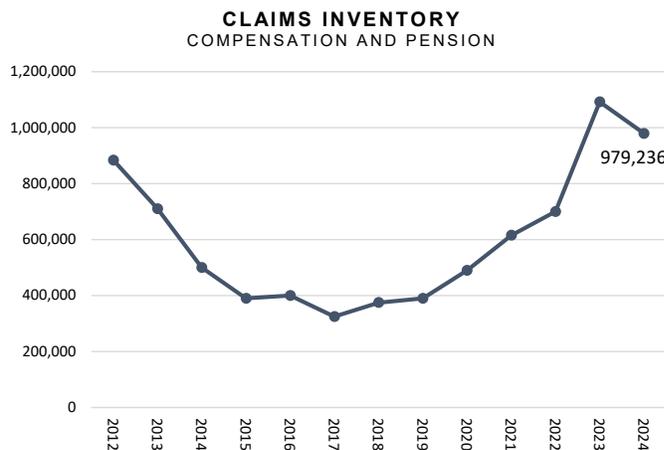
Strategic Goals 1, 2, and 3.

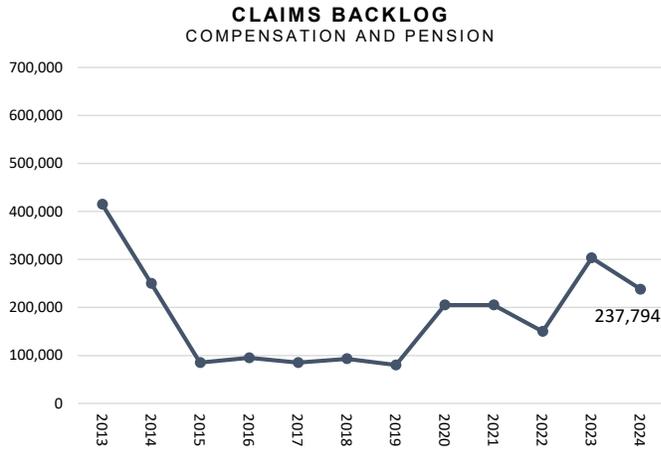
One of VBA's primary functions is to process education, pension, disability compensation, and survivor claims and appeals with a focus on timeliness and quality. For FY 2024, VBA's total budget authority for General Operating Expenses, which helps to process benefit claims, was \$9.1 billion, an increase of \$1.1 billion from FY 2023. In FY 2024 and FY 2023, costs related to the General Operating Expenses were \$8.8 billion and \$5.9 billion, respectively.

The claims inventory includes disability compensation and pension claims VA receives that normally require a rating decision. Commonly known as the rating bundle, it includes claims for Disability Compensation, dependency and indemnity compensation for survivors and Veterans' pension benefits, including both original and supplemental claims. Once VA decides a claim, then it is no longer in the claims inventory. If a Veteran appeals a benefits decision, the appealed claim is tracked separately. When claims in the inventory exceed 125 days, they are considered "backlogged."

The charts presented demonstrate that the claims inventory and backlog decreased significantly from FY 2012 through FY 2015 and remained steady until FY 2020, when the COVID-19 pandemic halted medical examinations and caused inflated processing times. In August 2022, the PACT Act was signed into law and ushered in the largest expansion of Veterans benefits

and care in more than three decades, resulting in a significant increase in the claims inventory. At the beginning of FY 2024, the inventory peaked at 1.1 million claims. In FY 2024, VA processed claims faster than ever before, resulting in a reduction of over 112,000 claims in the inventory. VA's improved efficiency is evidenced by VA processing its one millionth Veteran benefits claim on March 14, 2024, the earliest in VA history and nearly six weeks faster than the previous all-time record (from FY 2023).





In FY 2024, the claims backlog also decreased due to the improved pace in processing. VBA continues to achieve single day processing milestones – VA processed between 9,000 and 10,000 Veteran claims on 86 days and more than 10,000 Veteran claims on 129 days during FY 2024. Before FY 2024, VA had only had three 9,000 claim production days in history.

To further reduce the backlog, VA will continue to invest in continuous learning for all claims processors, and make

technology improvements to ensure that Veterans, family members, caregivers, and survivors receive the benefits they've earned and deserve as quickly and accurately as possible. VA has grown the claims processing workforce more than 50% since FY 2021. This growth, along with new technology to assist those processors, has allowed VA to meet the historic demand for benefits precipitated by the passage of the PACT Act in FY 2022.

PERFORMANCE IN ACTION



Air Force Veteran Aquanetta Brobston attended the Women's Veteran Claims Clinic in Waco, Texas.

The Waco VA Regional Office is making sure women Veterans know about the benefits they've earned by hosting a Benefits Claims Clinic just for them.

The clinic was assembled to address the distinctive needs and challenges faced by women Veterans. As the fastest growing population in the armed forces, women Veterans encounter a range of issues that can differ significantly from their male counterparts. On average, women Veterans experience a higher rate of military sexual trauma, have gender-specific health concerns, and unique challenges as they transition into civilian life.

That is why the outreach team designed a benefit claims clinic to address these and other benefit concerns. The clinic selected 22 female claims processors, coaches, and support staff to create a trusted space for those in attendance to speak freely about their military experience. At the conclusion of their visit, women Veterans were welcome to have refreshments, speak with other Veterans, and visit with VA staff if they had additional questions.

Aquanetta Brobston, an Air Force Veteran said, "I found a VA advocate, and that is the best take away from today." An advocate is a VA representative that speaks on behalf of the Veteran and assists them in navigating their claim. "I now want my husband to apply for VA benefits too. There was so much helpful information provided today, and I am hopeful more Veterans will find out about it."

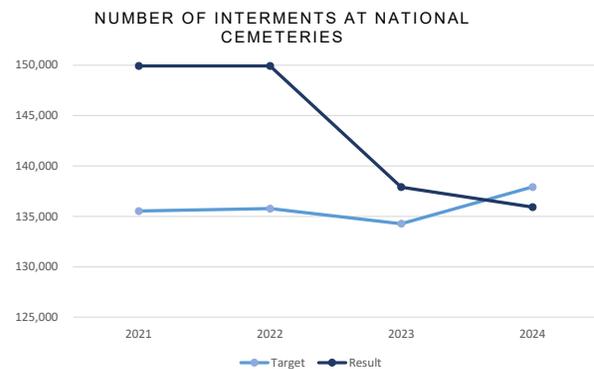
NATIONAL CEMETERY ADMINISTRATION

PERFORMANCE HIGHLIGHT



Total NCA budgetary resources were \$593 million and \$546 million and total gross costs were \$604 million and \$552 million for FY 2024 and FY 2023, respectively, for activities related to burial services, construction projects, and operations at VA's 155 national cemeteries and 35 soldiers' lots and monument sites. Total gross costs include depreciation expense that does not require budgetary resources. Activities performed by NCA help VA to achieve objectives for Strategic Goals 1 and 2.

One of NCA's most significant performance metrics is the number of annual interments in national cemeteries, which helps NCA track anticipated growth requirements and plan for potential construction projects or expansions. In FY 2023, VA received \$140 million in major construction budgetary resources and \$157 million in minor construction budgetary resources for cemetery expansion and improvement projects, advance planning, and design funds and land acquisition. In FY 2024, VA received \$112 million in major construction program budgetary resources and \$183 million in minor construction program budgetary resources for the same purposes.



In FY 2024, major construction resources were used for a gravesite development project at Tahoma National Cemetery, serving the greater Puget Sound area of Washington, and a gravesite expansion project at Jefferson Barracks National Cemetery, serving Northeastern Missouri and Southwestern Illinois. Minor construction resources were used for additional gravesite expansion projects and for emergency repairs resulting from hurricanes, tornadoes, and other significant weather events. For more information on NCA locations, refer to the map on page 7.

PERFORMANCE IN ACTION



Stacey Belle's aunt, left, re-enlists and takes the oath.

Stacey Belle is a supply systems analyst with VHA serving a detail with NCA. When she started her detail with NCA, she saw it as a way to manage the grief of losing her aunt, Janie Lou Adamson, a Veteran.

When she got to NCA, she learned about the [Veterans Legacy Memorial](#) (VLM), a digital platform dedicated to the memory of nearly 10 million Veterans interred in VA's national cemeteries, VA-funded state, tribal, and territory Veteran cemeteries, Department of Defense-managed cemeteries, National Park Service cemeteries, and private cemeteries within and outside the U.S. Belle was encouraged to build her aunt's personal page, add photos of her, write up her biography, and add documents from her service in the U.S Army.

Building her aunt's VLM page made it easier to cope with the grief. Now Belle feels energized and equipped to assist others on their journey through loss and grief.

INDIRECT ADMINISTRATION

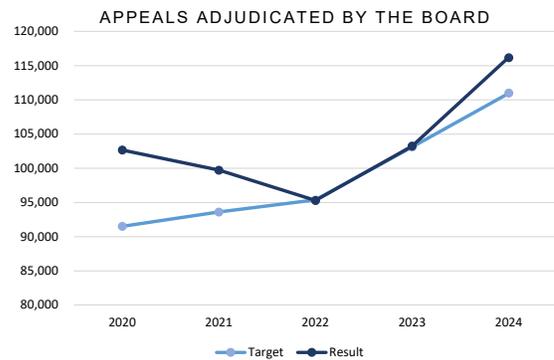
PERFORMANCE HIGHLIGHT



Total indirect administrative budgetary resources were \$7.2 billion and \$6.9 billion and total gross costs were \$3.9 billion and \$3.3 billion for FY 2024 and FY 2023, respectively, for activities to support Department operations not directly attributable to VHA, VBA, or NCA, including human resources, CFO and CIO operations, OIG investigations, and Board programs. Indirect administrative activities help VA to achieve objectives for Strategic Goals 2, 3, and 4.

One of the most critical functions under indirect administration relates to the Veterans' appeals process managed by the Board, which decides appeals from VHA, VBA, NCA, and OGC. In FY 2023, VA received \$285 million to support the Board's mission-critical goals of conducting hearings and adjudicating appeals for Veterans properly in a timely manner. In FY 2024, VA received \$287 million, an increase of \$2 million, primarily to position the Board to continue to recruit and train judges, attorneys, and administrative staff. At the end of FY 2024 and FY 2023, costs related to the Board's activities were \$279 million and \$243 million, respectively.

VA tracks the number of appeals adjudicated, which directly relates to the Board's mission of issuing decisions on behalf of the Secretary. In FY 2024, the Board held 19,559 hearings, while also issuing a record 116,192 decisions to Veterans and their families.



In FY 2024, the Board also was able to reduce the number of pending original legacy appeals to less than 1,100. Legacy appeals are those submitted prior to the Veterans Appeals Improvement and Modernization Act (AMA) in FY 2017. Since FY 2017, the Board has contributed to reducing legacy appeals from a high of 472,066 to 38,824 as of September 30, 2024, with over 94% of those being remanded appeals that have previously received a decision by the Board.

PERFORMANCE IN ACTION



With the reduction of legacy appeals, the Board has been able to increase the resources available to adjudicate AMA appeals. The Board met its goal of having AMA decision output be the majority of all cases decided in FY 2024, roughly double the number of AMA appeals decided last year. Workload models indicate that the aspirational AMA timeliness goals set in FY 2022 may be realized during FY 2025. This is an encouraging

sign that Veterans will be experiencing faster resolution of AMA appeals when compared to the slow rates of resolution under the older legacy system. In FY 2024, the average time to fully resolve an AMA appeal was 3.4 years less than the time required to fully resolve a legacy appeal.

ANALYSIS OF THE FINANCIAL STATEMENTS

BALANCE SHEET

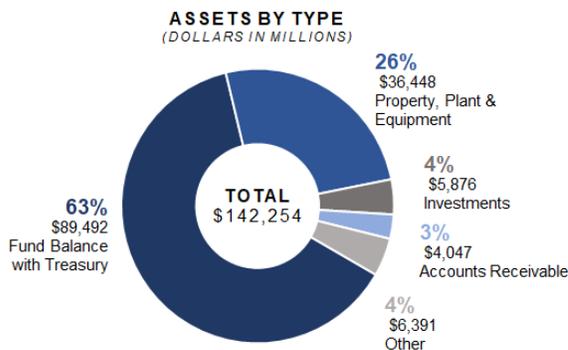
The Balance Sheet provides a snapshot of the Department's financial position and comprises assets, liabilities, and net position. The following table shows VA's key asset and liability components and the total change for each component compared to the prior fiscal year.

Balance Sheet Key Components

<i>(dollars in millions)</i>	2024	2023	\$ Change	% Change
Assets				
Fund Balance with Treasury	\$ 89,492	\$ 91,627	\$ (2,135)	-2%
Property, Plant, & Equipment	36,448	32,469	3,979	12%
Accounts Receivable	4,047	4,061	(14)	-
Investments	5,876	5,715	161	3%
Other	6,391	7,200	(809)	-11%
Total Assets	\$ 142,254	\$ 141,072	\$ 1,182	1%
Liabilities				
Veterans Benefits and Actuarial FECA* Liability	\$ 7,432,808	\$ 7,304,001	\$ 128,807	2%
Accounts Payable	19,762	4,444	15,318	345%
Loan Guarantee Liability, Net Federal Employee, Salary, Leave, and Benefits Payable	7,320	9,175	(1,855)	-20%
Other	5,026	4,550	476	10%
Other	11,739	9,361	2,378	25%
Total Liabilities	7,476,655	7,331,531	145,124	2%
Total Net Position	(7,334,401)	(7,190,459)	(143,942)	-2%
Total Liabilities and Net Position	\$ 142,254	\$ 141,072	\$ 1,182	1%

*Federal Employees' Compensation Act

ASSETS



Assets represent items owned by the Department that have probable economic benefits. The graphic at left depicts the composition of VA's total asset balance. As of September 30, 2024, the largest asset was Fund Balance with Treasury (FBWT) at \$89.5 billion. FBWT represents VA's right to draw funds from the U.S. Department of Treasury (Treasury) for allowable expenditures. The FBWT balance did not change significantly from FY 2023.

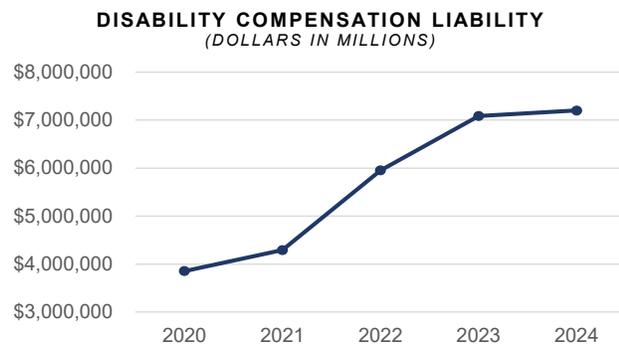
The second largest asset was Property, Plant, and Equipment (PP&E) at \$36.5 billion, which is primarily composed of buildings, structures, equipment, and internal use software (IUS). In FY 2024, the PP&E balance increased by \$4.0 billion, or 12%, compared to prior year. The increase is attributable to an increase in medical facility improvement projects to modernize VA's assets and infrastructure. In addition, the recognition of lessee right-to-use (RTU) assets in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 54:

Leases. SFFAS No. 54 became effective in FY 2024 and requires VA to record lease assets for all material, non-short-term, and non-intragovernmental leases. For more information on the components of the change in the PP&E balance, refer to the PP&E roll-forward schedule in [Note 9](#).

The other category includes Loans Receivable, Advances and Prepayments, Cash, and Inventory and Related Property totaling \$6.4 billion, a decrease of \$809 million or 11%, compared to prior year. The change is primarily attributable to a decrease in Advances and Prepayments to the U.S. Army Corps of Engineers for major construction projects. Advances and Prepayments are reduced as services are performed.

LIABILITIES

Liabilities represent probable future outflows or other sacrifices of resources as a result of past transactions or events. As of September 30, 2024, the largest liability was the Veterans Benefits and Actuarial FECA Liability at \$7.4 trillion, which primarily includes the liability for Disability Compensation representing amounts owed to Service members (or their dependents) who died or were disabled due to active military service-related causes. The liability is an estimate of the future cost to provide benefits to participants, measured at 100-years and expressed in today's dollars. The graphic below presents the year-to-year increase in the Disability Compensation Liability from FY 2020 – FY 2024. The slight increase in FY 2024 is primarily attributable to changes in experience that include changes from beneficiary counts, average benefit payment amounts, and adjustments to prior year assumptions related to the PACT Act, including yearly adjustments to interest on the liability, and amounts paid. The (gain)/loss from changes in actuarial assumptions also had an immaterial impact to the liability. Refer to page 25 for discussion of actuarial cost, excluding changes in actuarial assumptions and (gains)/losses from changes in actuarial assumptions as reflected on the SNC and page 189 in the Appendix for an explanation of VA's complex compensation liability.

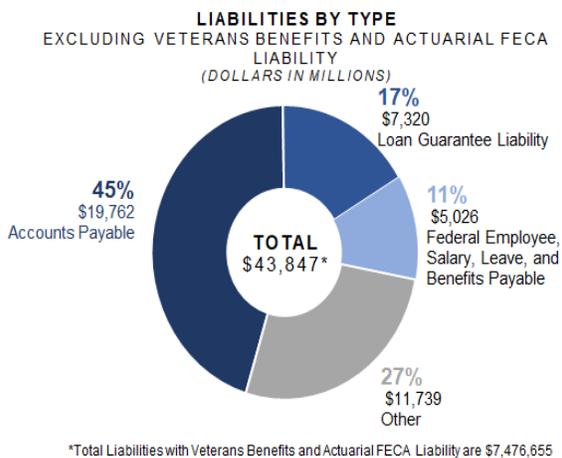


VA also provides eligible wartime Veterans and/or their dependents with pension benefits if the Veteran died, is over age 65 or is totally disabled, based on annual eligibility reviews. The Pension Program is not accounted for as a “Federal employee pension plan” under SFFAS No. 5; therefore, a future liability for pension benefits is not recorded due to differences between its eligibility conditions and those of Federal employee pensions. The present value of the projected amount of future payments for pension benefits (presented for informational purposes only) as of September 30, 2024 and 2023, was \$141.6 billion and \$146.6 billion, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ANALYSIS OF THE FINANCIAL STATEMENTS

The composition of the remaining liability balance is illustrated in the graphic below. The Department's second largest liability was Accounts Payable at \$19.8 billion, an increase of \$15.3 billion, or 345%, compared to prior year. Accounts Payable increased due to the timing of the compensation and pension disbursement in FY 2024 compared to FY 2023.



The Loan Guarantee Liability was \$7.3 billion, a decrease of \$1.9 billion, or 20%, compared to prior year. The liability decreased primarily due to the VASP modification subsidy, which reflects VA's cost savings to the loan guarantee program. The modification cost savings represent a one-time adjustment to bring the Loan Guarantee Program in alignment with the VASP policy.

The other category, presented in the Balance Sheet Key Components table on page 21, includes Debt, Environmental and Disposal Liabilities, and Other Liabilities totaling \$11.7 billion, an increase of \$2.4 billion, or 25%, compared to prior year. The increase is primarily related to the unfunded lease liability, which was recorded in accordance with SFFAS No. 54 in FY 2024.

CHANGES IN NET POSITION

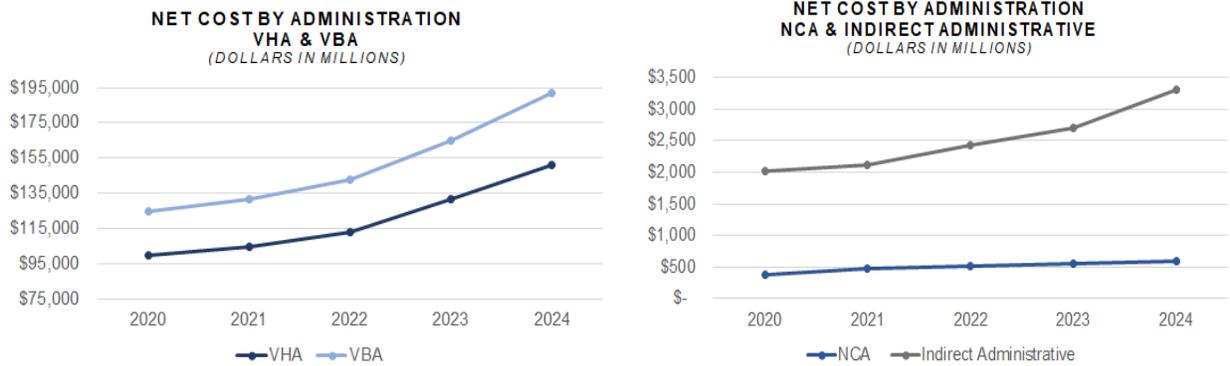
The Statement of Changes in Net Position (SCNP) combines the net cost of operations with nonexchange sources of financing to arrive at a net position. Net position decreased by 2% from a deficit of \$7.2 trillion in FY 2023 to a deficit of \$7.3 trillion in FY 2024. The decrease was attributable to the net cost of operations as discussed in the next section.

NET COST OF OPERATIONS

Net cost of operations is the cost incurred less any exchange revenue earned. The SNC is designed to show net cost separately for each of VA's Administrations: VHA, VBA, and NCA. Indirect administrative program costs support Department operations not directly attributable to VHA, VBA, or NCA and include human resources, CFO and CIO operations, OIG investigations, and Board programs. The total net cost of operations for the Department was \$475 billion and \$1.5 trillion in FY 2024 and FY 2023, respectively. The decrease primarily relates to a decrease in Veterans Benefits Actuarial Cost of \$433 million, compared to prior year. Additionally, the decrease relates to a gain of \$37.8 billion in FY 2024 compared to a loss of \$558.8 billion in FY 2023 from changes in actuarial assumptions. The gain from changes in actuarial assumptions is discussed further on page 25.

PROGRAM NET COST

The following graphics present program net cost by Administration, excluding actuarial cost and gains/losses, from FY 2020 to FY 2024. VHA and VBA have experienced significant increases in net cost over the past 5 years, while indirect administrative net cost has increased steadily with a significant increase in the last fiscal year. NCA net costs have remained relatively consistent.



In FY 2024, VHA's net cost was \$150.9 billion, an increase of \$19.5 billion, or 15%, compared to prior year. The costs for medical services continued to expand to align with the Secretary's top priority to fully implement the PACT Act under the Cost of War Toxic Exposures Fund (TEF). The TEF supports approximately 9,000 full-time employees and funds health care delivery associated with environmental hazards, as well as medical research relating to exposure to environmental hazards.

In FY 2024, VBA's net cost (excluding actuarial) was \$191.9 billion, an increase of \$26.9 billion, or 16%, compared to prior year primarily due to increases in compensation payments to Veterans and their beneficiaries. VBA issued 3.9 million more payments in FY 2024 compared to FY 2023. VBA continued to process claims with improved timeliness and accuracy, which resulted in approximately 303,000 more active beneficiaries at the end of FY 2024 compared to FY 2023.

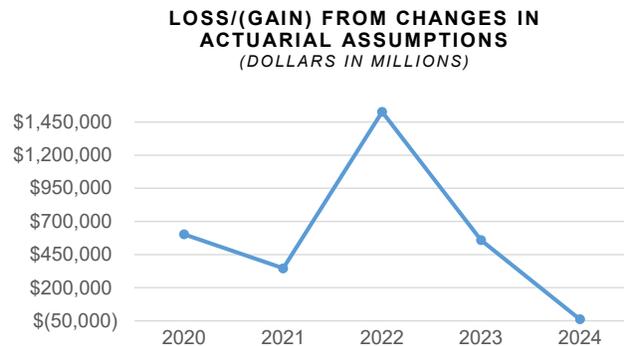
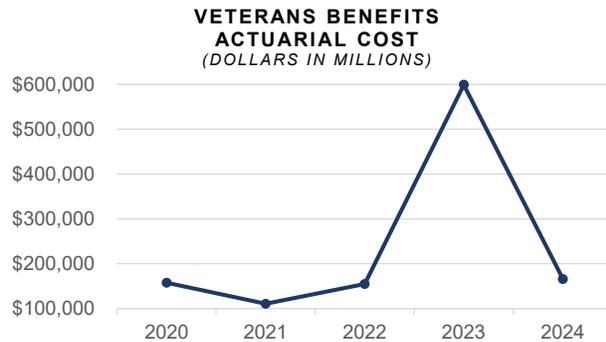
In FY 2024, indirect administrative net cost was \$3.3 billion, an increase of \$615 million, or 23%, compared to prior year primarily due to an increase in cost for information technology (IT) services to support VA's Financial Management Business Transformation (FMBT), specifically the Integrated Financial and Acquisition Management System (iFAMS). For more information on iFAMS, refer to the Financial Systems Framework section beginning on page 32.

ACTUARIAL COST & (GAIN)/LOSS

VA provides Disability Compensation, Burial, Education, and VR&E benefits to eligible Veterans and beneficiaries. The liability for future benefit payments is calculated using an actuarial model (see [Note 13](#) in the Financial Section). On a periodic basis, the liability is adjusted for changes in assumptions, which results in the recognition of actuarial cost and/or a (gain)/loss. The actuarial cost and (gain)/loss are composed of the elements below.

Actuarial Cost		(Gain) / Loss	
	• Interest on Liability Expense		• Discount Rate
	• Changes in Experience (Veteran counts)		• Cost of Living Adjustments (COLA)
	• Prior Service Cost		• Other Assumptions
	• Less Amounts Paid		

The Veterans Benefits Actuarial Cost was \$166.3 billion and \$599.6 billion for FY 2024 and FY 2023, respectively. Compared to FY 2023, the actuarial cost decreased. The sharp increase in FY 2023 was attributable to prior service costs from plan amendments for the PACT Act, which expands and extends eligibility of VA benefits for Veterans with toxic exposures and Veterans of the Vietnam, Gulf War, and Post-9/11 eras. Prior service costs represent adjustments made to align the actuarial liability estimates with current law. For FY 2024, some of the experience data related to the PACT Act is now included in the regular updates to the Disability Compensation Liability model.



Changes in Actuarial Assumptions resulted in a gain of \$37.8 billion and a loss of \$558.8 billion for FY 2024 and FY 2023, respectively. The difference is primarily due to an FY 2023 assumption update in disability ratings that resulted in an increase in the estimated FY 2023 compensation liability. In FY 2024, there were no significant assumption updates made.

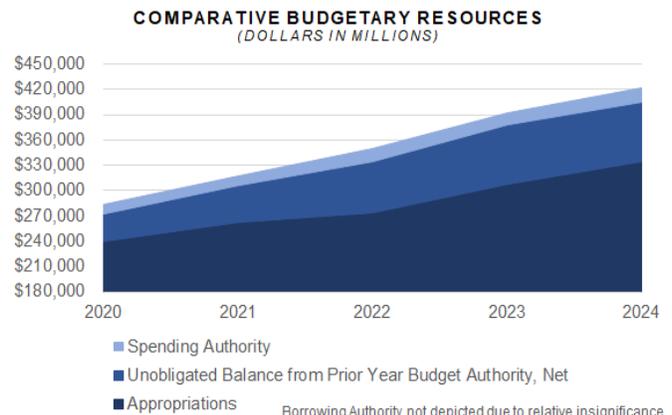
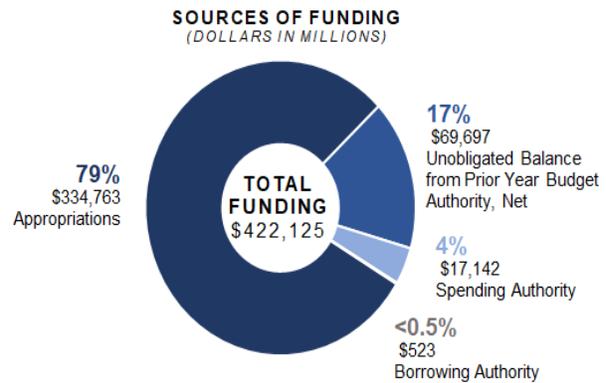
BUDGETARY RESOURCES

The SBR provides information on the sources and status of funding available to the Department. The primary sources of VA funding are Appropriations from Congress and the Unobligated Balance from Prior Year Budget Authority. VA expends a substantial amount of its budgetary resources on Medical Service and Care, Compensation, Pension, Burial, Education, and VR&E benefits for Veterans, their beneficiaries, and dependents.

The graphic at right depicts the composition of VA's sources of funding from the SBR. Appropriations were VA's largest source of funding at \$334.8 billion, or 79%, of total resources in FY 2024.

The increase in Budgetary Resources has been driven primarily by Appropriations. In addition, the rise in Budgetary Resources resulted in an increase in New Obligations totaling \$47.7 billion, or 15%, compared to prior year. The continuous increases in Appropriations and associated increases in New Obligations are primarily due to:

- As a result of Veteran use of community care nearly doubling since 2019, the expansion of community care programs for health care provided to Veterans at non-VA medical facilities;
- Medical services provided at VA medical facilities resulting from an increase in the number of services provided to Veterans;
- Funding designated to provide support for the delivery of Veterans' health care associated with the PACT Act; and
- Increased funding for Compensation benefits to cover increases to Veteran and survivor caseloads and a higher average degree of disability for Veterans.



LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. § 3515 (b). These are prepared from the books and records of the entity in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by OMB and are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government.

The PACT Act:

One of the Largest Health Care and Benefit Expansions in VA History



Vietnam



Gulf War Era



Post-9/11 Afghanistan and Iraq

What is the PACT Act?

The Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics Act of 2022 (PACT Act), public law (P.L.) 117-168, was signed into law on August 10, 2022, expanding VA health care and benefits for Veterans exposed to burn pits, Agent Orange, and other toxic substances.

The PACT Act adds to the list of health conditions that VA assumes (or “presumes”) are caused by exposure to these substances. This law helps VA provide generations of Veterans and their survivors with the care and benefits they have earned and deserve.

What does it mean to have a presumptive condition for toxic exposure?

To receive a VA disability rating, a Veteran’s disability must connect to their military service. For many health conditions, Veterans need to prove that their service caused their condition.

For some conditions, VA automatically presumes that the Veteran’s military service caused their condition. These are called “presumptive conditions.”

VA considers a condition presumptive when it is established by law or regulation, such as the PACT Act.

If a Veteran has a presumptive condition, they do not need to prove that their service caused the condition. They only need to meet the service requirements for the presumption.

What progress has VA made in PACT Act implementation?

The following [performance metrics](#) as of September 2024 measure the overall impact of the PACT Act in terms of its expansion on health care and benefits.



How did the PACT Act impact VA's FY 2024 budgetary financials?

As part of the PACT Act, Congress authorized TEF to fund increased costs above 2021 funding levels for health care and benefits for Veterans exposed to various service-related environmental hazards. Funds appropriated to the TEF ensure there are sufficient resources available to cover these costs without shortchanging other requirements of Veteran medical care, benefit delivery, and other related activities. Through FY 2024, VA received \$25.8 billion in TEF funding. In addition, \$24.5 billion has been appropriated for FY 2025. The allocation and obligation details as of September 30, 2024, are provided in the table below.

<i>(dollars in millions)</i>				
As of September 30, 2024	Allocated	Obligated	Unobligated	Outlays
VHA	\$ 20,971	\$ 17,368	\$ 3,603	\$ 17,367
VBA	2,553	2,051	502	1,834
Medical & Prosthetic Research	48	22	26	18
OIT	2,022	1,539	483	935
Board	15	-	15	-
Staff Offices	157	48	109	32
Total TEF Funding	\$ 25,766	\$ 21,028	\$ 4,738	\$ 20,186

Of the \$25.8 billion in appropriated TEF funding, \$21 billion has been obligated through September 2024. The majority of the obligations have been attributed to VHA, VBA, and OIT. VHA's obligations of \$17.4 billion supported approximately 9,000 full-time employees and funded health care delivery associated with environmental hazards, as well as medical research relating to exposure to environmental hazards. VBA's TEF obligations of \$2.1 billion supported accelerated hiring of additional claims processors to support the increased workload resulting from the PACT Act. The obligations also supported the extraction, scanning, and digitization of Veterans medical records to allow for timely adjudication of claims decisions.

OIT's \$1.5 billion in TEF obligations supported IT system modernization and enhancement efforts needed to meet increased demand for Veterans claims processing under the PACT Act legislation. Enhancement to the Veterans Benefits Management System (VBMS) and Veterans Service Network (VETSNET) remains a top priority along with VA.gov, Digital Veterans Platform (DVP), and many other VA systems that provide Veteran access to benefits information and services.

In addition to the TEF funding, VA received \$922 million for enhanced-use leases (EUL) and \$1.9 billion to begin entering into 31 major medical facility leases authorized by the PACT Act to support delivery of health care to impacted Veterans. Five of the 31 PACT Act leases have been awarded with the remaining 26 leases undergoing procurement. For more information on VA's EUL program, refer to [Note 16](#) in the Financial Section of this AFR.



MAKING A DIFFERENCE

Lenard Dollarhide served in the U.S. Navy from 1961 through 1965. In April 2022, he filed a claim for conditions based on Agent Orange exposure. The VA denied his claim, citing their inability to acknowledge Agent Orange exposure during his service in Guam. After the passage of the PACT Act, Dollarhide reopened his claim in September 2022. On February 2, 2023, he was granted service connection with an effective date of August 10, 2022, based on Agent Orange exposure. Dollarhide expressed that the benefits he gained have been life changing. He noted that the effort was small, and he encourages other Veterans to take the time to file a claim as well.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT'S STATEMENT OF ASSURANCE



**THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON**

November 15, 2024

The United States Department of Veterans Affairs (VA or the Department) management is responsible for managing risks and maintaining effective internal controls to meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) section 2 and section 4. VA conducted its assessment of risks and internal controls in accordance with the Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the assessment results, VA can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2024, except for the following reported material weaknesses:

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

The Department noted noncompliance with the following:

- FMFIA section 2 and section 4.
- Payment Integrity Information Act of 2019.
- Federal Financial Management Improvement Act (FFMIA).

FFMIA requires agencies to implement and maintain financial management systems that substantially comply with Federal financial management system requirements, Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. VA assessed its Financial Management System (FMS) to determine conformance with FFMIA. FMS substantially complies with Federal accounting standards. However, it does not comply with Federal financial management system requirements and the USSGL at the transaction level. Therefore, management cannot provide reasonable assurance that VA is in conformance with FFMIA.

Sincerely,

(/s/) Denis McDonough

SUMMARY OF MATERIAL WEAKNESSES

- (1) Controls over Significant Accounting Estimates:** VA identified internal control deficiencies in the control environment related to the Veterans benefits liability estimate. The Veterans Benefits Administration (VBA) Chief Financial Officer's office continues to implement a corrective action plan (CAP) to improve actuarial liability audit readiness, including building upon the current formal governance process by enhancing management's review process, updating policies and procedures for actuarial model roles and responsibilities, redesigning necessary data requests to ensure timely report updates, and adding controls to strengthen VBA's accounting and financial reporting of actuarial models. Estimated completion date: Fiscal Year (FY) 2025.
- (2) Financial Systems and Reporting:** VA's outdated legacy Financial Management System (FMS) continues to require manual processes, reconciliations, and journal entries for VA to produce a set of auditable financial statements. VA continues to have various financial reporting issues, though certain areas have improved over the years. VA is implementing a multi-year migration plan for the new accounting system, the Integrated Financial and Acquisition Management System (iFAMS). Until iFAMS is fully deployed across all Administrations and Staff Offices, VA will continue to perform various reconciliations to FMS. Estimated completion date: FY 2031.
- (3) Information Technology (IT) Security Controls:** VA maintains a material weakness in its Agency-wide Access Management, Contingency Planning, Security Management, and Configuration Management Program. VA established both operational and procedural capabilities to evaluate, prioritize, plan, and execute actions designed to mitigate or close the material weakness conditions. These new capabilities are focused on emphasizing personal accountability for designated subject matter experts to address and eliminate each finding. VA adopted the Objectives and Key Results management framework to manage these activities. VA continues to pursue a prioritized set of actions designed to improve or mature the overall cybersecurity state of the environment to address the material weakness, such as building effective, practical, and compliant cybersecurity capabilities into all new VA IT initiatives, which include the PACT Act and Electronic Health Record Modernization. Estimated completion date: FY 2026.

SUMMARY OF MATERIAL NONCOMPLIANCE

- (1) Federal Managers' Financial Integrity Act of 1982 (FMFIA) section 2 and section 4:** VA developed an internal controls assessment process to implement the requirements to substantially comply with FMFIA section 2 and OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, to include documentation of transaction-level testing to support the assurance statement. VA is developing robust CAPs to remediate historic material weaknesses and material noncompliance to ensure fulfillment of FMFIA's requirement to remediate audit findings timely. VA is implementing a new accounting system, iFAMS, to replace FMS to comply with FMFIA section 4. Refer to Federal Financial Management Improvement Act (FFMIA) section for details. VA will test iFAMS system functionality and modified controls as it is incrementally deployed. VA continues to make significant progress integrating internal control functions with enterprise risk management. Estimated completion date: FY 2031.

- (2) Payment Integrity Information Act of 2019:** In FY 2024, VA reduced improper and unknown payments by approximately \$1 billion, or 31.55%. This is VA's sixth consecutive year of reductions and represents the lowest reported improper and unknown payments since FY 2014. VA continues to enact specific corrective actions and mitigation strategies to remediate the root causes of improper and unknown payments and strategically strengthen payment integrity while ensuring Veteran access to health care and benefits. VA developed detailed CAPs for each program reporting improper and unknown payments to address the findings and deficiencies identified during annual payment integrity testing. Estimated completion date: FY 2028.
- (3) FFMIA:** VA assessed FMS to determine conformance with FFMIA and FMFIA section 4, in accordance with OMB Circular A-123, Appendix D. Based on the results, although FMS substantially complies with Federal accounting standards, FMS does not substantially comply with Federal financial management system requirements and application of the USSGL at the transaction level. Therefore, management cannot provide reasonable assurance that VA is in conformance with FFMIA. VA is undergoing a multi-year rollout of a new accounting system, iFAMS, to replace FMS. iFAMS is designed to be compliant with FFMIA. Estimated completion date: FY 2031.

SUMMARY OF INTERNAL CONTROLS ASSESSMENT

VA's Office of Business Oversight (OBO) oversees the internal control program and assists VA's major organizations (reporting entities) in completing an internal controls assessment to support their annual statements of assurance. OBO developed an Internal Controls Assessment Tool for evaluating each of the 17 principles in the Government Accountability Office Standards for Internal Control in the Federal Government (Green Book). The 17 principles fall into the following 5 components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. In FY 2024, VA assessed the following three distinct but overlapping objectives of internal control: operations, compliance, and reporting.

In FY 2024, the Department required all Administrations and major Staff Offices to complete an internal controls assessment, identifying how the reporting entity met the control objectives for each Green Book principle and concluding on the overall effectiveness of the principle, the control component, and the system of internal controls. If deficiencies were identified, Administration or Staff Office management, in accordance with OMB Circular A-123, exercised judgment in determining the severity of the deficiency.

Each Administration and Staff Office signed a statement of assurance based on the results of its internal controls assessment. The statement of assurance provides an informed judgment of the overall adequacy and effectiveness of the reporting entity's internal controls. OBO analyzed internal controls assessment submissions and statements of assurance to ensure the statements appropriately captured material weaknesses identified during the assessments.

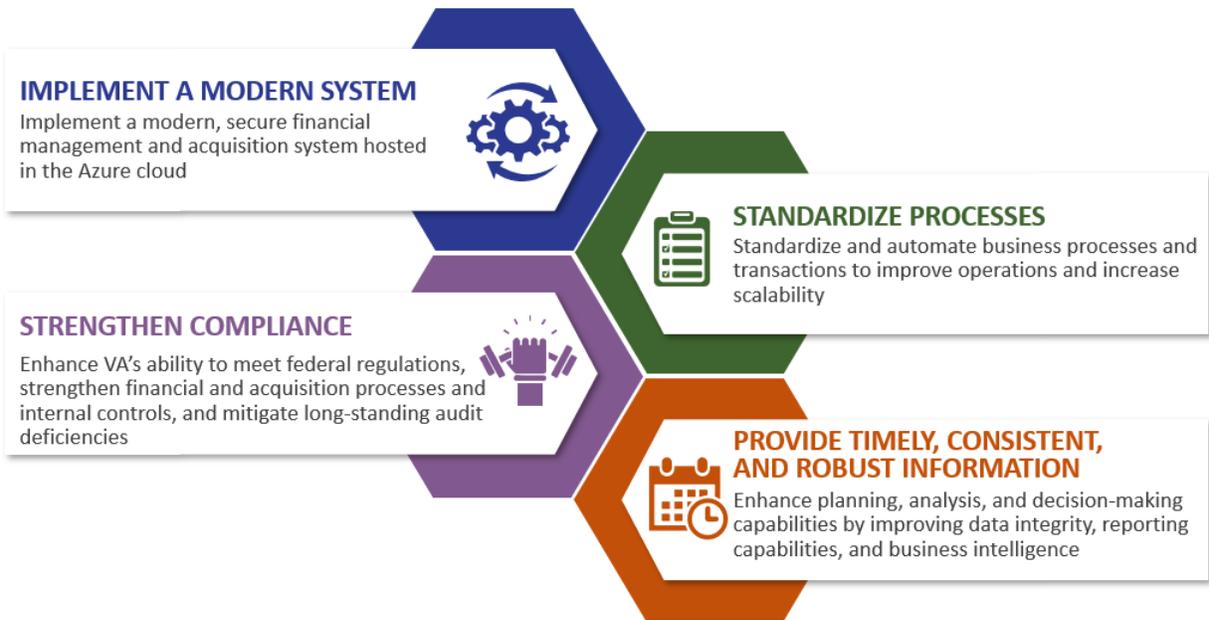
In FY 2024, OBO conducted OMB Circular A-123, Appendix A, tests of design and tests of effectiveness over specified business processes and key controls. OBO focused its efforts on developing business process narratives and testing at an enterprise level, documenting actual operations, and identifying key financial controls or gaps in the design of controls.

FINANCIAL SYSTEMS FRAMEWORK

VA'S FINANCIAL AND ACQUISITION MANAGEMENT SYSTEMS STRATEGY AND GOALS

VA's FMBT program is increasing the transparency, accuracy, timeliness, and reliability of financial and acquisition information, resulting in improved fiscal accountability to American taxpayers and offering a significant opportunity to improve services to those who serve our Veterans.

The FMBT Program Goals are structured to enable VA to continue to meet its financial, acquisition and mission-related delivery requirements, alleviate the risks caused by the current system environment, and provide value to VA's business and the employee experience. The FMBT Program Goals are as follows:



CURRENT FINANCIAL MANAGEMENT SYSTEM FRAMEWORK

VA's existing financial and acquisition management systems consist of the core Financial Management System (FMS) and the core acquisition system, known as the Electronic Contract Management System (eCMS), along with several interfacing systems: Integrated Funds Distribution, Control Point Activity Accounting and Procurement (IFCAP); Veterans Information Systems and Technology Architecture (VistA); Management Information Exchange (MinX); and Centralized Automated Accounting Transaction System (CAATS).

FUTURE FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

The scope of the FMBT program is focused on migrating VA from its legacy FMS and eCMS to a commercial off-the-shelf cloud solution, configured for VA as iFAMS and hosted in the VA Azure cloud. This involves:

- Migrating to a financial and acquisition management solution compliant with Federal regulations;
- Replacing the financial management functionality of IFCAP and CAATS and the procurement functionality of eCMS;
- Implementing a new business intelligence solution and data warehouse for financial reporting; and
- Interfacing iFAMS with designated VA systems.

VA has never had integration between its finance and acquisition environments. The seamless integration of those systems is not only an industry best practice but also will provide enormous benefit to the finance and acquisition communities.

IFAMS BENEFITS

iFAMS is a modern Enterprise Resource Planning (ERP) solution that provides VA with the benefits shown below. VA is also gaining additional security, storage, and scalability with the new system.

<p>STANDARDIZED PROCESSES</p>  <p>Standardizing, integrating, and improving financial processes</p>	<p>REAL-TIME INTEGRATION</p>  <p>Real-time financial and acquisition integration through a single, consolidated system</p>	<p>STRENGTHENED DECISION-MAKING</p>  <p>Strengthening management decision-making by providing advanced analytics and projections for planning purposes</p>	<p>AUTOMATED CONTROLS</p>  <p>Automated internal controls and edit checks improving data quality</p>
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IFAMS DEPLOYMENT APPROACH, STATUS, AND TIMELINE

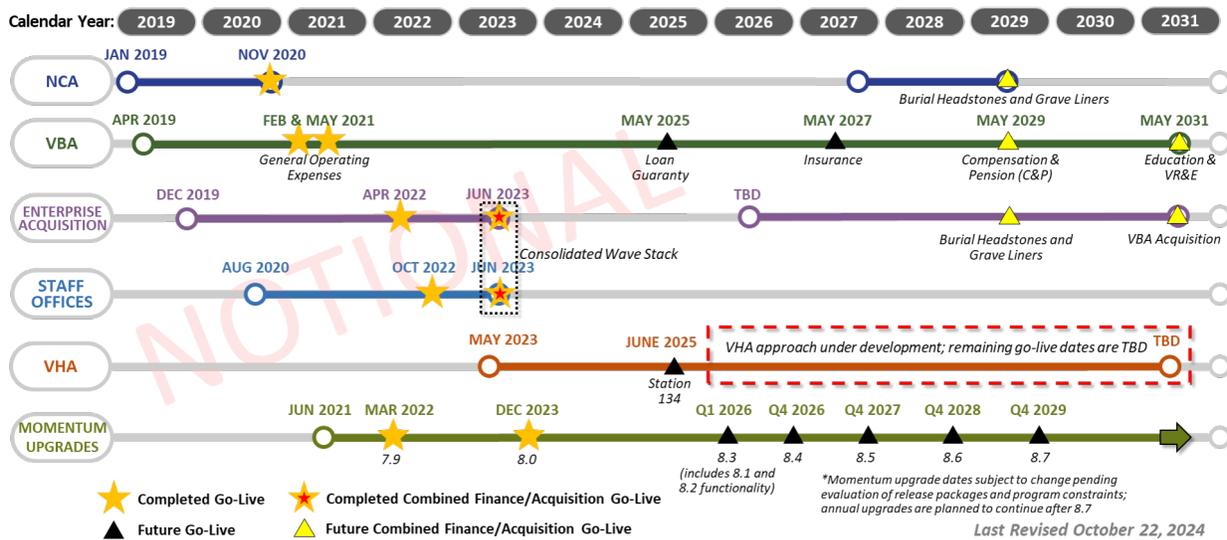
iFAMS is being deployed in a phased approach through a series of implementation “waves.” Each completed system delivery, or go-live, represents the point of transition of one or more VA organizations from their legacy systems to iFAMS. FMBT deliberately structured the overall iFAMS implementation timeline to deliver the new system to the smaller and less complicated administrations and staff offices first, thus allowing program personnel to gain experience and identify key lessons learned that will ease future implementations.

As of September 2024, FMBT has completed six successful deployments of iFAMS, encompassing numerous offices and sub-offices and approximately 4,400 users across the enterprise. The deployments include all of NCA, a portion of VBA, and several major staff offices, including OM; OIT; OIG; OALC; and Office of Construction and Facilities Management: Major Construction.

The program has also delivered two major upgrades to the core Momentum solution, ensuring iFAMS remains up to date with security and legislative requirements and providing a range of improvements to system performance, functionality, and ease of use. FMBT will continue upgrading iFAMS with new versions of Momentum as they become available; the next Momentum upgrade is anticipated to be completed in calendar year 2026. In addition, FMBT deploys smaller iFAMS enhancements on a monthly basis to address specific user issues and correct any defects identified.

Looking ahead, the VBA Loan Guaranty wave is scheduled to go live in May 2025. Implementation efforts also are underway for VHA, VA’s largest Administration, with the VHA Central Office go-live planned for June 2025. The full VHA implementation timeline is under development.

FMBT will continue deploying iFAMS in a phased approach across VA until enterprise-wide implementation is achieved. The following graphic shows the notional FMBT high-level implementation timeline, which was last revised in September 2024. Each star and triangle represent a discrete delivery of the iFAMS solution to one or more VA organizations.



LESSONS LEARNED AND CONTINUOUS IMPROVEMENT

The FMBT program's change management practices emphasize continuous improvement. Using customer feedback, personnel observations, audit findings, and industry best practices, FMBT establishes a list of lessons learned during each wave and then incorporates those lessons into subsequent wave operations, thus turning prior missteps into positive future impacts. High-level lessons learned since program inception include:



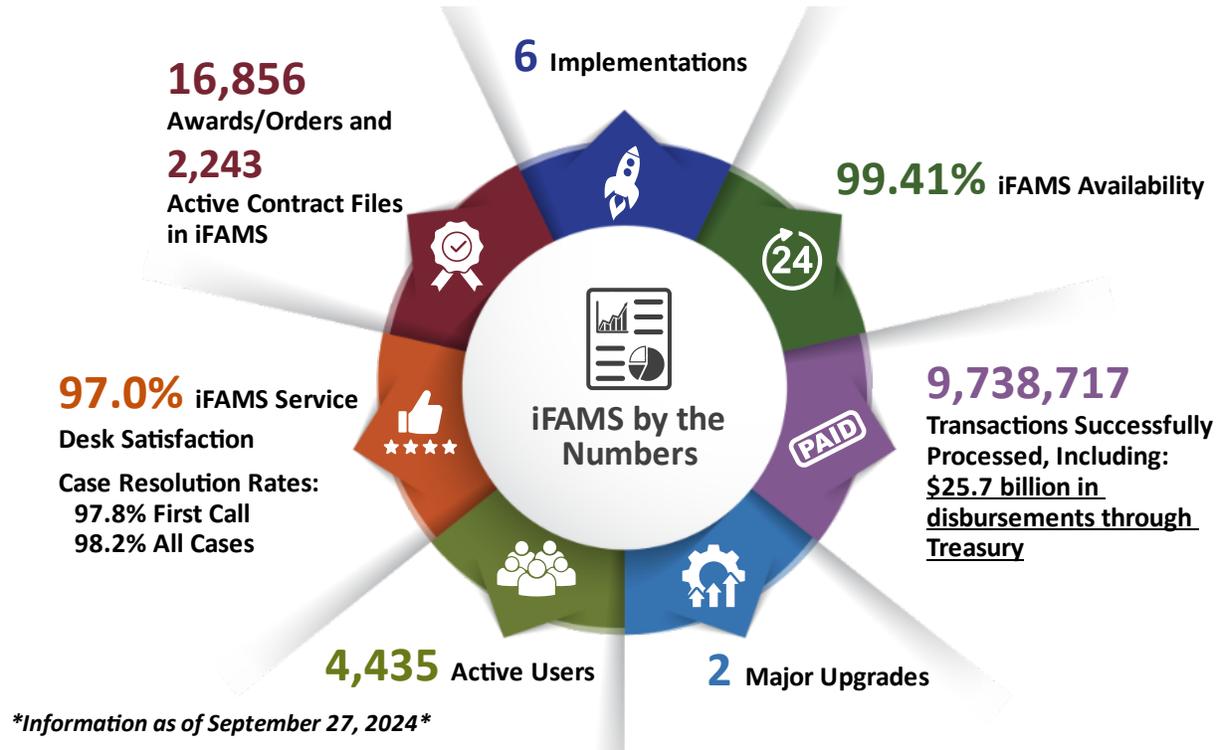
By identifying and internalizing these lessons—as well as many others—FMBT has progressively improved its operations over time.

FMBT also conducts site visits to proactively engage key users and managers responsible for iFAMS operations to assess areas of improvement for future iFAMS enhancement releases. These interactions have been very productive, helping FMBT identify and prioritize a wide range of new features and system changes that will aid finance and acquisition personnel. The feedback is also aiding the program in enhancing training and knowledge resources and tailoring future communications to better target specific user groups.

All of these activities have empowered FMBT with the experience and confidence to continue moving forward into increasingly more difficult and complex waves. These activities have contributed to the success of the most recent go-live, which was the largest system rollout to date and the first to simultaneously deliver the financial and acquisition components of iFAMS.

IFAMS BY THE NUMBERS

The following graphic presents key statistics on iFAMS as of September 27, 2024.



CONNECTION TO VA PRIORITIES

With so much at stake, in terms of taxpayer dollars and the Department’s ability to help Veterans build civilian lives of opportunity, it is more important than ever to ensure VA is able to accurately track and report how funds are used. FMBT also promotes the Secretary’s strategic objectives within Stewardship Goal 4 in the VA FY 2022-28 Strategic Plan. In particular, FMBT is a critical component for achieving Objective 4.3 and Strategy 4.3.6.



Goal 4: VA will transform business operations by modernizing systems and focusing resources more efficiently to be competitive and provide world-class customer service to Veterans and its employees.

Objective 4.3: (Easy Access and Secure Systems) VA will deliver integrated, interoperable, secure, and state-of-the-art systems to ensure convenient and secure access and improve the delivery of benefits, care, and services.

Strategy 4.3.6: (Integrated Finance and Acquisition Management System) VA’s financial and acquisition management system is migrating to a commercial off-the-shelf cloud solution, configured for VA to increase efficiencies, streamline processes, automate controls, strengthen decision-making and integrate financial and acquisition activities in real-time.

PROGRAM RISKS

As would be expected in any modernization initiative with the size and complexity of FMBT, the program faces many risks and challenges. Foremost among them is the overall resistance to change at VA. Approximately 125,000 VA employees are expected to use iFAMS in some capacity once it is fully implemented, so promoting stakeholder engagement and gaining user buy-in is critical for ensuring the successful adoption of the system. To that end, FMBT carries out robust engagement activities at multiple levels across VA's Administrations and Staff Offices. Funding and personnel needs are also an ongoing concern, as any shortfalls could jeopardize the iFAMS deployment schedule. Accordingly, the program works to determine and communicate resource requirements to the appropriate entities as soon as possible.

In addition, FMBT has a dedicated Risk Management Team that proactively identifies, logs, and monitors risks for the program. All risks are assigned probability and impact ratings that allow for logical prioritization. By fostering a culture of risk awareness, encouraging dynamic mitigation strategies, and applying an effective risk governance process, the team ensures FMBT is not caught off guard by risk impacts.

FORWARD-LOOKING INFORMATION

RISKS

Like every organization, VA faces risks that impact its ability to function and deliver on its mission, and Veterans are our mission. VA understands that risks can occur on the strategic level as well as the operational level. As it begins scanning the environment and researching trends as the first steps in developing the next strategic plan, the Department will develop a sharp and clear understanding of long-term risks. The challenges these risks present will be addressed conceptually in the new plan. In the meantime, VA remains committed to addressing operational risks around such issues as hiring and retention, aging infrastructure, and IT modernization as they arise in internal reviews.

CLIMATE-RELATED FINANCIAL RISK

Extreme weather events and natural disasters driven by climate change have become more common, driving widespread changes to both natural and human systems. With a broad mission and geographical distribution of facilities, VA recognizes that agency services, operations, programs, and assets have been and will continue to be impacted. In FY 2021, VA published the Department's [Climate Action Plan](#), which outlined VA's response to the projected impacts of climate change with the goal of ensuring sustained operations to support the uninterrupted delivery of benefits and services and VA's fourth mission. VA built upon this plan in FY 2024, publishing the Department's [2024-2027 Climate Adaptation Plan](#). This plan outlines the projected impacts of climate on VA, as well as critical actions planned for the next several years. Specific vulnerabilities identified include infrastructure impacts during extreme weather, which could threaten maintaining continuous care for Veterans, adverse medical impacts of climate change to Veteran and VA employee health, increased health care needs and expenditures related to changes in climate change and extreme weather events, and disruption to the supply chain, critical stockpiles, or utilities.

VA has identified specific adaptation actions to decrease its vulnerability to the impacts of climate change. Examples include implementing changes to building design standards, assessing the resilience of VA facilities, and developing robust public health surveillance systems and strategies to address current and future impacts of climate on Veteran and employee health and on VA health care burden and cost.

VA uses the Strategic Capital Investment Planning (SCIP) process to provide annually updated comprehensive plans to improve the quality, access, and cost efficiency of the delivery of VA benefits and services through modern facilities that match the location and demands—current and future—where Veterans live. In 2023, VA completed a desktop-level climate vulnerability study of the most critical VA facilities. It identifies which facilities are at the highest risk due to extreme weather from climate change. Further analysis will be used to identify projects to mitigate significant climate-related risks. Information from these efforts will be used to begin to evaluate updates to future-year SCIP processes, including incorporation of specific climate adaptation goals, gaps, targets, and decision processes that will support prioritization of projects that address at-risk facilities.

VA BY THE NUMBERS

The following information presents key statistics on Veteran population and VA programs as of September 30, 2024. Collection and analysis of this data helps VA to support planning, analysis, and decision-making activities. For additional information, please visit [VA's National Center for Veterans Analysis and Statistics](#).





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That made us try harder

Pictured in the previous page: Lieutenant Susan Ahn Cuddy working with elite codebreakers.

Susan Ahn Cuddy once said her father influenced her life by not forcing traditions on her and her siblings. “We grew up under a sense of freedom,” Cuddy told a reporter in 2015. “He didn’t mind if we were rough, you know, not ladylike.” That mindset is what powered her to join the Navy soon after Pearl Harbor. She would become the first female Asian American naval officer and the first female gunnery officer.

Cuddy was born in Los Angeles in 1915. Her parents were the first married Korean couple to immigrate to the U.S. in 1902. Korea was facing increasingly forced Japanese influence, so many Koreans fled to America as the situation worsened. Korea became a Japanese protectorate in 1905 and was annexed in 1910 as Japan tried to eradicate the Korean language and its cultural assets. Cuddy’s father was a revered leader of Korean independence and made their home a resource center for other immigrants. He took many trips back to Korea to operate freedom movements. On one of those trips in 1926, he was arrested and imprisoned for anti-Japanese activism. He was held until he died, 12 years later.

World War II was ramping up around the globe, as were anti-Asian sentiments due to Japan’s imperial expansion. When Pearl Harbor happened, that distrust increased intensely in America. Cuddy said her father always taught the family to be good Americans while not forgetting their Korean heritage. She now saw her chance to honor her father and fight the Japanese who imprisoned him. In early 1942, despite criticism that it wasn’t suitable for an Asian woman, she wanted to join the Navy. Cuddy was rejected when she applied to officer school wanting to join the Women’s Reserve of the U.S. Naval Reserve (the WAVES). She would learn later her rejection was because of her race.

Of the rejection, she said, “We were unusual in those days, and we looked like the enemy.” Undeterred, she reapplied. In December 1942, she was accepted as an enlisted member. She was part of the first group of WAVES to go through a five-week training course at a centralized recruit training center that had just opened in Cedar Falls, Iowa. From there, Cuddy was sent to Georgia to learn how to work early flight simulators that she then instructed future pilots on. She became an aerial gunnery instructor to help aircrews practice aiming at moving targets.

An officer who appreciated her work recommended she go to officer training. Cuddy completed training and was commissioned as a WAVES officer. In 1946, she left the Navy and joined the National Security Agency, where she served as the section chief of the Soviet unit. She commanded this division throughout the Cold War and continued to work on many top-secret government projects until her retirement from public service in 1959.

MESSAGE FROM VA'S CHIEF FINANCIAL OFFICER



DEPARTMENT OF VETERANS AFFAIRS
ASSISTANT SECRETARY FOR MANAGEMENT
WASHINGTON DC 20420

November 15, 2024



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

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

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

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

Additionally, I am proud to announce VA received its 26th consecutive unmodified ("clean") audit opinion this year. Despite this remarkable achievement, VA continues to face multiple financial management challenges. The auditors identified three material weaknesses related to controls over significant accounting estimates; financial systems and reporting; and information technology security controls. Information on the audit findings and our remediation efforts are detailed in the Management's Statement of Assurance on page 29. We are grateful to the Office of Inspector General and CliftonLarsonAllen LLP for their steadfast commitment to improve VA's fiscal accountability.

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

Sincerely,

(/s/) Edward J. Murray
Acting

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET (dollars in millions)

As of September 30,	2024	2023
Assets		
Intragovernmental		
Fund Balance With Treasury (Note 3)	\$ 89,492	\$ 91,627
Investments, Net (Note 5)	5,736	5,575
Accounts Receivable (Note 6)	76	66
Advances and Prepayments	3,038	3,953
Total Intragovernmental	<u>98,342</u>	<u>101,221</u>
Other Than Intragovernmental		
Cash (Note 4)	2	3
Accounts Receivable, Net (Note 6)	3,971	3,995
Loans Receivable, Net (Note 7)	2,994	2,958
Inventory and Related Property (Note 8)	239	143
Property, Plant, and Equipment, Net (Note 9)	36,448	32,469
Advances and Prepayments	118	143
Investments (Note 5)	140	140
Total Other Than Intragovernmental	<u>43,912</u>	<u>39,851</u>
Total Assets	<u>\$ 142,254</u>	<u>\$ 141,072</u>
Heritage Assets (Note 10)		
Liabilities		
Intragovernmental		
Accounts Payable	\$ 190	\$ 137
Debt (Note 11)	963	568
Advances From Others and Deferred Revenue	68	60
Other Liabilities (Note 15)	5,623	5,792
Total Intragovernmental	<u>6,844</u>	<u>6,557</u>
Other Than Intragovernmental		
Accounts Payable	19,572	4,307
Federal Employee, Salary, Leave, and Benefits Payable (Note 13)	5,026	4,550
Veterans Benefits and Actuarial Federal Employees Compensation Act (FECA) Liability (Note 13)		
Veterans Benefits and Actuarial FECA Liability (Note 13)	7,429,632	7,300,421
Life Insurance Benefits (Note 17)	3,176	3,580
Environmental and Disposal Liabilities (Note 14)	852	974
Loan Guarantee Liabilities (Note 7)	7,320	9,175
Advances From Others and Deferred Revenue	24	20
Other Liabilities (Note 15)	4,209	1,947
Total Other Than Intragovernmental	<u>7,469,811</u>	<u>7,324,974</u>
Total Liabilities	<u>\$ 7,476,655</u>	<u>\$ 7,331,531</u>
Commitments and Contingencies (Note 18)		

(Continued on next page)

CONSOLIDATED BALANCE SHEET *(dollars in millions)*

As of September 30,

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

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

FINANCIAL SECTION
FINANCIAL STATEMENTS

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

For the Periods Ended September 30,

2024

2023

Net Program Costs By Administration

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

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

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

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

FINANCIAL SECTION
FINANCIAL STATEMENTS

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

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

B. REPORTING ENTITY

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

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

C. BASIS OF ACCOUNTING AND PRESENTATION

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

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

VA receives goods and services from other Federal entities at no cost or at a cost less than the full cost to the providing Federal entity. Consistent with SFFAS No. 55, *Amended Inter-Entity Cost Provisions*, certain costs of the providing entity that are not fully reimbursed by VA are recognized as imputed costs in the Consolidated Statements of Net Cost and are offset by

imputed revenue in the Consolidated Statement of Changes in Net Position. Imputed costs and revenues relate to business-type activities, employee benefits, and claims to be settled by the Treasury Judgment Fund.

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

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

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

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

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

D. BUDGETS AND BUDGETARY ACCOUNTING

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

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

See [Note 22](#) for further disclosure on budgets and budgetary accounting.

E. REVENUES AND OTHER FINANCING RESOURCES

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

Nonexchange revenue is an inflow of resources to VA that is a specifically identifiable, legally enforceable claim to cash or other assets where VA does not give value directly in exchange for the inflow of the resources. It is recognized to the extent that collection is probable and the amount is measurable. Examples include voluntary donations or payments in the form of penalties. Nonexchange revenue is presented as Other Financing Sources on the Statement of Changes in Net Position and consists primarily of Imputed Financing, Donations and Forfeitures

of Property and Transfers In and Out of VA Without Reimbursement. Most of the transfers in and out are between VA funds.

F. TRANSFERRING BUDGET AUTHORITY TO OTHER AGENCIES

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

G. FUND BALANCE WITH TREASURY

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

H. INVESTMENTS

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

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

I. ACCOUNTS RECEIVABLE

Accounts Receivable are reported in [Note 6](#) at net realizable value, measured as the carrying amount less an allowance for loss provision or contractual adjustment for medical care, as considered necessary. The allowance is determined based on the contractual nature of the current balance due and historical experience with collections including a rolling 12-month analysis. Contractual adjustments are estimated for Medical Care Collection Fund receivables due from patients and insurance companies using the allowance method.

Overpayments to Veterans or beneficiaries are the main cause of compensation, pension, and education receivables. Allowances on these receivables are determined based on historical experience with collection efforts during the prior fiscal year. Even though VA was previously authorized by 38 U.S.C. § 5315 (amendment 2022) to charge interest and administrative costs on benefit debts similar to charges levied on other debts owed to the Federal Government, VA has not charged interest and administrative fees for such programs. In FY 2023, Congress passed legislation within Omnibus Bill § 253, which prohibits VA from charging interest and administrative costs on a loan, loan guaranty, or loan insurance program; a disability compensation program; a pension program; and an education assistance program. This

resolves the issue of not following 38 U.S.C. § 5315 and § 3717 for new debts occurring on or after December 29, 2022, for the Veterans Benefits Administration's benefit programs. However, it does not apply to debts occurring prior to December 29, 2022. In addition, in accordance with 38 U.S.C. § 1729, VA will not charge interest, administrative costs, or penalties on third-party medical care receivables.

J. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

Direct loan obligations and loan guarantee commitments made after FY-1991 are governed by the Federal Credit Reform Act of 1990 (Credit Reform Act). Disclosures are in accordance with SFFAS No. 2, *Accounting for Direct Loans and Guarantees*; SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*; and SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees*. Under the Credit Reform Act, the present value of the estimated net cash flows paid by VA must be recognized as a subsidy cost in the year the loan is disbursed. Direct loans and guaranteed loans receivable are reported net of an allowance for subsidy costs at present value, and loan guarantee liabilities are reported based on present value.

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

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

K. INVENTORY AND RELATED PROPERTY

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

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

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

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

L. PROPERTY, PLANT, AND EQUIPMENT

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

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

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

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

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

M. ADVANCES AND PREPAYMENTS

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

N. ACCOUNTS PAYABLE

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

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

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

O. LIFE INSURANCE BENEFITS

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

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

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

The NSLI, VSLI, and VRI programs are self-supporting through the collection of premiums, which are used to fund current operations. Interest income and the release of investment reserves are used to cover funding shortfalls in these programs. In addition, interest income from insurance policy loans may be used. The USGLI program is also self-supporting, but was declared paid-up in 1983, at which time it stopped collecting premiums. There are no policyholders remaining in this program, but annuity payments continue to be made to beneficiaries.

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

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

Program	Type of Plan	Table Used	Interest Rate
	Award Installments Payable After the Certain Period	SOA Annuity Table a for Females	2.25%
VMLI	Mortgage Life	450% of the 1958 CSO Basic Table	2.5%
VALife	Permanent Plan	Varying percent of 1941 CSO Table	2.5%

Policies in three of the administered programs, NSLI, VSLI, and VRI, are eligible for dividends. The Secretary determines annually the excess funds available for dividend payment based on an actuarial analysis of each program's claims and investment experience, compared to the mortality and interest assumptions used in that program at the end of the preceding calendar year. Dividends are declared on a calendar-year basis and paid on policy anniversary dates. Policyholders can elect to receive a cash payment; prepay premiums; repay loans; purchase paid-up insurance; or deposit the amount in an interest-bearing account. In addition, insurance dividends that are left on credit or deposited with VA accrue interest at a rate that varies by fund relative to the fund's investment portfolio earnings. For FY 2024 and FY 2023, the interest rates range from 3.50% to 1.00%.

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

Program	FY 2024 Discount Rate	FY 2023 Discount Rate
NSLI	2.5%	2.5%
VSLI	3.5%	3.5%
VRI	2.5%	2.5%

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

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

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

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

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

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

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

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

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

P. ANNUAL LEAVE

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

Q. VETERANS BENEFITS

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

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

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

COMPENSATION AND BURIAL

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

VA uses the census population data as of the end of the prior fiscal year to perform the valuation of the actuarial benefit liabilities for the current fiscal year.

EDUCATION AND VR&E

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

Program Name	Authorizing Statute	Eligibility Qualifications	Benefits
Post-9/11 GI Bill (PGIB)	38 U.S.C., Chapter 33	Veterans with at least 90 days of aggregate service after September 10, 2001, individuals honorably discharged with a service-connected disability after 30 continuous days after September 10, 2001, or individuals awarded a Purple Heart on or after September 11, 2001, and honorably discharged after any amount of service. A child or surviving spouse of an active-duty service member who died in the line of duty on or after September 11, 2001, or a child or spouse to whom benefits are transferred by a qualifying Veteran or Service member.	Tuition and fees and a monthly housing allowance, yearly textbook and supplies stipend, and one-time payment for relocation.
VR&E	38 U.S.C., Chapter 31	Veterans and Service members transitioning to civilian employment with service-connected disabilities and an employment handicap.	Benefits paid can include a monthly subsistence payment, tuition, books and supplies.

Program Name	Authorizing Statute	Eligibility Qualifications	Benefits
Survivors' & Dependents' Educational Assistance (DEA)	38 U.S.C., Chapter 35	Dependents of Veterans who are permanently and totally disabled due to a service-related condition or of Veterans who died while on active duty or as a result of a service-related condition.	Benefits are paid monthly based on course load and type of training.
Montgomery GI Bill-Active Duty (MGIB-AD)	38 U.S.C., Chapter 30	Veterans and Service members who have at least two years of active duty and have had their pay reduced by \$1,200 or meet other eligibility requirements.	Benefits are paid monthly based on course load, type of training, length of service, category, and college fund eligibility.

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

Estimated liabilities for the Post-9/11 GI Bill obligations in the financial statements are measured on the academic year of August 1 to July 31 and are adjusted for known material changes. Since the Post-9/11 GI Bill disenrollment assumption rates are derived on an academic year basis, the estimated liabilities are measured on an academic year basis instead of a fiscal year basis. Estimated liabilities for the VR&E, DEA and MGIB-AD are measured as of September 30, 2024, based on beneficiary data as of the end of the prior fiscal year.

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

MEDICAL CLAIMS

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

Additional information on the Medical Claims Benefits Liability is presented in [Note 13.C](#).

R. FEDERAL EMPLOYEE BENEFITS

WORKERS' COMPENSATION LIABILITY

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

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

PENSION, OTHER RETIREMENT BENEFITS, AND OTHER POSTEMPLOYMENT BENEFITS

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

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

S. LEASE LIABILITIES

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

In accordance with SFFAS No. 54, VA expenses all intragovernmental leases and leases with terms 24 months or less. In accordance with SFFAS No. 62: Transitional Amendment to SFFAS No. 54, VA elected to apply the accommodation for contracts or agreements that contain both lease components and non-lease components, such as service components, and serve a

primary purpose attributable to the non-lease components. The election applies to contracts and agreements existing as of October 1, 2023, and/or those subsequently entered into or modified on or prior to September 30, 2026. Contracts or agreements meeting the criteria are accounted for as non-lease contracts or agreements for their remaining term, unless they are subsequently modified after September 30, 2026, the end of the accommodation period.

T. COMMITMENTS AND CONTINGENCIES

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

U. USE OF ESTIMATES

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

V. SUBSEQUENT EVENTS

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

NOTE 2. NON-ENTITY ASSETS

(dollars in millions)

As of September 30,	2024	2023
Intragovernmental		
Fund Balance With Treasury	\$ 576	\$ 579
Accounts Receivable	4,486	4,647
Total Intragovernmental	5,062	5,226
Other Than Intragovernmental		
Accounts Receivable	153	215
Total Non-Entity Assets	5,215	5,441
Total Entity Assets	137,039	135,631
Total Assets	\$ 142,254	\$ 141,072

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

FINANCIAL SECTION**NOTES TO THE FINANCIAL STATEMENTS****NOTE 3. FUND BALANCE WITH TREASURY***(dollars in millions)*

As of September 30,	2024	2023
Status of Fund Balance With Treasury		
Unobligated Balance		
Available	\$ 28,026	\$ 46,131
Unavailable	8,741	9,551
Obligated Balance Not Yet Disbursed	51,482	34,880
Deposit Funds	579	581
Clearing Accounts	173	155
Unavailable Receipts	491	329
Fund Balance With Treasury	\$ 89,492	\$ 91,627

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

NOTE 4. CASH*(dollars in millions)*

As of September 30,	2024	2023
Cash		
Canteen Service	\$ 1	\$ 2
Agent Cashier Advance	1	1
Total Cash	\$ 2	\$ 3

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

NOTE 5. INVESTMENTS, NET

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

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

Intragovernmental Securities, which comprise most of VA's Investments, are nonmarketable Treasury Special Bonds and Treasury Notes. Special Bonds, which mature during various years through 2039, are generally held to maturity unless needed to finance insurance claims and dividends. Amounts collected from supervised life insurance programs are invested in Special Bonds. None of the Special Bonds are reclassified as available for sale or early redemption, nor are there any permanent impairments on these investments. Treasury Notes help finance operations and events supported by the General Post Fund for the benefit of Veterans and their beneficiaries. Treasury Notes are amortized using the effective interest method, while all other Intragovernmental Securities are purchased at face value and are not amortized.

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

Investments for the supervised life insurance programs are also dedicated collections (see [Note 19](#)). Treasury does not set aside assets to pay future expenditures associated with Funds from Dedicated Collections. The cash receipts collected from the public for Funds from Dedicated Collections are deposited in the Treasury and are used for general Government purposes. Treasury security investments provide authority to draw upon the Treasury for future authorized expenditures. Treasury securities held by a fund from dedicated collections are an asset of the fund and a liability of the Treasury, so they are eliminated in the consolidation of the Financial Report (FR) of the U.S. Government. When a fund from dedicated collections redeems its Treasury securities to make expenditures, Treasury will finance those expenditures in the same manner that it finances all other expenditures.

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

NOTE 6. ACCOUNTS RECEIVABLE, NET

(dollars in millions)

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

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

For the VGLI insurance program, VA established a receivable with Prudential to collect excess reserve totaling \$3.4 billion over a period of five years. As of September 30, 2024, this VGLI receivable has been collected in-full. Additional information on the VGLI transfers is reported in [Note 17](#).

VA’s Accounts Receivable as of September 30, 2024 and 2023, includes \$404 million and \$383 million, respectively, related to monitored criminal restitution orders, for which an estimate of net realizable value is currently undeterminable but considered negligible.

NOTE 7. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

VA operates the following direct loan and loan guarantee programs:

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

A. LOAN PROGRAMS

HOME LOANS

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

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

VA operates in the broader mortgage marketplace; as a result, VA housing program is affected by overall housing market conditions.

Since the declaration of the COVID-19 pandemic, VA’s Loan Guaranty Service has taken multiple steps to assist borrowers in retaining their homes. VA has a standard suite of loss

mitigation tools for borrowers who are unable to make mortgage payments, which include repayment plans, special forbearance, loan modifications, compromise sale and deed-in-lieu of foreclosure. In addition, VA had special loss mitigation options to address emergent circumstances. These programs have ended at September 30, 2024.

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

INSURANCE POLICY LOANS

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

LOAN SALE GUARANTEES

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

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

B. LOANS RECEIVABLE

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

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

All insurance policy loans issued since November 2, 1987 have a variable interest rate with a minimum of 5.0% and a maximum of 12.0%. Rate changes are tied to the 10-year constant

maturity of the U.S. Treasury Securities Index and may only change on October 1, and the variable rate has been 5.0% since October 1, 2001.

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

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

LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY FROM DIRECT AND GUARANTEED LOANS

<i>(dollars in millions)</i> As of September 30, 2024	Loans Receivable, Gross	Interest and Fees Receivable	Allowance for Loan Losses	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Loans, Net
Loans Obligated Prior to FY 1992 (Allowance for Loan Loss Method)						
Defaulted Guaranteed Home Loans	\$ 21	\$ -	\$ (19)	\$ -	\$ -	\$ 2
Loans Obligated After FY 1991 (Present Value Method)						
Direct Home Loans	634	10	-	104	2	750
Defaulted Guaranteed Home Loans	1,822	-	-	-	261	2,083
Direct Insurance Policy Loans	155	4	-	-	-	159
Total Loans Receivable	\$ 2,632	\$ 14	\$ (19)	\$ 104	\$ 263	\$ 2,994

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

RECONCILIATION OF LOANS RECEIVABLE, NET

(dollars in millions)

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

FORECLOSED PROPERTY

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

Potential volatility in the U.S. housing market could change the estimates and assumptions used for these calculations, which may impact the amounts reported and disclosed herein. There has been no change in the methodology for calculating the amount recorded for foreclosed property and there are no restrictions on the use or disposition of foreclosed property for the periods ended September 30, 2024 and 2023.

As of September 30, 2024 and 2023, the number of residential properties in VA’s inventory that have foreclosed is 1,370 and 3,152, respectively. The average holding period from the date properties are conveyed to VA until the date properties are sold was approximately four months for FY 2024 and FY2023. The number of properties for which foreclosure proceedings are in process is 15,362 and 27,345 as of September 30, 2024 and 2023, respectively.

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

The allowance for subsidy represents the difference between the balance of the direct loans and the present value of the estimated net cash flows to be paid by VA. VA anticipated acquiring \$5.7 billion in loan guarantees in FY 2024 through the VASP program and recorded a subsidy modification collection of \$1.096 billion for the direct loan financing account in April 2024. As of September 2024, VA acquired significantly less than the anticipated amount for VASP. In addition, VA recorded a negative subsidy re-estimate in the amount of \$1.109 billion for direct loans.

SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES

(dollars in millions)

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

D. SUBSIDY EXPENSE

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

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

Direct and Guaranteed Loans Subsidy Rates	Defaults, net of recoveries	Interest	Fees	All Other	Total Subsidy Rate
Veterans Housing Direct Acquired Loans	8.25%	4.21%	0.00%	-0.47%	11.99%
Veterans Housing Direct Vendee Loans	0.02%	-26.08%	-2.20%	0.33%	-27.93%
Native American Direct Loans	0.00%	-27.82%	-0.47%	8.02%	-20.26%
Housing Guaranteed Loans	0.89%	0.00%	-0.93%	0.00%	-0.03%

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

SUBSIDY EXPENSE FOR DIRECT HOME LOANS AND LOAN GUARANTEES

(POST-FY 1991)

(dollars in millions)

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

(dollars in millions)

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

E. OUTSTANDING LOAN GUARANTEES

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

GUARANTEED LOANS OUTSTANDING

(dollars in millions)

As of September 30, 2024	Outstanding Principal of Guaranteed Loans Made by Financial Institutions, Face Value	Amount of Outstanding Principal Guaranteed by VA
Post-FY 1991		
Home Loan Guarantees	\$ 1,040,796	\$ 261,566
Loan Sale Guarantees	-	186
Total	\$ 1,040,796	\$ 261,752

(dollars in millions)

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

NEW GUARANTEED LOANS DISBURSED

(dollars in millions)

For the period ended September 30, 2024	Principal of Guaranteed Loans Made by Financial Institutions, Face Value	Amount of Outstanding Principal Guaranteed by VA	Number of Loans Disbursed (in standard units)
New Guaranteed Home Loans	\$ 138,167	\$ 34,675	372,743

(dollars in millions)

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

F. LOAN GUARANTEE LIABILITIES

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

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

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

<i>(dollars in millions)</i>	Home Loans Post-FY 1991	Loan Sales Post-FY 1991	Home Loans Pre-FY 1992	Total
As of September 30, 2023				
Loan guarantee liabilities as of October 1, 2022	\$ 9,633	\$ 14	\$ 285	\$ 9,932
Claim payments to lenders	(1,471)	1	-	(1,470)
Fees received	1,459	-	-	1,459
Foreclosed property and loans acquired	1,445	-	(1)	1,444
Subsidy Expense	(4,626)	-	-	(4,626)
Negative subsidy payments	112	-	-	112
Upward reestimates	620	1	-	621
Downward reestimates	1,513	1	-	1,514
Other	192	-	(3)	189
Ending balance of the loan guarantee liabilities	\$ 8,877	\$ 17	\$ 281	\$ 9,175

G. LOAN GUARANTEE MODIFICATIONS

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

H. ADMINISTRATIVE EXPENSE

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

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. INVENTORY

(dollars in millions)

As of September 30,	2024	2023
Inventory Held for Sale	\$ 19	\$ 18
Operating Materials and Supplies	102	39
Stockpile Materials	118	86
Total Inventory and Related Property	\$ 239	\$ 143

For additional details of Inventory and Related Property, refer to [Note 1.K](#).

NOTE 9. PROPERTY, PLANT, AND EQUIPMENT, NET

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

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

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

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

NOTE 10. HERITAGE ASSETS

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

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

As of September 30, 2024, VA has 1,228 multi-use Heritage Assets (multi-use buildings and national cemeteries) that are included in PP&E. Multi-use Heritage Assets have both operating and historic characteristics and are used predominantly in Government operations such as administration, engineering, and maintenance.

<i>(in units)</i>	Beginning			Ending
As of September 30, 2024	Balance	Increases	Decreases	Balance
Archaeological Sites	10	-	-	10
Art Collections	39	-	-	39
Buildings	563	45	(33)	575
Monuments	1,411	3	(1)	1,413
Non-Buildings	1,046	1	(5)	1,042
Multi-Use Buildings in PP&E	987	128	(42)	1,073
Soldiers' Lots and Monument Sites	34	1	-	35
National Cemeteries	155	-	-	155
Total Heritage Assets in Units	4,245	178	(81)	4,342

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

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

NOTE 11. DEBT

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

<i>(dollars in millions)</i> As of September 30, 2023	Beginning Balance	Net Borrowing	Ending Balance
Source of Debt (Intragovernmental)			
Debt Owed to:			
Federal Financing Bank (FFB)	\$ 4	\$ -	\$ 4
Treasury other than the FFB	556	8	564
Total Debt	\$ 560	\$ 8	\$ 568

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

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

NOTE 12. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

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

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

(dollars in millions)

As of September 30,	2024	2023
Intragovernmental		
Workers Compensation (FECA)	\$ 441	\$ 408
Future Funded Expense - Contract Dispute Act	94	119
Total Intragovernmental	<u>535</u>	<u>527</u>
Total Other Than Intragovernmental		
Veterans Benefits and Actuarial FECA Liability (Note 13)	7,429,632	7,300,421
Unfunded Leave (Note 13)	3,706	3,400
Environmental and Disposal Liabilities (Note 14)	852	974
Insurance (Note 17)	1,611	1,688
Other (Note 15)	3,141	1,016
Total Liabilities Not Covered By Budgetary Resources	<u>7,439,477</u>	<u>7,308,026</u>
Total Liabilities Covered By Budgetary Resources	35,881	22,135
Total Liabilities Not Requiring Budgetary Resources	1,297	1,370
Total Liabilities	<u><u>\$ 7,476,655</u></u>	<u><u>\$ 7,331,531</u></u>

NOTE 13. FEDERAL EMPLOYEE AND VETERANS BENEFITS LIABILITIES

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

(dollars in millions)

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

A. COMPENSATION AND BURIAL

VA provides Disability Compensation (Compensation) benefits to the following individuals:

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

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

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

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

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

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

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

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

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

In FY 2023, the impact on the Compensation liability from the PACT Act was recognized as “prior service costs from plan amendments.” The PACT Act was enacted in August 2022, and some of the experience data related to the PACT Act is now included in the regular updates to

the Compensation model. In FY 2024, VA identified the portion of the liability impact related to the PACT Act that is part of experience as well as the portion not yet in the experience data (expected emerging experience). The model’s assumption that reflects expected emerging experience and long-term assumptions was applied to the projected future aggregate benefit payments as follows: 7% for FY 2025, and 5% for FY 2026 and thereafter. In FY 2023, VA projected 9% for FY 2025, and 7% for FY 2026 and thereafter. The difference represents the experience contained in the valuation data.

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

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

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

The single-equivalent discount rates were computed based on the average of the last 10 years of quarterly zero-coupon Treasury spot rates. The single-equivalent discount rate increased from 2.87% to 2.97% as of September 30, 2024, which decreased the Compensation and Burial liability by \$96.5 billion.

The COLA rate assumption for FY 2025 changed from 2.4% (in the prior year’s estimate) to 3.19% in the FY 2024 model, resulting in a liability increase of \$54.0 billion. The long-term COLA rate assumption, based on the intermediate assumptions published in the Social Security Administration’s (SSA) most recent Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, did not change from the prior year’s assumption.

For the Periods Ended September 30,	2024	2023
Discount Rate, Single Equivalent	2.97%	2.87%
COLA Rate, Year 1	3.19%	3.51%
Long-Term COLA Rate	2.40%	2.40%

B. EDUCATION AND VR&E BENEFIT LIABILITIES

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

(dollars in millions)

As of September 30,	2024	2023
Post-9/11	\$ 124,177	\$ 116,250
VR&E	26,081	20,932
DEA	61,594	59,755
MGIB-AD	611	610
Total	\$ 212,463	\$ 197,547

ASSUMPTIONS USED TO CALCULATE EDUCATION AND VR&E BENEFIT LIABILITIES

To calculate the present value of the Education and VR&E benefit liabilities, the following discount rates are based on the average of the last 10 years of quarterly zero-coupon Treasury spot rates. The number of projection years in each model are 30 years for Post-9/11, 52 years for VR&E, 52 years for DEA, and 20 years for MGIB-AD. In FY 2023, the VR&E projection year was 16 years.

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

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

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

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

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

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

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

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

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

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

The Compensation, Burial, Education, and VR&E models are updated annually to reflect updated assumptions and data. VA considers these estimates to be reasonably stated as of September 30, 2024.

Additional information on VA's actuarial estimates is available in [Note 1.Q](#).

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

(dollars in millions)

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

(dollars in millions)

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

*The sum of these changes represents Veterans benefits actuarial cost, excluding change in actuarial assumptions on the Statement of Net Cost for FY 2024.

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

C. VETERANS BENEFITS – MEDICAL CLAIMS

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

INCURRED BUT NOT REPORTED MODEL FOR MEDICAL CLAIMS BENEFITS

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

D. FEDERAL EMPLOYEE BENEFITS

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

(dollars in millions)

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

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

FINANCIAL SECTION**NOTES TO THE FINANCIAL STATEMENTS***(dollars in millions)*

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

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

VA has unfunded Environmental and Disposal Liabilities in the amount of \$852 million and \$974 million as of September 30, 2024 and 2023, respectively. The majority of VA's unfunded Environmental and Disposal Liabilities involve asbestos removal, lead abatement, replacement of underground oil and gasoline tanks, decommissioning of waste incinerators, and decontamination of equipment prior to disposal. Included in the total unfunded Environmental and Disposal Liabilities are the liabilities for the removal of friable asbestos of \$200 million and \$190 million, for September 30, 2024 and 2023, respectively; and the removal of nonfriable asbestos of \$496 million and \$498 million, for September 30, 2024 and 2023, respectively.

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

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

NOTE 15. OTHER LIABILITIES

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

(dollars in millions)

As of September 30,	2024	2023
Intragovernmental		
Other Liabilities (Without Reciprocals)	\$ 135	\$ 154
Liability to the General Fund of the U.S. Government and Other		
Non-Entity Assets	4,640	4,861
Other Current Liabilities - Benefit Contribution Payable	746	650
Other Liabilities	102	127
Total Intragovernmental	<u>5,623</u>	<u>5,792</u>
Other Than Intragovernmental		
Withholding Payable	1	3
Other Liabilities Without Related Budgetary Obligations	445	378
Other Liabilities With Related Budgetary Obligations	317	246
Contingent Liabilities	690	638
Contract Holdbacks	16	17
Liability for Clearing Accounts	156	84
Liability for Non-Fiduciary Deposits Funds and Undeposited	578	581
Lease Liability Without Budgetary Obligations*	2,006	-
Total Other Than Intragovernmental	<u>4,209</u>	<u>1,947</u>
Total Other Liabilities	<u>\$ 9,832</u>	<u>\$ 7,739</u>

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

NOTE 16. LEASES

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

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

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

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

(dollars in millions)

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

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

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17. LIFE INSURANCE BENEFITS

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

INSURANCE LIABILITY BALANCES

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

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

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

SCHEDULE FOR RECONCILING LIFE INSURANCE UNPAID POLICY CLAIM LIABILITY

<i>(dollars in millions)</i> As of September 30, 2024	Unpaid Claim Liability as of October 1, 2023	Claims Expenses	Less Payments to Settle Claims	Ending Unpaid Claim Liability Balance
NSLI	\$ 82	\$ 132	\$ (146)	\$ 68
VSLI	53	112	(115)	50
S-DVI	42	121	(117)	46
VRI	3	4	(5)	2
VMLI	8	31	(32)	7
Total	\$ 188	\$ 400	\$ (415)	\$ 173

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

VA supervises the administration of two life insurance programs, SGLI and VGLI, which are administered by Prudential. Prudential holds reserves needed for claims and administration while the group policy is in effect. Further, a contingency reserve is used to account for adverse fluctuations in claims under the policy, as required by law. These reserves are maintained in Prudential's financial records since the risk of loss is assumed by Prudential and its reinsurers. Within its revolving fund, VA holds excess funds that are not required to cover program liabilities held by Prudential but are available to support the SGLI and VGLI programs. The contingency reserve held by Prudential for SGLI is currently above its target range. VA is assessing and will undertake the appropriate actions to transfer the SGLI contingency reserve balance to VA as excess funds in FY 2025. In June 2019, the Secretary determined that \$3.4 billion held by Prudential for VGLI were excess reserve funds that were no longer needed to sustain the adverse fluctuations of the program. As a result, Prudential and VA signed an agreement to transfer the excess reserves to VA over a period of five years. As of September 30, 2024, VA had received the entire \$3.4 billion over 20 installment payments.

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

A. CASH SURRENDER VALUE

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

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

(dollars in millions)

As of September 30,	2024	2023
NSLI	\$ 313	\$ 491
VSLI	429	538
S-DVI	831	816
VRI	13	19
Total*	\$ 1,586	\$ 1,864

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

B. PROGRAM COSTS, PREMIUMS COLLECTED, AND APPROPRIATIONS USE

(dollars in millions)

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

(dollars in millions)

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

C. INSURANCE IN-FORCE

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

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

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

D. POLICY DIVIDENDS

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

NOTE 18. COMMITMENTS AND CONTINGENCIES

VA records a contingent liability of \$690 million and \$638 million for FY 2024 and FY 2023, respectively, for pending legal claims where losses are determined to be probable, and the amounts can be estimated. The liability from existing medical malpractice and other tort claims is estimated using generally accepted actuarial standards and procedures. Estimates of future claim payments are discounted using a yield curve, which is based on a 10-year average of quarterly zero coupon Treasury spot rates evaluated as of March 31, 2024.

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

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

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

In one case, VA is in the process of implementing the Supreme Court’s decision regarding eligibility for Veterans with separate periods of service who qualify for both MGIB and Post-9/11 GI Bill (PGIB) benefits to receive full benefits under both programs. Eligibility would be subject to an aggregate 48-month limit, which would increase total entitlement by an additional 12 months. In 2021, a United States Court of Appeals for the Federal Circuit panel affirmed a United States Court of Appeals for Veterans Claims (CAVC) decision that held such Veterans were entitled to additional education benefits. In December 2022, the Federal Circuit full court reversed the CAVC decision, holding that an individual, with multiple periods of service who switches from MGIB to PGIB without first exhausting MGIB benefits is limited to a total of 36 months of MGIB and PGIB benefits. In April 2024, the Supreme Court reversed the Federal Circuit, holding that Veterans with separate periods of service who qualify for both MGIB and PGIB benefits may receive full benefits under both programs, subject to an aggregate 48-month benefits cap.

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

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

(dollars in millions)

For the Periods Ended September 30	2024	2023
Fiscal Year Settlement Payments	\$ 128	\$ 154
Less Contract Dispute and “No Fear” Payments	<u>(14)</u>	<u>(12)</u>
Imputed Financing-Paid by Other Entities*	<u>\$ 114</u>	<u>\$ 142</u>

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

In accordance with 38 C.F.R. § 17.36 (c), the Secretary makes an annual enrollment decision that identifies which Veterans, by priority, will be treated for that fiscal year based on funds appropriated, estimated collections, usage, the severity index of enrolled Veterans and changes in cost. While VA expects to continue to provide medical care to Veterans in future years, an estimate of this amount cannot be reasonably made. Accordingly, VA recognizes the medical care expenses in the period the medical care services are provided. For FY 2020 through FY 2024, the average medical care cost per year is \$102.6 billion.

FINANCIAL SECTION**NOTES TO THE FINANCIAL STATEMENTS****NOTE 19. FUNDS FROM DEDICATED COLLECTIONS**

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

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

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

<i>(dollars in millions)</i>	Insurance	Other Funds From Dedicated Collections	Total Funds From Dedicated Collections (Combined)	Eliminations Between Funds From Dedicated Collections	Total Funds From Dedicated Collections (Consolidated)
Balance Sheet as of September 30, 2024					
Assets					
Intragovernmental					
Fund Balance With Treasury	\$ 167	\$ 678	\$ 845	\$ -	\$ 845
Investments	5,616	120	5,736	-	5,736
Accounts Receivable	-	11	11	-	11
Total Intragovernmental	\$ 5,783	\$ 809	\$ 6,592	\$ -	\$ 6,592
Other Than Intragovernmental					
Cash	\$ -	\$ 1	\$ 1	\$ -	\$ 1
Accounts Receivable, Net	5	2,094	2,099	-	2,099
Direct Loan and Loan Guarantees, Net	158	-	158	-	158
Inventory	-	19	19	-	19
Property, Plant, and Equipment	-	70	70	-	70
Total Assets	\$ 5,946	\$ 2,993	\$ 8,939	\$ -	\$ 8,939
Liabilities					
Intragovernmental					
Accounts Payable	\$ -	\$ (6)	\$ (6)	\$ -	\$ (6)
Other Liabilities	43	-	43	-	43
Total Intragovernmental Liabilities	\$ 43	\$ (6)	\$ 37	\$ -	\$ 37
Other Than Intragovernmental					
Accounts Payable	\$ 24	\$ 25	\$ 49	\$ -	\$ 49
Federal Employee Salary, Leave, and Benefits Payable	-	10	10	-	10
Veterans Benefits and Actuarial (FECA) Liability	2,961	-	2,961	-	2,961
Advances From Others and Deferred Revenue	22	-	22	-	22
Other Liabilities	-	1	1	-	1
Total Liabilities	\$ 3,050	\$ 30	\$ 3,080	\$ -	\$ 3,080
Net Position					
Total Net Position	\$ 2,896	\$ 2,963	\$ 5,859	\$ -	\$ 5,859
Total Liabilities and Net Position	\$ 5,946	\$ 2,993	\$ 8,939	\$ -	\$ 8,939
Statement of Net Cost as of September 30, 2024					
Gross Program Costs	\$ 228	\$ 606	\$ 834	\$ -	\$ 834
Less Earned Revenues	347	5,099	5,446	-	5,446
Net Cost/(Benefit) of Operations	\$ (119)	\$ (4,493)	\$ (4,612)	\$ -	\$ (4,612)
Statement of Changes in Net Position as of September 30, 2024					
Unexpended Appropriations					
Beginning Balance	\$ -	\$ 16	\$ 16	\$ -	\$ 16
Net Change in Unexpended Appropriations	-	-	-	-	-
Total Unexpended Appropriations:					
Ending	-	16	16	-	16
Cumulative Results of Operations					
Budgetary and Other Financing Sources	109	(3,792)	(3,683)	-	(3,683)
Net (Cost)/Benefit of Operations	119	4,493	4,612	-	4,612
Change in Cumulative Results of Operations	228	701	929	-	929
Cumulative Results of Operations:					
Ending	2,896	2,947	5,843	-	5,843
Total Net Position	\$ 2,896	\$ 2,963	\$ 5,859	\$ -	\$ 5,859

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

<i>(dollars in millions)</i>	Insurance	Other Funds From Dedicated Collections	Total Funds From Dedicated Collections (Combined)	Eliminations Between Funds From Dedicated Collections	Total Funds From Dedicated Collections (Consolidated)
Balance Sheet as of September 30, 2023					
Assets					
Intragovernmental					
Fund Balance With Treasury	\$ 155	\$ 492	\$ 647	\$ -	\$ 647
Investments	5,435	140	5,575	-	5,575
Accounts Receivable	-	15	15	-	15
Total Intragovernmental	\$ 5,590	\$ 647	\$ 6,237	\$ -	\$ 6,237
Other Than Intragovernmental					
Cash	\$ -	\$ 2	\$ 2	\$ -	\$ 2
Accounts Receivable, Net	379	1,565	1,944	-	1,944
Direct Loan and Loan Guarantees, Net	155	-	155	-	155
Inventory	-	18	18	-	18
Property, Plant, and Equipment	-	81	81	-	81
Total Assets	\$ 6,124	\$ 2,313	\$ 8,437	\$ -	\$ 8,437
Liabilities					
Intragovernmental					
Accounts Payable	\$ -	\$ (5)	\$ (5)	\$ -	\$ (5)
Other Liabilities	55	-	55	-	55
Total Intragovernmental Liabilities	\$ 55	\$ (5)	\$ 50	\$ -	\$ 50
Other Than Intragovernmental					
Accounts Payable	\$ 24	\$ 41	\$ 65	\$ -	\$ 65
Federal Employee Salary, Leave, and Benefits Payable	-	13	13	-	13
Veterans Benefits and Actuarial (FECA) Liability	3,360	-	3,360	-	3,360
Advances From Others and Deferred Revenue	17	-	17	-	17
Other Liabilities	-	2	2	-	2
Total Liabilities	\$ 3,456	\$ 51	\$ 3,507	\$ -	\$ 3,507
Net Position					
Total Net Position	\$ 2,668	\$ 2,262	\$ 4,930	\$ -	\$ 4,930
Total Liabilities and Net Position	\$ 6,124	\$ 2,313	\$ 8,437	\$ -	\$ 8,437
Statement of Net Cost as of September 30, 2023					
Gross Program Costs	\$ 260	\$ 507	\$ 767	\$ -	\$ 767
Less Earned Revenues	283	4,903	5,186	-	5,186
Net Cost/(Benefit) of Operations	\$ (23)	\$ (4,396)	\$ (4,419)	\$ -	\$ (4,419)
Statement of Changes in Net Position as of September 30, 2023					
Unexpended Appropriations					
Beginning Balance	\$ -	\$ 16	\$ 16	\$ -	\$ 16
Net Change in Unexpended Appropriations	-	-	-	-	-
Total Unexpended Appropriations:					
Ending	-	16	16	-	16
Cumulative Results of Operations					
Budgetary and Other Financing Sources	\$ 2,570	\$ 1,947	\$ 4,517	\$ -	\$ 4,517
Net (Cost)/Benefit of Operations	75	(4,097)	(4,022)	-	(4,022)
Net (Cost)/Benefit of Operations	23	4,396	4,419	-	4,419
Change in Cumulative Results of Operations	98	299	397	-	397
Cumulative Results of Operations:					
Ending	2,668	2,246	4,914	-	4,914
Total Net Position	\$ 2,668	\$ 2,262	\$ 4,930	\$ -	\$ 4,930

NOTE 20. EXCHANGE TRANSACTIONS

A. EXCHANGE REVENUES

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

B. PUBLIC EXCHANGE TRANSACTIONS

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

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

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

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

- (a) Furnished in error or based on tentative eligibility;
- (b) For a medical emergency, workers' compensation (intragovernmental only) or humanitarian emergency;
- (c) To pensioners of allied nations;
- (d) For research purposes in circumstances under which VA medical care appropriation is to be reimbursed by VA research appropriation; and
- (e) To beneficiaries of the DoD or other Federal agencies, when the care or service provided is not covered by an applicable sharing agreement.

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

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

NCA also has the following exchange revenue activities:

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

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

NOTE 21. NET PROGRAMS COSTS BY ADMINISTRATION

<i>(dollars in millions)</i> For the Period Ended September 30, 2024	Gross Cost	Veterans Benefits Actuarial Cost	Less Earned Revenue	Net Program Costs	Gain/Loss from Changes in Actuarial Liability Assumptions	Total
VETERANS HEALTH ADMINISTRATION						
0140 - Medical Community Care	\$ 32,149	\$ -	\$ -	\$ 32,149	\$ -	\$ 32,149
0152 - Medical Support and Compliance	11,102	-	(63)	11,039	-	11,039
0160 - Medical Services	74,143	-	(233)	73,910	-	73,910
0162 - Medical Facilities	6,945	-	(22)	6,923	-	6,923
0167 - Information Technology	6,677	-	(168)	6,509	-	6,509
All Other Funds	27,548	-	(5,133)	22,415	-	22,415
VHA Combined Total	158,564	-	(5,619)	152,945	-	152,945
Intra-Entity Eliminations	(2,318)	-	261	(2,057)	-	(2,057)
VHA Consolidated Total	\$ 156,246	\$ -	\$ (5,358)	\$ 150,888	\$ -	\$ 150,888
VETERANS BENEFITS ADMINISTRATION						
0102 - Compensation and Pensions	\$ 176,795	\$ 147,300	\$ -	\$ 324,095	\$ (33,700)	\$ 290,395
0137 - Readjustment Benefits	14,325	18,994	-	33,319	(4,078)	29,241
4129 - Veterans Housing Benefits Loan Guarantee Program	195	-	(195)	-	-	-
8132 - National Service Life Insurance Fund	31	-	(28)	3	-	3
0151 - General Operating Expenses	8,840	-	(5,131)	3,709	-	3,709
All Other Funds	(1,846)	-	(756)	(2,602)	-	(2,602)
VBA Combined Total	198,340	166,294	(6,110)	358,524	(37,778)	320,746
Intra-Entity Eliminations	(5,433)	-	5,131	(302)	-	(302)
VBA Consolidated Total	\$ 192,907	\$ 166,294	\$ (979)	\$ 358,222	\$ (37,778)	\$ 320,444
NCA Combined Total	\$ 622	\$ -	\$ -	\$ 622	\$ -	\$ 622
Intra-Entity Eliminations	(18)	-	-	(18)	-	(18)
NCA Consolidated Total	\$ 604	\$ -	\$ -	\$ 604	\$ -	\$ 604
Indirect Administrative Programs						
0142 - General Administration	\$ 1,001	\$ -	\$ (480)	\$ 521	\$ -	\$ 521
1122 - Board of Veterans Appeals	294	-	-	294	-	294
4537 - Supply Fund	2,020	-	(2,134)	(114)	-	(114)
All Other Funds	2,304	-	(2,071)	233	-	233
Indirect Administrative Programs Combined Total	5,619	-	(4,685)	934	-	934
Intra-Entity Eliminations	(1,733)	-	4,110	2,377	-	2,377
Indirect Administrative Programs Consolidated Total	\$ 3,886	\$ -	\$ (575)	\$ 3,311	\$ -	\$ 3,311
Net Cost of Operations	\$ 353,643	\$ 166,294	\$ (6,912)	\$ 513,025	\$ (37,778)	\$ 475,247

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

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

NOTE 22. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

A. BORROWING AUTHORITY

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

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

B. PERMANENT INDEFINITE APPROPRIATIONS

VA has three permanent and indefinite appropriations to cover housing financial transactions and unexpected housing losses: (1) The Veterans Housing Benefit Program Fund account covers all subsidy re-estimate costs (that is, costs to the government for original subsidy and re-estimates subsidy) associated with loan obligations and loan guarantees committed since 1992 for Veterans housing benefits, (2) The Native American Veteran Direct Loan Program account covers all subsidy re-estimate costs, and (3) The Vocational Rehabilitation Loan Program account funds loan subsidy re-estimates.

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

The following table reflects material differences between the FY 2023 Statement of Budgetary Resources and the FY 2023 actual amounts reported in the FY 2025 President’s Budget of the U.S. Government. The FY 2025 President’s Budget was released in March 2024 and may be obtained from [OMB](#) or the [Government Publishing Office](#). The Budget with the actual amounts for the current year (that is, FY 2024) is expected to be released early in the subsequent calendar year.

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

(dollars in millions)

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

*These are credit reform financing account net outlays.

D. USE OF UNOBLIGATED BALANCE OF BUDGET AUTHORITY

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

E. UNDELIVERED ORDERS AT THE END OF THE PERIOD

(dollars in millions)

As of September 30,	2024		2023	
	Paid	Unpaid	Paid	Unpaid
Intragovernmental Undelivered Orders	\$ 3,031	\$ 5,154	\$ 3,939	\$ 5,517
Undelivered Orders	123	21,847	157	21,871
Total Undelivered Orders	\$ 3,154	\$ 27,001	\$ 4,096	\$ 27,388

F. LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

(dollars in millions)

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

G. CONTRIBUTED CAPITAL

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

H. NET ADJUSTMENTS TO UNOBLIGATED BALANCE BROUGHT FORWARD

(dollars in millions)

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

NOTE 23. BUDGET AND ACCRUAL RECONCILIATION

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

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

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

FINANCIAL SECTION
NOTES TO THE FINANCIAL STATEMENTS

<i>(dollars in millions)</i>	Intra- governmental	Other Than Intra- governmental	Total
For the Period Ended September 30, 2023			
Net Operating Cost (SNC)	\$ 19,882	\$ 1,438,078	\$ 1,457,960
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant, and Equipment Depreciation Expense	-	(1,853)	(1,853)
Property, Plant, and Equipment Disposal and Reevaluation	-	(234)	(234)
Cost of Goods Sold	(1,344)	(161)	(1,505)
Inventory Disposals and Reevaluations	-	(5)	(5)
Adjustment to Prior Year Credit Reform Reestimates Accrual	-	3,135	3,135
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	2,942	(437)	2,505
Loans Receivable, Net (Non-FCRA)	-	(4)	(4)
Securities and Investments	10	-	10
Other Assets	1,548	67	1,615
(Increase)/Decrease in Liabilities:			
Accounts Payable	142	351	493
Loans Guarantee Liability (Non-FCRA)/Loans Payable	-	4	4
Environmental and Disposal Liabilities	-	(25)	(25)
Federal Employee Salary, Leave, and Benefits Payable	-	(571)	(571)
Veterans Benefits and Actuarial FECA Liability	-	(1,158,429)	(1,158,429)
Life Insurance Benefits Payable	-	364	364
Other Liabilities	(2,580)	44	(2,536)
Financing Sources:			
Imputed Cost	(4,387)	-	(4,387)
Total Components of Net Operating Cost Not Part of the Budget Outlays	(3,669)	(1,157,754)	(1,161,423)
Components of the Budgetary Outlays That Are Not Part of Net Cost of Operations			
Acquisition of Capital Assets	128	3,582	3,710
Acquisition of Inventory	-	1,477	1,477
Financing Sources:			
Donated Revenue	-	(18)	(18)
Transfers Out (In) without Reimbursements	(165)	-	(165)
Total Components of the Budget Outlays That Are Not Part of Net Cost of Operations	(37)	5,041	5,004
Miscellaneous Items			
Distributed Offsetting Receipts (-)	-	(4,886)	(4,886)
Appropriated Receipts for Trust/Special Funds	4,197	-	4,197
Other	15	159	174
Total Miscellaneous Items	4,212	(4,727)	(515)
Total Net Outlays	\$ 20,388	\$ 280,638	\$ 301,026
Agency Outlays, Net (Discretionary and Mandatory)			\$ 301,026

NOTE 24. PUBLIC-PRIVATE PARTNERSHIPS

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

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

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

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

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

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

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

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

The benefits of ESPCs and UESCs include:

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

<i>(dollars in millions)</i> As of September 30, 2024	Actual Amount Paid in FY	Estimated Amount to be Paid over Expected Life	Total Cumulative Funding by VA over life of Arrangement	Total Cumulative Funding by Private Sector over life of Arrangement
ESPC	\$ 29	\$ 589	\$ 117	\$ 676
UESC	7	301	243	320
Total	\$ 36	\$ 890	\$ 360	\$ 996

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

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

*Other Retirement Benefits

**Postemployment Benefits other than Pensions

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

REQUIRED SUPPLEMENTAL INFORMATION

DEFERRED MAINTENANCE AND REPAIRS

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

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

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

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

(dollars in millions)

As of September 30,	2024	2023
Property, Plant, and Equipment	\$ 16,177	\$ 14,781
Heritage Assets	1,268	1,204
Total Deferred Maintenance and Repairs	\$ 17,445	\$ 15,985

COMBINING STATEMENT OF BUDGETARY RESOURCES

DEPARTMENT OF VETERANS AFFAIRS
 COMBINING STATEMENT OF BUDGETARY RESOURCES
 FOR THE PERIOD ENDED SEPTEMBER 30, 2024
 (dollars in millions)

	Veterans Health Administration						
	0140 Medical Community Care	0152 Medical Support	0160 Medical Services	0162 Medical Facilities	0167 Information Technology	All Other Funds	VHA Total
Budgetary Resources							
Unobligated Balance from Prior Year							
Budget Authority, Net	\$ 1,919	\$ 897	\$ 6,023	\$ 3,017	\$ 598	\$ 12,848	\$ 25,302
Appropriations	30,890	10,719	71,842	9,009	6,378	24,595	153,433
Spending Authority from Offsetting Collections	-	63	148	23	167	495	896
Total Budgetary Resources	\$ 32,809	\$ 11,679	\$ 78,013	\$ 12,049	\$ 7,143	\$ 37,938	\$ 179,631
Status of Budgetary Resources							
New Obligations and Upward Adjustments	\$ 31,785	\$ 10,707	\$ 71,469	\$ 9,294	\$ 6,844	\$ 25,344	\$ 155,443
Apportioned, Unexpired Accounts	617	351	5,157	2,666	98	8,095	16,984
Unapportioned, Unexpired Accounts	-	-	-	-	-	4,210	4,210
Unexpired Unobligated Balance, End of Year	617	351	5,157	2,666	98	12,305	21,194
Expired Unobligated Balance, End of Year	407	621	1,387	89	201	289	2,994
Unobligated Balance, End of Year	1,024	972	6,544	2,755	299	12,594	24,188
Total Status of Budgetary Resources	\$ 32,809	\$ 11,679	\$ 78,013	\$ 12,049	\$ 7,143	\$ 37,938	\$ 179,631
Outlays, Net							
Outlays, Net	\$ 31,389	\$ 10,372	\$ 70,485	\$ 8,885	\$ 6,111	\$ 24,440	\$ 151,682
Distributed Offsetting Receipts	-	-	-	-	-	(4,027)	(4,027)
Agency Outlays, Net	\$ 31,389	\$ 10,372	\$ 70,485	\$ 8,885	\$ 6,111	\$ 20,413	\$ 147,655
Disbursements, Net	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(Continued on next page)

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

**DEPARTMENT OF VETERANS AFFAIRS
COMBINING STATEMENT OF BUDGETARY RESOURCES
FOR THE PERIOD ENDED SEPTEMBER 30, 2024
(dollars in millions)**

	Veterans Benefits Administration						VBA Total
	0102 Compensa- tion and Pensions	0137 Readjust- ment Benefits	4129 Veteran Housing Program	8132 Life Insurance Fund	0151 General Operating Expenses	All Other Funds	
Budgetary Resources							
Unobligated Balance from Prior Year							
Budget Authority, Net	\$ 19,436	\$ 5,554	\$ 10,917	\$ -	\$ 2,028	\$ 4,695	\$ 42,630
Appropriations	164,136	9,424	21	211	3,868	2,091	179,751
Borrowing Authority	-	-	60	-	-	463	523
Spending Authority from Offsetting Collections	-	160	3,365	7	5,193	3,069	11,794
Total Budgetary Resources	\$ 183,572	\$ 15,138	\$ 14,363	\$ 218	\$ 11,089	\$ 10,318	\$ 234,698
Status of Budgetary Resources							
New Obligations and Upward Adjustments	\$ 177,918	\$ 14,449	\$ 6,690	\$ 218	\$ 10,128	\$ 4,036	\$ 213,439
Apportioned, Unexpired Accounts	4,409	689	-	-	114	4,975	10,187
Unapportioned, Unexpired Accounts	-	-	7,673	-	-	1,271	8,944
Unexpired Unobligated Balance, End of Year	4,409	689	7,673	-	114	6,246	19,131
Expired Unobligated Balance, End of Year	1,245	-	-	-	847	36	2,128
Unobligated Balance, End of Year	5,654	689	7,673	-	961	6,282	21,259
Total Status of Budgetary Resources	\$ 183,572	\$ 15,138	\$ 14,363	\$ 218	\$ 11,089	\$ 10,318	\$ 234,698
Outlays, Net							
Outlays, Net	\$ 161,232	\$ 13,400	\$ -	\$ 278	\$ 5,025	\$ 1,590	\$ 181,525
Distributed Offsetting Receipts	-	-	-	(9)	-	(5,274)	(5,283)
Agency Outlays, Net	\$ 161,232	\$ 13,400	\$ -	\$ 269	\$ 5,025	\$ (3,684)	\$ 176,242
Disbursements, Net	\$ -	\$ -	\$ 3,262	\$ -	\$ -	\$ (719)	\$ 2,543

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DEPARTMENT OF VETERANS AFFAIRS
 COMBINING STATEMENT OF BUDGETARY RESOURCES
 FOR THE PERIOD ENDED SEPTEMBER 30, 2024

(dollars in millions)

	NCA					Indirect Administrative Programs		VA
	Total	0142 General Admin	1122 Board of Veterans Appeals	4537 Supply Fund	All Other Funds	Total	TOTAL	
Budgetary Resources								
Unobligated Balance from Prior Year								
Budget Authority, Net	\$ 50	\$ 126	\$ 49	\$ 804	\$ 736	\$ 1,715	\$ 69,697	
Appropriations	540	471	272	-	296	1,039	334,763	
Borrowing Authority	-	-	-	-	-	-	523	
Spending Authority from Offsetting Collections	3	496	-	2,075	1,878	4,449	17,142	
Total Budgetary Resources	\$ 593	\$ 1,093	\$ 321	\$ 2,879	\$ 2,910	\$ 7,203	\$ 422,125	
Status of Budgetary Resources								
New Obligations and Upward Adjustments	\$ 550	\$ 1,009	\$ 282	\$ 2,205	\$ 2,329	\$ 5,825	\$ 375,257	
Apportioned, Unexpired Accounts	34	44	21	674	574	1,313	28,518	
Unapportioned, Unexpired Accounts	-	-	-	-	4	4	13,158	
Unexpired Unobligated Balance, End of Year	34	44	21	674	578	1,317	41,676	
Expired Unobligated Balance, End of Year	9	40	18	-	3	61	5,192	
Unobligated Balance, End of Year	43	84	39	674	581	1,378	46,868	
Total Status of Budgetary Resources	\$ 593	\$ 1,093	\$ 321	\$ 2,879	\$ 2,910	\$ 7,203	\$ 422,125	
Outlays, Net								
Outlays, Net	\$ 524	\$ 415	\$ 275	\$ (122)	\$ 134	\$ 702	\$ 334,433	
Distributed Offsetting Receipts	(1)	-	-	-	(118)	(118)	(9,429)	
Agency Outlays, Net	\$ 523	\$ 415	\$ 275	\$ (122)	\$ 16	\$ 584	\$ 325,004	
Disbursements, Net	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,543	

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

LAND

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

VA LAND BY PREDOMINANT USE

Land held by VA is categorized into three predominant use categories: operational, conservation and preservation, and commercial in accordance with SFFAS No. 59, representing the land's actual use during the reporting period. The estimated acreage by each predominant use category is presented below.

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

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

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

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

ESTIMATED ACREAGE BY PREDOMINANT USE

	Operational	Conservation & Preservation	Commercial	Total Estimated Acreage
Estimated Acreage				
End of Prior Year	16,232.18	23,558.93	0.13	39,791.24
End of Current Year	15,814.90	23,558.93	0.13	39,373.96
Held for Disposal or Exchange				
End of Prior Year	16.22	-	-	16.22
End of Current Year	14.50	-	-	14.50

LAND RIGHTS

VA will seek to acquire land rights either by leasing land for parking or other purpose or by acquiring permanent or temporary easements from public or private owners to support its mission. As of September 30, 2024, VA held lease rights to 9.73 acres of property mainly for purposes of parking to support VA medical facilities. These land leases are included in VA's overall leases numbers. For more information on VA's leases, refer to [Note 16](#).



US DEPARTMENT OF VETERANS AFFAIRS OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

DEPARTMENT OF VETERANS AFFAIRS

Audit of VA's Financial Statements for Fiscal Years 2024 and 2023

AUDIT

24-00842-08

November, 15, 2024



DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL
WASHINGTON, DC 20420



November 15, 2024

MEMORANDUM

TO: Secretary of Veterans Affairs (00)

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

SUBJECT: Audit of VA's Financial Statements for Fiscal Years 2024 and 2023

1. The VA Office of Inspector General (OIG) contracted with the independent public accounting firm CliftonLarsonAllen LLP (CLA) to audit VA's financial statements as of September 30, 2024, and 2023, and for the fiscal years then ended. This audit is an annual requirement of the Chief Financial Officers Act of 1990. The results of CLA's audit are presented in the attached report.
2. CLA provided an unmodified opinion on VA's financial statements for fiscal years (FYs) 2024 and 2023. CLA did, however, note material weaknesses and significant deficiencies in internal control and instances of noncompliance with laws and regulations.
3. Regarding internal control, CLA identified three material weaknesses. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. The three material weaknesses concern
 - controls over significant accounting estimates,
 - financial systems and reporting, and
 - information technology security controls.
4. CLA also identified three significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance. The three significant deficiencies concern
 - obligations, undelivered orders, and accrued expenses

- loan guarantee liability; and
 - entity-level controls.
5. The information technology security controls material weakness has been reported for more than 10 years. All other material weaknesses and significant deficiencies have been reported by CLA since at least FY 2016, despite changes to their titles, elements, or classifications over time.
 6. Regarding noncompliance with laws and regulations, CLA identified these issues:
 - Substantial noncompliance with federal financial management systems requirements and the United States Standard General Ledger at the transaction level under the Federal Financial Management Improvement Act of 1996 (FFMIA), reported in part for more than 10 years
 - Improvements needed to fully comply with the intent of the Federal Managers' Financial Integrity Act, reported since 2015
 - Noncompliance with the Payment Integrity Information Act of 2019 for FY 2023, previously reported by the OIG for more than 10 years, originally as noncompliance with the Improper Payments Elimination and Recovery Act
 7. CLA no longer reported instances of noncompliance with Title 38 of the United States Code, section 5315, previously reported for more than 10 years, wherein VA did not charge interest or administrative costs on certain delinquent payments for outstanding receivables related to the compensation, pension, and education benefit programs. Under amendments to section 5315 made by the Consolidated Appropriations Act, 2023, VA is prohibited from charging interest on indebtedness related to these programs occurring on or after December 29, 2022. CLA reported the FY 2024 status of this FY 2023 noncompliance matter as resolved.
 8. In an other-matter paragraph, CLA reported that in FY 2024, VA continued to investigate and review three potential violations of the Antideficiency Act, Title 31 of the United States Code, section 1341(a), all of which were carried forward from prior years. CLA has reported actual or potential violations of the Antideficiency Act for over 10 years.
 9. CLA is responsible for the attached audit report dated November 15, 2024, and the conclusions expressed in the report. The OIG does not express opinions on VA's financial statements, internal control, or compliance with FFMIA, nor does the OIG express conclusions on VA's compliance with laws and regulations. The

To: Secretary of Veterans Affairs

independent auditors will follow up on these internal control and compliance findings and evaluate the adequacy of corrective actions taken during the FY 2025 audit of VA's financial statements.

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

Attachment



Independent Auditors' Report

Secretary
United States Department of Veterans Affairs

Inspector General
United States Department of Veterans Affairs

In our audits of the fiscal years 2024 and 2023 financial statements of the United States Department of Veterans Affairs (VA), we found:

- VA's financial statements as of and for the fiscal years ended September 30, 2024, and 2023, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- Three material weaknesses and three significant deficiencies for fiscal year (FY) 2024 in internal control over financial reporting based on the limited procedures we performed; and
- Three reportable noncompliance matters for FY 2024 in connection with our testing of provisions of applicable laws, regulations, contracts, and grant agreements.

The following sections discuss in more detail (1) our report on the financial statements, which includes an emphasis-of-matter paragraph related to the actuarial estimates of certain FY 2024 financial statement balances, an other matter paragraph related to the potential violations of the Antideficiency Act (ADA), and a section on required supplementary information (RSI)¹ and other information² included in the Agency Financial Report (AFR); (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements and other matters; and (4) VA's response to our findings and recommendations.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of VA, which comprise the consolidated balance sheet as of September 30, 2024, and 2023; the related consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

In our opinion, the United States Department of Veterans Affairs' financial statements referred to above present fairly, in all material respects, VA's financial position as of September 30, 2024, and 2023, and its net cost, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

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

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

INDEPENDENT AUDITORS' REPORT (Continued)

Basis for Opinion

We conducted our audits in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of VA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 13 to the financial statements, the actuarial models for compensation and education program type estimates are based on assumptions and data that VA determines will reflect the best estimate of the present value of future cash flows. Uncertainty and changes in these assumptions about future events, including participants' behaviors and economic conditions, could have a material impact on the financial statements and actual results may materially differ from model outcomes. Furthermore, the estimate related to the Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics (PACT) Act of 2022 is still fairly new and is based on relatively limited data. Specifically, VA has less than two years' data and uncertainty of future trends exists, including the impact of proposed policy updates. Our opinion on VA's financial statements is not modified with respect to this matter.

Other Matter

In FY 2024, VA continues to investigate and review three potential violations of ADA, all of which were carried forward from prior years. Our opinion on VA's financial statements is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITORS' REPORT (Continued)

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

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

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

Required Supplementary Information

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

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

Other Information

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

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

INDEPENDENT AUDITORS' REPORT (Continued)

Report on Internal Control over Financial Reporting

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

Results of Our Consideration of Internal Control over Financial Reporting

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

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

Controls Over Significant Accounting Estimates

The modeling activities that produce significant accounting estimates for the compensation and education programs warrant management's continued focus.

Financial Systems and Reporting

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

Information Technology Security Controls

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

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

INDEPENDENT AUDITORS' REPORT (Continued)

Obligations, Undelivered Orders (UDOs), and Accrued Expenses

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

Loan Guarantee Liability

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

Entity Level Controls

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

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

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

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

Responsibilities of Management for Internal Control over Financial Reporting

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

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

In planning and performing our audit of VA's financial statements as of and for the fiscal year ended September 30, 2024, in accordance with *Government Auditing Standards*, we considered VA's internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of VA's internal control over financial reporting or on management's assurance statement on the overall effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on VA's internal control over financial reporting or on management's assurance statement on the overall effectiveness of internal control over financial reporting. We are required to report all deficiencies that are considered to be material weaknesses or significant deficiencies. We did not consider or evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations.

INDEPENDENT AUDITORS' REPORT (Continued)

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

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

Purpose of Report on Internal Control over Financial Reporting

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

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

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

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

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed instances of noncompliance or other matters for FY 2024, in Exhibit C, that are reportable under *Government Auditing Standards*. In addition, as described in Exhibit C, our tests of compliance with the FFMIA Section 803(a) requirements disclosed instances in which VA's financial management systems did not comply substantially with (1) federal financial management systems requirements and (2) the application of the U.S. Government Standard General Ledger (USSGL) at the transaction level. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to VA. Accordingly, we do not express such an opinion.

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

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

INDEPENDENT AUDITORS' REPORT (Continued)

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

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

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

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

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

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

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of VA's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditors' Report, dated November 15, 2023. The status of prior year findings is presented in Exhibit D.

VA's Response to Audit Findings and Recommendations

Government Auditing Standards requires the auditor to perform limited procedures on VA's response to the findings and recommendations identified in our report and can be found on page 42. VA's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on the response.

(/s/) CliftonLarsonAllen LLP

Greenbelt, Maryland
November 15, 2024

EXHIBIT A Material Weaknesses

1. Controls over Significant Accounting Estimates

Background:

The Veterans Benefits Administration (VBA) administers two large benefit programs that have significant accounting estimates and impact VA's financial statements for FY 2024, namely the compensation and education programs, which reported a total liability of \$7.4 trillion as of September 30, 2024. VA is responsible for establishing a process for preparing accounting estimates, including developing, implementing, and monitoring key controls around the activities associated with the actuarial modeling processes. VA has made progress in the development and implementation of corrective actions to mitigate financial reporting risks associated with these programs, including the establishment of a formal governance structure and process, which occurred approximately two years ago.

Conditions:

VA uses a variety of modeling techniques to produce the accounting estimates for its compensation and education benefit programs. As circumstances or experience changes, these models require updates and refinements. The reasonableness of those estimates is highly dependent on the relevancy, reliability, and completeness of the underlying data and the assumptions used. VA's control activities around these estimates require continued focus and strengthening. Specifically, the appropriate timing of completing and providing critical financial information, including sufficient audit evidence, and analyses needs improvement for VA's largest financial statement liability.

A. Timing of Model Completion and Submission

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

B. Documentation and Analysis Related to Legislative Adjustments

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

C. Actual-to-Projected Analyses (including look-back)

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

EXHIBIT A Material Weaknesses

Criteria:

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

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

Cause:

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

Effect:

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

Recommendations:

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

Strengthen the following practices by developing and implementing formal policies, processes, and procedures that support a strong framework related to risk management, financial statement audit risk, decision-making, and mechanisms for evaluating whether policies and procedures are being carried out as specified.

1. As part of the risk assessment process (identifying, analyzing, and responding to risks related to achieving the defined objectives), VA should work towards delivering models earlier than the fourth quarter of the fiscal year. This supports a collaborative effort to meet OMB deadlines and provide auditors sufficient time to understand the changes to the models, accurately assess risks, design appropriate audit procedures, and avoid delays that could lead to errors in the financial statements.
 - a. Ensure that changes to the models are properly documented, reviewed, and tested before implementation. This should include appropriate controls and oversight including planning appropriate timing and prioritization of experience studies, changes to either assumptions or application of assumptions, and completion of models.
2. Implement a robust, documented process to ensure appropriateness of adjustments pertaining to legislations. The documented process should ensure that as experience becomes available, such adjustments are closely monitored, refined, and re-evaluated based on what data is included in the model.

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- a. Monitor the assumptions as relevant experience information becomes available. While model results are not equally sensitive to all assumptions, regular review and update of assumptions helps maintain model integrity.
 - b. Ensure that the documentation is comprehensive, supported, up-to-date, and provided timely for changes to the model's design, assumptions, decisions, and limitations.
 - c. Conduct the appropriate analyses and testing of data reliability for the key factors used in the methodology, review, and validation of data sources including controls to ensure the completeness and accuracy.
3. Perform actual-to-projected analyses for more than one year to identify trends and to ensure model updates are not creating larger variability in projections compared with actual expenses.
- a. Compare estimates with subsequent results to assess the reliability of the assumptions and data used to develop estimates.
 - b. Identify significant variances to be investigated and researched to determine if current or new assumptions need to be further evaluated.
 - c. Continue to perform look-back analyses on the assumptions and other relevant factors used in the calculations to assess the reasonableness of the model outputs.

2. Financial Systems and Reporting

Background:

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

Conditions:

The majority of VA's financial systems and reporting control weaknesses stem from the antiquated financial management system and will remain until iFAMS is fully implemented. VA continues to refine its financial reporting practices, but many of these issues have existed for years and require extensive efforts to change the current business processes. Through FY 2024, VA's financial systems and reporting issues remain in the following areas:

A. Lack of FMS Reconciliations with Subsidiary Systems

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

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

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

1. VA's FMS system has limitations which result in transactions mapped to the incorrect Federal or Non-Federal attributes as a default. This prevents FMS from meeting the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) reporting requirements. As a result, high-volume and high-dollar JVs are entered into MinX to adjust trading partner and general ledger attributes (including adding main account codes and changing "Fed and Non-Fed" attributes) for VA's trial balance submission to pass GTAS edits.
2. VA continues to use an automated tool to assist with their data cleansing efforts related to prior year recoveries transactions. In FY 2024, VA recorded manual adjustments to correct errors in recoveries for approximately \$433 million (absolute value).

C. Issues with Intragovernmental Agreements and Reconciliations

VA does not have a complete centralized repository for all active intragovernmental agreements to support and facilitate its transaction level research and reconciliation. Therefore, the accounts involving intragovernmental financial transactions, such as obligations, unfilled customer orders, and offsetting collections recorded in FMS, do not reconcile to the agreement amounts in the repository. The VA intragovernmental differences by trading partner approximated \$998 million as of June 30, according to the U.S. Department of Treasury.

Criteria:

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

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

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

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

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Cause:

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

Effect:

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

Recommendations:

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

1. FMS reconciliations with subsidiary systems:
 - a. Perform an enterprise risk management (ERM) review that includes all of VA's subsidiary systems to inventory all types of VA's financial transactions and how they are initiated, interfaced, and ultimately recorded in FMS. Such an analysis can be performed in conjunction with the system modernization efforts including identifying the gaps and developing gap alternatives to address the systems that will not be part of the modernization.
 - b. Coordinate efforts with the Office of Information and Technology (OIT) and the relevant business offices to ensure complete and consolidated reconciliations between those subsidiary systems and the general ledger system are performed on a monthly basis.
 - c. Strengthen the FMS cumulative reconciliation with the subsidiary systems that includes performing complete and consolidated reconciliations between those subsidiary systems and FMS on a predetermined frequency basis (e.g., monthly) to support the accuracy and completeness of financial reporting.
2. Use of JVs:
 - a. Continue to monitor the JV recording process, especially surrounding the research and review of account differences and subsequent adjustments. Focus on addressing the common root causes of these JVs in order to:
 - Take the necessary actions to reduce the volume and value of JVs, especially as part of system modernization.
 - Ensure any risks identified are considered and addressed in the system modernization efforts.
 - b. Continue analysis of major accounting entries with their posting logic and attribute settings in FMS and the subsidiary ledgers used by the various business lines. Continue efforts to correct and establish missing FMS transaction posting logic to minimize the use of manual JVs. Manual JVs should be used only for unusual transactions, as a general rule (e.g., quarterly accruals, timing differences, or unusual one-time entries, etc.).
 - c. For prior year recoveries:
 - Refine, if necessary, the policies and procedures to identify and adjust for any prior year recovery (PYR) errors in FMS including management's assessment of completeness that all errors are identified and removed.
 - Continue to perform an assessment to validate the transactions included in the population of PYR before recording them on the financial statements.
 - Continue to perform in-depth analyses and/or reviews of the PYR automated tool

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results to assess accuracy. The review should consist of selecting a predetermined sample of transactions and vouching to supporting documentation.

- As part of the system modernization efforts, establish PYR practices and transaction codes that are consistent with USSGL when transactions occur.

3. Intragovernmental agreements and reconciliations:

- a. Ensure compliance with the reimbursable policy to provide the final agreement to the centralized repository. Continue to work to maintain and validate all intragovernmental agreements in that repository to ensure they are current and contain all the required terms and conditions. Perform an inventory review of those agreements to:
 - Determine whether balances are recorded in FMS accurately.
 - Ensure that agreements in the repository reflect an active or closed status, identify obligation amounts separately from the agreement values, and ensure that values are supported by agreements or task orders released against the agreement.
- b. Produce reliable subsidiary trading partner reports with details at the transaction level that can be linked to the agreement level to facilitate management's review and reconciliation with the trading partner reporting in GTAS and for the financial statements. Any corrections made as a result of the research should be documented and recorded in FMS at the transaction level.
- c. Continue to strengthen VA's controls and processes as described in the Treasury Financial Manual Volume I, Part 2, Chapter 4700, Appendix 5, *Overall Intra-governmental Transactions (IGT) Processes/General Information*, revised.

3. Information Technology Security Controls

Background:

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

Our review of IT controls covered general and business process application controls across 24 selected VA medical centers, regional offices, and major data centers. We also reviewed controls over 49 selected financial and operationally significant systems and applications. As noted in prior years' audits, VA continues to have weaknesses in Configuration Management, Access Controls, Security Management, and Contingency Planning Controls designed to protect mission-critical systems from unauthorized access, alteration, or destruction.

We identified security improvements for activities and systems; however, weaknesses still persisted in FY 2024. Examples of improvements within VA's IT control environment include improvements in the timeliness of vulnerability remediation and patching, enhanced data related to background investigations including for contractor staff, increased visibility of logging and monitoring tools of infrastructure systems, and increased maturity in processes supporting

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security documentation. We also noted fewer systems with issues related to inactive or dormant accounts and improvement in the identification, notification, and remediation of security incidents.

VA has made progress in establishing enhanced capabilities for controls for the perimeter of the network and general support systems but internal controls for VA applications continue to present risks. Controls need to be applied in a comprehensive manner to information systems across VA in order to be considered consistent and fully effective. For example, significant application control issues such as the lack of a process for reviewing user access rights and monitoring event logs for application data were found with a high rate of prevalence among the most critical financial systems we tested. Accordingly, we continue to see information system security deficiencies similar in type and risk level to our findings in prior years and an overall inconsistent implementation and enforcement of the security program. These results continue to be prevalent among the key business and financial applications in scope of our review. Moving forward, VA needs to ensure consistent implementation of their standards and policies. VA also needs to continue to address control deficiencies that exist in other areas across all VA locations.

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

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

Conditions:

Configuration Management

- Systems including key databases supporting financial applications were not timely patched or securely configured to mitigate known and unknown information security vulnerabilities. The deployment of vendor patches, configuration settings, and system upgrades to mitigate the vulnerabilities were not consistently implemented across all VA facilities, systems, and network segments. Furthermore, VA did not scan all of the devices connected to its networks with credentials and therefore did not have a complete inventory of vulnerabilities. Thus, we could not verify that all VA computers undergo continuous monitoring to ensure they remain securely configured, free of technical vulnerabilities, and adequately patched.
- Key financial management systems had configuration weaknesses and outdated technology that hinders mitigation of certain vulnerabilities. While VA has purchased extended support for some of its software, we noted many instances of unsupported

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software that did not have extended vendor support. This has resulted in numerous unresolved security issues that expose other VA systems to possible security breaches stemming from unmitigated software vulnerabilities.

- While extensive Access Control Lists (ACLs) continue to filter network communication of the general network and medical devices, we continued to identify instances where medical systems have vulnerabilities, without appropriate segmentation controls. Not only are these systems at risk, but these vulnerabilities could potentially pose additional risk to the components behind the ACLs.
- There were weaknesses in the process for monitoring configuration baseline standards. Specifically, not all platforms were monitored for compliance with approved baselines and baseline standards were not consistently implemented.
- The process for developing and maintaining an accurate inventory of software, hardware, and components for each system boundary was not fully implemented throughout the enterprise.
- Change management procedures for testing system changes were not consistently implemented for critical financial applications. Additionally, we identified several instances of applications where there were inadequate or inconsistent reviews of individuals with access to source code libraries, development, and test environments.
- We noted several instances of applications that did not have consistent process in place for the review of system changes to identify unauthorized modifications.
- Automated controls for identifying and removing prohibited software were not implemented on all Agency platforms. VA has made progress by expanding automated software monitoring including the blocking of software execution on Windows endpoints and continues to work on enhancing continuous monitoring solutions for identifying and removing unauthorized software.

Access Controls

- Several key financial applications were identified where controls and processes related to the periodic review of user access privileges and system accounts were not in place or not performed consistently.
- Inconsistent exit clearance processes for personnel contributed to a number of separated employees with active system user accounts or accounts that were not disabled timely.
- Proper completion and retention of user access requests was not effectively performed to eliminate conflicting roles and enforce principles of least system privilege.
- Monitoring of access for individuals with elevated application privileges was lacking within several major application's production environments.
- We noted several systems where audit logs were maintained for ad hoc investigative purposes and were not periodically monitored or alerted upon for suspicious or unexpected activity/events.
- Password standards were not consistently implemented and enforced across multiple VA systems, including the network domain, databases, and key financial applications. Specifically, we identified numerous service accounts that were not needed or had passwords that were not changed in over three years.

Security Management

- Security Control Assessments (SCAs) were not consistently performed for systems requiring an Authority to Operate (ATO). In addition, most SCAs were conducted by groups that were not independent of the systems they manage, and the groups did not consistently assess the effectiveness of the controls in place. Additionally, we identified systems that were given ATOs without undergoing security reviews, privacy impact assessments (PIAs), and contingency plan tests.

EXHIBIT A Material Weaknesses

- Security and risk management processes were not consistently performed and documented within the IT Governance, Risk and Compliance (GRC) tool. We identified instances of controls that were not adequately documented, controls that were not assessed, and incomplete risk assessments.
- We identified a large number of personnel who were assigned or held lower levels of background investigations than what was required for their positions. We also identified a significant number of individuals with higher level investigations who were overdue for the five-year reinvestigation requirement.
- Plans of Action and Milestones (POA&Ms) were not consistently updated to incorporate all known control weaknesses such as those identified by SCAs and supporting documentation was inadequate to justify the closure of the weaknesses.

Contingency Planning

- Contingency Plans were not consistently tested annually in accordance with VA policy or did not undergo functional testing in the case of high and moderate impact systems.
- Systems backups were not always tested consistently in accordance with VA requirements.

Criteria:

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

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

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

- Periodic assessments of risk, including the magnitude of harm that could result from the unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems that support the operations and assets of the organization;
- Policies and procedures that are based on risk assessments, cost-effectively reduce information security risks to an acceptable level and address information security throughout the life cycle of each organizational information system;

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- Plans for providing adequate information security for networks, facilities, information systems, or groups of information systems, as appropriate;
- Periodic testing and evaluation of the effectiveness of information security policies, procedures, practices, and security controls to be performed with a frequency depending on risk, but at least annually;
- A process for planning, implementing, evaluating, and documenting remedial actions to address any deficiencies in the information security policies, procedures, and practices of the organization;
- Procedures for detecting, reporting, and responding to security incidents; and
- Plans and procedures for continuity of operations for information systems that support the operations and assets of the organization.

Cause:

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

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

Effect:

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

Recommendations:

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

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

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

EXHIBIT B
Significant Deficiencies

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

Background:

VA uses different feeder systems to record its obligation and expenditure activities for the non-Community Care programs. The use of the various feeder systems that are not fully integrated with VA's FMS requires strong internal controls to ensure that all transactions are recorded completely, timely, and accurately. In FY 2024, we continued to identify several weaknesses that include the lack of sufficient reconciliations of its feeder/subsidiary systems to FMS and monitoring activities to validate the accuracy and completeness of balances derived from its procurement process.

Conditions:

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

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

VA continues to use VA Form 1358 "Obligation or Change in Obligation" (1358s) to record financial transactions related to procurement obligations. VA approved the use of 1358s for 20 different types of categories, and they are integral to the operation of some of VA's programs. In most cases, 1358s bypass the conventional procurement controls by design, in order to support program circumstances or needs. We continue to identify 1358 transactions which (1) were used for intra- and inter-agency transactions instead of a standard form for cross-agency agreements, (2) were not closely monitored and validated by management to ensure recorded obligations and accrued expenses were not overstated, and (3) had underlying data that did not reconcile to subsidiary and financial management systems. VA's obligations based on 1358s approximated \$9.35 billion as of June 30, 2024, with \$3.63 billion remaining outstanding for the year ended September 30, 2024.

Further, VA continues to use a monthly auto-accrual process to liquidate obligations and record accruals for accounts payable without evidence of goods or services received. The auto-accrual process is prone to errors and cannot replace active monitoring by management at the transaction level to verify completeness and accuracy of the obligation and related accounts payable balances. The monitoring activities used by VA to validate accounts payable and accrued balances need to be strengthened. VA made adjustments of \$2.03 billion at June 30 and \$2.32 billion at September 30 to accurately report the accounts payable balances. In addition, a manual adjustment of approximately \$458 million was recorded at year-end to accurately report UDOs.

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

- Untimely liquidation of inactive UDOs – Delays ranged from seven months to three years and one month.
- Untimely recording of contracts or modifications into the general ledger system (FMS).
- Obligation amounts differed between the contract or purchase order amounts and FMS.

EXHIBIT B
Significant Deficiencies

- Procurement transactions were not recorded correctly in FMS – we identified a variety of exceptions.

Criteria:

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

Cause:

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

Effect:

These conditions led to inaccurate financial reporting with respect to obligations, accrued expenses, and UDOs, which required manual adjustments to accurately report balances at September 30, 2024.

Recommendations:

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

1. Enhance the monthly consolidated reconciliations of obligations and expenditures recorded in IFCAP, CAATS, eCMS, and FMS for all open obligations to ensure the accounting information is valid and proper.
2. For non-Community Care programs, continue efforts to review open obligations and automated accruals for potential adjustment to assist staff in taking timely actions and to improve monitoring, timely liquidation, and support/use of 1358s. In addition, develop strategies and controls to ensure the proper recording of contracts or modifications in FMS.
3. Continue to improve periodic monitoring activities, e.g., perform analyses of obligation and accrual balances at the transaction level for non-Community Care programs against subsequent activity to:
 - a. Ensure accuracy of financial reporting and to maximize budgetary resources.
 - b. Identify significant variances to be investigated, researched, and corrected.

2. Loan Guarantee Liability

Background:

VA is responsible for administering various programs that provide financial and other forms of assistance to Veterans, their dependents, and survivors. The VBA administers the Home Loan Guaranty program with an estimated liability of \$7.32 billion as of September 30, 2024.

VA's Home Loan Guaranty program provides a guaranty to commercial lenders against losses from veterans' mortgage loan defaults. VBA uses excel-based econometric models to estimate

EXHIBIT B
Significant Deficiencies

future net cash flows to be paid by VA over the life of the loans and determine the cost of these guarantees on a present value basis for budgetary and financial reporting purposes.

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

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

Conditions:

VA implemented the ABLGB in late FY 2022 with various responsibilities including approval and oversight related to the models used for home loan program. We found that VBA's control activities around these estimates require continued focus and strengthening, including improvements over the model governance process, which is further described in the Significant Deficiency related to Entity Level Controls.

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

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

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

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

EXHIBIT B Significant Deficiencies

- VA did not have an adequate written explanation of the VASP model spreadsheet for the following: (1) the inter-relationship/linkage of the tabs in the Excel workbook provided, (2) hard-coded data inputs, and (3) controls in place to ensure the data was complete and accurate (e.g., there was no documented review or evidence to support testing of the data was performed).

Criteria:

Statement of Federal Financial Accounting Standards 2: Accounting for Direct Loans and Loan Guarantees (Issued August 23, 1993, effective for FY beginning after September 30, 1993) states: Criteria for Default Cost Estimates – 34. “In estimating default costs, the following risk factors are considered: (1) loan performance experience; (2) current and forecasted international, national, or regional economic conditions that may affect the performance of the loans; (3) financial and other relevant characteristics of borrowers; (4) the value of collateral to loan balance; (5) changes in recoverable value of collateral; and (6) newly developed events that would affect the loans’ performance. Improvements in methods to re-estimate defaults are also considered.”

The Government Accountability Office (GAO), Standards for Internal Control in the Federal Government (Green Book) states on p. 48, “Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.” The Green Book further states on p. 65, “Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.”

Federal Financial Accounting and Auditing Technical Release 6: Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act (Issued January 22, 2004, effective upon issuance), paragraph 17, states, “Agencies must accumulate sufficient relevant and reliable data on which to base cash flow projections. It is important to note that agencies should prepare all estimates and re-estimates based upon the best available data at the time the estimates are made. Agencies should prepare and report re-estimates of the credit subsidies, in accordance with SFFAS No. 2, 18, and 19, to reflect the most recent data available as discussed in the re-estimate section of this technical release.”

Cause:

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

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

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

EXHIBIT B Significant Deficiencies

Effect:

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

Recommendations:

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

1. Transform to a loan-level modeling framework from the current cohort level approach, utilizing the best available data, which is loan level data, and ensure audit readiness in the year of implementation. Include variables at the individual loan level to account for significant underwriting characteristics such as credit score, geographic house price appreciation, debt-to-income ratio, and loan-to-value ratio.
2. Until a loan-level modeling framework is developed and implemented, develop monitoring mechanism(s) and compensating control(s) for the existing cohort-level model to support whether any model calibration is required in observation of fluctuating economic conditions in the forecasting horizon.
3. Develop and document a policy for monitoring controls over model validation and verification to include but not be limited to: a defined purpose and goals, scope, approach, schedule, types and extent of validation activities and tasks, and specific actions that must be taken to complete individual validation activities and tasks.
4. Ensure adequate and comprehensive documentation is updated or prepared to describe new or changed methodologies, clearly document underlying rationales and analyses to support annual financial re-estimates and explain supporting calculations.

3. Entity Level Controls

Background:

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

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

EXHIBIT B Significant Deficiencies

Condition:

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

A. Control Environment – CFO Council

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

B. Risk Assessments – Controls Over Program Changes

In late FY 2022, VA established the ABLGB to address the material weakness over significant accounting estimates. The ABLGB provides a formal governance process to ensure the reasonableness of the actuarial and benefit liability estimates associated with VBA and VHA benefit programs. The ABLGB meets on a monthly basis or as necessary with the CFO as the Chair, the VBA CFO as Vice Chair, and other key personnel from VBA and VHA as voting members.

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

1. The ABLGB approved significant changes to several pre-existing legislative adjustments that were included with the compensation actuarial model and also approved significant modifications to the home loan guaranty model, but it did not ensure that the changes were properly documented, reviewed, and tested before the impact of the changes were recorded in the financial statements.
2. In addition, VA did not provide the information for the new VASP program until near the end of FY 2024. The lack of documentation and testing was also not fully aligned with the ABLGB's manual, which requires "thorough documentation of proposed changes, analysis of information provided by OAS [Office of Actuarial Services], validation procedures, and regulatory compliance checks. It aims to ensure the accuracy, reliability, and transparency of actuarial models changes while managing associated risks."

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

EXHIBIT B
Significant Deficiencies

C. IT Processing and Controls – IT Infrastructure

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

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

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

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

Criteria:

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

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

In addition, management completes and documents corrective actions to remediate internal control deficiencies on a timely basis. These corrective actions include resolution of audit findings. Depending on the nature of the deficiency, either the oversight body or management oversees the prompt remediation of deficiencies by communicating the corrective actions to the appropriate level of the organizational structure and delegating authority for completing corrective actions to appropriate personnel. The audit resolution process begins when audit or other review results are reported to management and is completed only after action has been taken that (1) corrects

EXHIBIT B
Significant Deficiencies

identified deficiencies, (2) produces improvements, or (3) demonstrates that the findings and recommendations do not warrant management action. Management, with oversight from the oversight body, monitors the status of remediation efforts so that they are completed on a timely basis.

The CFO Act of 1990 stipulates the following:

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

“a. An agency Chief Financial Officer shall—

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

Cause:

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

Effect:

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

Recommendations:

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

1. Continue efforts with executing a transparent, collaborative, and accountable culture across organizational components by:
 - a. Openly sharing information regarding issues, root causes of issues/findings, analyses, and best practices.

EXHIBIT B
Significant Deficiencies

- b. Working with responsible parties to implement corrective actions to timely address and mitigate identified issues/risks.
 - c. Encouraging communication and collaboration under the CFO's leadership to establish working level committees to resolve any identified accounting, financial management, and financial reporting issues.
 - d. Involving other stakeholders such as key leaders from acquisition, logistics, and asset management to collaboratively address financial management issues and develop risk mitigation strategies.
 - e. Providing the necessary financial management training and performance monitoring to continuously elevate the financial management capabilities and knowledge within VA.
 - f. Strengthening the CFO Council and the ABLGB processes to ensure risks are identified and actively addressed.
 - g. Ensuring changes to significant processes such as modelling activities are adequately planned and documented and any resulting risks to the successful and timely completion of the financial statement audit are identified and addressed.
2. Ensure that system modernization efforts address and support remediation of the material weaknesses and significant deficiencies identified by this report, as well as meet all Federal system requirements.
 3. Implement policy that ensures the administrations, other components, and the Office of Management are monitoring and discussing changes to programs and assessing the effect on the financial statements.
 4. Perform adequate oversight to ensure appropriate actions are taken by management in response to program changes. This includes identifying and assessing risks related to complete and accurate documentation of key financial information to support the financial statement audit and redesigning or reprioritizing processes accordingly to reduce the risk to timely completion of the audit.
 5. Ensure the governance structure for VA's significant models include the appropriate components of internal control within GAO's Green Book and those specified within the criteria.

EXHIBIT C
Noncompliance Findings

1. Noncompliance with FFMIA

Financial Management Systems

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

A. Federal Financial Management Systems Requirements

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

As reported in previous years, complete and consolidated reconciliations between FMS and the following subsidiary/feeder systems were not performed throughout FY 2024:

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

In addition, VA has not fully implemented a standard procurement file structure in eCMS to maintain acquisition documentation in a consistent and efficient manner. We noted discrepancies between information in eCMS and information generated from other source systems such as IFCAP.

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

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

EXHIBIT C Noncompliance Findings

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

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

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

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

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

B. USSGL at the Transaction Level

FMS did not substantially comply with the USSGL at the transaction level for the following:

- Certain USSGL transaction codes continue to be missing from FMS.
- FMS does not allow for 6-digit USSGL account reporting as required by the Treasury Financial Manual.
- FMS is outdated and unable to keep up with the existing Treasury reporting requirements.
 - The existing FMS posting logic does not support required Treasury account attributes established in the USSGL. In addition, mapping issues in FMS prevent accurate

EXHIBIT C Noncompliance Findings

reporting of Federal and non-Federal attributes when a business event occurs. As a result, VA management needed to execute workarounds to compensate for FMS' system limitations. For example, the FMS chart of accounts was modified to incorporate letters and general ledger numbers in subsidiary ledger accounts to classify Federal and non-Federal (i.e., public) transactions to meet GTAS reporting requirements.

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

2. Noncompliance with FMFIA

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

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

VA management continued in FY 2024 to strengthen the use of the Reporting Entity Internal Control Assessment (ICA), which supports the required assurances. The ICA is used to assess VA-wide entity level risk and to consolidate various on-going assessment efforts throughout VA to increase efficiency. However, we found the following areas in need of improvement in order to fully comply with the intent of FMFIA:

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

3. Noncompliance with Payment Integrity Information Act

On May 23, 2024, the VA Office of Inspector General reported that VA did not fully comply for FY 2023 with the Payment Integrity Information Act of 2019.

**EXHIBIT D
Status of Prior Year Findings**

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

<i>Type of Finding</i>	<i>FY 2023 Finding</i>	<i>FY 2024 Status</i>
Material Weakness	Controls Over Significant Accounting Estimates	Modified Repeat – See FY 2024 Material Weakness 1
Material Weakness	Financial Systems and Reporting	Repeat – See FY 2024 Material Weakness Finding 2
Material Weakness	Information Technology Security Controls	Modified Repeat – See FY 2024 Material Weakness Finding 3
Significant Deficiency	Obligations, Undelivered Orders (UDOs), and Accrued Expenses	Repeat – See FY 2024 Significant Deficiency Finding 1
Significant Deficiency	Entity Level Controls	Modified Repeat – See FY 2024 Significant Deficiency Finding 3
Significant Deficiency	Loan Guarantee Liability	Modified Repeat – See FY 2024 Significant Deficiency Finding 2
Noncompliance	Noncompliance with FFMIA	Repeat – See Noncompliance Finding 1
Noncompliance	Noncompliance with FMFIA	Repeat – See Noncompliance Finding 2
Noncompliance	Noncompliance with 38 U.S.C. 5315	Resolved
Noncompliance	Noncompliance with Payment Integrity Information Act	Repeat – See Noncompliance Finding 3



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I trust my doctors at VA

Pictured in the previous page: Navy Petty Officer Michael Monsoor.

As president of the American Medical Association, Dr. Jesse Ehrenfeld is the face and voice of the nation's largest association of doctors and medical students. He's also a Navy Veteran who relies on Milwaukee VA for his health care. He just turned 45 and he recently did what we should all do at that age: get a colonoscopy. "I don't know if looking forward to it is the right phrase, but I know it's the right thing for me to do. I trust in my doctors at VA to get me the care I need and I encourage other Veterans to do the same. I have a lot of faith in my doctors and my team, and I know it will go smoothly," he says.

Ehrenfeld says it is important for everyone to get screened. "A lot of people put this off for lots of reasons, but frankly that could be deadly," he says, noting that colorectal cancer screenings are recommended starting at age 45.

As an anesthesiologist, he has cared for "too many patients who had this disease, which is preventable. If caught early, colon cancer can be treated." "Colorectal cancer is one of the leading cancer killers, and it often has no symptoms," says Dr. Juan Trivella, Ehrenfeld's gastroenterologist at Milwaukee VA. "Someone could have polyps or colorectal cancer and not know it. That is why getting screened regularly for colorectal cancer is so important. It doesn't matter who you are, what your job is, or what you look like. You need to get it done because it really prevents and decreases mortality."

While a colonoscopy is considered the gold standard for screening, many people are leery of the procedure, mostly because of the preparation. Before a colonoscopy, patients must alter their diet for a few days. The day before they start a regimen of medications and a liquid that helps clear the bowels. That means frequent trips to the bathroom. "There have been plenty of potty jokes in my house," says Ehrenfeld, father of two boys, ages 1 and 5. Colonoscopy is not the only way to screen. There are also at-home tests, which require collecting a stool sample and sending it to a lab for testing. "Each test has advantages and disadvantages. The patient should talk with their doctor about the pros and cons of each test and how often to be tested," Trivella says.

That is exactly what Ehrenfeld did. He's been a VA patient since returning from service in Afghanistan in 2015, first at Nashville VA and since 2019 at Milwaukee. 'I feel fortunate to get my health care through VA'. Ehrenfeld has commercial insurance and could get his health care anywhere, but he chooses to go with VA. "It's not your granddad's VA. I believe in the VA system. It's been a great experience for me. They're extraordinary clinicians. I feel privileged and fortunate to get all my health care through VA."

"The VA as a system has really pivoted in some important ways. It's not perfect. There's always work to do, but I don't know any health system in the country that I wouldn't say the same thing about."

Ehrenfeld hopes other Veterans heed his experience to get screened. "If one Veteran gets their colonoscopy because of this, then it's worth it. And if 10 get their colonoscopy, that will probably save a life," he says.

INSPECTOR GENERAL'S MANAGEMENT AND PERFORMANCE CHALLENGES

**Department of Veterans Affairs
Office of Inspector General
Washington, DC 20420**

September 30, 2024

FOREWORD

The Office of Inspector General's (OIG) mission is to serve veterans, their families, caregivers, survivors, and the public by conducting effective independent oversight of VA programs, operations, and services. Each year, the Inspector General summarizes the top management and performance challenges identified by OIG work and assesses VA's progress in addressing those challenges.

This year's major management challenges for VA continue to align with the OIG's strategic goals for addressing five areas of concern: (1) health care, (2) benefits, (3) stewardship of taxpayer dollars, (4) information systems and innovation, and (5) leadership and governance.

The challenges in these areas have been identified by OIG personnel, with assistance from external oversight agencies and organizations, VA leaders, the veteran community, Congress, and other stakeholders. The OIG remains fully committed to identifying weaknesses that affect VA operations and its work on behalf of veterans, and then making meaningful recommendations for continuous improvement.

The OIG recognizes the monumental challenges VA faces. VA is implementing a number of new systems critical to safely and promptly meeting the needs of veterans, while making the best use of taxpayer dollars. This includes attempting to continue the deployment of VA's multibillion dollar electronic health record system, while also fielding a new financial management system intended to improve how the department handles taxpayer funds.

The implementation of the historic passage of the PACT Act has resulted in millions more veterans applying for related benefits and health care, even as VA struggles to manage the impacts of increased numbers of veterans seeking eligible care within their communities. Several OIG reports illustrate VA's continued inability to hold third-party providers to contract requirements, and a lack of private-sector providers has left some veterans without the critical care they need.

Despite a hiring "surge," VA still suffers from critical staffing shortages. Other challenges such as ensuring patient safety, maintaining timely access to quality health care, and addressing deficiencies that center around failures in VA governance and accountability are just some of the major management challenges that OIG reports have identified.

The OIG recognizes the work VA personnel at every level do each day on behalf of veterans as they try to navigate these many challenges.

(/s/) MICHAEL J. MISSAL
Inspector General

OIG CHALLENGE #1: HEALTHCARE SERVICES

A series of legislative changes have allowed VA to outsource more healthcare services for veterans to private-sector community providers. According to internal VA data, between FYs 2021 and 2023, referrals to community care have increased over 37 percent, with FY 2024 (as of May) outpacing FY 2023 by more than 16 percent.

As veterans obtain more services from the community care program, VHA has struggled to oversee the performance of their third-party administrators—the contracted entities that manage the network of community providers—and ensure they meet their contractual requirements. Recent VA OIG reports have found that VA medical facilities have failed at times to get these administrators to make certain that local area providers are accessible to eligible veterans who seek or require care outside the facility.

Apart from community care, the VA OIG has also found that staffing shortages at VA medical facilities have not only degraded veterans' access to care—particularly mental health care—but also the quality of care provided. In the VA OIG's most recent occupational staffing report, VHA facilities self-reported for FY 2024 a total of 2,959 severe occupational staffing shortages. Eighty-six percent of facilities reported severe occupational staffing shortages for medical officers, and 82 percent of facilities reported severe shortages for nurses. Psychology was the most frequently reported severe clinical occupational staffing shortage, and this shortage is particularly meaningful in the delivery of mental health care.

However, while new demands and challenges increase the urgency for VA to address long-standing staffing shortages, it must balance the need to conduct proper background investigations with the quick onboarding of staff. Having the right people in the right positions committed to doing the right thing is essential to building and maintaining a culture of accountability. The OIG has published reports on deficiencies in the personnel suitability program since 2017. Recent oversight reports have continued to identify such problems. One report identified weaknesses in governing background checks for contracted employees, which increases the risks to the health and well-being of veterans and VA employees, as well as the efficiency and integrity of VA services.

Why This Is a Challenge

Coordinating medical care between the VHA healthcare system, third-party administrators, and private-sector community providers continues to be a challenge, especially as the demand for community care continues to grow. In recent reports, the OIG found third-party administrators generally used providers from their existing healthcare portfolios to build VHA's provider networks without verifying the providers' contact information or whether the providers would accept VA patients. The lack of verification by the third-party administrators left inaccuracies in VHA's master database of community care providers. The Office of Integrated Veteran Care—the VHA office responsible for overseeing access to care in the community—is required by VHA directive to ensure provider availability and that third-party administrators meet contract requirements. OIG reporting found they failed to do both; therefore, facilities were left without enough providers and veterans were not receiving timely care in the community. Finally, because the Office of Integrated Veteran Care did not have a process in place to analyze provider network adequacy, they couldn't help the facilities justify the need to add more third-party administrators.

Other recent OIG work highlighted coordination failures between VHA, the third-party administrators, and community providers. Specifically, community providers rarely submitted initial prescriptions for special-authorization drugs with required justifications and VHA did not hold the administrators accountable for making certain that community providers followed formulary procedures for special-authorization drugs. This occurred partly because the electronic prescription system lacked the means to include justifications.

With respect to staffing, in the past year, VHA leaders have reported that shortages led to closure of medical surgical beds, as well as the inability to process sterilization of medical instruments, leading to more than 1,500 procedures being canceled, rescheduled, or referred to the community. Some VHA officials expressed concerns about the inability to maximize community living center bed capacity due to the length of time it takes to onboard new staff, and others expressed that the difficulties with hiring could put medical centers at risk for additional staffing shortages.

Department's Corrective Actions

As part of VA's efforts to ensure VA medical facilities have enough community care providers to provide timely care for veterans, the Office of Integrated Veteran Care launched the Advanced Medical Cost Management Solution suite in October 2022, which allows users to assess the adequacy of community providers networks by locality. VHA will need to leverage its Advanced Medical Cost Management Solution suite to conduct routine assessment of facility-level network adequacy and provide training for relevant facility staff. In addition, VHA needs to hold future third-party administrators accountable for operational readiness and provider network adequacy, as well as develop processes to update and maintain community care network data.

To improve community provider compliance with VHA's standards for special-authorization prescriptions, VHA should add electronic system capabilities allowing users to attach medical justifications. The Office of Integrated Veteran Care should also train community providers on the VA formulary process.

Finally, to better meet its hiring goals, VHA needs to coordinate and clearly define roles and responsibilities at each organizational level. It also needs to ensure regional and facility staff monitor progress and address challenges in filling positions. VA removed some of the conflicting guidance from its website and is working to update existing personnel suitability policy. VA needs to develop a plan to ensure that future systems support the functionality needed to effectively oversee and manage the background investigation process, including addressing limitations identified in the current system.

OIG CHALLENGE #2: BENEFITS FOR VETERANS

VBA processes millions of claims that provide veterans, eligible family members, and caregivers a wide array of benefits, including disability compensation, pension benefits, education, and vocational training. VBA must balance the need to accurately process complicated claims and benefit requests while still meeting challenging deadlines. In addition, it must protect VA beneficiaries who are unable to manage their VA benefits due to injury, disease, or age.

VBA's responsibilities have increased significantly with the passage of The Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics (PACT) Act of 2022, which expands VA health care and benefits for veterans exposed to burn pits and other toxic

substances. The PACT Act is perhaps the largest healthcare and benefit expansion in VA history. According to VA, as of July 14, 2024, more than 325,000 veterans presumed to have toxic exposure during military service for the purposes of benefit payment consideration have newly enrolled in VA health care since the act's passage in 2022. Further, more than 5.5 million veterans have completed toxic exposure screenings and over 1 million claims have been approved. In addition to VBA's other claims backlog, the PACT Act benefit claims backlog was around 390,000 in June 2024. To address the swell in workload demands, VA has expanded hiring to fill thousands of healthcare and benefits personnel positions.

In a July 2024 congressional testimony, the OIG highlighted persistent concerns with VBA quality assurance and training—identifying oversight reports that document continued issues with (1) processing errors VBA personnel made on veterans' individual unemployability claims, (2) inconsistencies implementing changes to the disability rating schedule, (3) issues with claims automation, and (4) unwarranted medical reexaminations for veterans.

Why This Is a Challenge

VBA processes claims that can be extremely complex, especially when the agency must interpret VA policies and guidance that may be unclear. When regulations add new presumptive diseases of service connection, VA must search its records to find eligible claimants and award benefits. A recent report found VBA failed to identify and notify veterans who were potentially eligible for prior disability claim readjudication and retroactive benefits under the National Defense Authorization Act. A VA senior management advisor stated VHA records were not involved in these readjudication determinations because they were part of a VHA data set, and not part of VBA's records. Because VBA did not send these veterans notification letters, some 87,000 veterans or their survivors were not made aware of their potential entitlement to retroactive compensation benefits. The OIG believes VHA's records were available and should have been included in the initial readjudication determinations.

Other OIG oversight reports on VA's compensation and pension programs have found that overpayments, underpayments, or other improper payments (such as those that lack support or documentation) are often caused by a lack of effective internal controls and inadequate technology.

For example, when veterans request a waiver to participate in vocational training that is not covered under their GI Bill benefits, VBA's weak internal controls resulted in improper authorizations because Veteran Readiness and Employment staff misinterpreted the application of the applicable law. The basic case of this issue was that VBA staff were not trained on how certain programs could be used by veteran program participants. Veteran Readiness and Employment controls also did not prevent participants from being authorized and enrolled in unapproved courses.

In another example, VBA established the Fiduciary Program to protect VA beneficiaries who are unable to competently manage their own VA benefits. Questionnaires are used to help medical professionals assess a veterans' mental competency for managing their benefits, but a recent report discovered inconsistencies in these questionnaires, which can lead to inconsistent medical assessments. Such inconsistencies can lead to discrepancies in how rating veterans service representatives assess a veteran's mental competency—a matter of the greatest importance.

Other oversight reports have found weaknesses in the Fiduciary Program governance. The reports identified delays in determining whether a fiduciary is warranted, in reimbursing veterans when their benefits have been misused by a fiduciary, and in distributing of deceased veterans' fiduciary-controlled funds to their heirs. The delays often created—at difficult life moments when VA's assistance was critical—unnecessary risks to veterans' welfare and exposed beneficiaries and their families to potential hardships.

Department's Corrective Actions

The OIG acknowledges that VBA personnel face significant difficulties in processing often complex claims. These challenges are exacerbated by constantly changing policies and processes, increasing workloads, as well as tight timelines. This state of constant change reinforces the OIG's calls for VBA to provide its employees with accurate, timely, and effective training.

The OIG also acknowledges that VBA has improved its quality assurance review process by implementing action plans associated with OIG report recommendations. VBA officials have initiated plans to establish a work group to better identify veterans potentially eligible for prior disability claim readjudication. To improve mental competency determinations, VBA updated the post-traumatic stress disorder questionnaire in August 2023 to include VA's regulatory definition in the initial questionnaire.

However, one of the critical foundations of accountability for any program is effective quality assurance to detect and resolve issues. The OIG has found that VBA needs to improve the execution of its quality assurance review program so that eligible veterans receive the disability compensation benefits they are due.

To improve compensation and pension claim accuracy, VBA needs to ensure it continuously monitors internal controls to prevent procedural, technology, or process failures that result in improper payments. This monitoring can make certain that VBA is acting as an effective steward of taxpayer funds and to protect veterans and their families from related hardships. Similarly, improper entitlement payments could be prevented if VBA develops and implements policies and system controls to verify that programs meet requirements and there is effective training for all appropriate Veteran Readiness and Employment regional office staff.

Also, VBA staff should use improved methodologies to identify eligible veterans and update the standard operating procedures accordingly to identify and notify veterans potentially eligible for prior disability claim readjudication and retroactive benefits under the National Defense Authorization Act.

OIG CHALLENGE #3: STEWARDSHIP OF TAXPAYER DOLLARS

Congress and the media have consistently questioned VA budget requests and financial management deficiencies. In August 2024, VA reported a gap in funding for FY 2025 of approximately \$12 billion, drawing increased scrutiny of the department's ability to forecast and manage its finances. VA has attributed some of the funding gap to recent surges in its workforce, unanticipated spending, and the broader scope of services to record-high numbers of veterans associated with passage of the PACT Act and other measures—the effects of which will continue to be felt for some time. These statutory measures qualify millions of additional

veterans for healthcare enrollment and benefits that can affect the department's capacity to provide quality and timely care and services.

VA continues to face significant challenges concerning how it oversees its spending. Many OIG reports have shown instances of inadequate oversight and weak internal controls over community care spending, inventory management, purchase card usage, contract management, and open obligations. These issues have been compounded by VA's outdated financial management system and outdated or incomplete data. Although VA has started deploying iFAMS—a new financial management system intended to improve how the department handles taxpayer funds—VA continues, in many areas, to rely on legacy financial systems, manual reconciliations, and adjustments, which has caused VA to be noncompliant with major financial management regulations.

The OIG recognizes that claims processing can be tremendously complex. As stated above, the lack of internal controls—in addition to inadequate technology and unclear policies and guidance—is the primary cause of overpayments and underpayments. Internal controls are therefore vital to quality assurance and help ensure the integrity of systems and processes. Minimizing improper payments will also require strong leadership, effective supervision, clear procedures, and adequate staff training. Many of the weaknesses identified in OIG oversight reports have also been the result of poor planning and implementation of information technology that is meant to support the work of VBA personnel. The OIG recognizes that VBA staff face these and other challenges daily to keep pace with tremendous workloads while attempting to ensure eligible beneficiaries are given the compensation and pensions they are due while preventing waste.

VA also continues to experience issues in monitoring community care program claims and payments, which impacts their ability to detect duplicate claims and payments across different claims processing systems as well as in seeking reimbursement from third-party insurance companies for services rendered to veterans who are ineligible for VA payment. This is due to the Program Integrity Tool database being offline as of February 2023 following the discovery of various data integrity and quality issues in the database. In addition to being the source of comprehensive community care data from multiple source systems, the tool was also the sole source of Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA) data as well as historical community care program data (e.g., Veterans Choice Program, Patient-Centered Community Care or PC3).

Finally, benefit payments paid by VBA to deceased veterans and beneficiaries increased from \$4.2 billion in 2019 to \$7.6 billion in 2023. These payments included various benefit awards, such as pensions, disability compensation, and educational benefits. When VBA's death match process fails to accurately identify deceased veterans and beneficiaries, these payments can continue erroneously, placing unnecessary financial and emotional burden on surviving family members, creating additional workload for VBA personnel to rectify these errors, and resulting in improper use of taxpayer funds.

Why This Is a Challenge

From FY 2022 to FY 2023, community care expenditures grew by 22 percent, from \$25.9 billion to \$31.6 billion. Given the size of the program, it is critical that VA pay only for authorized care. A recent OIG report found, however, that VA has paid for unauthorized dental care through the

community care program. For community care network invoices, the contracted third-party administrators' adjudication systems process did not identify unauthorized procedures because community care network contract language contradicted VHA referral guidance for community dental claims.

Also, the OIG has repeatedly found that, when VA acquires day-to-day medical goods, it does not always use the required strategically sourced contracts that can help VA save taxpayer funds. For example, VHA requires its medical facilities to use the Medical/Surgical Prime Vendor program's distribution contracts for cost-effective ordering and distribution of day-to-day healthcare supplies. However, medical facilities did not always purchase through the program because items were often unavailable, and staff often did not check the program before ordering from the open market. Additionally, the OIG found that VHA did not ensure dialysis services were purchased through the community care network contracts; instead, dialysis was purchased through nationwide dialysis services contracts, which charged higher per treatment rates.

Unreliable data has frequently prevented the department from making informed decisions on how to best manage program and medical funds. Several reports have identified discrepancies between what was reported in medical facilities' inventory systems and what was physically present. Errors could diminish the healthcare system's ability to effectively budget for the purchase of supplies to meet patient care needs.

Department's Corrective Actions

VHA needs to strengthen its prepayment and postpayment review processes for community care authorizations. To facilitate the use of strategically sourced contracts, VHA needs to improve staff training and clarify contract usage guidance. Additionally, to improve facility inventory management, VHA needs to ensure inventory values are recorded correctly in its inventory system and establish processes and procedures for monitoring inventory reports.

To improve the usage and increase transparency of the Medical/Surgical Prime Vendor program, VHA plans to simplify the system to better enable facilities to use the required contracts for day-to-day medical expenses.

VBA's internal controls should be continuously monitored to prevent procedural, technology, or process failures that result in improper payments—not only as stewards of taxpayer funds but also to protect veterans and their families from related hardships. The problems the OIG identified with VBA's compensation and pension programs are, in many cases, the result of established and new mechanisms that are insufficient in preventing and detecting errors caused by information management systems and compliance with processes. Recognizing that VBA personnel work in a fast-paced environment on often complex processes, the OIG will continue to make recommendations for improvement that support their efforts to serve veterans, their families, and other survivors.

OIG CHALLENGE #4: INFORMATION SYSTEMS AND INNOVATION

VA is undertaking massive modernization efforts for systems that are estimated to cost tens of billions of dollars and are interdependent—making implementation both costly and complex.

The OIG encourages innovation and recommends enhancements to VA's infrastructure and systems through findings and recommendations that address information technology, data security, predictive tools, and financial management systems. VA relies on countless systems to

meet the needs of patients safely and promptly, to provide benefits and services to eligible recipients, and to support the strong stewardship of taxpayer dollars.

Information system failures have repeatedly contributed to breakdowns in a number of critical VA functions, including financial reporting, supply chain management, claims processing, appointment management, community care prescription requests, and personnel suitability adjudications. Weak information technology security controls can put sensitive personal information belonging to veterans at risk.

VA has long recognized the need to modernize its electronic health record information system to ensure greater interoperability with the Department of Defense and exchange information with community care providers, yet it has struggled to deploy the multiyear effort initially estimated to cost \$16 billion. In several reports, the OIG has identified a variety of barriers to implementation, including patient harm and safety concerns; pharmacy and medication management issues; inadequate cost estimates; an unreliable implementation schedule; difficulties with the patient appointment scheduling system; and reporting, training, and decision-making deficiencies. The failures have been a tremendous burden on healthcare providers where the system has been deployed and it has potentially contributed to veterans' deaths and poor outcomes because of delays, inaccuracies, and poor functionality.

Furthermore, the OIG has found that VA's failure to effectively modernize its financial management systems has led to significant challenges in assuring accountability and transparency in how it obligates and expends funds. It also makes it difficult for VA staff to plan, order, and track expenditures for supplies and services, and hampers oversight of VA's use of these funds. Limited functionality contributed, for example, to obstacles in ensuring COVID-19 supplemental funds were properly spent.

After failed attempts to replace its systems in 2004 and 2010, VA established a program to oversee the multiyear deployment of its new iFAMS, an enterprise-wide modernization to replace legacy systems that facilitated the department's financial and contracting activities. As of June 2024, this system has been deployed at several offices across VA; however, VHA, which represents the most significant user base, had yet to start using the system. The OIG has reported issues with the new system's first deployment at the National Cemetery Administration and end-user concerns with training. In FY 2025, VA expects to roll out the new system for VBA's loan guaranty program. However, the life-cycle costs for iFAMS have grown to over \$7 billion.

Why This Is a Challenge

VA has historically struggled to effectively deploy new information technology projects. These efforts have often been hampered by poor planning, shifting leadership priorities, and unclear communication. While VA paused nationwide deployment of the electronic health record system in 2022 due to a troubled initial rollout, an exception to that pause was the electronic health record deployment at the Captain James A. Lovell Federal Health Care Center, a joint facility shared between VA and the Department of Defense, in March 2024. Nevertheless, a recent OIG report identified shortcomings in the appointment scheduling package of the new electronic health record that can affect veteran engagement and appointment wait times. These shortcomings included a displaced appointment queue that could result in missed appointments not being rescheduled and cause difficulty for providers and schedulers seeking to share

information. At this point, the VA has yet to make public its plan or schedule to emerge from the reset.

Poor planning has also affected successful deployment of the acquisition module of iFAMS. Leaders did not adequately include acquisition stakeholders in decision-making roles to ensure the new acquisition model addressed concerns related to functionality, lack of automation, and length of time the system took to perform various functions. In addition, users had concerns with the training provided for some tasks and day-to-day activities, leaving VA with opportunities to enhance the training program. Addressing training weaknesses now is important because over 100,000 employees have yet to be trained on the system.

Department's Corrective Actions

From April 2020 through August 2024, the OIG has published 19 oversight reports and issued 83 recommendations for corrective action focused on varied aspects of VA's electronic health record modernization program. Each oversight report is meant to help VA improve the new system's implementation and support prompt, quality health care for veterans. Failure to satisfactorily complete the corrective actions associated with these recommendations can increase risks to patient safety and the ability to provide high-caliber care at the new electronic health record sites. Fully addressing oversight recommendations can also help minimize considerable cost escalations and delays in potential future deployments.

As VA moves to implement the new electronic health record at other facilities, it will need to consider assessing staffing levels and overtime usage prior to deployment. It will also need to prepare staff with approved workflow best practices that may help to reduce employee resistance and facilitate successful adoption of the system.

VA has made progress toward implementing VA iFAMS, with VA's Financial Management Business Transformation Service leading and managing the implementation of the systems in 10 "waves" across VA until full implementation is achieved in 2029. As of December 2023, five waves have "gone live" across VA. VA has indicated it will use the information weaknesses OIG identified within its iFAMS training and adjust its future training before additional iFAMS deployments.

OIG CHALLENGE #5: LEADERSHIP AND GOVERNANCE

The OIG's work has demonstrated a persistence of failings in VA leadership and governance that contribute to identified problems. Errors, lapses, and missteps are often attributed to the lack of clear roles and responsibilities among department officials and personnel that impedes VA's internal monitoring of the quality, efficiency, and effectiveness of its efforts.

Safe, quality health care is jeopardized when leaders and staff fail to execute their responsibilities. Inconsistent and ambiguous policies create role confusion and hinder staff's ability to perform effectively. Recent OIG reports highlight unacceptable oversight practices related to a variety of reasons, most notably staffing shortages and inconsistent or ambiguous policies. The impacts of these failures range from delays in identifying and responding to unprofessional conduct to delays in, or barriers to, coordinating patient care.

VA has struggled to consistently implement and oversee programs when multiple VA leaders across the department share responsibility. In addition, VA continues to fall short when overseeing contractors and holding them accountable.

Last year, officials at multiple levels across VA failed to ensure the requirements and intent of the PACT Act were satisfied when VA awarded about \$10.8 million in critical skill incentives to 182 senior executives in the VA Central Office. The incentives were authorized by the PACT Act as a new tool for VA to use to improve recruiting and retention in anticipation of a substantial increase in healthcare enrollments and benefits claims from individuals exposed to toxic substances, which would require significant additional staffing to handle the workload. The incentives are available to an employee who “possesses a high-demand skill or skill that is at a shortage.” Nearly all eligible senior executives in VHA and VBA at the central office were awarded the incentive pay for critical skill retention, with VHA providing only the most cursory justification and neither administration conducting an objective assessment of what was needed, if anything, to retain them. The senior executives were awarded the maximum percentage allowed under the PACT Act, which is 25 percent of their basic pay—resulting in awards that ranged from nearly \$39,000 to over \$100,000. Concerns expressed by some VA officials were not escalated to the Secretary, and some key leaders who were positioned to understand the reputational and financial risks to the department were not included in the incentive vetting process or were not provided all the facts needed to make an informed decision.

Why This Is a Challenge

Leadership and cultural development are essential for maintaining a safe, quality healthcare environment. Through strong leadership and a high-reliability organizational culture, leaders can identify, resolve, and prevent risks to patient safety. When leaders fail to establish a culture that proactively manages actual and potential risk, mistakes happen and keep happening.

Several OIG reports highlight the ongoing challenges leaders face in demonstrating leadership and cultural development and advancement. Failures to plan for low volume and high-risk complex care and activities; review and remediate personnel dysfunction in patient care areas; and comply with medical staff privileging processes represent a few vulnerabilities that have negatively affected patients, disrupted operations, and stifled efforts to ensure VA delivers the best care anywhere. Some OIG reports have identified ineffective communication systems, which do not ensure the exchange of critical patient safety information between leaders and staff, contributing to an incomplete understanding of problems and advancing a cycle of continued risks.

The VA OIG routinely reviews and publicly reports on the quality of health care VHA provides, as well as any risks to patient safety, across the nation. In many of these reviews, lack of oversight by VISN leaders and staff is a key contributor to identified deficiencies or adverse patient outcomes. Given its importance, the OIG has increased its focus on VISN leaders' roles and actions in supporting facility leaders and staff to deliver high-quality care. Through this effort, the OIG has repeatedly discovered inconsistent practices and inefficiencies that run counter to VHA's initiative to transform into a high-reliability organization.

VHA is this country's largest integrated healthcare system, and the volume and complexity of patient encounters require deliberate and clear lines of communication and information sharing. Dotted reporting lines, optional participation in sharing critical metrics, and confusion over authority undermine the essential functions of medical facilities and further highlight the failure of the current VISN structure to ensure consistent delivery of safe care to patients.

Department's Corrective Actions

The OIG has repeatedly published healthcare reports that find there are effective and comprehensive VHA policies and skilled and dedicated staff aggressively working to carry them out to provide high-quality and timely care to veterans. Yet, OIG oversight teams also continue to find the inconsistent application or misinterpretation of policy, insufficient VA personnel training, and other issues that could be mitigated by a clear and consistent structure of authority and accountability. Such a structure would clarify roles and responsibilities for those who could track and identify trends in noncompliance in real time and intervene proactively.

VHA care has evolved and expanded dramatically since the creation of the VISN structure. The size of VHA, the increasing demands of meeting complex healthcare needs, the escalating cost of health care, and the simultaneous implementation of massive initiatives—such as community care, the PACT Act, and electronic healthcare record modernization—require a standardized internal oversight structure that can assume accountability for the efficient and effective implementation of these high-cost but necessary efforts. The OIG strongly encourages VA leaders at every level to use oversight reports as risk assessment tools to proactively address identified vulnerabilities in their own offices, networks, and facilities. The findings should also stimulate discussions about the VISN structure and its role in ensuring and supporting consistent high-quality care to veterans.

Lastly, to avoid another costly loss of public confidence, VA should revise its critical skill incentives policy to be responsive to the findings in the OIG's published report, undertake two reviews of other awarded critical skill incentives (senior field executives and nonexecutive high-demand skill incentives) to ensure compliance with the statute and policy, and examine and address the potential conflict of interest issues identified in the report. The OIG made additional specific recommendations that VA should avoid such a catastrophic lapse in senior leadership judgement and oversight in the future.

OTHER INFORMATION

INSPECTOR GENERAL'S MANAGEMENT AND PERFORMANCE CHALLENGES

RELATED REPORTS:

Selected related reports (with a comprehensive list of publications available at www.vaogig.gov):

Related Reports	Date	Challenge				
		#1	#2	#3	#4	#5
A Hiring Initiative to Expand Substance Use Disorder Treatment Needed Stronger Coordination, Planning, and Oversight	9/4/2024	X				X
Deficiencies in Facility Leaders' Summary Suspension of a Provider and Patient Safety Reporting Concerns at the VA Black Hills Health Care System in Fort Meade, South Dakota	8/29/2024					X
VBA Needs to Improve Oversight of the Digital GI Bill Platform	8/28/2024		X	X	X	
Incorrect Use of the Baker Act at the North Florida/South Georgia Veterans Health System in Gainesville, Florida	8/28/2024	X				X
Ineffective Oversight of Community Care Providers' Special-Authorization Drug Prescribing Increased Pharmacy Workload and Veteran Wait Times	8/15/2024	X				X
Unauthorized Community Care Dental Procedures Risked Improper Payments	8/8/2024	X	X			
OIG Determination of Veterans Health Administration's Severe Occupational Staffing Shortages Fiscal Year 2024	8/7/2024	X				
Delays and Deficiencies in the Mental Health Care of a Patient at the Michael E. DeBakey VA Medical Center in Houston, Texas	7/31/2024	X				X
Insufficient Mental Health Treatment and Access to Care for a Patient and Review of Administrative Actions in Veterans Integrated Service Network 10	7/31/2024	X				X

Related Reports	Date	Challenge				
		#1	#2	#3	#4	#5
<u>Inadequate Care of a Patient Who Died by Suicide on a Medical Unit at the Sheridan VA Medical Center in Wyoming</u>	7/25/2024	X				X
<u>Mismanaged Surgical Privileging Actions and Deficient Surgical Service Quality Management Processes at the Hampton VA Medical Center in Virginia</u>	7/23/2024	X				X
<u>The Pause of the Program Integrity Tool Is Impeding Community Care Revenue Collections and Related Oversight Operations</u>	7/16/2024	X				
<u>Lessons Learned for Improving the Integrated Financial and Acquisition Management System's Acquisition Module Deployment</u>	7/10/2024				X	X
<u>VBA Did Not Identify All Vietnam Veterans Who Could Qualify for Retroactive Benefits</u>	6/27/2024		X	X		
<u>Extended Pause in Cardiac Surgeries and Leaders' Inadequate Planning of Intensive Care Unit Change and Negative Impact on Resident Education at the VA Eastern Colorado Health Care System in Aurora</u>	6/24/2024	X				X
<u>Leaders at the VA Eastern Colorado Health Care System in Aurora Created an Environment That Undermined the Culture of Safety</u>	6/24/2024					X
<u>Potential Weaknesses Identified in the VISN 20 Personnel Suitability Program</u>	6/20/2024					X
<u>Ineffective Use and Oversight of Medical/Surgical Prime Vendor Program Led to Increased Spending</u>	6/11/2024	X		X		
<u>VA Improperly Awarded \$10.8 Million in Incentives to Central Office Senior Executives</u>	5/9/2024					X

OTHER INFORMATION

INSPECTOR GENERAL'S MANAGEMENT AND PERFORMANCE CHALLENGES

Related Reports	Date	Challenge				
		#1	#2	#3	#4	#5
Improved Oversight Needed to Evaluate Network Adequacy and Contractor Performance	4/9/2024	X				X
Scheduling Challenges Within the New Electronic Health Record May Affect Future Sites	3/21/2024	X			X	
Electronic Health Record Modernization Caused Pharmacy-Related Patient Safety Issues Nationally and at the VA Central Ohio Healthcare System in Columbus	3/21/2024	X			X	
Inadequacies in Patient Safety Reporting Processes and Alleged Deficient Quality of Care Prior to a Patient's Foot Amputation at the Edward Hines, Jr. VA Hospital in Hines, Illinois	3/20/2024	X				
Care Concerns and Failure to Coordinate Community Care for a Patient at the VA Southern Nevada Healthcare System in Las Vegas	2/15/2024	X				
Noncompliance with Contractor Employee Vetting Requirements Exposes VA to Risk	2/8/2024					X
Chief of Staff's Provision of Care Without Privileges, Quality of Care Deficiencies, and Leaders' Failures at the Montana VA Health Care System in Helena	2/6/2024	X				X
Discontinued Consults Led to Patient Care Delays at the Oklahoma City VA Medical Center in Oklahoma	2/1/2024	X				
VA's Allocation of Initial PACT Act Funding for the Toxic Exposures Fund	1/11/2024			X		
Deficiencies in the Community Care Network Credentialing Process of a Former VA Surgeon and Veterans	1/4/2024					X

Related Reports	Date	Challenge				
		#1	#2	#3	#4	#5
Health Administration Oversight Failures						
Without Effective Controls, Public Disability Benefits Questionnaires Continue to Pose a Significant Risk of Fraud to VA	1/4/2024		X	X		
Veterans Health Administration Needs More Written Guidance to Better Manage Inpatient Management of Alcohol Withdrawal	1/4/2024	X				
Care in the Community Summary Report for Fiscal Year 2022	11/29/2023	X				
Improvements Needed for VBA's Claims Automation Project	9/25/2023		X			
Nonadherence to Requirements for Processing Gulf War Illness Claims Led to Premature Decisions	9/7/2023		X	X		

Related Congressional Testimony	Date	Challenge				
		#1	#2	#3	#4	#5
Is The Veterans Benefits Administration Properly Processing and Deciding Veterans' Claims?	7/23/2024		X	X		X
The Continuity of Care: Assessing the Structure of VA's Healthcare Network	6/26/2024	X				X
Bonus Blunder: Examining VA's Improper Decision to Award Senior Executives Millions in Incentives	6/4/2024			X		X
Caring for All Who Have Borne the Battle: Ensuring Equity for Women Veterans at VA	4/10/2024	X				
Hearing on EHR Modernization Deep Dive: Can the Oracle Pharmacy Software be Made Safe and Effective?	2/15/2024	X		X		X

OTHER INFORMATION

INSPECTOR GENERAL'S MANAGEMENT AND PERFORMANCE CHALLENGES

Related Congressional Testimony	Date	Challenge				
		#1	#2	#3	#4	#5
Hearing on "Is VA Illegally Spending Taxpayer Dollars in its Compensation and Pension Programs?"	2/14/2024		X	X		X
Hearing on Vet Centers: Supporting the Mental Health Needs of Servicemembers, Veterans, and Their Families	1/31/2024	X				
Hearing on Background Checks: Are VA's HR Failures Risking Drug Abuse and Harm?	12/6/23	X	X			X
Hearing on VA's Fiduciary Program: Ensuring Veterans' Benefits are Properly Managed	9/28/2023		X	X		

VA Management's Response

VA acknowledges the challenges presented in the OIG report and appreciates the IG's dedication to identifying opportunities for improvement in VA programs and operations. For additional information on management's response and the measures VA is implementing to address each challenge, refer to the individual IG reports related to each challenge as provided in the previous table.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables provide a summary of audit-related or management-identified material weaknesses and the noncompliance with FFMA and Federal financial management system requirements outlined in the 2024 AFR.

Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Controls Over Significant Accounting Estimates	1	-	-	-	1
Financial Systems and Reporting	1	-	-	-	1
IT Security Controls	1	-	-	-	1
<i>Total Material Weaknesses</i>	3	-	-	-	3

Summary of Management Assurances***Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)***

Statement of Assurance	Modified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Controls Over Significant Accounting Estimates	1	-	-	-	-	1
Financial Systems and Reporting	1	-	-	-	-	1
<i>Total Material Weaknesses</i>	2	-	-	-	-	2

Effectiveness of Internal Control over Operations (FMFIA § 2)

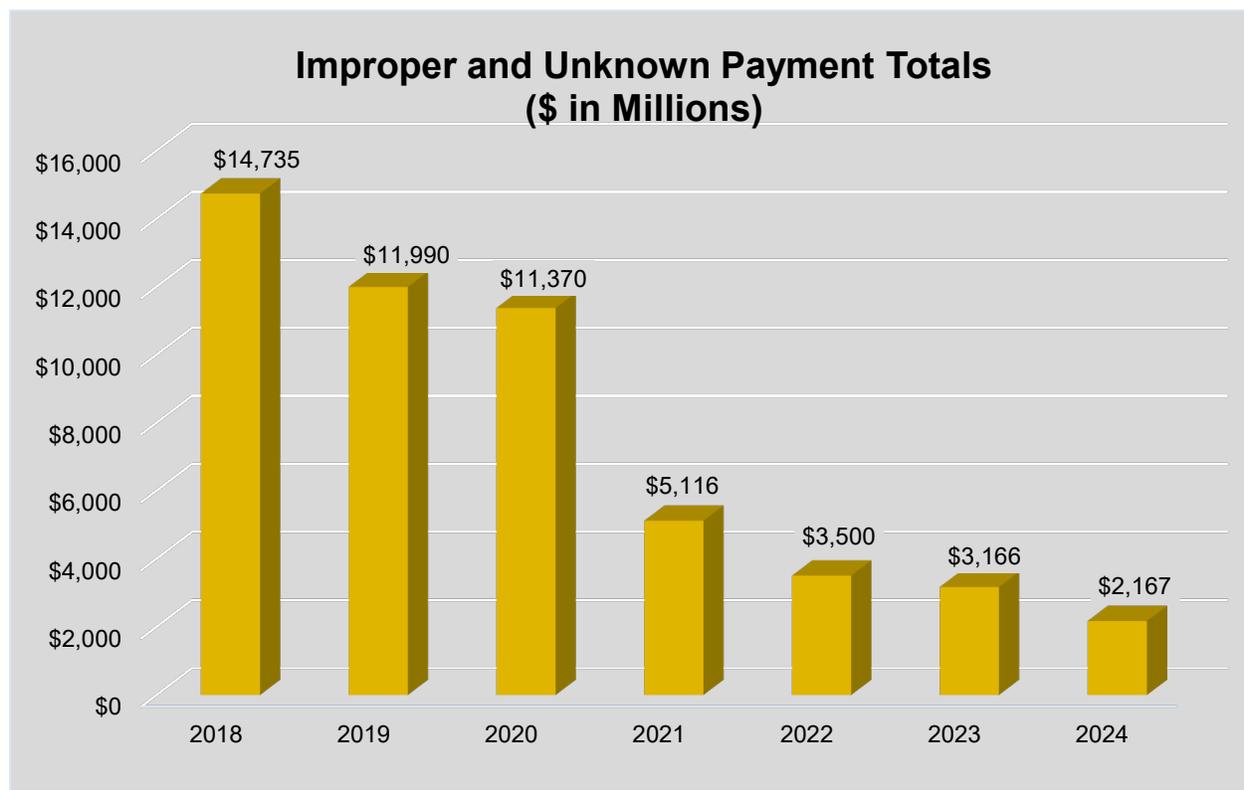
Statement of Assurance	Unmodified					
<i>Conformance with Federal Financial Management System Requirements (FMFIA § 4)</i>						
Statement of Assurance	Systems conform, except for the below nonconformance					
Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IT Security Controls	1	-	-	-	-	1
<i>Total Nonconformances</i>	1	-	-	-	-	1

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)

	Agency	Auditor
System Requirements	Lack of compliance noted	Lack of compliance noted
Accounting Standards	No lack of compliance noted	No lack of compliance noted
USSGL at Transaction Level	Lack of compliance noted	Lack of compliance noted

PAYMENT INTEGRITY INFORMATION ACT REPORTING

In FY 2024, VA reported a reduction of about \$1 billion in improper and unknown payments, a reduction of 31.55% from FY 2023 results, despite increases in outlays of \$4.43 billion, or 12.30%. In addition, VA is reporting improper and unknown payments under 1.5% and \$100 million for Communications, Utilities, and Other Rents (CUOR) in FY 2024; therefore, this program will revert to fulfilling legislative requirements for risk assessments no less than every 3 years in FY 2025. Since FY 2018, VA has reduced improper and unknown payments by \$12.57 billion, or 85.29%, and removed seven programs from reporting requirements by prioritizing corrective actions on the largest proportion of errors and noncompliance with laws and regulations. VA continues to strengthen its risk assessment, test plans, and collection of error data to ensure accurate projections and inform effective remediation strategies.



PROGRAMS REPORTING IMPROPER AND UNKNOWN PAYMENTS

During FY 2024, VA tested and developed projections for seven programs: Beneficiary Travel (BT), CUOR, Medical Care Contracts and Agreements (MCCA), Supplies and Materials (SM), Pension, Purchased Long-Term Services and Supports (PLTSS), and VA Community Care (VACC). In addition, VA reported on three high-priority programs (Pension, PLTSS, and VACC) based on payment integrity testing completed in FY 2023. Per OMB Circular A-123, Appendix C, dated March 5, 2021, programs with estimates of monetary loss exceeding \$100 million for the year are considered high priority and require additional reporting the following fiscal year. Based on payment integrity testing completed in FY 2024, VA will continue to report Pension, PLTSS, and VACC as high-priority programs during FY 2025.

FY 2024 Improper Payments by Program

FY 2024 Payments Overview	Beneficiary Travel (BT)		Communications Utilities and Other Rents (CUOR)		Medical Care Contracts and Agreements (MCCA)		Supplies and Materials (SM)		Pension		Purchased Long-Term Services and Supports (PLTSS)		VA Community Care (VACC)	
	\$ (in Millions)	% of Outlays	\$ (in Millions)	% of Outlays	\$ (in Millions)	% of Outlays	\$ (in Millions)	% of Outlays	\$ (in Millions)	% of Outlays	\$ (in Millions)	% of Outlays	\$ (in Millions)	% of Outlays
Outlays	\$1,849.10		\$2,326.80		\$1,236.77		\$3,705.91		\$3,742.93		\$5,620.66		\$21,981.87	
Proper Payments	\$1,699.54	91.91%	\$2,313.53	99.43%	1,208.53	97.72%	\$3,425.24	92.43%	\$3,224.36	86.15%	\$4,860.57	86.48%	\$21,565.24	98.10%
Improper Payments	\$132.04	7.14%	\$12.54	0.54%	\$1.13	0.09%	\$215.51	5.82%	\$404.01	10.79%	\$657.17	11.69%	\$416.63	1.90%
Overpayments	\$86.22	4.66%	\$3.55	0.15%	\$0.65	0.05%	\$0.31	0.01%	\$381.78	10.20%	\$218.30	3.88%	\$416.63	1.90%
Within Agency Control	\$86.22	4.66%	\$3.55	0.15%	\$0.65	0.05%	\$0.31	0.01%	\$381.78	10.20%	\$218.30	3.88%	\$416.63	1.90%
Data Does Not Exist	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%
Inability to Access Data	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%
Failure to Access Data	\$86.22	4.66%	\$3.55	0.15%	\$0.65	0.05%	\$0.31	0.01%	\$381.78	10.20%	\$218.30	3.88%	\$416.63	1.90%
Outside Agency Control	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%
Data Does Not Exist	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%
Inability to Access Data	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%
Failure to Access Data	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%
Non-Monetary Loss	\$45.82	2.48%	\$8.99	0.39%	\$0.48	0.04%	\$215.20	5.81%	\$22.23	0.59%	\$438.86	7.81%	\$0.00	0.00%
Underpayments	\$3.59	0.19%	\$0.42	0.02%	\$0.00	0.00%	\$0.00	0.00%	\$22.23	0.59%	\$6.41	0.11%	\$0.00	0.00%
Data Does Not Exist	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%
Inability to Access Data	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%
Failure to Access Data	\$3.59	0.19%	\$0.42	0.02%	\$0.00	0.00%	\$0.00	0.00%	\$22.23	0.59%	\$6.41	0.11%	\$0.00	0.00%
Technically Improper	\$42.23	2.28%	\$8.57	0.37%	\$0.48	0.04%	\$215.20	5.81%	\$0.00	0.00%	\$432.46	7.69%	\$0.00	0.00%
Unknown Payments	\$17.53	0.95%	\$0.73	0.03%	\$27.11	2.19%	\$65.16	1.76%	\$114.57	3.06%	\$102.93	1.83%	\$0.00	0.00%
Improper Payments + Unknown Payments	\$149.56	8.09%	\$13.27	0.57%	\$28.25	2.28%	\$280.67	7.57%	\$518.58	13.85%	\$760.09	13.52%	\$416.63	1.90%

Note: In FY 2024, VA tested and reported on payments made in FY 2023. A detailed description of each program's errors and corrective actions can be found on <https://paymentaccuracy.gov/>. The improper and unknown payment total amounts may not sum due to rounding. In addition, there may be slight variances in the dollar amounts and percentages reported on PaymentAccuracy.gov due to rounding.

Technical Terms to Know

Data Does Not Exist: A situation in which there is no known database, dataset, or location currently in existence that contains the data/information needed to validate the payment accuracy prior to making the payment.

Inability to Access Data: A situation in which the data or information needed to validate payment accuracy exists, but VA does not have access to it.

Failure to Access Data: Improper payments are attributed to human errors to access the appropriate data/information to determine whether a beneficiary or recipient should be receiving a payment, even though such data/information exists and is accessible to VA.

BT IMPROPER AND UNKNOWN PAYMENTS AND CORRECTIVE ACTIONS

The BT program is organizationally aligned under Veterans Health Administration (VHA) Member Services. The program consists of mileage reimbursement, common carrier, and special mode transportation (ambulance, wheelchair van, etc.) to eligible Veterans and other beneficiaries. In addition, VA can provide or reimburse for the actual cost of bridge tolls, road tolls, and tunnel tolls. Expenses related to meals and/or lodging may also be provided in limited circumstances. In FY 2024, the program reported an estimated 91.91%, or \$1.70 billion, in proper payments and 8.09%, or \$149.56 million, in improper and unknown payments.

From 2023, the total estimated improper and unknown payment error rate increased by 1.26%, and the total estimated improper and unknown payment amount increased by \$29.61 million in FY 2024. The increase is attributed to the rise in delinquent authorizations in special mode transportation claims where manual processes exist. Most improper payments resulted from incorrect claim calculation and delinquent authorizations. There are no known financial, contractor, or provider status related barriers prohibiting the program from improving its prevention of improper payments.

Strategies to Reduce Improper Payments

The following actions were taken in FY 2024, or are planned for FY 2025, to correct and mitigate the BT program’s improper and unknown payments:

Mitigation Strategy or Corrective Action	Description
Automation	<p>Actions taken included continuing to implement new software that will provide a customized and enhanced tool to streamline claims; automate eligibility determinations, payment processing, and detection and prevention of improper payments; and enhance reporting and auditing capabilities. In addition, VA continued with the post-implementation modernization of BT claims processing software and other systems. Further, VA continued planning for invoice payment processing nationwide, which is expected to improve the timeliness and accuracy of ambulance claims processing. Finally, VA transitioned from a legacy system to a new BT claims processing system.</p> <p>Actions planned include continuing with the post-implementation modernization of beneficiary travel claims processing systems. VA enhanced automation action plans to expand use of transportation modalities that will streamline third-party preauthorized claims processing, integrate medical qualifications, and automate contract execution.</p>
Change Process	<p>Actions taken included establishing and deploying enterprise-wide infrastructure solutions, to include quality assurance monitoring processes for mileage reimbursement and special mode transportation.</p>
Training	<p>Actions planned include developing new and enhanced claims processing training and deploying training resources across various stakeholder groups to ensure more effective communication across target audiences. Additionally, VA will continue establishing and deploying enterprise-wide infrastructure solutions, including reviewing the effectiveness of quality assurance and monitoring</p>

Mitigation Strategy or Corrective Action	Description
	reporting processes and developing and implementing effective standardized processes.

CUOR IMPROPER AND UNKNOWN PAYMENTS AND CORRECTIVE ACTIONS

The CUOR program is organizationally aligned under the VHA Procurement Logistics Office. The program funds payments for use of communications and utility services and charges for possession and use of land, structures, or equipment owned by others. In FY 2024, the program reported an estimated 99.43%, or \$2.31 billion, in proper payments and 0.57%, or \$13.27 million, in improper and unknown payments. This program is under the statutory threshold for significant improper payments and will revert to fulfilling legislative requirements for risk assessments no less than every 3 years. Management will continue its responsibilities for internal control outlined in the Government Accountability Office Green Book.

From 2023, the improper and unknown payment error rate decreased by 1.92%, and the total estimated improper and unknown payment amount decreased by \$39.82 million in FY 2024. The decrease in reported dollars and the overall rate occurred despite program outlays increasing by 9.35%. Most improper payments resulted from lack of requests for procurement action and claims not being paid according to the contract. There are no known financial, contractor, or provider status related barriers prohibiting the program from improving its prevention of improper payments.

Strategies to Reduce Improper Payments

The following actions were taken in FY 2024 to correct and mitigate the CUOR program's improper and unknown payments:

Mitigation Strategy or Corrective Action	Description
Change Process	Actions taken included restructuring existing local and national contracts and rejecting invoices that do not comply with contract requirements. Additionally, VA ensured ordering processes were compliant with statute and regulation, thus reducing technically improper payments caused by unauthorized commitments.

MCCA IMPROPER AND UNKNOWN PAYMENTS AND CORRECTIVE ACTIONS

The MCCA program is organizationally aligned under the VHA Procurement Logistics Office. The program includes contracts for research, medical and educational data or services, reimbursements at contract per diem rates for hospitalization, dialysis treatment furnished by a non-VA facility, indirect charges added for research and demonstration projects, and contracted Emergency Medical Services. In FY 2024, the program reported an estimated 97.72%, or \$1.21 billion, in proper payments and 2.28%, or \$28.25 million, in improper and unknown payments.

From 2023, the improper and unknown payment error rate decreased by 1.67%, and the total estimated improper and unknown payment amount decreased by \$17.47 million in FY 2024. The decrease in reported dollars and the overall rate occurred despite program outlays increasing by 6.74%. Most improper and unknown payments resulted from invoice pricing not reconciling to the contract and an inability to validate pricing. There are no known financial, contractor, or provider status related barriers prohibiting the program from improving its prevention of improper payments.

Strategies to Reduce Improper Payments

The following actions were taken in FY 2024, or are planned for FY 2025, to correct and mitigate the MCCA program’s improper and unknown payments:

Mitigation Strategy or Corrective Action	Description
Change Process	Actions taken included restructuring existing local and national contracts and rejecting invoices that do not comply with contract requirements. Additionally, VA ensured ordering processes were compliant with statute and regulation. VA also continued conducting an annual concurrence process to meet with field offices, which ensures accuracy of testing results and improves understanding of requirements for future purchases, as well as obtaining additional documentation required to determine payment accuracy.
	Actions planned include notifying contracting personnel of incorrect procurement procedures for resolution and updating contract language or rejecting vendor invoices that do not have the required information to validate payment accuracy.
Training	Actions planned include providing training to individuals who are incorrectly certifying invoices for payment.

PENSION IMPROPER AND UNKNOWN PAYMENTS AND CORRECTIVE ACTIONS

The Pension program is organizationally aligned under the Veterans Benefits Administration Pension and Fiduciary Office. The program helps eligible Veterans and their survivors cope with financial challenges by providing supplemental income through Veterans and Survivors Pension benefits. Specifically, the Veterans Pension program provides monthly payments to wartime Veterans who meet certain age or disability requirements; the Survivors Pension offers monthly payments to qualified surviving spouses and unmarried dependent children of wartime Veterans. Pension program recipients must meet income and net worth limits set by Congress. Income limits require adjustments when beneficiaries have changes to eligibility factors (e.g., income or medical expenses, dependency, etc.), and these changes are the primary cause of improper payments. In FY 2024, the program reported an estimated 86.15%, or \$3.22 billion, in proper payments and 13.85%, or \$518.58 million, in improper and unknown payments.

A known barrier to reductions is the reliance upon beneficiaries to report when they experience a change in receiving benefits from other sources, as this is an important factor in determining continued eligibility for benefits. When VA identifies a potential change for the beneficiary that could impact their Pension benefit, VA must provide the beneficiary advance notice, known as due process, to provide additional documentation. The due process period protects the beneficiary from reduction adjustments being made to their pension payments without validation of the data. Therefore, VA must continue to make the pension payment at the higher rate and does not know if the payment at the lower rate is accurate or not until due process is complete.

From FY 2023, the improper and unknown payment error rate increased by 2.99%, and the total improper and unknown payment amount increased by \$99.31 million in FY 2024. Over 86.81% of the total improper and unknown payments resulted from beneficiaries not notifying VA of changes in Social Security income. The program’s corrective actions are focused on remediating this and other errors.

Strategies to Reduce Improper Payments

The following actions were taken in FY 2024, or are planned for FY 2025, to correct and mitigate the Pension program’s improper payments:

Mitigation Strategy or Corrective Action	Description
Audit	Actions taken and planned include randomly reviewing claims processors’ work to ensure policies and procedures are properly applied in making accurate pension rate decisions to prevent future improper payments. These actions are fully implemented and are ongoing from year to year, versus being completed once.
Automation	Actions taken included using the Social Security Administration’s (SSA) Death Master File to match against active beneficiaries or their dependents. Actions also taken and planned include conducting quarterly matches with SSA to identify variances between SSA income a beneficiary is receiving versus the amounts reported by a beneficiary to VA.
Training	Actions planned include training staff to ensure policies and procedures are properly applied in making accurate pension rate decisions to prevent future improper payments.

PLTSS IMPROPER AND UNKNOWN PAYMENTS AND CORRECTIVE ACTIONS

The PLTSS program is organizationally aligned under the VHA Geriatrics and Extended Care (GEC) Office, which strives to empower Veterans and the Nation to rise above the challenges of aging, disability, or serious illness. GEC programs serve Veterans of all ages, including older, frail, and chronically ill patients as well as their families and caregivers. In FY 2024, the program reported an estimated 86.48%, or \$4.86 billion, in proper payments and 13.52%, or \$760.09 million, in improper and unknown payments.

From 2023, the improper and unknown payment error rate decreased by 25.20%, and the total estimated improper and unknown payment amount decreased by \$657.90 million in FY 2024. The decrease in reported dollars and the overall rate occurred despite program outlays increasing by 53.47%. Most of the improper and unknown payments resulted from purchases being made without a contract using a Basic Ordering Agreement, which is not a contract, or claims not being paid according to the contracted rates. There are no known financial, contractor, or provider status related barriers prohibiting the program from improving its prevention of improper payments.

Strategies to Reduce Improper Payments

The following actions were taken in FY 2024, or are planned for FY 2025, to correct and mitigate the PLTSS program’s improper and unknown payments:

Mitigation Strategy or Corrective Action	Description
Automation	Actions taken included updating the claims processing system to pay or deny Homemaker/Home Health Aid Service, Community Nursing Home, and Veteran Directed Care claims appropriately.

OTHER INFORMATION
PAYMENT INTEGRITY INFORMATION ACT REPORTING

Mitigation Strategy or Corrective Action	Description
	Actions planned include updating the claims processing system to pay Bowel and Bladder and Community Nursing Home claims appropriately.
Change Process	<p>Actions taken included working to ensure invoices are being validated per the contract pricing prior to payment. Additionally, VA worked to implement short- and long-term contracting options for Community Nursing Home payments to improve compliance with procurement requirements. Finally, VA clarified the payment methodology with third-party administrators (TPA) to bill at the correct rates.</p> <p>Actions planned include moving to a standardized rate schedule for Community Nursing Home payments to transition payments from a legacy system to an automated claims processing system. Additionally, VA will continue clarifying the payment methodology with TPAs to bill at the correct rates and will implement short- and long-term contracting options for Community Nursing Home payments to improve compliance with procurement requirements. Further, VA will resolve contracting errors involving missing signatures and the inability to reconcile procurement vendor to invoice vendor, and VA will establish Veterans Care Agreements when appropriate.</p>
Training	Actions planned include working with VA facilities to provide education and training to resolve missing documentation errors related to authorization, payment, or Veteran level of care to support the payment process.

SM IMPROPER AND UNKNOWN PAYMENTS AND CORRECTIVE ACTIONS

The SM program is organizationally aligned under The VHA Procurement Logistics Office. Payments for this program include those supplies and materials acquired by formal contract or other form of purchase that are ordinarily consumed or expended within 1 year after they are put into use, converted in the process of construction or manufacturing, or used to form a minor part of equipment or fixed property or other property not separately identified in the asset accounts. In FY 2024, the program reported an estimated 92.43%, or \$3.43 billion, in proper payments and 7.57%, or \$280.67 million, in improper and unknown payments.

From 2023, the improper and unknown payment error rate increased by 4.02%, and the total estimated improper and unknown payment amount increased by \$163.21 million in FY 2024. The increase is attributed to a rise in Medical Surgical Prime Vendor and Nutrition and Food Services claims where written ordering officer delegations were not consistently documented and retained. Most improper and unknown payments resulted from lack of ordering officer delegation documentation or invoice pricing that did not reconcile to the contract. There are no known financial, contractor, or provider status related barriers prohibiting the program from improving its prevention of improper payments.

Strategies to Reduce Improper Payments

The following actions were taken in FY 2024, or are planned for FY 2025, to correct and mitigate the SM program’s improper and unknown payments:

Mitigation Strategy or Corrective Action	Description
Change Process	Actions taken included restructuring existing local and national contracts and rejecting invoices that do not comply with contract requirements, including no receipt for goods or services. Additionally, VA ensured ordering processes were compliant with statute and regulation.
	Actions planned include improving contract processes for the Medical Supplies Prime Vendor payments and the Nutrition and Food Services payments to ensure payment accuracy. In addition, VA will provide education and training to the contracting officer and/or ordering officials to ensure contracts contain required signatures and proper approvals are obtained prior to placing orders. Finally, VA will restructure existing contracts and provide education and training to certifying officials for rejecting invoices that do not comply with contract requirements.

VACC IMPROPER AND UNKNOWN PAYMENTS AND CORRECTIVE ACTIONS

The VACC program provides timely and specialized care to eligible Veterans. This program allows VA to authorize Veteran care at non-VA health care facilities when the needed services are not available through VA or when the Veteran is unable to travel to a VA facility. In FY 2024, the program reported an estimated 98.10%, or \$21.57 billion, in proper payments and 1.90%, or \$416.63 million, in improper payments.

From 2023, the improper and unknown payment error rate decreased by 3.02%, and the total estimated improper and unknown payment amount decreased by \$575.75 million in FY 2024. The decrease in reported dollars and reduction in the overall rate occurred despite the program’s outlays increasing by 9.08%. Most improper payments resulted from the program’s failure to deny untimely submitted claims. There are no known financial, contractor, or provider status related barriers prohibiting this program from improving its prevention of improper payments.

Strategies to Reduce Improper Payments

The following actions were taken in FY 2024, or are planned for FY 2025, to correct and mitigate the VACC program’s improper and unknown payments:

Mitigation Strategy or Corrective Action	Description
Automation	Actions taken included updating the claims processing system to identify and auto-deny Community Care Network claims that should be processed by a TPA to deny out-of-network facility provider claims for emergent episodes of care. Additionally, VA transitioned National Dialysis Contract claims from a legacy system to an automated claims processing system to ensure claims are paid at the correct rates. Finally, VA updated system logic in the claims processing system to suspend or deny dental claims when provider criteria does not reconcile to the Veterans Care Agreement.
Audit	Actions planned include conducting post-payment reviews and establishing bills of collection for claims that were overpaid.

OTHER INFORMATION**PAYMENT INTEGRITY INFORMATION ACT REPORTING**

Mitigation Strategy or Corrective Action	Description
Change Process	Actions taken included clarified payment methodology with VA and TPAs to bill at the correct allowable rates. Additionally, for non-network payments, VA implemented system checks to suspend institutional inpatient and ambulance claims for manual review prior to payment. In addition, VA instructed TPAs to follow standard billing practices as defined in the contract and communicated to claims processing agents to not process claims when timely filing requirements are not met.
	Actions planned include ensuring contract language is clear and clarify any inconsistent payment methodology instances with TPAs regarding payment discrepancies. Additionally, VA will engage in a contract modification to further elaborate on standard episode of care claims processing. In addition, VA will ensure timely filing criteria is clear and proper monitoring is in place.
Training	Actions taken included providing training on claims processing requirements when required other health insurance documentation is missing.

PROGRAMS SUBJECT TO RISK ASSESSMENTS

In FY 2024, of VA's 65 programs spending over \$10 million annually, 24 programs were subject to risk assessments to determine if they were likely susceptible to improper and unknown payments. These programs either underwent significant changes that could increase their risk, such as increased spending over 20% or changes in legislation or had not completed a risk assessment in 3 years. One program, Compensation, was determined likely susceptible and will report statistically valid improper and unknown payments in FY 2025.

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

CIVIL MONETARY ADJUSTMENT FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act of 1990 (the Inflation Adjustment Act), as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. The following table depicts the covered civil monetary penalties that are under VA's purview.

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level (\$ Amount or Range)	Sub-Agency/Bureau/Unit	Location for Penalty Update Details
Veterans' Benefits Improvement and Health-Care Authorization Act of 1986, as amended	False Loan Guarantee Certifications	1986	2024 (via regulation)	The greater of (a) two times the amount of Secretary's loss on the loan, or (b) another appropriate amount not to exceed \$27,894	VBA/Loan Guarantee	Federal Register 89 (01/10/2024) : 1458-1460
Program Fraud Civil Remedies Act of 1986, as amended	Fraudulent Claims or Statements	1986	2024	\$13,946	All VA Programs	Federal Register 89 (01/10/2024) : 1458-1460

Per the Inflation Adjustment Act, VA will update their penalty rates in the Federal Register annually by January 15. In January 2024, VA published its annual regulation in the Federal Register, reflecting the Federal Civil Penalties annual inflation adjustment for FY 2024.

GRANT PROGRAMS

Pursuant to the OMB Uniform Guidance in 2 C.F.R. § 200.343(b), recipients of grants and cooperative agreements must liquidate all obligations incurred under their awards within 90 days after the end of the period of performance, unless the awarding agency authorizes an extension or program-specific statutes specify a different liquidation period.

VA is required to disclose the number of awards and balances for which closeout has not yet occurred, but for which the period of performance has elapsed by 2 years or more prior to September 30, 2024. The summary of this information is disclosed in the following table.

CATEGORY	2-3 Years	>3-5 Years	>5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	10	-	-
Number of Grants/Cooperative Agreements with Undisbursed Balances	60	4	1
Total Amount of Undisbursed Balances	\$2,128,916	\$192,432	\$103,957

VA manages multiple grant programs; however, two major programs with grants awaiting closeout include State Home Construction and Adaptive Sports.

In FY 2024, the State Home Construction grant office closed out 70 grants during September 2024; however, the office was not able to meet its goal to close out all grants by September 30, 2024. The 10 remaining State Home Construction grants will be closed in FY 2025. State Home Construction comprises of 10 grants with undisbursed balances totaling \$278,281.

The Adaptive Sports grant office has made significant progress reducing the closeout backlog. The grant office has closed 14 grants in the month of September 2024 and is on track to close the remaining grants in FY 2025. Adaptive Sports is comprised of 65 grants, which include those with both zero-dollar balances and undisbursed balances, with undisbursed balances totaling \$2,147,023.

CLIMATE-RELATED FINANCIAL RISK

CLIMATE ADAPTATION PLAN

VA's Climate Adaptation Plan provides valuable information relevant to VA services, operations, programs, and assets. VA's latest 2024-2027 Climate Adaptation Plan is available at: [Department of Veterans Affairs 2024-2027 Climate Adaptation Plan \(sustainability.gov\)](https://www.va.gov/sustainability/2024-2027-climate-adaptation-plan).

GOVERNANCE, STRATEGY, RISK MANAGEMENT, AND METRICS

GOVERNANCE

E.O. 14008, *Tackling the Climate Crisis at Home and Abroad* (2021), established requirements for agencies to revitalize and prioritize responding to the climate crisis. E.O. 14057, *Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability* (2022), expanded on those requirements. In response to E.O. 14057, VA adapted its Climate Change Task Force into a Sustainability Task Force, led by VA's Chief Sustainability Officer, to make senior-level decisions on policy and programs to implement the goals of E.O. 14057, including climate adaptation plans. The Task Force will engage two of VA's existing governing bodies, the Evidence-Based Policy Council and Investment Review Council, where needed to establish and roll out agency-wide solutions.

STRATEGY

VA's strategy balances the need for climate adaptation and resilience with other needs crucial to VA's mission of providing quality care and benefits to Veterans. VA understands the importance of anticipating and planning for future changes in the climate and is working to ensure that adaptation efforts include the full scope of its operations, while continuing to deploy its climate adaptation strategy.

RISK MANAGEMENT

VA will continue its effort to identify mission critical functions at risk from the impacts of a changing climate. As impacts are further identified by the best available science, VA will incorporate climate change adaptation and resilience across agency programs and the management of Federal procurement, real property, public lands and waters, and financial programs. Mitigation of known risks are incorporated into the agency's normal business operations to the extent practicable.

VA incorporates climate resilience into long-term planning, investments, construction, and training, in conjunction with other policy and practical imperatives. For the 2024-2027 Climate Adaptation Plan, VA built on prior adaptation actions and climate vulnerability analysis to update its key actions for increasing VA's climate resilience. This includes actions to protect VA facilities, such as assessing the resilience of facilities and updating building standards. Actions will also include building public health surveillance systems to address short- and long-term impacts of climate on Veteran and employee health and the VA health care system, as well as projected climate-related health and health care vulnerabilities and expenditures. In addition, education and public health mitigation strategies will address adverse climate-related health impacts to employees' and Veterans' resources.

OTHER INFORMATION

CLIMATE-RELATED FINANCIAL RISK

In 2023, VA completed a nationwide assessment of climate vulnerabilities of its most mission critical facilities. The assessment rated the risk to facilities from a wide array of natural hazards, as well as incorporating feedback from staff about their facility's ability to withstand and adapt to climate impacts. The assessment also included social vulnerability data, which gives insight into the potential impact of these hazards on the community. Further studies will be required to identify site-specific risk mitigation needs, but this assessment provides a starting point for VA to understand climate risk at the facility level.

METRICS

VA developed an internal tool to track implementation of its climate adaptation commitments for the 2021 Climate Action Plan. This tool has been updated for the 2024-2027 Climate Adaptation Plan to provide further granularity on progress and challenges. Progress is updated and shared with VA's Sustainability Task Force quarterly. In accordance with E.O. 14057, VA will continue to update plans or progress reports on climate adaptation activities.

HOME LOAN PROGRAMS

Impact: VA's Home Loan Program within the Loan Guaranty Service involves loans made, insured, or guaranteed by VA to assist Veterans in obtaining, retaining, and adapting homes. The program includes direct home loans for Native American Veterans to purchase homes on trust lands, as well as grants aimed at assisting eligible Veterans with service-connected disabilities in constructing or modifying their homes to accommodate their needs. The program also manages and sells properties acquired by VA from foreclosures and manages direct loans for purchase of real estate owned properties. The primary concerns for VA are the potential indirect impacts resulting from newly constructed or existing homes in and around the U.S. coastline where sea level rise can pose a threat or areas where wildfires are common due to drought conditions.

Adaptation: VA will continue to consider approaches to better integrate climate-related financial risk into underwriting standards, loan terms and conditions, and asset management and servicing procedures, as related to housing policies and programs. The local government and planning authorities are ultimately responsible for infrastructure and development of the Veteran housing supported by VA home loans. The Energy Efficient Mortgage program allows for a loan to be increased by up to \$6,000 over and above the established reasonable value of a property and provides a valuable incentive for borrowers to adopt sustainable best practices, improve the value of their property, and mitigate climate risk. In addition, VA recognizes that an energy-efficient home will have lower operating costs, making homeownership more affordable for Veteran borrowers. VA is evaluating whether changes to the program are warranted and if increases to the \$6,000 cap will require statutory amendments.

Timeline: VA has begun collecting and analyzing data to comprehensively assess climate risk exposures to the VA Home Loan Program. VA also will use the assessment to inform programmatic changes to policies or procedures, such as underwriting standards, loan terms and conditions, and asset management and servicing procedures. VA continues to build and enhance their dashboard as they strive to incorporate more climate and social governance related data elements.

Resources: VA will use existing resources to begin necessary assessments to determine costs associated with increased climate threats. If additional resources are required, VA will request funding through the budget process.

Disclosure: Once VA identifies potential costs associated with increased threats to homes financed through the VA Home Loan Program, it will disclose them in the AFR.

OTHER INFORMATION**FINANCIAL REPORTING-RELATED LEGISLATION**

FINANCIAL REPORTING-RELATED LEGISLATION

Legislative provisions enacted in the prior fiscal year and/or current fiscal year that impact VA's financial accounting, reporting, or auditing issues are reported below.

FY 2023

- **Fiscal Responsibility Act of 2023 (P.L. 118-5)**: The legislation provided funding for VA's Cost of War Toxic Exposure Fund. For more information, refer to page 27.

FY 2024

- **Veterans Benefits Continuity and Accountability Supplemental Appropriations Act of 2024 (P.L. 118-82)**: The legislation provided supplemental appropriations to VBA for Compensation, Pensions, and Readjustment benefits. Additionally, VA must report to Congress on improvements to budgetary forecasting and data quality, and the status of funds provided.



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Pittsburgh VA preps Veteran for Paris Paralympics

Pictured in the previous page: Eric McElvenny hits the track.

A Marine Corps Veteran competed in the Paris 2024 Paralympics with a prosthetic leg maximized for power and efficiency by Pittsburgh VA.

An eight-time Iron Man runner and 2020 Tokyo Paralympics triathlete, Eric McElvenny has been a patient since October 2023. Orthotist/prosthetist Andrew Chambers has spent one day a week with McElvenny since then, tweaking his prosthesis and testing adjustments to harness maximum power and efficiency.

McElvenny, Chambers, and physical therapist John Schneider recently spent a day at a local high school athletic track, testing out the metrics of different prosthetics attachments while McElvenny ran at a set speed.

Sensors attached to each of McElvenny's feet measured power, stride length, and vertical oscillation. The team used the measurements to make tiny adjustments to the prosthetics to assess which yielded the best results. "We're looking for a percent, for little, small things," says Chambers, who flew to Paris to cheer him on.

McElvenny attended the United States Naval Academy. He has always been athletic, energetic, and resilient, traits evident from the moment he starts speaking. An inspirational speaker, McElvenny has traveled all over the country to speak at companies, schools, colleges, conferences, and sports teams, most recently to Texas. "I teach principles of resilience," he says.

On a routine patrol, McElvenny stepped on an improvised explosive device, resulting in the loss of his leg. He was transported to the Naval Medical Center in San Diego for treatment. While in bed, he made a promise to himself: he was going to run in an Ironman Triathlon. "I wanted to do something big to prove to myself that I was the same person."

McElvenny ran his first Ironman race in Kona, Hawaii, and has since competed in seven others. He says he also wants to one day compete in a Norseman race in Norway, a notoriously difficult track with over 5,000 inclining meters.

Although Paris was his second Paralympics, it was the first for his family because the COVID-19 outbreak limited spectators in Tokyo. He finished sixth in Tokyo but set a goal to return this year.

The Paris triathlon is run in six categories with each based on the athlete's physical characteristics. In McElvenny's category, amputee below the knee, he competed against 11 other athletes.

"Our goal is to provide every Veteran with the tools they need to reach their goals," says Chambers. "If that goal is to medal in the Paralympics, we are with them, 100%."

ABBREVIATIONS AND ACRONYMS

Acronym	Definition	Acronym	Definition
ABD	Office of Automated Benefit Delivery	DC	District of Columbia
ABLGB	Actuarial and Benefit Liability Governance Board	DEA	Survivors' and Dependents' Educational Assistance
ACL	Access Control List	Department	Department of Veterans Affairs
ADA	Antideficiency Act	DGI	Digital GI
AFR	Agency Financial Report	DoD	Department of Defense
AGA	Association of Government Accountants	DOJ	Department of Justice
AMA	Veterans Appeals Improvement and Modernization Act	DOL	Department of Labor
APG	Agency Priority Goal	DVP	Digital Veterans Platform
APP&R	Annual Performance Plan and Report	E.O.	Executive Order
ATO	Authority to Operate	eCMS	Electronic Contract Management System
BDN	Benefits Delivery Network	ERM	Enterprise Risk Management
Board	Board of Veterans' Appeals	ERP	Enterprise Resource Planning
CAATS	Centralized Automated Accounting Transaction System	ESCO	Energy Service Company
CAP	Corrective Action Plan	ESPC	Energy Saving Performance Contracts
CAVC	Court of Appeals for Veterans Claims	EUL	Enhanced-Use Lease
CCN	Community Care Network	FASAB	Federal Accounting Standards Advisory Board
CEAR	Certificate of Excellence in Accountability Reporting	FBWT	Fund Balance with Treasury
CEHRIS	Center for Enterprise Human Resources Information Services	FCA	Facility Condition Assessment
CFO	Chief Financial Officer	FECA	Federal Employees' Compensation Act
CFR	Code of Federal Regulations	FERS	Federal Employees Retirement System
CHAMPVA	Civilian Health and Medical Program of the Department of Veterans Affairs	FFMIA	Federal Financial Management Improvement Act
CIO	Chief Information Officer	FISMA	The Federal Information Security Modernization Act of 2014
CLA	CliftonLarsonAllen	FLRM	Fractional Logistics Regression Model
CLC	Community Living Center	FMBT	Financial Management Business Transformation
COBOL	Common Business Oriented Language	FMFIA	Federal Managers' Financial Integrity Act
COLA	Cost-of-Living Adjustment	FMS	Financial Management System
COVID-19	Coronavirus Disease 2019	FOCAS	Flight On-the-Job Training, Correspondence, Apprenticeship System
CPAC	Consolidated Patient Accounting Centers	FR	Financial Report
CPI-W	Consumer Price Index for Urban Wage Earner and Clerical Workers	FTE	Full-time Employee
Credit Reform Act	Federal Credit Reform Act of 1990	FY	Fiscal Year
CSC	Credit Subsidy Calculator	GAAP	Generally Accepted Accounting Principles
CSO	Commissioner's Standard Ordinary	GAO	Government Accountability Office
CSRS	Civil Service Retirement System	GEC	Geriatrics and Extended Care
CUOR	Communications, Utilities, and Other Rents		

APPENDIX
ABBREVIATIONS AND ACRONYMS

Acronym	Definition	Acronym	Definition
GPRAMA	Government Performance and Results Act Modernization Act	OMB	Office of Management and Budget
GRC	Governance, Risk and Compliance	OPEB	Postemployment Benefits Other Than Pensions
GSA	General Services Administration	OPIA	Office of Public and Intergovernmental Affairs
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System	OPM	Office of Personnel Management
HR	Human Resources	ORB	Other Retirement Benefits
HRA/OSP	Office of Human Resources and Administration/Operations, Security and Preparedness	P.L.	Public Law
ICA	Internal Control Assessment	P3	Public-Private Partnerships
iFAMS	Integrated Financial and Acquisition Management System	PACT Act	Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics Act of 2022
IFCAP	Integrated Funds Distribution, Control Point Activity, Accounting and Procurement System	PAWS	Puppies Assisting Wounded Service Members
IGT	Intra-governmental Transactions	PCAFC	Program of Comprehensive Assistance for Family Caregivers
IPPS	Invoice Payment Processing System	PC3	Patient-Centered Community Care
IT	Information Technology	PGIB	Post-9/11 GI Bill
IUS	Internal Use Software	PIA	Privacy Impact Assessments
JV	Journal Voucher	PIIA	Payment Integrity Information Act
LGY	Loan Guaranty	PLTSS	Purchased Long Term Services and Support
LLG	Liability for Loan Guarantee	POA&M	Plan of Action and Milestones
MCCA	Medical Care Contracts and Agreements	PP&E	Property, Plant, and Equipment
MCCF	Medical Care Collections Fund	PYR	Prior Year Recovery
MD&A	Management's Discussion and Analysis	REO	Real Estate Owned
MGIB-AD	Montgomery GI Bill Active Duty	Reserve Fund	Housing Trust Reserve Fund
MinX	Management Information Exchange	RSI	Required Supplementary Information
NCA	National Cemetery Administration	ROTC	Reserve Officers' Training Corps
NSLI	National Service Life Insurance	SBR	Statement of Budgetary Resources
OA	Occupancy Agreements	SCA	Security Control Assessments
OALC	Office of Acquisition, Logistics and Construction	SCIP	Strategic Capital Investment Planning
OAWP	Office of Accountability and Whistleblower Protection	SCNP	Statement of Changes in Net Position
OBO	Office of Business Oversight	S-DVI	Service-Disabled Veterans Insurance
OCLA	Office of Congressional and Legislative Affairs	SFFAS	Statement of Federal Financial Accounting Standards
OEI	Office of Enterprise Integration	SGLI	Servicemembers' Group Life Insurance
OFM	Office of Financial Management	SNC	Statement of Net Cost
OGC	Office of General Counsel	SOA	Society of Actuaries
OIG	Office of Inspector General	SSA	Social Security Administration
OIT	Office of Information and Technology	TAP	Transition Assistance Program
OKR	Objectives and Key Results	TEF	Cost of War Toxic Exposures Fund
OM	Office of Management	TFM	Treasury Financial Manual
		TPA	Third-party Administrators
		Treasury	U.S. Department of Treasury

Acronym	Definition
TSGLI	Traumatic Servicemembers' Group Life Insurance
U.S.	United States
U.S.C.	United States Code
UDO	Undelivered Orders
UESC	Utility Energy Service Contracts
USGLI	United States Government Life Insurance
USSGL	U.S. Standard General Ledger
VA	Department of Veterans Affairs
VACC	VA Community Care
VALife	Veterans Affairs Life Insurance
VAMC	VA Medical Center
VASP	Veterans Affairs Servicing Purchase
VBA	Veterans Benefits Administration
VBM	Valuation Basic Male
VBMS	Veterans Benefits Management System

Acronym	Definition
VCS	Veterans Canteen Service
VDM	Variable Default Model
VEAC	Veterans Experience Action Center
VEO	Veterans Experience Office
VETSNET	The Veterans Services Network
VGLI	Veterans' Group Life Insurance
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network
VistA	Veterans Information System and Technology Architecture
VLM	Veterans Legacy Memorial
VMLI	Veterans' Mortgage Life Insurance
VR&E	Veteran Readiness and Employment
VRI	Veterans Reopened Insurance
VSLI	Veterans Special Life Insurance
WIP	Work-in-Process

VA'S COMPENSATION BENEFITS LIABILITY

Understanding a Complex Balance

VA's largest accounting balance is the disability compensation benefits liability at \$7.2 trillion. This unfunded liability represents VA's projected future costs to fund compensation payments over the next 100 years. Although the liability is unfunded, VA's obligation for compensation payments is probable because of existing laws and a well-established practice of caring for America's Veterans. It is also measurable through actuarial methods and sufficient historical data on Veterans. VA funds the current year costs of compensation through its annual appropriations.

The compensation benefits liability is an actuarial estimate calculated as the present value of projected benefit payments to the following beneficiary types:

Current Benefit Recipients



Veterans and survivors currently receiving benefit payments.

Future Benefit Recipients



Current Veterans – those who are expected to begin receiving benefit payments in the future (and their survivors).



Future Veterans – an estimate of active-duty Service members who have gained eligibility as of the valuation date* and will become future beneficiaries (and their survivors).

*The valuation date represents VA's fiscal year-end, which is September 30.

Technical Terms to Know

Liability* A probable future outflow or other sacrifice of resources as a result of past transactions or events. A liability must meet two conditions:

- Probable – more likely than not to occur; and
- Measurable – reasonably estimable.

Actuarial Relating to the practice of applying probability and statistics to develop estimates for matters that involve uncertainty. Actuarial estimates generally satisfy the liability condition related to measurability.

* Per FASAB SFFAS No. 5, *Accounting for Liabilities of the Federal Government*



DID YOU KNOW?

VA issued American Civil War era benefits payments as recently as 2020 when the last beneficiary passed away, 155 years after the end of the war. The beneficiary was the daughter of a soldier who fought first for the Confederacy and later for the Union during his service in the Civil War.

To fully understand the magnitude of the compensation liability balance, it is also important to understand the potential length of time for which VA makes compensation benefit payments attributed to each conflict. Derived from [VA's Annual Benefits Report](#), the following table presents the total number of Veterans and beneficiaries by conflict who received compensation benefits as of September 30, 2023. The FY 2024 Annual Benefits Report is expected to be available in February 2025.

Since compensation benefits begin for a Veteran and continue through their survivors, the benefit projection period is 100 years to capture all significant liabilities for each benefit recipient. In FY 2023, about 6.2 million Veterans and Veteran's survivors received Disability Compensation payments. Through actuarial methods, future beneficiaries are projected based on existing demographic data maintained by VA and other Federal entities such as the Department of Defense.

Compensation Benefit Recipients as of September 30, 2023

Conflict	Veterans	Surviving spouse, children or parents
Wars of the 1800s*	-	2
World War I 1917 - 1918	-	67
World War II 1941 - 1946	11,448	22,817
Korean Conflict 1950 - 1955	59,092	25,769
Vietnam Era 1961 - 1975	1,385,131	348,523
Gulf War Era 1990 - Present	3,374,670	52,599
Peacetime (Other)	831,932	47,398
Total	5,662,273	497,175

*Wars of the 1800s include the Spanish-American War and the Mexican Border Period.

COMPUTATION INPUTS

When computing the liability, VA actuaries make assumptions about the future. These assumptions and other inputs work together to provide a reasonable estimate of the future compensation payable. There are three primary classifications of actuarial assumptions: economic, demographic, and regulatory, described as follows.



ECONOMIC ASSUMPTIONS include rate adjustments that are impacted by economic conditions. Rates are updated annually and derived from national averages.

- **Discount Rate** – The discount rate converts future years' benefit payments (nominal) to a current year basis as of the financial statement date. The discount rate has an inverse relationship to the actuarial liability. For example, the higher the discount rate, the lower the actuarial liability, all other things being equal.
- **COLA Rate** – The COLA is derived from the amount of money required to maintain a standard of living (for example, housing, food, clothing, utilities, taxes, and health care). COLA is generally derived from changes in the previous year's consumer price index, which measures the overall price change in goods and services over time. COLA is factored into the actuarial liability so that payments for Disability Compensation keep pace with inflation.



DEMOGRAPHIC ASSUMPTIONS include population data and experience rates related to beneficiaries currently receiving or expected to receive compensation. The data is updated annually or as needed based on experience. Examples include:

- **Total Beneficiary Counts** – The number of Veterans and dependents receiving payments, including projected future enrollees.
- **Disability Ratings** – Ratings assigned based on the expected severity of a Veteran's service-connected disability. The higher the disability rating, the higher the compensation payment.
- **Mortality Rates** – Projections are generally based on life expectancies of beneficiaries collecting compensation payments.
- **Benefit Termination Rate** – The rate at which benefits are terminated for reasons other than mortality.



REGULATORY ASSUMPTION examples include administrative, judicial, or legislative changes that result in changes to compensation benefit eligibility and amount. Internal VA policies, court rulings and new laws all play a role in the compensation benefits liability estimate.

For example, these changes may result in an expansion of the total number of presumptive conditions. A service-connected presumptive condition is a disability that VA presumes was caused by military service. If a presumptive condition is diagnosed in a Veteran, they can be awarded Disability Compensation benefits.

Regulatory Impact

In 2019, the Blue Water Vietnam Veterans Act granted Disability Compensation for presumptive diseases that resulted from exposure to Agent Orange to the nearly 90,000 Veterans who served offshore during the Vietnam War. As a result of the legislation, VA recognized an approximate \$43.3 billion increase to the compensation liability in FY 2020.

VA ONLINE

[Burial and Memorial Benefits for Veterans](#)

[Center for Faith-based and Neighborhood Partnerships](#)

[Clinical Training Opportunities and Education Affiliates](#)

[Dependency and Indemnity Compensation](#)

[Dependent and Survivor Benefits](#)

[Disability Compensation for Veterans](#)

[eBenefits](#)

[Education Benefits for Veterans](#)

[Educational and Vocational Counseling](#)

[Employment](#)

[Energy Management Program Service](#)

[Freedom of Information Act](#)

[Health Care in VA](#)

[Health Promotion and Disease Prevention](#)

[Home Loans](#)

[Homelessness Info](#)

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[Infertility](#)

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[VA's AFR Submission and Strategic Plans](#)

[VA's Budget Submission](#)

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[VA's Social Media Sites](#)

[Veteran Readiness and Employment](#)

[Virtual Mental Health Care](#)

[Vow to Hire Heroes](#)

[Whole Health](#)

[Women Veterans](#)

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Veterans Benefits Administration

National Cemetery Administration

Office of Management

Office of Finance

Office of Business Oversight

Office of Asset Enterprise Management

Office of Financial Management Business Transformation Service

Office of Congressional and Legislative Affairs

Office of Enterprise Integration

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

Office of Information and Technology

Office of Public and Intergovernmental Affairs

Office of Acquisition, Logistics and Construction

Board of Veterans' Appeals

Office of General Counsel

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



Veterans Day traditional wreath-laying at the Tomb of the Unknown Soldier at Arlington National Cemetery on November 11, 2023.

VA



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