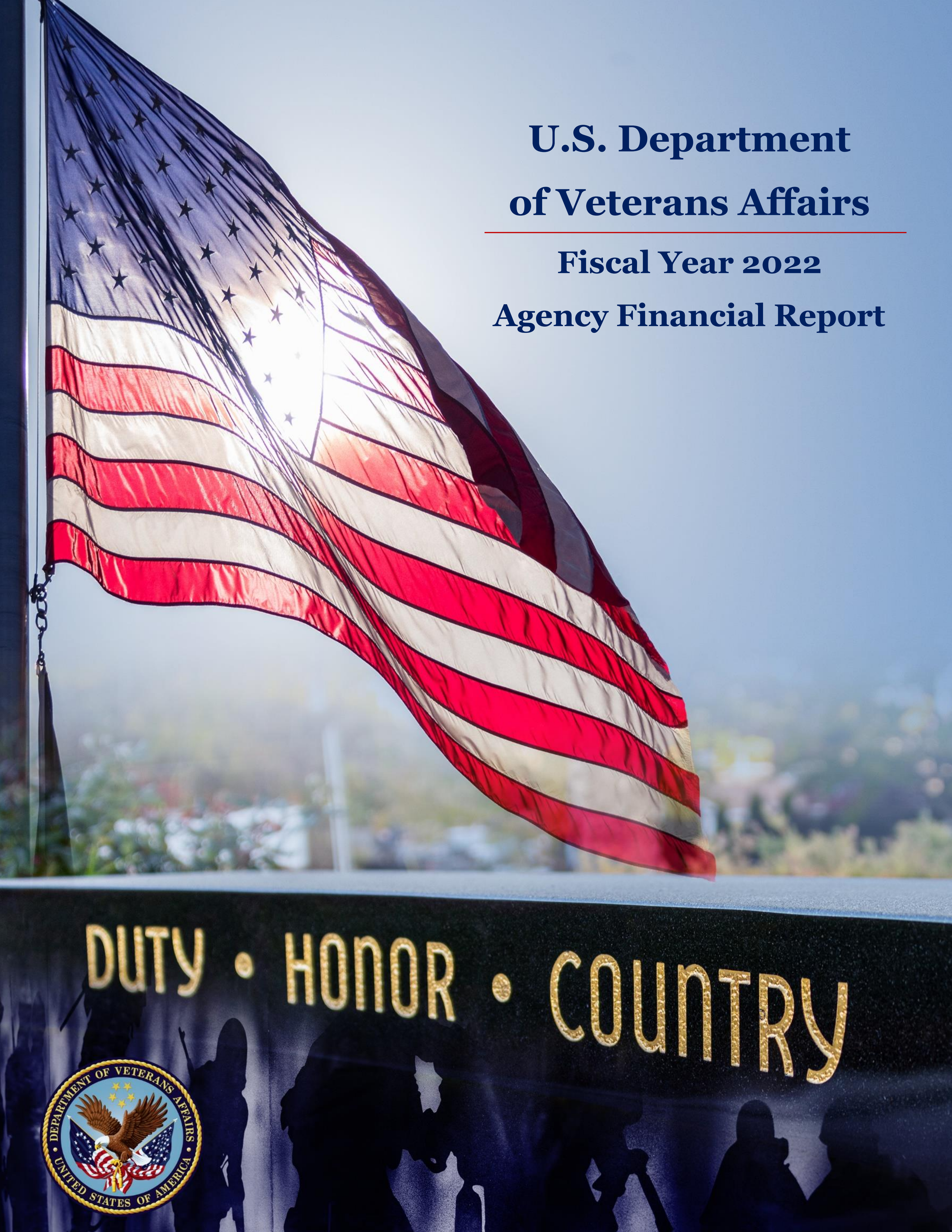
U.S. Department of Veterans Affairs

Fiscal Year 2022 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 will also serve as the cover of the official program for the Veterans Day commemoration at Arlington National Cemetery on November 11, 2022.

Briana Cummings, a Visual Information Specialist who has worked at the Erie VA Medical Center (VAMC) in Erie, Pennsylvania, since January 2020, submitted the winning design for this year's Veterans Day Poster Contest. She was inspired to create her submission after learning that this year's theme was honor.

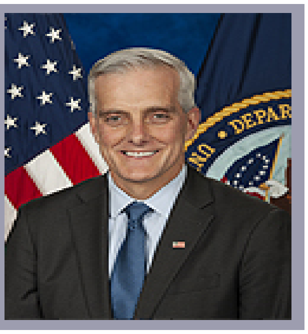
"I immediately thought of the benches at the memorial. The poster is a compilation of three different photographs of the Erie Veterans Memorial Park," she said. "The one on the bottom comes from the Vietnam memorial wall. The middle, the duty… honor…country, is engraved on the granite benches [near the wall]. I feel the hierarchy of the images symbolically flow well, the flag in the sun on the top, the bench in the middle and the silhouettes of the Service members supporting them from below."

From a young age, Cummings knew she wanted to create art for a living. While not a Veteran herself, she has strong connections to the Veteran community.

"My father is a Veteran who served in peacetime and receives medical care here at Erie VA. My mother's father, my grandfather, served in World War II; I have a cousin who is a Marine and an uncle who served in Vietnam, and then once I became an employee [of VA Erie VAMC], I've met so many more Veterans who I've grown very close to."

Cummings said she entered the contest because "it is bone chilling that there are people willing to put their lives on the line for myself and everyone else who lives in this country. It's amazing. Grateful does not begin to cover it. Some don't realize how fortunate we are to have our freedoms. We have citizens who are willing to die for them. To me, there isn't anything more worthy of my efforts than to give back and support those willing to make that sacrifice."

TABLE OF CONTENTS



MESSAGE FROM VA'S SECRETARY

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

November 15, 2022

I am proud to present the United States Department of Veterans Affairs' (VA) Fiscal Year (FY) 2022 Agency Financial Report. This report provides financial and performance information demonstrating our commitment to fiscal transparency and responsibility as we honor President Lincoln's promise to care for those "who shall have borne the battle" and for their families and survivors.

Veterans who were exposed to toxic fumes while fighting for our country deserve and have earned world class care and benefits. The bipartisan Honoring our Promise to Address Comprehensive Toxics (PACT) Act acknowledges these sacrifices by expanding health care and benefits for Veterans exposed to burn pits and other toxic substances. The PACT Act will empower VA to provide care and benefits to those suffering from more than 20 toxic exposure-related conditions. Implementing legislation of this magnitude is not easy, but I know our teams will rise to the challenge for Veterans, their families, caregivers and survivors.

Financial accountability and stewardship mean that we use the resources entrusted to us in a responsible manner. I am pleased to report VA received its 24th consecutive unmodified audit opinion from independent public accounting firm CliftonLarsonAllen for the FY 2022 financial statement audit. While I celebrate this accomplishment, I am also mindful that we must continue to address the material weaknesses, significant deficiencies and noncompliance identified by the auditors. Information on audit findings and our remediation efforts are detailed in the Management's Statement of Assurance.

I am also pleased that the Partnership for Public Service has named VA one of the top five best places to work in the Federal Government. The annual rankings measure employee engagement and satisfaction, providing leaders with a roadmap to better manage our most important asset – our employees. During FY 2022, the Department implemented a human infrastructure plan aimed to make every VA job a good job. VA strives to be a model employer by treating its workforce with dignity and respect, while providing competitive salary and benefits and challenging and rewarding work. The morale of our workforce has a direct impact on Veteran care. Investing in our people results in improved care and outcomes for the Veterans we serve.

Sincerely,

(/s/) Denis McDonough

ABOUT THE AGENCY FINANCIAL REPORT

The VA Fiscal Year (FY) 2022 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, 2021 through September 30, 2022. The AFR consists of three primary sections, as presented below.

- *Management's Discussion and Analysis:* showcasing VA's mission, organizational structure and the dedicated work of VA employees in support of our 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:* detailing the VA's financial position as of the fiscal year ended September 30, 2022. VA's FY 2022 audited financial statements and footnote disclosures are presented in this section, along with the results of the independent auditors' report.
- *Other Information:* containing 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 2022 APP&R will be provided along with the Congressional Budget Justification in February 2023. 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:

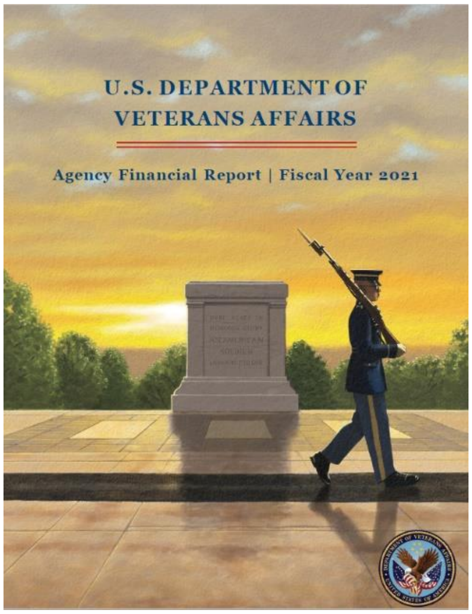
- https://www.facebook.com/VeteransAffairs
- https://twitter.com/DeptVetAffairs/
- http://www.blogs.va.gov/VAntage/
- https://www.flickr.com/photos/VeteransAffairs/
- https://www.youtube.com/user/DeptVetAffairs
- https://www.instagram.com/deptvetaffairs/

Help us improve!

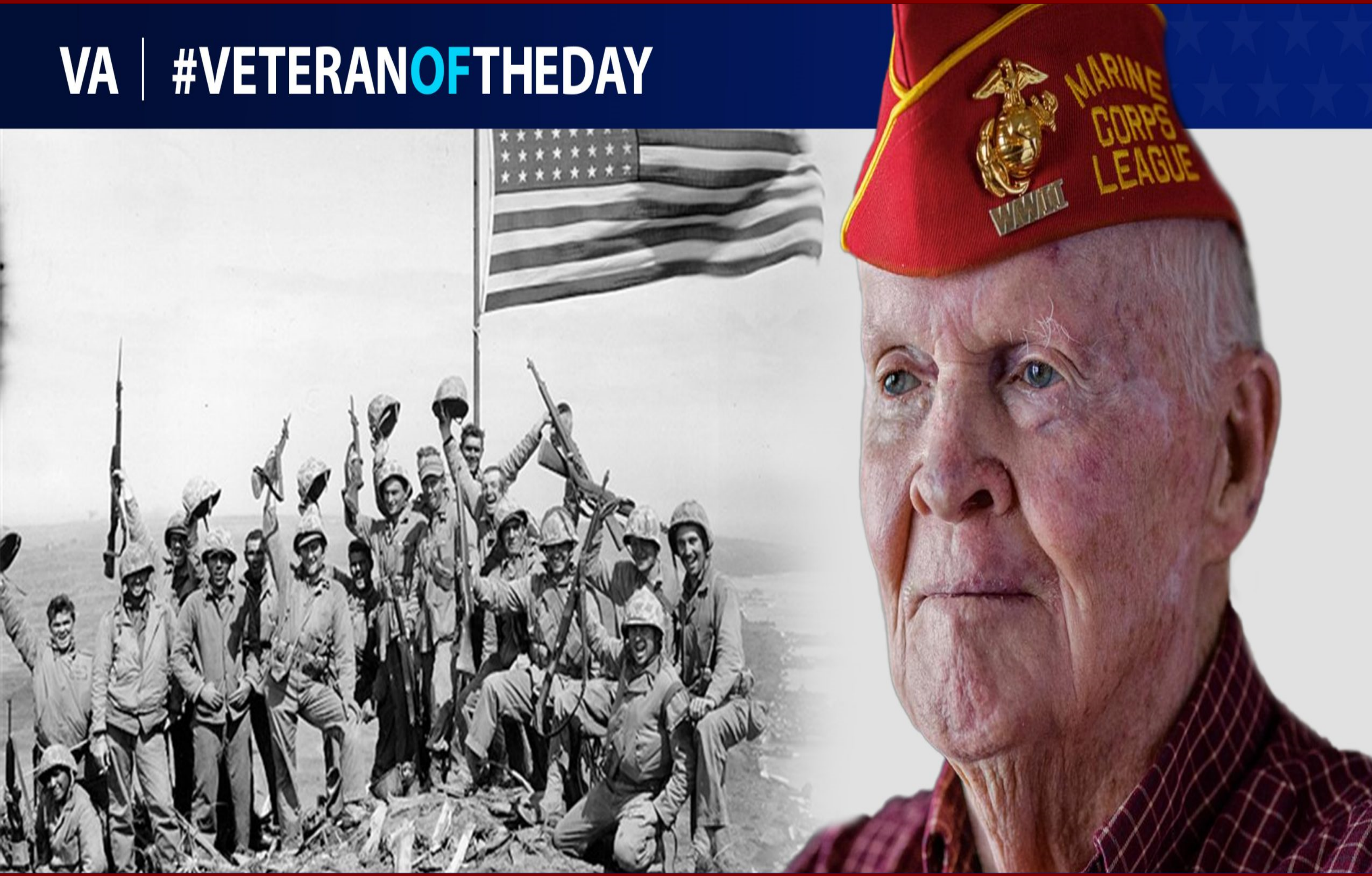
After reading the AFR, please consider providing comments and suggestions by completing the AFR survey located at https://www.va.gov/finance/afr.

Your feedback is valuable in enhancing the next AFR!

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING



VA is proud to announce that its FY 2021 AFR was awarded the Association of Government Accountants' (AGA) Certificate of Excellence in Accountability Reporting (CEAR) at a ceremony held on June 2, 2022. The CEAR is the highest form of recognition in Federal Government management reporting, and FY 2021 is the third consecutive year in which VA received this distinguished award. VA also won a Best-in-Class award for visual presentation of information including graphic display. 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.



MANAGEMENT’S DISCUSSION AND ANALYSIS

Marine Corps Veteran John Thurman

Pictured in the previous page: A collage of John Thurman on the right today and a group photo of Thurman with the 5th Marine Corps Division, 27th Regiment with American flag raised.

When John “Jack” Thurman first learned about his great-uncle’s military service in the Marine Corps, he knew that he, too, would serve. Thurman enlisted in the Marine Corps in September 1943. After completing basic training at Fort Snelling, Minnesota, Thurman was sent to Camp Pendleton, California. He joined Carlson’s Raiders, a group of specialized Marine commandos who had trained under Lt. Col. Evans Carlson for combat in the Pacific. In February 1945, he deployed to Iwo Jima with the 5th Marine Corps Division, 27th Regiment. They landed at Red Beach 1 on the southeast coast of the island on February 19. His regiment fought southward, hoping to take the strategic position atop Mount Suribachi. Four days later, the 27th and 28th Regiments reached the summit of the mountain and, after securing the area, the Marines raised an American flag on a long piece of pipe.

Thurman, who was working as a sniper to protect the men as they raised it, remembered the moment well: “To see that flag go up, I tell you, that was an inspiration,” he said in a 2012 article for the Longmont Times-Call. “It got up there and the flag unfurled there in the breeze, the ocean breeze. It was the most beautiful thing I’d ever seen. It gave us the inspiration that we were gonna take that island one way or another.” Later, Thurman appeared in a group photo of the men with the flag taken by photographer Joe Rosenthal. He was originally hesitant. “I said, ‘Well I’m 27th Regiment.’ And [his comrade] said, ‘That makes no difference. You’re still one of us.’ Well, that sounded pretty good to me,” Thurman said, “So I went up.” In the photo, Thurman is standing on the far left raising his helmet, behind Corporal Ira Hayes.

After Iwo Jima was secured, Thurman returned to the United States (U.S.) to recuperate. He later was part of the occupation force on Japan’s mainland and served as a military police officer when the war ended. He honorably discharged as a sergeant in May 1946. For his service, he received numerous medals, including a Purple Heart and a Bronze Star.

In his later years, Thurman did not discuss his wartime experiences. When his daughter Karen joined the Navy Nurse Corps and learned about survivor’s guilt in her nurse practitioner classes, she encouraged her father to try talking about the war. Since then, he has been active as a public speaker and frequently attends Veterans events and commemoration ceremonies. In 2012, he returned to Iwo Jima with a group of students from Ohio State University as part of a trip sponsored by the Greatest Generations Foundation, a nonprofit that pays for Veterans to return to their former battlefields. Thurman has also attended numerous Honor Flights and is part of the Iwo Jima Association of America. In 2019, Larimer County, Colorado, declared July 27 John “Jack” Thurman Day in his honor.

“I just had a strong feeling, ‘I’m here, and I’m going to do the job,’” he said in a 2020 interview with the Loveland Reporter-Herald. “I’m sure most of the guys felt that way. We’re here, and we’re going to take this island. It took us a month to do it, and it was supposed to take us three days. But we did it.”

MISSION

President Lincoln's immortal words, delivered in his second inaugural address more than 155 years ago, best describe VA's mission: "*To care for him who shall have borne the battle and for his widow, and his orphan."* 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.

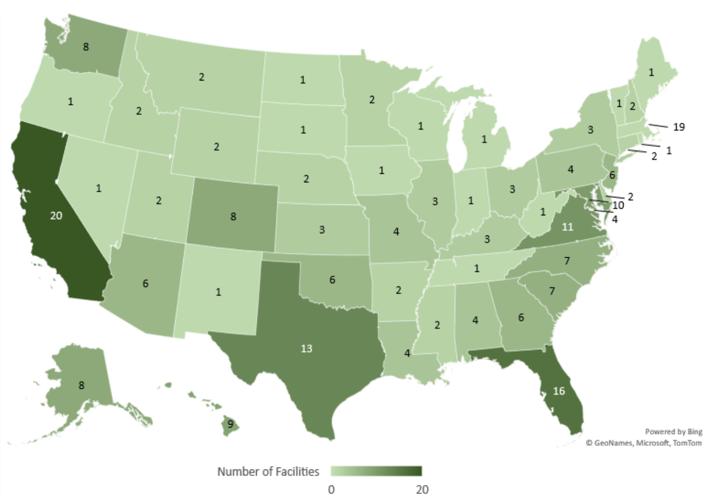
VA carries out four specific missions to make good on that commitment: Veterans benefits, health care, national cemeteries and our fourth mission**.** VA's fourth mission, supported by all the Administrations, is to improve the Nation's preparedness for response to war, terrorism, national emergencies 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

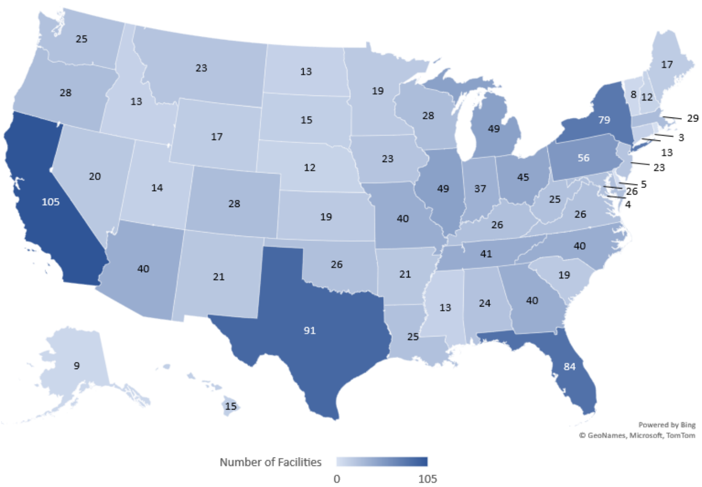
VA is comprised of three Administrations responsible for delivering services to Veterans, Veterans Benefits Administration (VBA), Veterans Health Administration (VHA) and the National Cemetery Administration (NCA) and Staff Offices that support the Department.

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



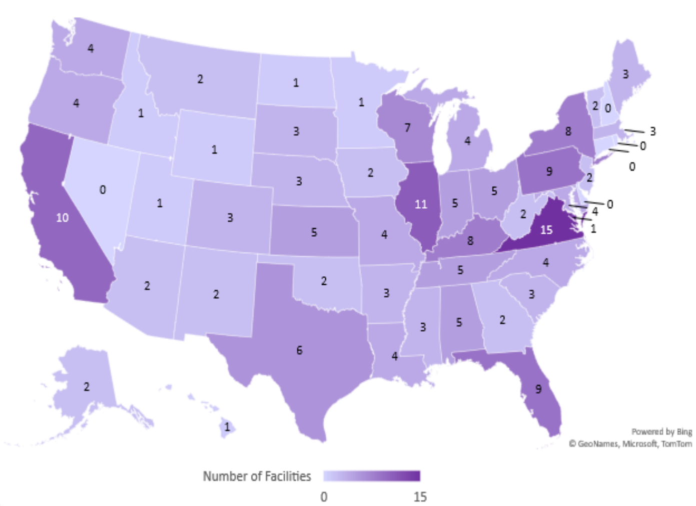
The U.S. heat map above shows the number of VHA facilities in each U.S. state. Additional VHA facilities can be found in Puerto Rico, Virgin Islands, American Samoa Islands, the Philippines and Mariana Islands.

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 medical 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 and outpatient sites.

Social Media Links:

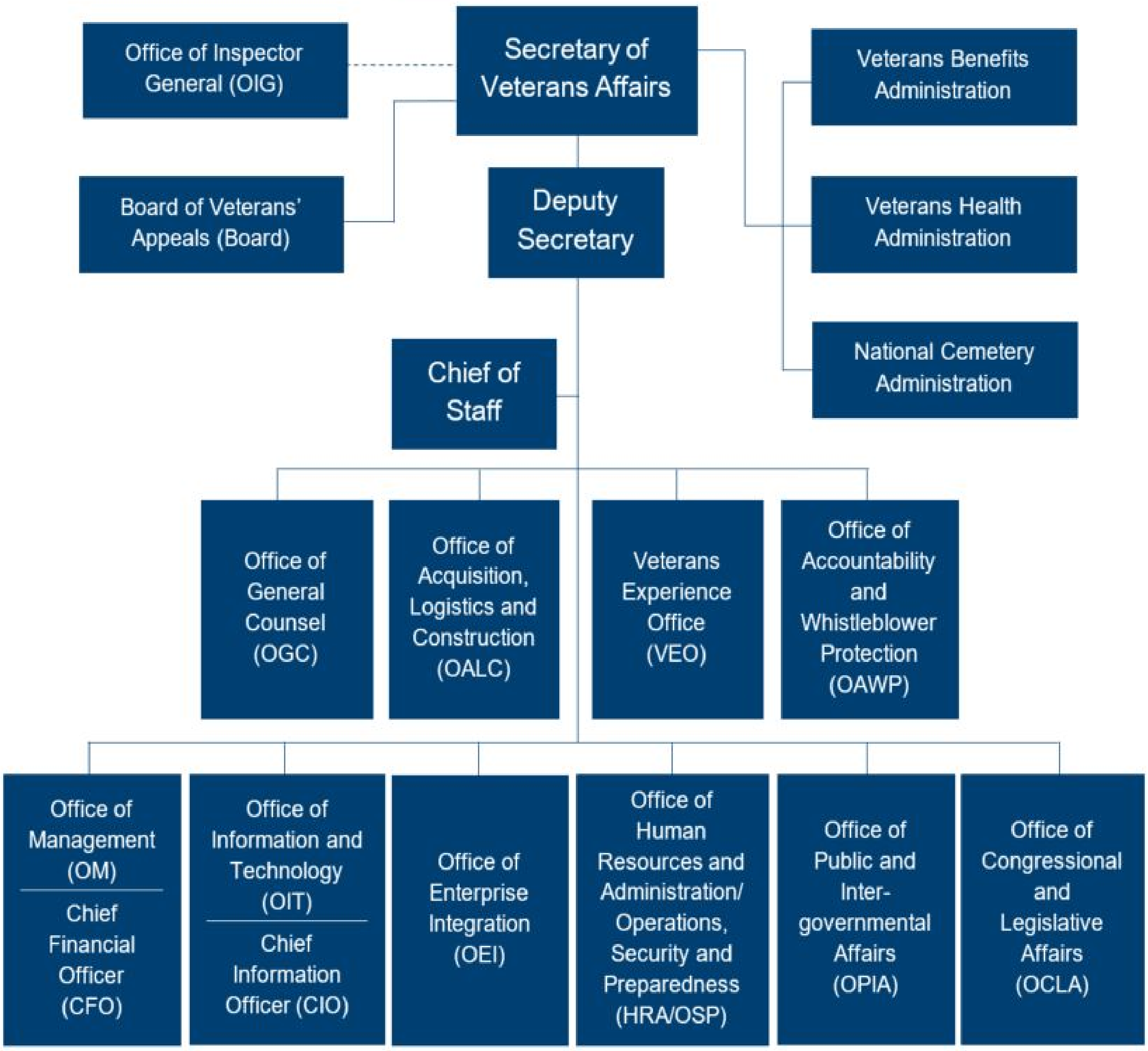
NCA provides burial and memorial benefits to Veterans and their eligible family members. These benefits include burial at national cemeteries, cemetery grants for state and tribal cemeteries, headstones and markers, Presidential Memorial Certificates, outer burial receptacles and medallions. VA runs 155 national cemeteries and 34 soldiers' lots and monument sites in the United States and Puerto Rico.

Social Media Links:



The U.S. heat map above 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.

DEPARTMENT OF VETERANS AFFAIRS ORGANIZATIONAL STRUCTURE



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 four years, approximately one year after a new Presidential term begins to accurately reflect the priorities of the new administration. On March 30, 2022, VA published a new Strategic Plan covering FY 2022 – FY 2028.

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 for the fiscal years under both Strategic Plans, as follows:

- **FY 2021:** VA presents final performance results in the three following sections: the Agency Priority Goal (APG) summaries, Strategic Goal results summaries and performance highlights. These results align with the FY 2018 – FY 2024 Strategic Plan, published under Secretary Wilkie.
- **FY 2022:** VA presents preliminary Quarter 3 or Quarter 4 performance results with latest available data in the two following sections: the APG summaries and performance highlights. VA will publish final results in the FY 2022 APP&R in February 2023. These results align with the FY 2022 – FY 2028 Strategic Plan, published under Secretary McDonough.

On the following page, VA presents the strategic goals and objectives from the FY 2018 – FY 2024 and FY 2022 – FY 2028 Strategic Plans. 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?

VA's five "**I CARE**" core values underscore the obligations inherent to VA's mission and define who we are, our culture and how we care for Veterans and beneficiaries. The first letter of each core value described below creates a powerful acronym that reminds VA employees of the importance of their role at VA.

Integrity: Act with high moral principle. Adhere to the highest professional standards. Maintain the trust and confidence of all with whom I engage.

Commitment: Work diligently to serve Veterans and beneficiaries. Be driven by an earnest belief in VA's mission. Fulfill my individual and organizational responsibilities.

Advocacy: Be truly Veteran-centric by identifying, fully considering and appropriately advancing the interests of Veterans and beneficiaries.

Respect: Treat all those I serve with dignity and respect.

Excellence: Strive for the highest quality and continuous improvement. Be thoughtful and decisive in leadership and accountable for my actions.

Felisha Cooper, an advanced medical support assistant, exhibited I CARE values when she directed a search party for a Veteran having a medical emergency. To read the full story, visit VA News.

VA STRATEGIC GOALS & OBJECTIVES

MISSION STATEMENT: To fulfill President Lincoln's promise,
"To care for him who shall have borne the battle and for his widow, and his orphan".

FY 2018 - FY 2024 STRATEGIC PLAN	FY 2022 - FY 2028 STRATEGIC PLAN
Goal 1: Veterans choose VA for easy access, greater choices, and clear information to make informed decisions. **Objective 1.1:** VA understands Veterans' needs throughout their lives to enhance their choices and improve customer experiences. **Objective 1.2:** VA ensures Veterans are informed of, understand, and can get the benefits, care, and services they earned, in a timely manner.	**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: Veterans receive highly reliable and integrated care and support and excellent customer service that emphasizes their well-being and independence throughout their life journey. **Objective 2.1:** VA has collaborative, high-performing, and integrated delivery networks that enhance Veteran well-being and independence. **Objective 2.2:** VA ensures at-risk and underserved Veterans receive what they need to end Veteran suicide, homelessness, and poverty.	**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: Veterans trust VA to be consistently accountable and transparent. **Objective 3.1:** VA is always transparent to enhance Veterans' choices, to maintain trust, and to be openly accountable for its actions. **Objective 3.2:** VA holds personnel and external service providers accountable for delivering excellent customer service and experiences while eliminating fraud, waste and abuse.	**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:** (Agility) VA's infrastructure improvements, improved decision-making protocols, and streamlined services enable VA to adapt to changing business environments and Veteran needs. **Objective 4.2:** (Human Capital Management Modernization & Transformation) VA will modernize its human capital management capabilities to empower and enable a diverse, fully staffed, and highly skilled workforce that consistently delivers world class services to Veterans and their families. **Objective 4.3:** (VA IT/Cybersecurity) VA IT modernization will deliver effective solutions that enable VA to provide improved customer service and a secure, seamless experience within available resources in a cost-effective manner. **Objective 4.4:** (Data Driven Decision Making) VA will institutionalize data supported and performance focused decision making that improves the quality of outcomes.	**Goal 4:** VA ensures governance, systems, data and manaement best practices improve experiences, satisfaction, accountability and security. **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 two years and review performance on a quarterly basis to evaluate progress and update implementation strategies. VA's APGs are reported below and mapped by icons to the strategic goals and objectives that support them:

- FY 2021 – as detailed in the FY 2021 APP&R; and
- FY 2022 – as detailed in the FY 2022 – FY 2028 Strategic Plan.

FY 2021 APGS

DECISION REVIEW AND APPEALS

VA will provide claimants who disagree with VA's decisions on benefits claims and services with timely appeals decisions reviewed under the streamlined process authorized by the Veterans Appeals Improvement and Modernization Act of 2017 (AMA). In FY 2021, VBA completed Higher-Level Reviews in an average of 87 days, 30% below the targeted 125 days. The Board continued resolution of legacy appeals while simultaneously working AMA appeals, increased the number of Veterans' Law Judges (VLJs) and continued virtual operations that resulted in significant measurable results for Veterans and their families. The Board conducted a record of 23,777 Veteran-requested hearings and dispatched 99,721 decisions to Veterans in FY 2021.

SUICIDE PREVENTION

Through clinical and community strategies, VHA will proactively identify and provide interventions for at-risk Veterans, for those using VHA care and those using other care systems, to prevent suicide and overdose death. VA will increase the implementation of Safety Planning in Emergency Departments, increase the use of predictive modeling to reach high-risk Veterans and develop statewide plans to end Veteran suicide with our partners. VA's latest data shows a 5.3% decrease in the Veteran suicide mortality rate from 2019 to 2020, which equates to 343 fewer deaths.

CONNECTED CARE/TELEHEALTH

VA will improve Veterans' access to quality health care using digital care delivery methods. VA will focus efforts on ambulatory care providers delivering video telehealth, expand the use of VA's text messaging app, expand the use of secure messaging and increase triage support from clinical contact centers. In FY 2021, more than 2.3 million unique Veterans participated in over 11 million telehealth visits, representing a 43% increase in telehealth utilization by Veterans since FY 2020.

VETERAN EXPERIENCE WITH VA.GOV

VA will measure and improve Veteran experience with VA.gov using the drivers identified for measuring customer experience within the Federal Government. In FY 2021, the user satisfaction score remained steady at 64%, 6% higher than the score at the time of the VA.gov relaunch in FY 2019.

FY 2022 APGS

CAREGIVER SUPPORT PROGRAM

VA is currently undertaking a broad programmatic review of the Program of Comprehensive Assistance for Family Caregivers (PCAFC) to ensure it achieves intended outcomes. While this review is underway, VA's Caregiver Support Program will continue to enhance and expand services to caregivers, including increasing access for those not currently served by PCAFC, expanding access to the Program of General Caregiver Support Services and improving the service experience of both Veterans and their caregivers. During FY 2022, key milestones were met on time with hiring and caregiver surveys.

SUICIDE PREVENTION

VA is meaningfully contributing to government and community-based efforts to target an overall 10% reduction in Veteran suicide rate from 2019 to 2024, with decreases in the long term of 3% annually by 2028, through enhancement of programs and training focused on community interventions. To help achieve this, VA will concentrate on non-VA providers who often lack training on specific suicide reduction tools for Veterans. During FY 2022, VA developed a strategic communications outreach campaign and training for community care network providers and distributed over 266,000-gun locks.

EXPANDING CONNECTED CARE

VA will leverage telehealth and digital technologies to enhance the accessibility, capacity, quality, choice and experience of VA health care for Veterans, families and caregivers anywhere in the United States, including its territories and possessions. By September 30, 2023, VA will develop new telehealth surveys to assess Veterans' experience, increase the use of TeleUrgent Care and TeleSpecialty Care services and increase the use of patient generated health data. Preliminary data as of Quarter 3 of FY 2022 shows a 16.7% increase in cumulative TeleSpecialty and TeleUrgent Care encounters compared to FY 2021.

DIVERSITY, EQUITY, INCLUSION, ACCESSIBILITY

VA will measure, report and improve the trust of underserved Veterans, such as women, Veterans of color and lesbian, gay, bisexual, transgender, queer and other identities (LGBTQ+) Veterans. By September 30, 2023, Veterans' experience scores related to underserved populations will increase by 3% over a FY 2022 baseline, with an aspirational goal of 90%.

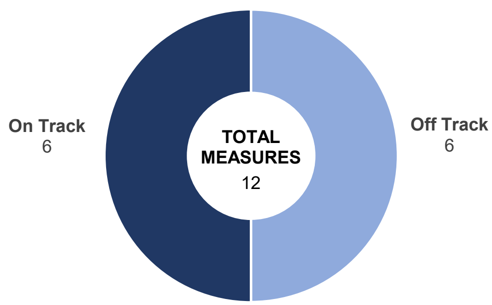
RURAL HEALTH WORKFORCE

VA will improve rural health care workforce staffing levels which impacts care to rural Veterans including American Indian and Alaska Native Veterans. By September 30, 2023, VA will ensure 90% of rural dwelling Veterans are satisfied with their access to health care when and where they need it. Preliminary data as of Quarter 3 of FY 2022 indicates that VA is on track to achieve a 5% increase in rural area medical providers.

STRATEGIC GOAL RESULTS SUMMARY

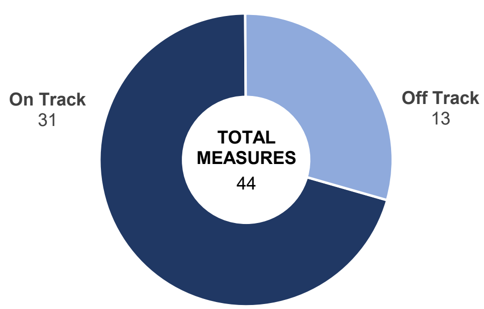
The results presented in this section are derived from performance data in the FY 2021 APP&R and are aligned with the strategic goals in the FY 2018 – FY 2024 Strategic Plan. For each measure in the APP&R, VA sets a target that helps drive continuous improvement. On track measures are those where the target has been met or exceeded. Off track measures represent areas for improvement.

STRATEGIC GOAL 1: *Veterans choose VA for easy access, greater choices and clear information to make informed decisions.*



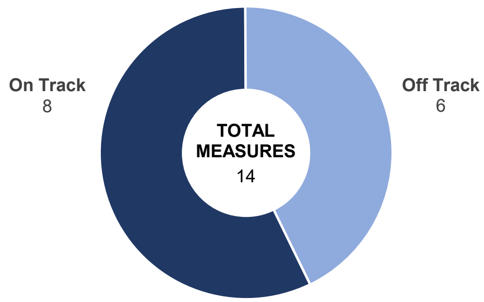
The percentage of on-track measures for Goal 1 remained steady at 50% compared to FY 2020. In FY 2021, VA began tracking the percentage of pension rating claims processed within 125 days with a target of 80%. VA collaborated with its Pension Management Centers throughout the year to optimize workload management and ensure this measure remained on track resulting in 88.5% of all cases being processed within the 125-day target. This improvement supports VA's goal of delivering timely benefits to Veterans and their survivors.

STRATEGIC GOAL 2: *Veterans receive highly reliable and integrated care and support and excellent customer service that emphasizes their well-being and independence throughout their life journey.*



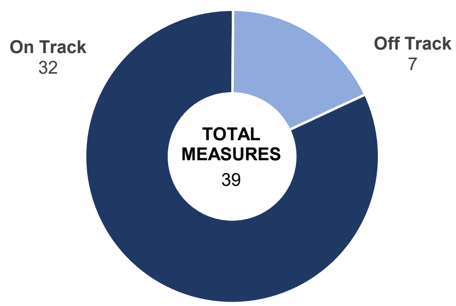
The percentage of on-track measures for Goal 2 increased by 9% compared to FY 2020. VA's performance in community care metrics helped drive this increase. In FY 2021, VA processed 97% of community care claims timely, well above the 90% target. The community care claims backlog was eliminated and provider claims are now processed and paid well within expectations. These improvements help VA restore community provider trust. Additionally, VA exceeded its target score at 80% for overall satisfaction with community care, an increase of over 2% compared to prior year.

STRATEGIC GOAL 3: *Veterans trust VA to be consistently accountable and transparent.*



The percentage of on-track measures for Goal 3 decreased slightly over prior year partially due to a decrease in the national high-level review accuracy rate for disability compensation ratings. In FY 2021, VBA fell less than one percent short of the 96% target, achieving 95.3% accuracy. For FY 2022, VBA adjusted the accuracy target from 96% to 94% after significant analysis. To meet FY 2022 targets, VBA provided Decision Review Operations Centers additional training to conduct local quality reviews to promote national quality reviews.

STRATEGIC 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 employees.*



The percentage of on-track measures for Goal 4 increased by 10% compared to FY 2020. The improvement was primarily driven by several new metrics related to VA's infrastructure and streamlined services aimed to improve preparedness and resiliency. One such measure is the number of Veteran-specific site page visits to Disaster Assistance, a website hosted by the Department of Homeland Security. The Veteran-specific site page serves as an assistance tool for Veterans affected by disasters and an education platform to inform Veterans of benefits they may be eligible to receive before, during and after a disaster. Additionally, in FY 2021, VA exceeded its target for the percent of major leasing projects accepted in the quarter estimated for completion, a previously off-track measure. This measure ensures that VA is driving infrastructure projects timely and managing appropriated funds effectively.

DID YOU KNOW?

VA has "facility dogs" who work alongside care teams in some VA medical centers. Facility dogs differ from service dogs in that they aren't assigned to one person. They have a handler who helps them work with Recreation Therapists and other employees interacting with Veterans. Val and Raisin (pictured) are facility dogs at the Oklahoma City VA Health Care System.

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.

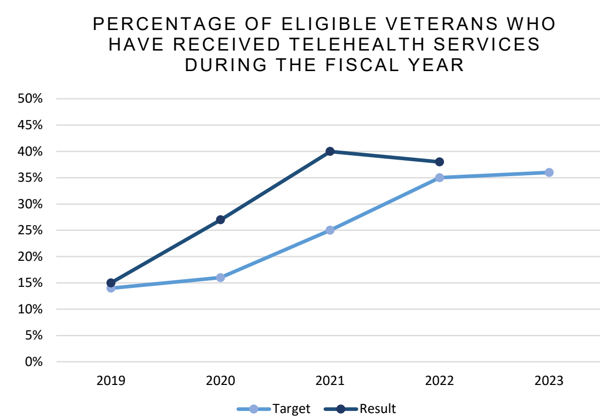
VETERANS HEALTH ADMINISTRATION

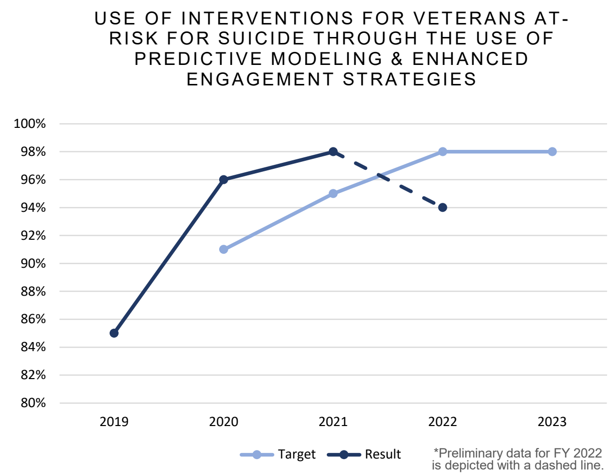
PERFORMANCE HIGHLIGHT

Total VHA budgetary resources were $145.3 billion and $145.6 billion and total gross costs were $117.8 billion and $108.0 billion for the fiscal years ended September 30, 2022 and 2021, 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 under the FY 2022 – FY 2028 Strategic Plan.

Two areas of focus for VHA under the Medical Services fund in alignment with the Department's APGs are 1) the expansion of telehealth services and 2) suicide prevention through mental health services. For FY 2022, VHA received $598 million in budgetary resources, an increase of $287 million over FY 2021, to enhance suicide prevention outreach activities. VHA received $2.6 billion, an increase of $1.3 billion, for the Telehealth/Connected Care Services Program. In FY 2022 and FY 2021, costs related to telehealth and mental health services amounted to $5.6 billion and $5.2 billion, respectively, which aided in the accomplishments below.

VA tracks the percentage of eligible Veterans who have received telehealth services during the fiscal year. Due in part to the Department's ability to leverage telehealth during the Coronavirus Disease 2019 (COVID-19) pandemic, VA exceeded its FY 2020 target. To promote continuous progress, VA increased the target for FY 2021 to 25%, which the Department exceeded by 15%. For FY 2022 and FY 2023, the target was increased to 35% and 36%, respectively, to continue building on the success of the programs. In FY 2022, VA again achieved its target with a result over 38%.





VA tracks interventions for Veterans at-risk for suicide using predictive modeling and enhanced engagement strategies, such as the Recovery Engagement and Coordination for Health – Veterans Enhanced Treatment (REACHVET) and the Stratification Tool for Opioid Risk Mitigation (STORM). In FY 2021, VA exceeded the target of 95% with a year-end result of 98%. These predictive analytics and targeted prevention programs have helped to focus attention to Veterans at elevated risk to ensure that they stay engaged in care and receive interventions designed to minimize risk of adverse outcomes. VA and the Department of Defense (DoD) collaborated to develop VA and DoD versions of REACHVET 2.0 and STORM predictive models, using matched risk predictors calibrated to their respective patient populations. Preliminary data as of Quarter 3 of FY 2022 shows the use of interventions through REACHVET and STORM was 94%. VA is on track to achieve its target by year-end.

DID YOU KNOW?
The REACH VET Program is the Nation's first clinical use of a validated algorithm to help identify suicide risk.

PERFORMANCE IN ACTION


Marine Corps and Army Veterans were featured in the PSA.

September is Suicide Prevention Month. This year, VA used the observation to raise awareness of Veteran suicide prevention and to highlight resources designed specifically for Veterans, family members and friends. In a new Public Service Announcement (PSA), the Ad Council, VA and Veteran filmmakers partnered to encourage women Veterans to reach out for help when needed and remind them how to find the right VA resources.

Directed by Army Veteran Rebecca Murga, the PSA features an Army and a Marine Corps Veteran. Their conversation is one that women would realistically have in a gym, but the fact that they are both real Veterans adds a great deal of authenticity to the conversation that many women Veterans have.

"We tailor our care for women Veterans, so it was natural to create a film dedicated to them," said Dr. Matthew Miller, Air Force Veteran and VA's National Director of Suicide Prevention. "And authenticity is at a premium. We wanted to be true to women, and we believe a Veteran film team was key to delivering this."

The PSA directs audiences to REACH, a website that makes it easier for Veterans to find guidance and support services from across the full breadth of VA's offerings. To watch the PSA, visit the Ad Council's YouTube page here: Women Veterans | Veteran's Crisis Prevention – YouTube.

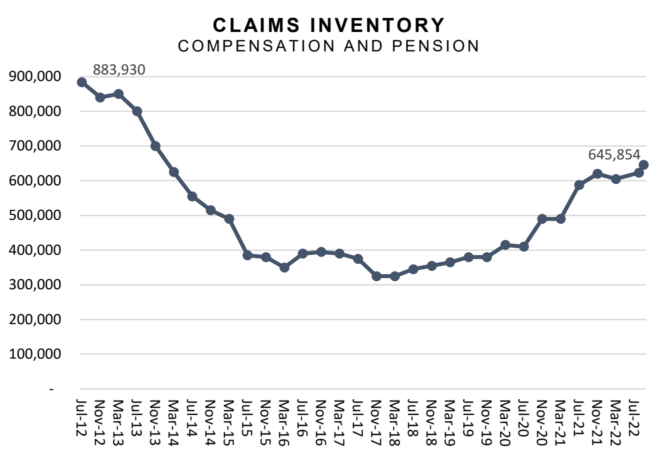
VETERANS BENEFITS ADMINISTRATION

PERFORMANCE HIGHLIGHT

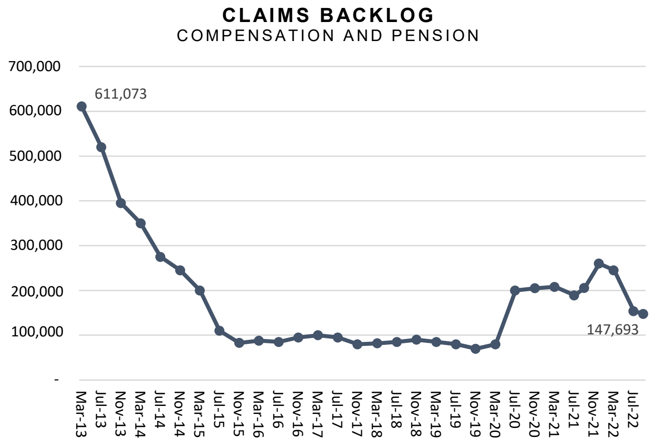
Total VBA budgetary resources were $197.5 billion and $168.1 billion and total gross costs were $143.3 billion and $132.0 billion for the fiscal years ended September 30, 2022 and 2021, respectively, for activities related to providing various benefits to Veterans and their families. Activities performed by VBA help VA to achieve objectives for Strategic Goals 1, 2 and 3.

One of VBA's primary functions is to process education, pension, compensation, survivor and community care claims and appeals with a focus on timeliness and quality. During FY 2021, Congress appropriated $272 million under the American Rescue Plan (ARP) Act to reduce the claims backlog to approximately 100,000 by mid-FY 2024. In addition to the ARP funds, Congress authorized an additional $150 million to accelerate record-scanning. For FY 2023, VA requested $37 million, in part to hire 319 additional full-time employees (FTE) to support disability compensation claims processing. In FY 2022 and FY 2021, costs related to these Veterans benefit claim activities were $2.3 billion and $3.1 billion, respectively.

The following charts show fluctuations in the claims inventory since FY 2012 and the claims backlog since FY 2013. The claims inventory includes disability compensation and pension claims received by VA that normally require a rating decision. Commonly known as the rating bundle, this 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, it's 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 signficantly from Quarter 2 of FY 2013 through Quarter 1 of FY 2015 and remained steady until Quarter 3 of FY 2020, when the COVID-19 pandemic halted medical examinations and caused inflated processing times. VA has prioritized resolving the enlarged inventory as the Department returns to more stable operating conditions.



The backlog also increased as a result of benefits changes for Veterans enacted by law. The Blue Water Navy Act of 2019 expanded the definition of qualifying service for Agent Orange exposure, allowing more Veterans to potentially receive compensation benefits for Agent Orange-related disabilities. Additionally, the William M. Thornberry National Defense Authorization Act for FY 2021, Public Law (P.L.) 116-283, added three conditions to the list of those presumptively associated with exposure to Agent Orange. In FY 2022, the backlog decreased by over 57,000 claims primarily due to hiring and training 2,000 new claims processors during the year and allowing overtime for claims processing.

In December 2021, VA began a pilot program under the newly-created Office of Automated Benefit Delivery. The program aims to accelerate claims processing through automation and data sharing using rules-based computer algorithms. For certain types of claims, the automation program reduces the process from 100 days under the traditional review to a range of 5 to 45 days, dependent on whether additional evidence gathering (for example, medical exams) is required. Looking forward, the program is considering conditions related to toxic exposure in anticipation of new claims related to the PACT Act.

> ***"Automation is the way that we'll break through this backlog and get Vets their earned benefits as quickly as possible"***
>
> ***Secretary Denis McDonough***

PERFORMANCE IN ACTION


William Nyman, a recipient of the Purple Heart, was a Korean War Veteran.

On December 1, 1950, North Korean troops attacked William Nyman's encampment near the Chosin Reservoir. As he heard the enemy's advance, Nyman threw off his sleeping bag. He grabbed his gun, rushing outside to protect his fellow Marines. North Korean troops had Nyman pinned down for several hours, but he refused to surrender. He was finally carried to an aid station after being knocked unconscious by a grenade. Nyman didn't share his story for decades.

When Anthony Irby, Nyman's VBA representative, accessed his records earlier this year, he was stunned to learn of Nyman's heroism in Korea. He was in disbelief that Nyman had never been formally honored for his actions. Irby had been assisting Nyman to receive his earned benefits through VA's homeless programs, but knew he had to do more. He nominated Nyman for a Purple Heart to ensure the Veteran would receive the recognition he deserved.

Nyman was honored with the Purple Heart before his death on June 24, 2022.

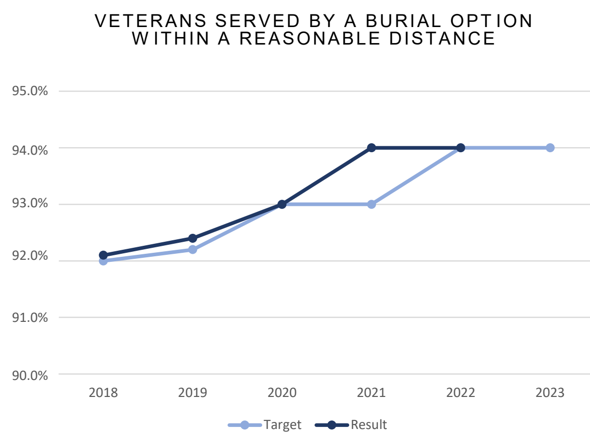
NATIONAL CEMETERY ADMINISTRATION

PERFORMANCE HIGHLIGHT

Total NCA budgetary resources were $479 million and $437 million and total gross costs were $508 million and $474 million for the fiscal years ended September 30, 2022 and 2021, respectively, for activities related to Veteran burial and interment services, construction projects and operations at VA's 155 national cemeteries and 34 soldiers' lots and monument sites. 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 percentage of Veterans served by a burial option within a reasonable distance. This metric helps NCA identify areas of the country that are not appropriately served and plan potential construction projects or expansions for the future. In FY 2021, VA received $94 million in major construction budgetary resources and $80 million in minor construction budgetary resources for cemetery expansion and improvement projects, advance planning and design funds and land acquisition. In FY 2022, VA received $131 million in major construction budgetary resources and $107 million in minor construction budgetary resources for the same purposes, an increase of $37 million primarily to fund two gravesite expansion projects at Indiantown Gap and Fort Logan National Cemeteries.

NCA has continuously improved performance in this metric year over year. In FY 2022, NCA met its target with 94% of all Veterans having access to a burial option within a reasonable distance. The combined results of establishing planned new national cemeteries and working with our state partners in establishing new grant-funded Veterans' cemeteries through the NCA Veterans Cemetery Grants Program has resulted in a significant increase in the percent of Veterans served with burial access. During FY 2022, NCA opened the Crown Hill (Urban Initiative) National Cemetery in Indianapolis, Indiana and two VA-grant funded state Veterans' cemeteries in Oklahoma and Alaska.



PERFORMANCE IN ACTION


The Chosin Few Monument.

Many were just teenagers when they arrived in Korea. Prior to landing, they could not find it on a map. They soon found themselves freezing and surrounded at the Chosin Reservoir. Fought during the worst blizzard of the century, the Battle of Chosin is a symbol of the Marine Corps' dogged determination, fighting skill and never-say-die attitude.

The Dallas-Fort Worth National Cemetery in Texas now has a monument dedicated to the survivors of the horrific battle – the "Chosin Few." The dedication included a fly-over and posting of the colors by Marine Air Group 41. The Chosin Few Monument honors those who fought to death and those who somehow survived to tell the story.

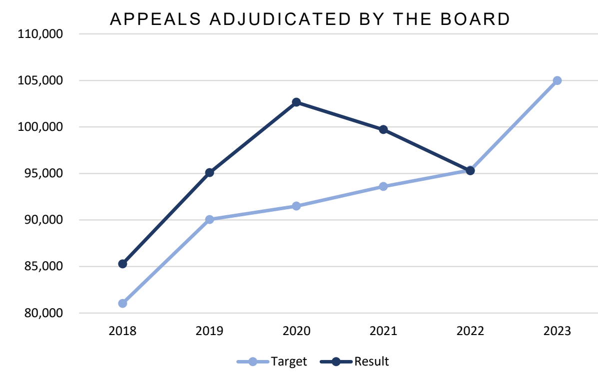
INDIRECT ADMINISTRATION

PERFORMANCE HIGHLIGHT

Total Indirect Administrative budgetary resources were $6.3 billion and $4.7 billion and total gross costs were $3.0 billion and $2.6 billion for the fiscal years ended September 30, 2022 and 2021, respectively, for activities to support Department operations not directly attributable to VHA, VBA or NCA, including the Supply Fund, Franchise Fund, human resources, 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 2021, VA received $207 million to support the Board's mission-critical goals of conducting hearings and adjudicating appeals for Veterans properly in a timely manner. In FY 2022, VA received $233 million, an increase of $26 million primarily to position the Board to hire additional VLJs, attorneys and administrative staff. At the conclusion of FY 2022 and FY 2021, costs related to the Board's activities were $220 million and $202 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. The Board has exceeded 95,000 appeals adjudicated during each of the past four years. In FY 2022, the Board held a record 30,089 hearings while also issuing 95,294 decisions to Veterans and their families. This historic level of hearings will contribute to a higher target for decisions adjudicated during FY 2023.



The Board is also prioritizing the resolution of legacy appeals, those submitted prior to the AMA implementation. Since 2017, the Board has contributed to reducing legacy appeals in the Department from a high of 472,066 to 92,361 as of September 30, 2022. In FY 2022, 71,765 legacy appeals were decided by the Board, reducing its number of pending legacy appeals to 62,711, of which 7,150 have a request pending for a hearing with a Veterans Law Judge.

PERFORMANCE IN ACTION

Mike McNamara, co-host of The SITREP.

Mike McNamara, an Army Veteran and VA New England's Chief of Outreach, and Paul Corbett, a Marine Corp Veteran and VA New England marketing specialist, co-produce and host an online program called *The SITREP*. The program is intended to serve as a "situation report," a term Veterans likely recall from when they served in the military as a status report on current activity. "This is information for Veterans to improve their knowledge about anything Veteran-related and about our VA," said Corbett. In one episode released this year, McNamara explained a Veteran's three options for filing an appeal and the steps he took to win his own appeal. View the episode here: [VA | The SITREP - YouTube](#).

ANALYSIS OF THE FINANCIAL STATEMENTS

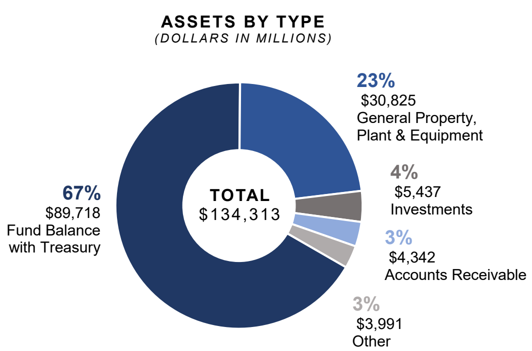
BALANCE SHEET

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

Balance Sheet Key Components

(dollars in millions)	2022	2021	$ Change	% Change
Assets				
Fund Balance with Treasury	$ 89,718	$ 90,687	$ (969)	-1%
General Property, Plant, & Equipment	30,825	29,449	1,376	5%
Accounts Receivable	4,342	4,050	292	7%
Investments	5,437	5,376	61	1%
Other	3,991	3,655	336	9%
Total Assets	$ 134,313	$ 133,217	$ 1,096	1%
Liabilities				
Federal Employee and Veterans' Benefits (FEVB)	$ 6,149,077	$ 4,469,540	$ 1,679,537	38%
Non-FEVB Liabilities				
Accounts Payable	5,196	14,105	(8,909)	-63%
Loan Guarantee Liability, Net	9,932	10,870	(938)	-9%
Other	7,491	6,601	890	13%
Total Non-FEVB Liabilities	22,619	31,576	(8,957)	-28%
Total Liabilities	6,171,696	4,501,116	1,670,580	37%
Total Net Position	(6,037,383)	(4,367,899)	(1,669,484)	-38%
Total Liabilities and Net Position	$ 134,313	$ 133,217	$ 1,096	1%

ASSETS



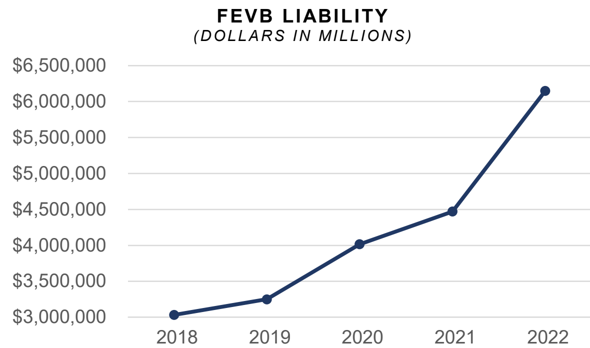
Assets represent items owned by the Department that have probable economic benefits. The graphic at left depicts the composition of VA's total asset balance. As of September 30, 2022, the largest asset was fund balance with Treasury (FBWT) at $89.7 billion. FBWT represents VA's right to draw funds from the Treasury for allowable expenditures. The FBWT balance did not change significantly from FY 2021.

The second largest asset was property, plant and equipment (PP&E) at $30.8 billion, which is primarily composed of buildings, structures, equipment and internal use software (IUS). The PP&E balance did not change significantly from FY 2021.

The other category includes loans receivable, advances and prepayments, cash and inventory totaling $4.0 billion, an increase of $336 million or 9%. Increases in loans receivable drove the increase in this category. Loans receivable increased to the COVID-19 Veterans Assistance Partial Claim Payment Program (VAPCP) which became effective on July 27, 2021 and will be available through October 28, 2022. Under the VAPCP, VA purchases Veteran indebtedness to bring their loan current, which creates a new loan. For more information, refer to Note 7.

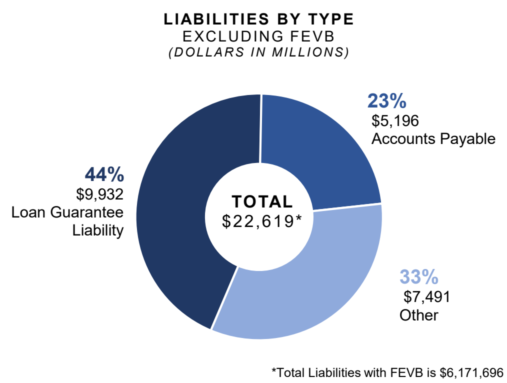
LIABILITIES

Liabilities represent probable future outflows or other sacrifices of resources as a result of past transactions or events. As of September 30, 2022, the largest liability was Federal employee and Veterans' benefits (FEVB) at $6.1 trillion or 99% of total liabilities, an increase of $1.7 trillion or 38% over prior year. Compensation benefits compose more than 99% of this liability and represent 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, expressed in today's dollars. The graphic at right presents the year-to-year increase in the FEVB liability from FY 2018 – FY 2022. Actuarial cost and the loss on actuarial assumptions drive these increases. Refer to page 24 for discussion of increases in actuarial cost and losses.



VA also provides eligible 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 Statement of Federal Financial Accounting Standards (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, 2022 and 2021, is $142.4 billion and $130.1 billion, respectively.

The composition of the remaining liability balance is illustrated in the graphic at right. The Department's second largest liability is the loan guarantee liability at $9.9 billion. The liability decreased by $938 million or 9% primarily due to the periodic re-estimate of subsidy expense. For additional information refer to Note 7 in the Financial Section.



Accounts payable was $5.2 billion, a decrease of $8.9 billion or 63%. Accounts payable decreased due to the timing of compensation and pension payments compared to prior year.

The other category includes debt, environmental and disposal liabilities and other liabilities totaling $7.5 billion. Other liabilities increased by $890 million or 13% primarily due to a change in the subsidy rate for the Veterans Housing Benefit Program. The subsidy rate decreased resulting in an increase to the liability.

CHANGES IN NET POSITION

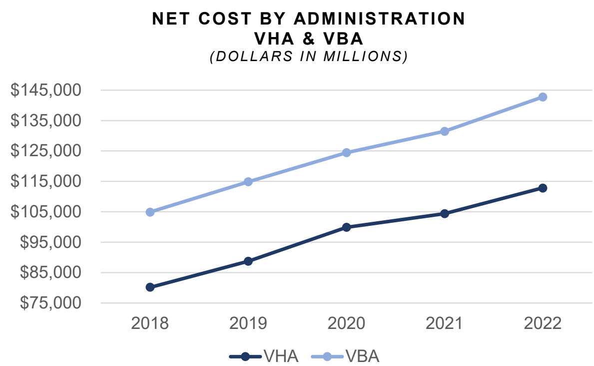
The Statement of Changes in Net Position (SCNP) combines the net cost of operations with nonexchange sources of financing to arrive at a net position. Net position decreased by 38% from a deficit of $4.4 trillion in FY 2021 to a deficit of $6.0 trillion in FY 2022. The decrease is attributable to the increase in net cost of operations, discussed in the next section.

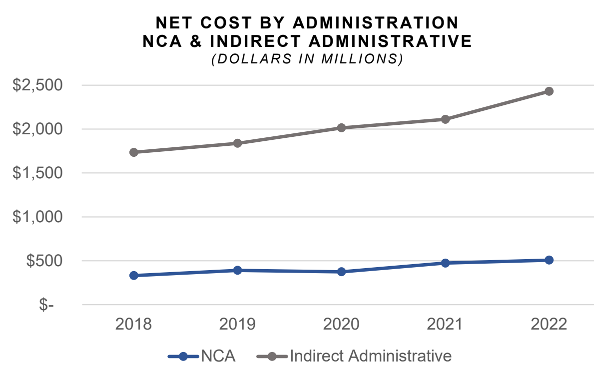
NET COST OF OPERATIONS

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 the Supply Fund, Franchise Fund, general administration and the Board of Veterans' Appeals programs. In FY 2022, total net cost of operations for the Department was $1.9 trillion, an increase of $1.2 trillion or 179%, driven by an increase of $1.2 trillion in the loss from changes in Veterans benefits actuarial assumptions, discussed in the next section.

PROGRAM NET COST

The graphics below present program net cost by Administration, excluding actuarial, from FY 2018 – FY 2022. VHA and VBA have experienced significant increases in net cost over the past five 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.





VHA's net cost was $112.8 billion, an increase of $8.4 billion or 8% primarily due to an increase in community care payments and other payments related to the implementation of the Electronic Health Record Modernization initiative and the reduction of the claims and appeals backlog that was achieved as a result of ARP Act funding.

VBA's net cost (excluding actuarial) was $142.8 billion, an increase of $11.3 billion or 9% primarily due to increases in compensation payments to Veterans and their beneficiaries.

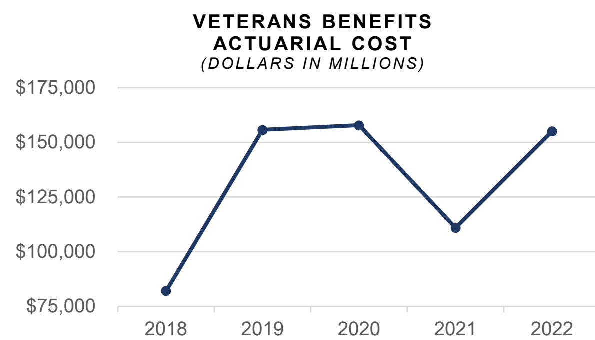
Indirect administrative net cost was $2.4 billion, an increase of $319 million or 15% primarily due to increases in Franchise Fund costs related to the new VA Center for Enterprise Human Resources Information Services (CEHRIS), which was implemented in FY 2022. CEHRIS provides a suite of services supporting core human resources business processes.

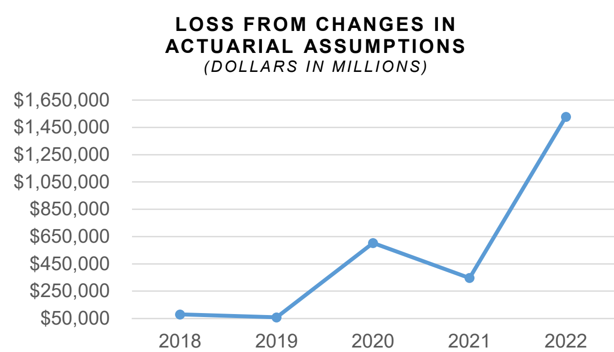
ACTUARIAL COST & (GAIN)/LOSS

VA provides 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 and *VA's Compensation Liability: Understanding a Complex Balance* on page 29). 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	• Interest on Liability Expense • Changes in Experience (e.g., Veteran counts) • Prior Service Cost • Less: Amounts Paid	**(Gain) / Loss**	• Discount Rate • Cost of Living Adjustments (COLA) • Other Assumptions

The Veterans benefits actuarial cost was $155.1 billion, an increase of $44.1 billion or 40% compared to FY 2021 due to a significantly larger increase in the number of Veterans and survivors receiving benefits between FY 2021 and FY 2022. Other factors include changes in the level of disability, changes in the average benefit amounts and the passage of time.



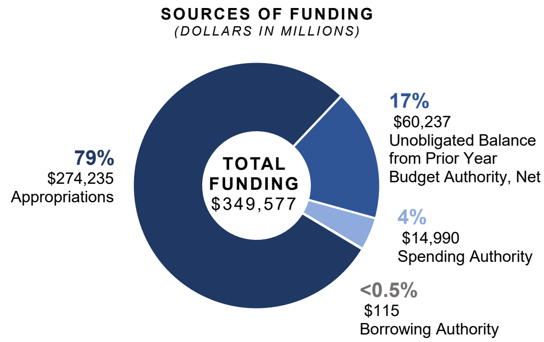


In FY 2022, loss from changes in actuarial assumptions was $1.5 trillion, an increase of $1.2 trillion or 341%, when compared to FY 2021. The increase was due to updates in actuarial assumptions of Veterans compensation plan participation and benefit level distribution rates, mortality rates and methodology for setting future long-term COLA. The increase in plan participation and benefit level distribution rates is the result of legislation and VA policy changes that expanded eligibility. The mortality rates decreased, which indicate Veterans are living longer with their disabilities. Lastly, the projected COLA rate was updated to the long-term rate of inflation used by the Social Security Administration (SSA).

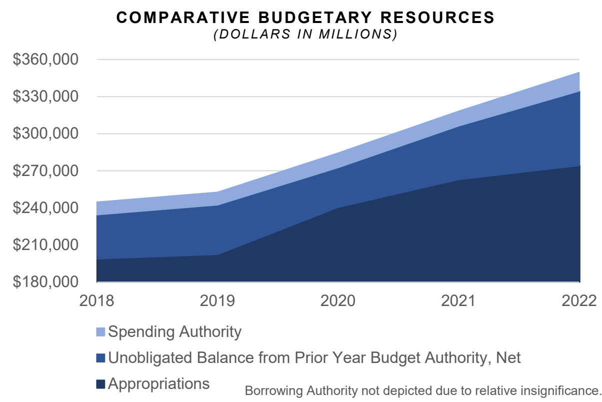
BUDGETARY RESOURCES

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 are VA's largest source of funding at $274.2 billion.



The stacked area graph to the right presents the composition of budgetary resources comparatively from FY 2018 – FY 2022 and illustrates that the increase in budgetary resources has been driven primarily by appropriations. Additionally, the rise in budgetary resources resulted in an increase in new obligations and upward adjustments totaling $24.2 billion or 9%. The continuous increases in appropriations and associated increases in new obligations and upward adjustments are primarily due to:

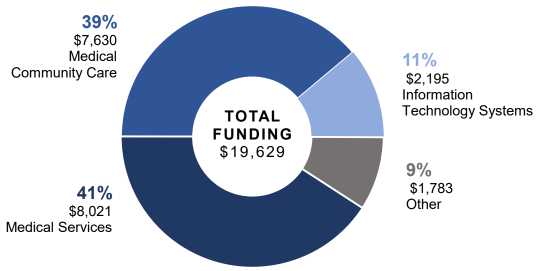


- The establishment and expansion of community care programs for health care provided to Veterans at non-VA medical facilities;
- Medical services provided at VA medical facilities resulting from an increase in the number of services provided to Veterans;
- Higher compensation costs resulting from increases in the number of Veterans and beneficiaries accessing and receiving these benefits;
- Major construction projects, including improvements and additions to existing medical facilities and construction of new facilities; and
- Emergency response to COVID-19 through the CARES, Families First Coronavirus Response (Families First) and ARP Acts.

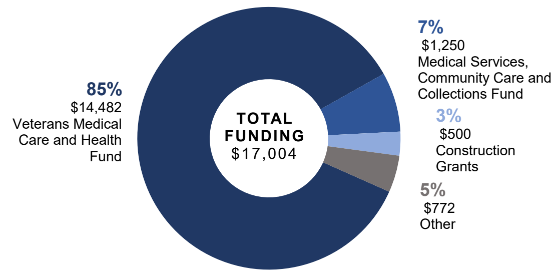
IMPACT OF COVID-19

In response to the COVID-19 pandemic, the Department received $19.6 billion in supplemental emergency funding from the CARES and the Families First Acts in FY 2020 and an additional $17.1 billion from the ARP Act in FY 2021. The Consolidated Appropriations Act, 2022 rescinded $76 million of the ARP Act funds. As depicted in the graphics below, the funding was primarily allocated to the Medical Services Program, which received $8 billion or 41% of the CARES and Families First Act funding, after reallocation, and $14.5 billion or 85% of the ARP Act funding.

COVID-19 FUNDING
CARES ACT AND FAMILIES FIRST ACT
(DOLLARS IN MILLIONS)

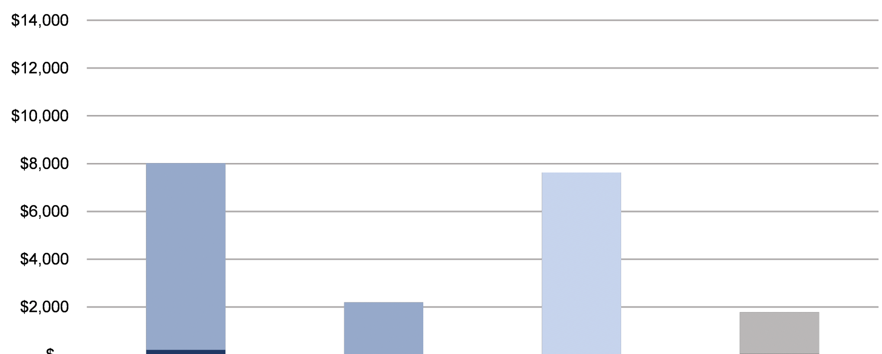


COVID-19 FUNDING
AMERICAN RESCUE PLAN ACT
(DOLLARS IN MILLIONS)



As of September 30, 2022, 99% of the total CARES and Families First Act funding had been obligated. As depicted in the graphic below, $7.8 billion or 97% had been obligated from the Medical Services Program to cover inpatient COVID-19 pandemic care, surge activities and national purchases of personal protective equipment (PPE) and other equipment. Nearly 100% of the available funding had been obligated for Information Technology Systems. Medical Community Care had been entirely obligated. $1.7 billion or 98% had been obligated for programs in the other category. $256 million remained unobligated for CARES Act and Families First Act funding.

STATUS OF COVID-19 FUNDING
CARES ACT AND FAMILIES FIRST ACT
(DOLLARS IN MILLIONS)

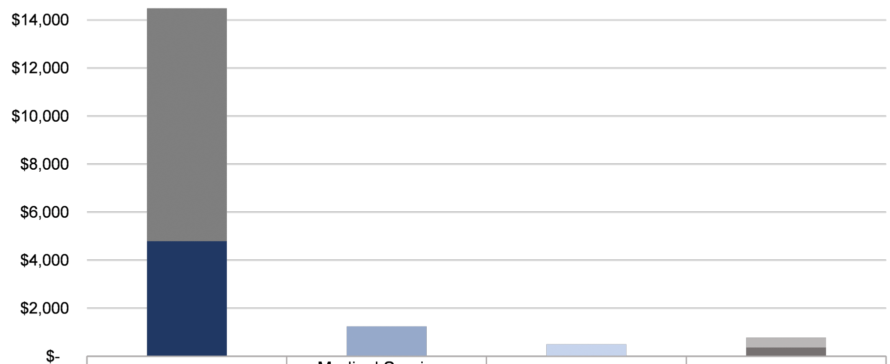


	Medical Services	Information Technology Systems	Medical Community Care	Other
Obligated	$7,816	$2,188	$7,630	$1,739
Unobligated	$205	$7	$-	$44

As of September 30, 2022, 70% of the total ARP Act funding had been obligated. The ARP Act funds have various periods of availability, ranging through FY 2023 or until expended. As depicted in the graphic below, $9.7 billion or 67% had been obligated from the Veterans Medical Care and Health Fund to cover impacts of delays in care and Veterans' greater reliance on VA health care. $1.2 billion or 98% had been obligated for the Medical Services, Community Care and Collections Fund. Grants for Construction of Extended Care Facilities were nearly entirely obligated. $5.2 billion remained unobligated for ARP Act funding. Much of the remaining funding will go towards the Veterans Medical Care and Health Funds.

Additional detail may be found in Note 25 in the Financial Section.

STATUS OF COVID-19 FUNDING
AMERICAN RESCUE PLAN ACT
(DOLLARS IN MILLIONS)



	Veterans Medical Care and Health Fund	Medical Services, Community Care and Collections Fund	Construction Grants	Other
Obligated	$9,687	$1,229	$499	$408
Unobligated	$4,795	$21	$1	$364

For additional information about VA's response to the COVID-19 pandemic and ways in which the Department is using its supplemental emergency funding to protect and care for Veterans, their families, health care providers and staff, visit https://www.publichealth.va.gov/n-coronavirus/.

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.

DID YOU KNOW?

On March 14, 2022, President Joe Biden signed the Six Triple Eight Congressional Gold Medal Act of 2021 into Public Law 117-97. The "Six Triple Eight" was the only all-black, all-female battalion to serve overseas during World War II, and they were responsible for clearing out an overwhelming backlog of mail, making sure certain American troops received letters from home to boost their morale.

The battalion reported for duty in Birmingham, England on February 12, 1945, only to discover a two-year backlog of mail stuffed to the ceilings in Quonset huts. Their commander, Maj. Charity Adams, established three 8-hour shifts, seven days-a-week designed to eliminate the backlog. U.S. Army leadership gave the "Six Triple Eight" six months to complete the mission. They did it in three months. According to Adams, the unit averaged 65,000 pieces of mail per shift. By the time their mission was complete in May 1945, the "Six Triple Eight" processed for delivery over 17 million pieces of mail… in 90 days.

The last of the women returned home by March 1946 to find their home country not much changed regarding racial relations, but they took the opportunity military service had afforded them to return to school, which opened doors to employment and professional careers.

Many of the women returned home eager to use their Servicemen's Readjustment Act of 1944, or GI Bill to advance their education. Several women found post-war employment in various Government agencies, including with the Department of Veterans Affairs: Charity Adams, from Ohio, worked as a Registration Officer from 1946-1947; Abbe Campbell became a nutritionist and spent her entire career at the Tuskegee VA Medical Center in Alabama; Anna Tarryk, from Connecticut, worked for VA in the Insurance Division from 1946-1983; Evelina Rachel Griffin, from Delaware, spent her entire career with VA, retiring as a chief inventory officer.

VA's Compensation Benefits Liability:

Understanding a Complex Balance

VA's largest accounting balance is the Veterans benefits liability at $6.1 trillion, which is primarily comprised of disability compensation benefits at $5.9 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. In FY 2022, VA's total appropriation and estimated benefits paid for compensation were $139.2 billion and $130.0 billion.

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 table below presents the total number of Veterans and beneficiaries by conflict who received compensation benefits as of September 30, 2021. The FY 2022 Annual Benefits Report is expected to be available in June 2023.

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 2021, about 5.7 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, 2021

Conflict	Veterans	Surviving spouse, children or parents
Wars of the 1800s*	-	2
World War I 1917 - 1918	-	98
World War II 1941 - 1946	22,965	30,809
Korean Conflict 1950 - 1955	78,648	28,699
Vietnam Era 1961 - 1975	1,397,362	312,891
Gulf War Era 1990 - Present	2,912,176	43,802
Peacetime (Other)	814,269	44,290
Total	**5,225,420**	**460,591**

*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, as described below.

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 (e.g., 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.

MANAGEMENT'S STATEMENT OF ASSURANCE

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

November 15, 2022

Department of Veterans Affairs (VA or the Department) management is responsible for managing risks and maintaining effective internal controls to meet Federal Managers' Financial Integrity Act of 1982 (FMFIA) § 2 and § 4 objectives. VA conducted its assessment of risks and internal controls in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, VA can provide reasonable assurance that internal controls over operations, reporting and compliance were operating effectively as of September 30, 2022, except for the following reported material weaknesses:

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

The Department noted noncompliance with:

- FMFIA § 2 and § 4;
- Payment Integrity Information Act of 2019;
- 38 U.S.C. § 5315, *Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts Due the United States*, and 31 U.S.C. § 3717, *Interest and Penalty on Claims*;
- Federal Financial Management Improvement Act (FFMIA); and
- Anti-Deficiency Act (ADA).

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 application of the USSGL at the transaction level. Therefore, management cannot provide reasonable assurance that VA is in conformance with FFMIA.

VA has internal controls in place to provide reasonable assurance of the quality of data used for Digital Accountability and Transparency Act reporting and is in the process of reviewing and strengthening the data quality assessment to increase trust and transparency in the data used.

VA is responsible for providing an annual certification that management has appropriate policies, controls and corrective actions to mitigate the risk of fraud and inappropriate use of charge cards, as required by OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*. The Department can provide reasonable assurance that controls over charge cards are in place and effective, with no material weaknesses.

Sincerely,

(/s/) Denis McDonough

SUMMARY OF MATERIAL WEAKNESSES

(1) **Controls over Significant Accounting Estimates**: VA's financial statement auditor 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 the Veterans benefits liability audit readiness, including adding controls to ensure the data used is complete and accurate and enhancing procedures and/or process narratives relevant to VBA's accounting and financial reporting of benefits. Estimated completion date: Fiscal Year (FY) 2023.

(2) **Financial Systems and Reporting**: VA's outdated legacy 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 since the prior year. 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 require stations to perform a quarterly Integrated Funds Distribution, Control Point Activity Accounting and Procurement to FMS reconciliation. Estimated completion date: FY 2028.

(3) **Information Technology Security Controls:** VA maintains a material weakness in its Agency-wide Access Management, Contingency Planning, Security Management, and Configuration Management Program, as identified by the Office of Inspector General (OIG) during its annual Federal Information Security Modernization Act audit. VA established both operational and procedural capabilities to evaluate, prioritize, plan and execute actions designed to mitigate or close the material weakness conditions noted in the OIG Notice of Findings and Recommendations. 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. Estimated completion date: FY 2028.

SUMMARY OF MATERIAL NONCOMPLIANCE

(1) **FMFIA § 2 and § 4**: VA evaluated FMS for compliance with FFMIA, in accordance with OMB Circular A-123, Appendix D. Based on the results, FMS does not substantially comply with Federal financial management system requirements and application of the USSGL at the transaction level. The Office of Management (OM) developed an internal controls assessment process to implement the requirements needed to assure full compliance with FMFIA and OMB Circular A-123, to include documentation of transactional-level testing to support the assurance statement. VA is implementing a new accounting system, iFAMS, to replace FMS to comply with FMFIA § 4. Testing of iFAMS will be executed as it is incrementally deployed. OM continues to make significant progress integrating internal control functions with Enterprise Risk Management in the Office of Enterprise Integration. Estimated completion date: FY 2028.

(2) Payment Integrity Information Act of 2019: In FY 2022, VA reported its fourth consecutive reduction of $1.62 billion in improper and unknown payments. Since FY 2018, VA has reduced improper and unknown payments by $11.24 billion, or 76%. 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 2025.

(3) 38 U.S.C. § 5315, *Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts Due the United States*, and 31 U.S.C. § 3717, *Interest and Penalty on Claims*: In 1992, the Acting Secretary of VA determined that VA would not charge interest and administrative fees on delinquent compensation and pension debts, as required by 38 U.S.C. § 5315. VA continues to handle debts in accordance with its long-established policy. The FY 2023 President's Budget included a legislative proposal to clarify Secretary of VA authority on interest and administrative costs charged on delinquent debts. The proposal is awaiting Congressional action. Estimated completion date: FY 2023.

(4) FFMIA: VA assessed FMS to determine conformance with FFMIA and FMFIA § 4. FMS substantially complies with Federal accounting standards. However, it does not comply with 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 2028.

(5) ADA: In FY 2021, OMB confirmed five ADA violations pursuant to 31 U.S.C. §1341(a) (for reporting to Congress and the President, with a copy of the report provided to the Comptroller General). The violations are related to obligations made in the Minor Construction and/or Medical Facilities accounts on projects that should have been classified as Major Construction Projects. In FY 2022, VA sent formal ADA letters to Congress, OMB, the Government Accountability Office (GAO) and the President and considers these violations closed.

In FY 2022, VA identified two potential ADA violations where VA may have (1) improperly used current-year appropriations to fund within-scope modifications for which there was antecedent liability on prior-year Major and Minor Construction contracts and (2) inappropriately charged VHA medical facilities appropriations for costs that should have been paid for by Canteen funds. The reviews to determine if an ADA violation occurred are expected to be completed in FY 2023.

SUMMARY OF INTERNAL CONTROL 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 GAO's 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 2022, VA assessed the following three distinct but overlapping objectives of internal control: operations, compliance and reporting.

In FY 2022, the Department required all Administrations and major Staff Offices to complete an internal controls assessment, identifying how the reporting entity met the control objectives of 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 2022, OBO conducted OMB Circular A-123, Appendix A, Test of Design and limited Test 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.

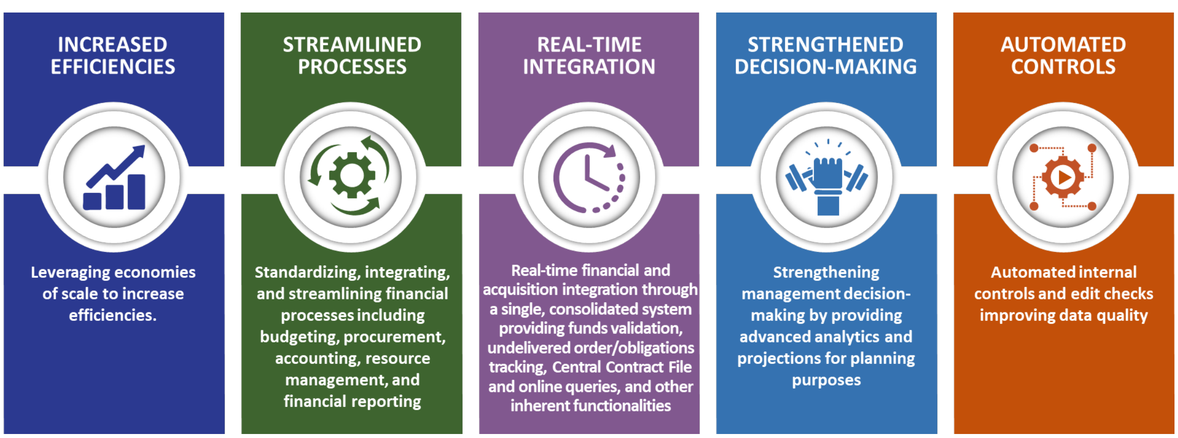
FINANCIAL SYSTEMS FRAMEWORK

VA'S FINANCIAL AND ACQUISITION MANAGEMENT SYSTEMS STRATEGY AND GOALS

VA's Financial Management Business Transformation (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:

This financial and acquisition modernization initiative will provide a range of benefits to the VA enterprise, including:



CURRENT FINANCIAL MANAGEMENT SYSTEM FRAMEWORK

VA's existing financial and acquisition management systems consist of the core 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).

The external financial statement auditors repeatedly identified a need for VA to fully integrate these applications and the detailed transactions they contain into a single, integrated core financial and acquisition management system.

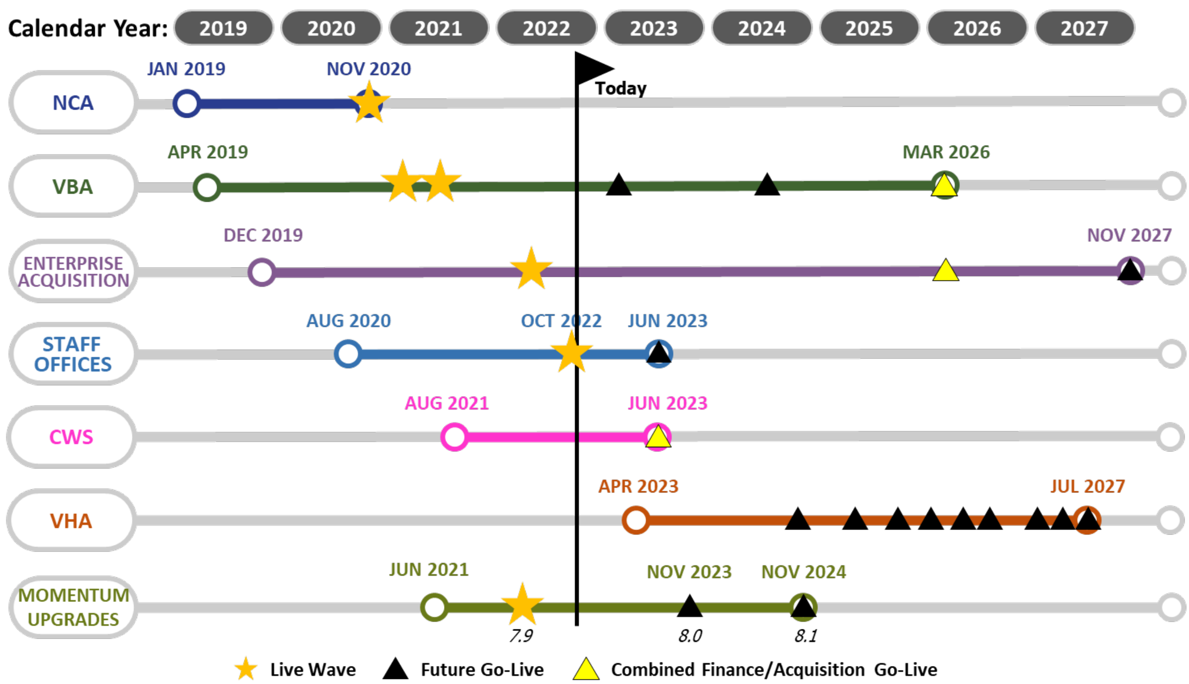
FUTURE FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

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.

iFAMS is being deployed in a phased implementation approach. Each completed system delivery, or go-live, represents the point of transition of one or more VA organizations from their legacy systems to iFAMS. Following go-live, the organization is considered live in iFAMS. As of October 2022, FMBT has delivered iFAMS to NCA, VBA General Operating Expenses (GOE) fund, and most recently, FMBT successfully went live with the Office of Management Plus (OM+) wave, which was comprised of VA's OM, the Board, revolving funds, General Administration accounts and several other Staff Offices. Looking ahead, the next two go-lives are the Consolidated Wave Stack (CWS) and the VBA Loan Guaranty. The CWS includes OALC, OIG, OIT and the Office of Construction & Facilities Management.

FMBT will continue deploying iFAMS in a phased approach across VA until enterprise-wide implementation is achieved. The FMBT high-level implementation timeline as of October 2022 is shown below.



FORWARD-LOOKING INFORMATION

RISKS

Like every organization, VA faces risks to its ability to function at its most effective and efficient levels. As VA develops its enterprise risk management processes and begins formally and systematically surveying its environment, it has developed a risk profile that identifies the most significant risks it faces. There are 22 portfolios of risks listed in the profile, but the following are the top three risks VA faces:

- Managing Risks and Improving VA Health Care – If VA does not utilize Change Management to holistically address the core issues highlighted in the GAO High-Risk List Update, GAO Priority Recommendations and PACT Act implementation for Military Environmental Exposure, then Veteran health will suffer and the Veteran experience will not be positive.
- Disability Claims and Appeals Process Barriers – If VA fails to improve processes that support claims, appeals and payments and PACT Act implementation for Military Environmental Exposures, then Veterans will be unable to fully access VA benefits and services, which could result in an increase in claims and appeals processing backlogs, delayed payments and a poor Veteran experience.
- Information Technology (IT) Modernization/Legacy – If VA fails to fund, develop and implement an IT Modernization Program that supports operational business processes, including cloud maximization and PACT Act implementation for Military Environmental Exposures, then VA will be unable to effectively deliver Veteran services and benefits in a fully integrated, seamless and customer-centric environment.

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. VA's 2021 Climate Action Plan outlines our 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. The Climate Action Plan draws on VA's ongoing efforts and establishes a pathway for expanding climate adaptation and resilience opportunities across all agency missions and roles.

Hurricane Ian, which made landfall in Florida on September 28, 2022, caused significant damage to the Lee County Health Care Center (pictured above) and the Naples and Port Charlotte VA clinics. The facilities were required to close while staff assessed impacts and worked to restore operations.

VA's primary climate vulnerabilities are those of its built infrastructure and burdens placed on its health care delivery systems, and interruptions in the supply of energy and material.

Specific vulnerabilities include:

1. **Threats to VA Facilities and Infrastructure:** Damage to buildings and built infrastructure from water, extreme temperatures, wind, hail, fire or sea level rise.
2. **Negative Public Health Impact:** Increased demand for emergency care and supplies during dangerous natural disasters.
3. **Adverse Financial Impacts:** Interruption of mission critical supply chains to include any network of systems such as transportation, communications, the supply of raw materials or other resources that might impact the agency's mission.
4. **Emergency Response and Continuity of Healthcare Operations:** Damage to or interruption of the critical resource delivery systems on which VA facilities rely, such as electrical, power line failure or water.
5. **Adverse Medical Impact to Veterans and Employees:** Human health impacts by altering exposures to heat waves, floods, droughts and other extreme events like food-, water- and vector-borne diseases, changes in the quality and safety of air, food, water and stresses to mental health.

VA has identified specific adaptation actions to decrease its vulnerability to the impacts of climate change. Actions include implementing changes to building design and resilience standards and updating sustainable building certification requirements. VA is also preparing for surges in demand for medical supplies and pharmaceuticals, which includes review of the All-Hazards Emergency Cache that provides short-term coverage for supplies during emergencies, to assess its readiness for climate change impacts. To track new and emerging infections, VA has expanded biosurveillance to proactively surveil for high consequence infections in Veterans receiving care from VA. Climate change risks are being incorporated into VA's Strategic Capital Investment Planning process, which determines the optimal path for prioritizing capital program appropriations among multiple VA goals. Lastly, VA is incorporating climate change into emergency response planning with the development of a capabilities-based framework that supports an enterprise-side strategy.

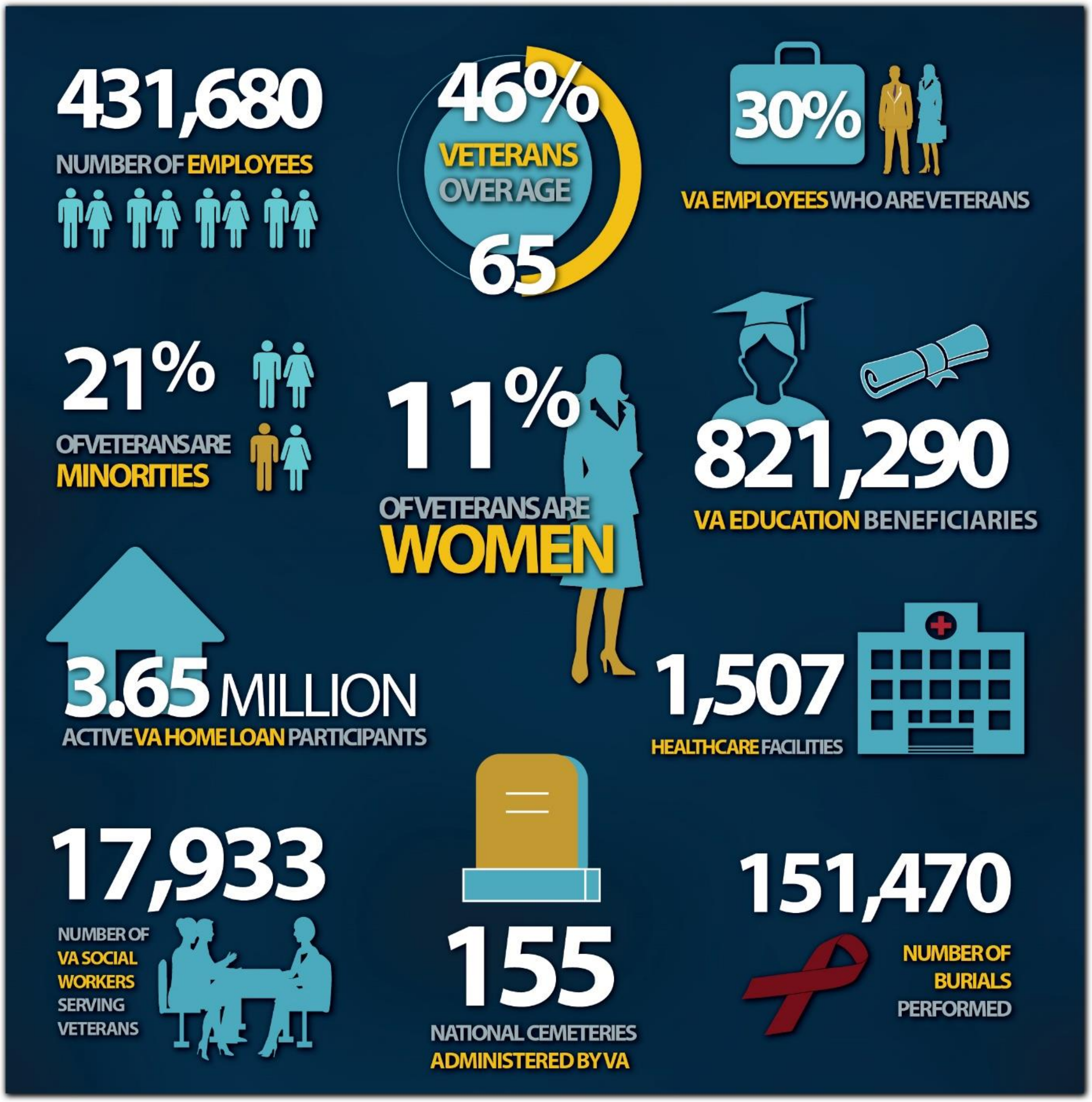
DID YOU KNOW?

In 2020, the VA Boston Healthcare System partnered with National Grid on a plan to transition its 70-car fleet to zero-emission vehicles (ZEVs). Consistent with National Grid's recommendations, VA worked with GSA to procure approximately 25 ZEVs for the Boston facilities as part of the FY 2022 lease renewal cycle.

A ZEV parked at a charging station at a VA Boston health care facility.

VA BY THE NUMBERS

The information below presents key statistics on Veteran population and VA programs as of September 30, 2022. 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.



FINANCIAL SECTION

Honoring Navajo Code Talkers

Pictured in the previous page: Mr. Peter MacDonald at the National World War II memorial.

On Wednesday, June 1, 2022, one of the last living Navajo Code Talkers was honored during an 80th anniversary celebration that included tours of Washington, D.C., memorials, and a meeting with VA Secretary Denis McDonough.

Peter MacDonald, Sr., 93-94, spoke at a wreath-laying at the National World War II Memorial honoring the Navajo Code Talkers. The former president of the Navajo Nation met earlier in the day with Secretary McDonough who tweeted, "It was a true honor to meet Marine Corps Veterans and Navajo Code Talker, Mr. Peter MacDonald" where they discussed the Code Talkers' service.

Learn more about the "Unbreakable Code" used by the Marines on Iwo Jima.

From the official "An Unbroken Code for an Unbroken Future" program:

"Mr. Peter MacDonald, Sr., one of four living Navajo Code Talkers, recalls the events of World War II as if they were yesterday. Mr. Macdonald remembers the sense of urgency as a young United States Marine memorizing the unbroken code to ensure complete secrecy for his country and family. It was not until 1968 that the United States of America finally declassified the Navajo Code Talkers involvement in WWII and started to recognize the nearly 400 Navajo Code Talkers that volunteered to fight for their county, the United States of America."

"Today we remember the 80th anniversary of the Navajo Code Talkers and their families by presenting three wreaths representing the states of Utah, Arizona and New Mexico that are part of the over 27,000 square miles of Navajo land and its unparalleled beauty."

"The Navajo Code Talkers took part in every assault the U.S. Marines conducted in the Pacific from 1942 to 1945 including Guadalcanal, Tarawa, Peleliu, and Iwo Jima. They served in all six Marine divisions, Marine raider battalions and Marine parachute units, transmitting messages by telephone and radio in their native language-a code that the Japanese never broke."

Nearly 400 Navajos served as Code Talkers from 1942 to 1945. 13 were killed in action. August 14, 2022 is Navajo Code Talkers Day.

MESSAGE FROM VA'S CHIEF FINANCIAL OFFICER

DEPARTMENT OF VETERANS AFFAIRS
ASSISTANT SECRETARY FOR MANAGEMENT
WASHINGTON DC 20420

November 15, 2022

The Department of Veterans Affairs (VA) continues to make significant headway in providing health care services and benefits to our Nation's Veterans. During fiscal year (FY) 2022, Congress passed the Honoring our Promise to Address Comprehensive Toxics (PACT) Act, which authorizes benefits and care to 4.2 million Veterans exposed to hazardous pollutants. VA celebrates this achievement and is prepared to execute one of the largest health care and benefits expansions in VA history.

For Veterans experiencing financial hardship, VA published a final rule reducing the number of Veterans reported to consumer reporting agencies by 99%, eliminating the negative impact to their credit scores. Additionally, VA simplified the medical debt forgiveness process for Veterans resulting in less paperwork; expedited processing; and expanded relief eligibility.

VA continues to make steady progress implementing the Integrated Financial and Acquisition Management System (iFAMS). This year's efforts resulted in VA's Staff Offices and Franchise and Supply Funds successfully transitioning to iFAMS in October 2022. To improve our future iFAMS implementations, we work closely with our current users to enhance their experience and promote a smoother transition for future users.

I am pleased that in June 2022, the Association of Government Accountants (AGA) awarded VA its third consecutive Certificate of Excellence in Accountability Reporting (CEAR) for the Department's FY 2021 Agency Financial Report, including a coveted AGA Best-in-Class Award. These awards recognize VA's dedication to effective financial and performance reporting.

I am proud to announce VA received its 24th consecutive unmodified ("clean") audit opinion. Nonetheless, the auditors' identified three material weaknesses related to controls over significant accounting estimates; financial systems and reporting; and information technology security controls. VA continues to focus on correcting these findings, and we are grateful to the Office of Inspector General and CliftonLarsonAllen LLP for their steadfast commitment to improve VA's fiscal accountability.

Finally, I offer my sincerest gratitude to VA's financial community for their dedication in addressing audit findings and meeting challenges head-on. I celebrate the many accomplishments of our workforce and echo Secretary McDonough's sentiments regarding VA's rise in the FY 2021 Best Places to Work in the Federal Government ranking. Our people are our greatest asset, and they help build the positive work environment that enables us to strive to achieve VA's mission every day.

Sincerely,

(/s/) Jon J. Rychalski

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET *(dollars in millions)*

As of September 30,	**2022**	**2021**
Assets		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 89,718	$ 90,687
Investments, net (Note 5)	5,297	5,236
Accounts Receivable (Note 6)	26	40
Advances and Prepayments	2,403	2,630
Total Intragovernmental	97,444	98,593
With the Public		
Cash (Note 4)	3	4
Accounts Receivable, Net (Note 6)	4,316	4,010
Loans Receivable, Net (Note 7)	1,334	817
Inventory and Related Property (Note 8)	173	176
General Property, Plant and Equipment, Net (Note 9)	30,825	29,449
Advances and Prepayments	78	28
Investments (Note 5)	140	140
Total with the Public	36,869	34,624
Total Assets	**$ 134,313**	**$ 133,217**
Heritage Assets (Note 10)		
Liabilities		
Intragovernmental		
Accounts Payable	$ 208	$ 426
Debt (Note 11)	560	563
Advances from Others and Deferred Revenue	79	31
Other Liabilities (Note 15)	2,990	1,325
Total Intragovernmental	3,837	2,345
With the Public		
Accounts Payable	4,988	13,679
Federal Employee and Veterans Benefits (Note 13)		
Veterans Benefits (Note 13)	6,139,748	4,459,588
Life Insurance Benefits (Note 17)	3,944	4,530
Federal Employee Benefits (Note 13)	5,385	5,422
Environmental and Disposal Liabilities (Note 14)	949	949
Loan Guarantee Liabilities (Note 7)	9,932	10,870
Advances from Others and Deferred Revenue	20	26
Other Liabilities (Note 15)	2,893	3,707
Total with the Public	6,167,859	4,498,771
Total Liabilities	**$ 6,171,696**	**$ 4,501,116**
Commitments and Contingencies (Note 18)		

(Continued on next page)

CONSOLIDATED BALANCE SHEET *(dollars in millions)*

As of September 30,	**2022**	**2021**
Net Position - Unexpended Appropriations		
Funds From Dedicated Collections	$ 16	$ 56
Funds from Other than Dedicated Collections	68,149	62,020
Total Unexpended Appropriations	68,165	62,076
Net Position - Cumulative Results of Operations		
Funds From Dedicated Collections	4,517	3,916
Funds from Other than Dedicated Collections	(6,110,065)	(4,433,891)
Total Cumulative Results of Operations	**(6,105,548)**	**(4,429,975)**
Total Net Position	**(6,037,383)**	**(4,367,899)**
Total Liabilities and Net Position	**$ 134,313**	**$ 133,217**

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

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

For the Periods Ended September 30,	2022	2021
Net Program Costs By Administration		
Veterans Health Administration		
Gross Cost	$ 117,799	$ 108,007
Less Earned Revenue	(4,956)	(3,608)
Net Program Cost	112,843	104,399
Veterans Benefits Administration		
Gross Cost		
Program Costs	143,305	132,031
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	155,088	110,954
Less Earned Revenue	(523)	(543)
Net Program Cost	297,870	242,442
National Cemetery Administration		
Gross Cost	508	474
Net Program Cost	508	474
Indirect Administrative Program Costs		
Gross Cost	3,044	2,557
Less Earned Revenue	(614)	(446)
Net Program Cost	2,430	2,111
Net Program Costs by Administration Before (Gain)/Loss from Changes in Veterans Benefits Actuarial Assumptions	413,651	349,426
(Gain)/Loss from Changes in Actuarial Assumptions (Note 13)	1,526,453	346,307
Net Cost of Operations	**$ 1,940,104**	**$ 695,733**

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION *(dollars in millions)* **As of September 30, 2021**	**Funds from Dedicated Collections (Note 19)**	**All Other Funds**	**Consolidated Total**
Unexpended Appropriations			
Beginning Balance	$ -	$ 44,341	$ 44,341
Appropriations Received	300	259,206	259,506
Appropriations Transferred In/Out	-	152	152
Other Adjustments	-	(323)	(323)
Appropriations Used	(244)	(241,356)	(241,600)
Total Budgetary Financing Sources	56	17,679	17,735
Total Unexpended Appropriations: Ending	56	62,020	62,076
Cumulative Results of Operations			
Beginning Balance	3,966	(3,980,488)	(3,976,522)
Appropriations Used	244	241,356	241,600
Nonexchange Revenue	-	169	169
Donations and Forfeitures of Cash and Cash Equivalents	19	-	19
Transfers In/Out Without Reimbursement	(3,031)	3,202	171
Donations and Forfeitures of Property	57	1	58
Imputed Financing	-	2,781	2,781
Other	200	(2,718)	(2,518)
Net (Cost)/Benefit of Operations (Note 21)	2,461	(698,194)	(695,733)
Net Change in Cumulative Results of Operations	(50)	(453,403)	(453,453)
Cumulative Results of Operations: Ending	**3,916**	**(4,433,891)**	**(4,429,975)**
Net Position	**$ 3,972**	**$ (4,371,871)**	**$ (4,367,899)**

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

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

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

COMBINED STATEMENT OF BUDGETARY RESOURCES
(dollars in millions)
For the Period Ended September 30, 2021

	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources (Discretionary and Mandatory)		
Unobligated Balance from Prior Year Budget Authority, Net	$ 35,193	$ 8,041
Appropriations	262,961	3
Borrowing Authority	-	685
Spending Authority from Offsetting Collections	8,140	3,813
Total Budgetary Resources	**$ 306,294**	**$ 12,542**
Status of Budgetary Resources		
New Obligations and Upward Adjustments (Total)	$ 256,899	$ 4,800
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	46,710	-
Unapportioned, Unexpired Accounts	53	7,742
Unexpired Unobligated Balance, End of Year	46,763	7,742
Expired Unobligated Balance, End of Year	2,632	-
Unobligated Balance, End of Year (Total)	49,395	7,742
Total Status of Budgetary Resources	**$ 306,294**	**$ 12,542**
Outlays, Net, and Disbursements, Net		
Outlays, Net (Total) (Discretionary and Mandatory)	$ 241,297	
Distributed Offsetting Receipts (-)	(7,516)	
Agency Outlays, Net (Discretionary and Mandatory)	**$ 233,781**	
Disbursements, Net (Total) (Mandatory)		**$ 366**

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

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

B. REPORTING ENTITY

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

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

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 Department of Treasury (Treasury) Judgment Fund.

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

D. BUDGETS AND BUDGETARY ACCOUNTING

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

The Statement of Budgetary Resources reports total budgetary resources, status of budgetary resources and outlays. VA's budget authorities include appropriations, borrowing authority and spending authority from offsetting collections. Details by major accounts are shown in the Statement of Budgetary Resources in the Required Supplementary Information (RSI) section.

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

E. REVENUES AND OTHER FINANCING RESOURCES

VA collects revenues for both 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, 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 DoD, the transferee (child) entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations and outlays) is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations and budget apportionments are derived.

G. FUND BALANCE WITH TREASURY

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

H. INVESTMENTS

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

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

I. ACCOUNTS RECEIVABLE

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

Overpayments to Veterans or beneficiaries are the main cause of compensation, pension and education receivables. VA is authorized by 38 U.S.C. § 5315 to charge interest and administrative costs on benefit debts similar to charges levied on other debts owed to the Federal Government; however, VA's current practice is not to charge interest on compensation, pension debts and certain education benefits based on a July 1992 decision by the then VA Deputy Secretary.

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). Note 7 disclosures are in accordance with SFFAS No. 2, *Accounting for Direct Loans and Guarantees*; SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees;* and SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees*. Under the Credit Reform Act, the present value of the estimated net cash flows paid by VA must be recognized as a subsidy cost in the year the loan is disbursed. Direct loans and guaranteed loans receivable are reported net of an allowance for subsidy costs at present value, and loan guarantee liabilities are reported at present value.

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

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

K. INVENTORY AND RELATED PROPERTY

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

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

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

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

L. GENERAL 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 either capitalized or noncapitalized 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.

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

IUS costs subject to capitalization are incurred during the software development phase. The capitalized costs are amortized in accordance with the planned lifecycle established during the software planning phase. The useful life of IUS is determined on a per-project basis, no less than 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 each of the six life insurance programs (the first four programs below cover Veterans who served during World Wars I and II and the Korean Conflict 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; and
(6) Veterans' Mortgage Life Insurance (VMLI) covers severely disabled Veterans and is part of the Veterans' Insurance and Indemnities fund.

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

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

The S-DVI and VMLI programs are designed to provide insurance coverage to disabled Veterans at standard premium rates; these programs require annual appropriations as they are not self-supporting and have no assets for investments.

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. A downward trend in reserve liabilities for World War II and Korean War Era Veterans exists due to the declining numbers of policyholders.

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

Program	Type of Plan	Table Used	Interest Rate
USGLI	Permanent Plan	American Experience Table	2.0%
NSLI	Permanent Plan	American Experience Table	3.0%
	Modified Plan	1958 Commissioner's Standard Ordinary (CSO) Basic Table	3.0%
	Paid up Additions using Dividends	2001 Valuation Basic Male (VBM) Table	3.0%
	Term Policies	2001 VBM Table	3.0%
VSLI	Permanent Plan	X-18 Table	2.5%
	Paid up Additions	2001 VBM Table	3.5%
	Term Policies	2001 VBM Table	3.5%
VRI	Basic Policy	J: 100% of the 1958 CSO Basic Table	3.5%

Program	Type of Plan	Table Used	Interest Rate
		JR: Varying percent of 1958 CSO Basic Table based on rating code	3.5%
	Paid-up Additions	J: 2001 VBM Table	3.5%
		JR: 1958 CSO Basic Table	3.5%
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%
VMLI	Mortgage Life	500% of the 1958 CSO Basic Table	2.5%

Policies in four of the administered programs are eligible for dividends: NSLI, USGLI, VSLI and VRI. The Secretary determines annually the excess funds available for dividend payment based on an actuarial analysis of each program's claims and investment experience, compared to the mortality and interest assumptions utilized in that program at the end of the preceding calendar year. Dividends are declared on a calendar-year basis and paid on policy anniversary dates. 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 2022 and FY 2021, the interest rates range from 3.50% to 2.50%, and 3.75% to 3.25%, respectively.

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 2022 Discount Rate	FY 2021 Discount Rate
NSLI	3.0%	3.0%
VSLI	3.5%	3.5%
VRI	3.5%	3.5%

The methodology employed by VA to estimate the dividend liability reflects expected dividends to be paid by quarter using percentages that are based on the actual distribution of dividend anniversaries at the end of the prior year. The few remaining USGLI policyholders are past program endowment age and receive a dividend based on average portfolio interest rates. For FY 2022 and FY 2021, the dividend interest rate is 1.85%.

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

(1) Servicemembers Life Insurance Program (SGLI)

(2) Veterans Group Life Insurance Program (VGLI)

(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 Servicemember's pay by the 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 the Balance Sheet.

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

P. ANNUAL LEAVE

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

Q. VETERANS BENEFITS

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

COMPENSATION AND BURIAL

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

Estimated liabilities for Veterans compensation and burial benefits in the financial statements are measured as of the end of the fiscal year, based on June 30 beneficiary data that is adjusted for estimated changes in the number of participants covered (enrollment) such as deaths, new cases and changes in degree of disability during the fourth quarter. The method used to measure the liabilities provides for consistency in the underlying relationship between discount rate, COLA and other economic assumptions.

EDUCATION AND VR&E

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

Program Name	Authorizing Statute	Eligibility Qualifications	Benefits
Post-9/11 GI Bill	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 the Balance Sheet at the present value of expected future payments and is developed on an actuarial basis. Various assumptions in the actuarial model, such as the total number of Veterans with entitlement, average usage of entitlement, the program stop and restart rate, the number of Veterans and dependents receiving payments and discount rates impact the amount of the liability.

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

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

MEDICAL CLAIMS

The Consolidated Appropriations Act, 2021 (P.L. 116-260) authorized VA to record 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.

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. DOL pays valid claims as they occur, which are billed to VA annually.

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

PENSION, OTHER RETIREMENT BENEFITS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

S. COMMITMENTS AND CONTINGENCIES

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

T. APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

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

U. SUBSEQUENT EVENTS

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

NOTE 2. NON-ENTITY ASSETS

(dollars in millions)

As of September 30,	**2022**	**2021**
Intragovernmental		
Fund Balance with Treasury	$ 520	$ 215
Accounts Receivable	2,093	186
Total Intragovernmental	2,613	401
With the Public		
Accounts Receivable	103	60
Total Non-Entity Assets	**2,716**	**461**
Total Entity Assets	**131,597**	**132,756**
Total Assets	**$ 134,313**	**$ 133,217**

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

NOTE 3. FUND BALANCE WITH TREASURY

(dollars in millions)

As of September 30,	**2022**	**2021**
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 46,864	$ 34,834
Unavailable	9,911	16,435
Obligated Balance Not Yet Disbursed	31,977	38,888
Deposit Funds	520	215
Clearing Accounts	116	41
Unavailable Receipts	330	274
Fund Balance with Treasury	**$ 89,718**	**$ 90,687**

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. Additionally, some balances presented above as 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,**	**2022**	**2021**
Cash		
Canteen Service	$ 2	$ 3
Agent Cashier Advance	1	1
Total Cash	**$ 3**	**$ 4**

Cash reported above 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

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

(dollars in millions) **As of September 30, 2021**	**Cost**	**Amortized (Premium)/ Discount**	**Interest Receivable**	**Investments, Net**
Federal Securities (Note 19)				
Special Bonds by Insurance Program				
Supervised Life Insurance Programs	$ 2,523	$ -	$ 9	$ 2,532
VRI	50	-	-	50
NSLI	1,476	-	11	1,487
USGLI	2	-	-	2
VSLI	1,064	-	10	1,074
Subtotal Special Bonds	5,115	-	30	5,145
Treasury Notes	92	(1)	-	91
Total	**$ 5,207**	**$ (1)**	**$ 30**	**$ 5,236**
Public Securities				
Trust Certificates (Loan Guarantee)	140	-	-	140
Total	**$ 140**	**$ -**	**$ -**	**$ 140**

Federal Securities, which comprise most of VA's Investments, are nonmarketable Treasury Special Bonds and Treasury Notes. Special Bonds, which mature during various years through 2037, are generally held to maturity unless needed to finance insurance claims and dividends. Amounts collected from supervised life insurance programs are invested in Special Bonds. None of the Special Bonds are reclassified as available for sale or early redemption, nor are there any permanent impairments on these investments. Treasury Notes help finance operations and events supported by the General Post Fund for the benefit of Veterans and their beneficiaries. Treasury Notes are amortized using the effective interest method, while all other Federal Securities are purchased at face value and are not amortized.

Investments for the supervised life insurance programs are also dedicated collections (see Note 19). Treasury does not set aside assets to pay future expenditures associated with funds from dedicated collections. The cash receipts collected from the public for funds from dedicated collections are deposited in the Treasury and are used for general Government purposes. Treasury security investments, discussed in Note 1.H, are assets of funds from dedicated collections that provide the fund the authority to draw upon the Treasury for future authorized expenditures. Treasury securities held by a fund from dedicated collections are an asset of the fund and a liability of the Treasury, so they are eliminated in the consolidation of the Financial Report (FR) of the U.S. Government. When a fund from dedicated collections redeems its Treasury securities to make expenditures, Treasury will finance those expenditures in the same manner that it finances all other expenditures.

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

NOTE 6. ACCOUNTS RECEIVABLE, NET

(dollars in millions)

As of September 30,	**2022**	**2021**
Intragovernmental Accounts Receivable	**$ 26**	**$ 40**
Public Accounts Receivable		
Medical Care	$ 4,124	$ 3,390
Contractual Adjustment and Allowance for Loss Provision	(2,722)	(2,458)
Net Medical Care	1,402	932
Compensation and Pension Benefits	2,384	2,124
Allowance for Loss Provision	(674)	(800)
Net Compensation and Pension Benefits	1,710	1,324
Education and VR&E Benefits	597	733
Allowance for Loss Provision	(405)	(472)
Net Education and VR&E Benefits	192	261
Excess Contingency Reserve Funds	887	1,412
Net Excess Contingency Reserve Funds	887	1,412
Other	416	183
Allowance for Loss Provision	(291)	(102)
Net Other	125	81
Total Accounts Receivable	8,408	7,842
Total Contractual Adjustment and Allowance for Loss Provision	(4,092)	(3,832)
Public Accounts Receivable, Net	**$ 4,316**	**$ 4,010**

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, 2022, the remaining reserve balance is $887 million. The full amount of the VGLI receivable is contractually guaranteed to be received from Prudential; therefore, no Allowance for Loss Provision is recognized. Additional information on the VGLI transfers is reported in Note 17.

VA's Accounts Receivable as of September 30, 2022 and 2021, includes $261 million and $173 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. The Home Loan Programs are listed below and offer loan guarantees and direct loans to Veterans, Service members, qualifying dependents and limited non-Veterans to purchase homes and retain homeownership with favorable market terms.

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

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

Since the declaration of the COVID-19 pandemic, VA's Loan Guaranty Service has taken multiple steps to assist borrowers in retaining their homes. VA has also been working with other Federal housing agencies to ensure a consistent approach during the pandemic. Under CARES Act § 4022 Chapter 37, title 38 United States Code and executive orders (E.O.) related to the COVID-19 pandemic, borrowers with a federally backed loan were able to request forbearance of their loan payments for up to 180 days with an option to request another 180 days.

VA has a 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. A final rule for the COVID-19 Veterans Assistance Partial Claim Payment program became effective on July 27, 2021 and will be available through October 28, 2022. This program provides support for borrowers who have entered COVID-19 forbearances with their mortgage servicers. As a mortgage investor of last resort, VA purchases the amount of indebtedness that is necessary to bring the Veteran's loan current by creating a new loan. The Veteran repays VA for this loan and the indebtedness is secured as a lien against the Veteran's home. VA also utilized its authority to expand the list of pre-approved loan modification options to include a new loan modification, under a COVID-19 Refund Modification.

INSURANCE POLICY LOANS

Veterans that are Government life insurance policyholders with permanent plan coverage or paid-up additional insurance can borrow against the cash value of their policy, creating an insurance policy direct loan. The loan amount may not exceed 94% 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 sells the REO property to a third-party owner and makes the 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 owns 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 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. The variable rate has been 5.0% since October 1, 2001.

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

The amount of new direct loans disbursed as of September 30, 2022 and 2021 was $50 million and $46 million, respectively.

LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY FROM DIRECT AND GUARANTEED LOANS

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

(dollars in millions) **As of September 30, 2021**	**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)						
Direct Home Loans	$ 1	$ -	$ -	$ -	$ -	$ 1
Defaulted Guaranteed Home Loans	30	-	(26)	-	-	4
Loans Obligated After FY 1991 (Present Value Method)						
Direct Home Loans	359	16	-	69	1	445
Defaulted Guaranteed Home Loans	4	-	-	-	200	204
Direct Insurance Policy Loans	159	4	-	-	-	163
Total Loans Receivable	**$ 553**	**$ 20**	**$ (26)**	**$ 69**	**$ 201**	**$ 817**

RECONCILIATION OF LOANS RECEIVABLE, NET

(dollars in millions)

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

FORECLOSED PROPERTY

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

Potential volatility in the U.S. housing market could change the estimates and assumptions used for these calculations in the future, 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, 2022 and 2021.

As of September 30, 2022 and 2021, the number of residential properties in VA's inventory is 1,998 and 1,348, respectively. For FY 2022, the average holding period from the date properties are conveyed to VA until the date properties are sold was approximately three months, and two months for FY 2021. The number of properties for which foreclosure proceedings are in process is 23,370 and 6,628 as of September 30, 2022 and 2021, respectively. The increase in foreclosure proceedings is primarily due to CARES Act provisions on forbearances and the moratorium on foreclosures that expired at the end of FY 2021.

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

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

SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES

(dollars in millions)

As of September 30,	**2022**	**2021**
Allowance balance as of October 1,	$ (69)	$ (49)
Subsidy expense for direct loans disbursed during the reporting years	(3)	(4)
Adjustments:		
Fees received	1	-
Foreclosed property acquired	(6)	(2)
New loans	2	2
Subsidy allowance amortization	(4)	(5)
Change in re-estimate approved by OMB	(9)	(39)
Total Adjustments	(16)	(44)
Ending balance of the subsidy cost allowance before re-estimates	(88)	(97)
Total subsidy re-estimates	19	28
Ending balance of the subsidy cost allowance	**$ (69)**	**$ (69)**

D. SUBSIDY EXPENSE

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

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

Direct and Guaranteed Loans Subsidy Rates	**Defaults, net of recoveries**	**Interest**	**Fees**	**All Other**	**Total Subsidy Rate**
Veterans Housing Direct Acquired Loans	12.89%	-16.21%	0.00%	1.41%	-1.91%
Veterans Housing Direct Vendee Loans	0.27%	-26.20%	-2.25%	1.08%	-27.09%
Native American Housing Loans	0.00%	-24.43%	-0.51%	7.32%	-17.62%
Housing Guaranteed Loans	0.67%	0.00%	-0.75%	0.00%	-0.08%

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

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

(dollars in millions) **As of September 30, 2021**	**Direct Home Loans**	**Guaranteed Home Loans**	**Loan Sale Guarantees**	**Total Subsidy Expense**
Interest Differential	$ (4)	$ -	$ -	$ (4)
Defaults	-	3,069	-	3,069
Fees	-	(5,183)	-	(5,183)
Interest Rate Reestimates	19	101	(1)	119
Technical Reestimates	9	2,617	(1)	2,625
Total Subsidy Expense	**$ 24**	**$ 604**	$ (2)	**$ 626**

E. OUTSTANDING LOAN GUARANTEES

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

GUARANTEED LOANS OUTSTANDING

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

(dollars in millions) **As of September 30, 2021**	**Principal of Guaranteed Loans Made by Financial Institutions, Face Value**	**Amount of Outstanding Principal Guaranteed by VA**
Post-FY 1991		
Home Loan Guarantees	$ 862,241	$ 218,279
Loan Sale Guarantees	-	369
Total	**$ 862,241**	**$ 218,648**

NEW GUARANTEED LOANS DISBURSED

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

(dollars in millions) **As of September 30, 2021**	**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	$ 394,496	$ 98,790	1,288,770

F. LOAN GUARANTEE LIABILITIES

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

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

(dollars in millions) **As of September 30, 2021**	**Home Loans Post-FY 1991**	**Loan Sales Post-FY 1991**	**Home Loans Pre-FY 1992**	**Total**
Loan guarantee liabilities as of October 1, 2020	$ 7,027	$ 95	$ 286	$ 7,408
Less claim payments to lenders	(262)	(1)	(6)	(269)
Add fees received	3,218	-	-	3,218
Less Foreclosed Property and Loans Acquired	(161)	-	5	(156)
Add subsidy expense reestimates	2,718	(2)	-	2,716
Less negative subsidy payments	(2,114)	-	-	(2,114)
Less upward reestimate	(18)	(5)	-	(23)
Less downward reestimates	(107)	(72)	-	(179)
Other	268	1	-	269
Ending balance of the loan guarantee liabilities	**$ 10,569**	**$ 16**	**$ 285**	**$ 10,870**

G. LOAN GUARANTEE MODIFICATIONS

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

Loan servicers perform loan modifications under current laws without the need to modify executed subsidy estimates for existing loan guarantees from FY 1992 to 2022.

H. ADMINISTRATIVE EXPENSE

The administrative expense for direct and guaranteed loans for the periods ended September 30, 2022 and 2021 are $230 million and $206 million, respectively.

NOTE 8. INVENTORY

For additional details of inventory and related property, refer to Note 1.K.

(dollars in millions)

As of September 30,	2022	2021
Inventory Held for Sale	$ 17	$ 15
Operating Materials and Supplies	65	23
Stockpile Materials	91	138
Total Inventory and Related Property	**$ 173**	**$ 176**

NOTE 9. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

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

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

(dollars in millions) **As of September 30, 2021**	**Cost**	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Land	$ 550	$ -	$ 550
Buildings	40,370	(22,540)	17,830
Equipment	3,608	(2,524)	1,084
Other Structures	5,056	(2,917)	2,139
Leasehold Improvements*	1,057	(412)	645
Internal Use Software	5,142	(3,149)	1,993
Construction Work in Progress	5,208	-	5,208
Total Property, Plant and Equipment	**$ 60,991**	**$ (31,542)**	**$ 29,449**

*Prior to FY 2022, VA's Leasehold Improvements balance was reported under Other Structures. Beginning in FY 2022, Leasehold Improvements is now a separate line in the above schedule.

(dollars in millions)	2022	2021
Property, Plant and Equipment Balance as of October 1,	$ 29,449	$ 28,110
Capitalized acquisitions	3,520	3,313
Dispositions	(317)	(205)
Depreciation expense	(1,853)	(1,814)
Donations	8	43
Other	18	2
Balance as of September 30	**$ 30,825**	**$ 29,449**

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;
- Non-buildings (including flag poles, structures, rostrums, gates and historic walls); and
- Cemeteries.

According to VA’s policy for heritage assets, only developed sections of national cemeteries are classified as heritage assets. Changes in VA's heritage asset inventory balances generally result from field station condition assessment surveys, which identify items such as new collections or newly designated assets.

VA has 1,147 multi-use heritage assets that are included in general PP&E. Multi-use heritage assets have both operating and historic characteristics and are utilized predominantly in Government operations such as administration, engineering and maintenance.

See Deferred Maintenance and Repairs for additional information.

(in units) **As of September 30, 2022**	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Archaeological Sites	10	-	-	10
Art Collections	39	-	-	39
Buildings	548	7	(14)	541
Monuments	1,414	12	(11)	1,415
Multi-Use Buildings in PP&E	1,152	3	(8)	1,147
Non-Buildings	1,047	7	(3)	1,051
Cemeteries, Soldiers’ Lots and Monument Sites	189	1	-	190
Total Heritage Assets in Units	**4,399**	**30**	**(36)**	**4,393**

(in units) **As of September 30, 2021**	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Archaeological Sites	10	-	-	10
Art Collections	41	-	(2)	39
Buildings	663	96	(211)	548
Monuments	1,403	45	(34)	1,414
Multi-Use Buildings in PP&E	974	278	(100)	1,152
Non-Buildings	1,071	46	(70)	1,047
Cemeteries, Soldiers' Lots and Monument Sites	184	5	-	189
Total Heritage Assets in Units	**4,346**	**470**	**(417)**	**4,399**

NOTE 11. DEBT AND RELATED INTEREST PAYABLE

(dollars in millions)	**Debt to the Treasury**	**Debt to the Federal Financing Bank**	**Total Other Debt**
Other Intragovernmental Debt, October 1, 2020	$ 584	$ 4	$ 588
2021 Net Borrowing	(25)	-	(25)
Other Intragovernmental Debt, September 30, 2021	**$ 559**	**$ 4**	**$ 563**
2022 Net Borrowing	(3)	-	(3)
Other Intragovernmental Debt, September 30, 2022	**$ 556**	**$ 4**	**$ 560**

Debt to Treasury consists of amounts borrowed for the Direct Loan Program. Debt to the Federal Financing Bank consists of amounts borrowed for the Loan Guarantee Programs. Under both debts, VA has a 30-year term from the date of issuance with the exception of the Vocational Rehabilitation Loan Program which has a 2-year term from the date of issuance. 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. VA's unfunded liabilities are provided below.

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,	**2022**	**2021**
Intragovernmental		
Workers Compensation (FECA)	$ 403	$ 416
Future Funded Expense - Contract Dispute Act	114	150
Total Intragovernmental	517	566
With the Public		
Veterans Benefits Payable (Note 13)	6,139,748	4,459,588
Federal Employee Benefits Payable (Note 13)	5,355	5,405
Environmental and Disposal Liabilities (Note 14)	949	949
Insurance (Note 17)	1,701	1,765
Other (Note 15)	1,058	1,077
Total Liabilities Not Covered By Budgetary Resources	6,149,328	4,469,350
Total Liabilities Covered By Budgetary Resources	21,039	30,795
Total Liabilities Not Requiring Budgetary Resources	1,329	971
Total Liabilities	**$ 6,171,696**	**$ 4,501,116**

NOTE 13. FEDERAL EMPLOYEE AND VETERANS' BENEFITS LIABILITIES

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

(dollars in millions)

For the Periods Ended September 30,	**2022**	**2021**
Compensation	$ 5,953,400	$ 4,291,700
Education and VR&E	169,918	151,177
Burial	11,700	10,600
Medical Claims Benefits	4,730	6,111
Accrued Annual Leave	3,142	2,975
Workers' Compensation (FECA)	2,243	2,447
Total Federal Employee and Veterans' Benefits Liabilities	**$ 6,145,133**	**$ 4,465,010**

A. COMPENSATION AND BURIAL

VA provides compensation benefits to the following individuals:

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

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

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

VA also provides eligible 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 Veterans who meet the 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. Prior to fiscal year 2022, VA disclosed for informational purpose an actuarial projection on VA's pension program. This information can be found in the "Analysis of the Financial Statements" within the Management Discussion and Analysis section of this report.

On August 10, 2022, the PACT Act, P.L. 117-168, was signed into law expanding and extending eligibility for VA benefits and health care for Veterans with toxic exposures and Veterans of the Vietnam, Gulf War and Post-9/11 eras. The PACT Act is the most significant expansion of benefits for toxic exposed Veterans in more than 30 years. Provisions of the PACT Act that directly impact compensation benefits include the addition of over 20 presumptive medical conditions from exposures to burn pits and other toxins. VA is currently assessing the effect of this new law to the compensation benefits liability and additional data and analysis is warranted to develop a precise estimate in accordance with SFFAS No 5, *Accounting for Liabilities of the Federal Government*.

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

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

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

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

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

The single-equivalent discount rates on September 30, 2022 and 2021 were computed based on the average of the last 10-year quarterly spot rates provided by Treasury. The single-equivalent discount rate decreased from 2.95% to 2.82% as of September 30, 2022 which increased the liability by $139 billion.

The single equivalent COLA rate increased from 2.32% as of September 30, 2021 to 2.67% as of September 30, 2022. The liability increased by $309 billion, primarily due to the increase in the COLA rate assumption for 2023 to 8.59%. The liability also increased by $326.2 billion to reflect a change in determining the long-term COLA rate assumption, which is included in the "Other Assumptions" line of the reconciliation table that follows. Refer to the last paragraph of this section for additional information on the long-term COLA rate assumption change.

For the Periods Ended September 30,	2022	2021
Discount Rate, Single Equivalent	2.82%	2.95%
COLA Rate, Single Equivalent	2.67%	2.32%
COLA Rate, Year 1	8.59%	6.01%
Long-Term COLA Rate*	2.40%	1.37% to 2.52%

* The long-term COLA rate assumption for the September 30, 2021 valuation was based on the average of the last 10-years of monthly Treasury Breakeven Inflation Curve rates, which is a series of inflation rates ranging from 1.37% to 2.52%.

The total liability for compensation and burial as of September 30, 2022 is $5.9 trillion. This represents an increase of $1.6 trillion from the September 30, 2021 liability of $4.3 trillion. This increase was primarily the result of updates to the Veterans compensation plan participation and benefit level distribution rates, mortality rates and methodology for setting future long-term COLA rates, which together increased the liability by $1.1 trillion.

The study for the compensation plan participation and benefit level distribution rates estimates potential Veterans and/or service members who may be eligible to receive an award in the future. The experience study revealed a sharp rise of new cases after FY 2012 and continued to stay high through FY 2019. The increase in plan participation and benefit level distribution rates are the product of various legislation and VA policy changes that expanded eligibility, including improved outreach efforts on compensation benefits to legacy Veterans and recently separated military members. These changes resulted in an increase of $564.2 billion in the compensation liability as of September 30, 2022.

The Veterans mortality rate, which is the probability of death at a given age, were developed using data from FY 2015 to FY 2019 which showed a combination of a decrease in mortality rate and higher disability ratings given to a younger population. The updated mortality rates resulted in an increase of the compensation liability of $163.8 billion.

The long-term COLA rate assumption for the September 30, 2021 valuation was based on the average of the last 10-years of monthly Treasury Breakeven Inflation Curve rates. The long-term COLA rate assumption for the September 30, 2022 valuation was based on the intermediate assumptions published in SSA's Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds. VA's long-term COLA rate assumption for the compensation benefit is similar to that of the SSA's intermediate COLA rate assumption because it is a reasonable assumption and shows consistency with selecting economic assumptions for actuarial projections with other Federal agencies. This update increased the compensation liability by $326.2 billion.

OTHER RELEVANT CONSIDERATIONS IN THE ESTIMATION OF THE COMPENSATION AND BURIAL LIABILITY

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

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

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

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

The compensation and burial models will continue to be refined as additional analysis of the assumptions is completed and other relevant information becomes available in the future that can be used to enhance the estimates. The compensation and burial benefits liability estimates are based on experience studies containing relevant and reliable data and assumptions. VA considers these estimates to be reasonably stated as of September 30, 2022.

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,	2022	2021
Post-9/11	$ 108,349	$ 83,706
VR&E	19,935	35,583
DEA	40,851	31,534
MGIB-AD	783	354
Total	**$ 169,918**	**$ 151,177**

ASSUMPTIONS USED TO CALCULATE EDUCATION AND VR&E BENEFIT LIABILITIES

To calculate the present value of the education and VR&E benefit liabilities, actuarial assumptions were used including the discount rate based on 10-year average spot rates which are presented in the following tables. The number of years modeled are 30 years for Post-9/11, 18 years for VR&E, 52 years for DEA and 20 years for MGIB-AD.

	2022			
	Post-9/11	**VR&E**	**DEA**	**MGIB-AD**
Discount Rate for New Enrollees*	2.38%	2.10%	2.54%	-
Discount Rate for Existing Enrollees	2.44%	1.32%	1.17%	1.47%

	2021			
	Post-9/11	**VR&E**	**DEA**	**MGIB-AD**
Discount Rate for New Enrollees*	2.52%	2.26%	2.69%	-
Discount Rate for Existing Enrollees	2.55%	1.35%	1.17%	1.52%

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

VA estimates education and VR&E benefit liabilities for Service members, Veterans and survivors on an actuarial basis. Similar to the compensation and burial models, the models use data that is specific to the population, which is not available from outside sources. VA conducts analysis of the assumptions and relevant information, as compared to experience, to refine the models.

In FY 2022, VA updated assumptions for program utilization by Veterans for the Post-9/11 GI Bill model. The experience study showed lower initial enrollment after age 26 and a shift in the timing of the initial enrollment from early to later in the academic year, which when combined decreased the liability. Lastly, the number of years of initial enrollment was updated from 10 to

12 years and increased the liability slightly. VA also enhanced the model by replacing a load for dependent utilization with a separate set of program utilization assumptions for each beneficiary type. Incorporating these assumptions increased the Post-9/11 GI Bill liability by $28.9 billion as of September 30, 2022.

For VR&E, VA reviewed the assumption for average annual benefits based on an actual to expected analysis and recalibrated the model to the current level. In addition, the method used to calculate the long-term annual benefits assumption changed from an experience study to align with the National Center for Education Statistics and the Consumer Price Index Projection. These updates resulted in a decrease of $18.2 billion in the VR&E liability as of September 30, 2022.

VA updated the dependent generation rate of the DEA model which represents the number of new spouse and child beneficiaries generated in a year, given a population of associated Veterans. The data showed increased rates at which new dependents are generated in the future, resulting in more future payments and a larger liability. In FY 2022, the projected period also changed from 65 years to 50 years as it encompasses 95 percent of the dependents generated as new enrollees. In addition, VA updated assumptions used in the future enrollees model to reflect the recent growth in qualifying disability ratings for the DEA benefit. These updates contributed to an overall increase of $5.2 billion in the DEA liability as of September 30, 2022.

Finally, the MGIB-AD model was updated for program utilization assumptions, including a change to initial population based on the most recent benefit status codes. These changes resulted in an uptick in the initial population which increased the liability. A new assumption was also added to the model to account for a relatively small and declining number of new enrollees. The aggregate of these changes increased the liability by $440 million as of September 30, 2022.

In FY 2023, VA will continue to enhance the Post-9/11 GI Bill, VR&E, DEA and MGIB-AD benefits liability models as appropriate. The Education and VR&E liability estimates are based on experience studies of relevant and reliable data and assumptions; therefore, VA considers these estimates to be reasonably stated as of September 30, 2022.

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, 2021**	**Compensation**	**Burial**	**Education and VR&E**	**Total**
Liability at October 1, 2020	$ 3,854,300	$ 8,800	$ 133,116	$ 3,996,216
Expense:				
Interest on the Liability Balance*	124,500	300	3,641	128,441
Actuarial (Gain)/Loss:				
Changes in Experience (Veterans Counts, Status)*	47,700	(200)	17,391	64,891
Changes in Assumptions:				
Changes in Discount Rate Assumption	224,400	500	3,580	228,480
Changes in COLA Rate Assumption	132,500	400	881	133,781
Changes in Other Assumptions	(7,400)	-	(8,554)	(15,954)
Net (Gain)/Loss from Changes in Assumptions	349,500	900	(4,093)	346,307
Prior Service Costs*	26,300	1,100	14,278	41,678
Total Expense	548,000	2,100	31,217	581,317
Less Amounts Paid*	(110,600)	(300)	(13,156)	(124,056)
Net Change in Actuarial Liability	437,400	1,800	18,061	457,261
Liability at September 30, 2021	**$ 4,291,700**	**$ 10,600**	**$ 151,177**	**$ 4,453,477**

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

*The sum of these changes represents Veterans' benefits actuarial cost, excluding change in actuarial assumptions on the Statement of Net Cost for FY 2021.

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

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

As disclosed in Note 1.Q., in order to recognize a liability for services incurred but not yet paid, VA uses a standard actuarial model, which provides a framework for estimating complete versus incomplete incurred claims based on prior period claim lag patterns. The actuarial liability is developed using monthly claims paid by program and service date, eligibility and enrollment data.

D. FEDERAL EMPLOYEE BENEFITS

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

(dollars in millions)

For the Periods Ended September 30,	**2022**	**2021**
Civil Service Retirement System	$ 49	$ 38
Federal Employees Health Benefits	2,750	2,565
Federal Employees Group Life Insurance	7	6
Total Imputed Expenses-Employee Benefits	**$ 2,806**	**$ 2,609**

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

VA has unfunded Environmental and Disposal Liabilities in the amount of $949 million as of September 30, 2022 and 2021, 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 friable asbestos removal of $156 million and $161 million, for September 30, 2022 and 2021, respectively; and nonfriable asbestos removal of $525 million and $528 million, for September 30, 2022 and 2021, 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. Generally, 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,	**2022**	**2021**
Intragovernmental		
Other liabilities (without Reciprocals)	$ 56	$ 190
Other liabilities - Employee Benefits and Payroll	-	890
Liability to the General Fund of the U.S. Government and Other Non-Entity Assets	2,196	245
Other current liabilities - Benefit contribution payable	615	-
Other Liabilities	123	-
Total Intragovernmental	2,990	1,325
With the Public		
Accrued Annual Leave*	35	32
Energy Savings Performance Contracts and Similar Unfunded Contracts	262	303
Accrued Payables	239	200
Accrued Salaries and Benefits	896	2,122
Contingent Legal Liabilities, Unfunded (Note 18)	796	774
Deposit and Clearing Account Liability	635	255
Other	30	21
Total with the Public	2,893	3,707
Total Other Liabilities	**$ 5,883**	**$ 5,032**

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

NOTE 16. LEASES

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

Operating real property leases generally consist of Veterans medical facilities and clinics, regional and district benefits offices, and administrative facilities. For the period ended September 30, 2022, VA had 1,983 real property leases in effect consisting of approximately 29 million square feet and base annual minimum rental obligations of approximately $1.042 billion. Of the operating real property leases, VHA accounts for 86%, VBA accounts for 9% and Indirect Administrative Program offices account for 5%. Real property leases generally have lease terms ranging from 1 to 50 years. Certain leases contain renewal, termination and cancellation options. Approximately 83% of VA leases are executed directly with third-party commercial property owners (public third-party direct leases) with the balance of the leases executed by the General Services Administration (GSA) (intragovernmental leases) on behalf of VA.

VA executes Occupancy Agreements (OAs) with GSA, which charges rental rates for space that approximates commercial rental rates for similar properties. The terms of GSA OAs vary according to whether the underlying assets are owned directly by the Federal Government or rented by GSA from third-party commercial property owners. Some GSA OAs can be cancellable with varying periods of notice required (generally 4 to 6 months). Cancellation requires a payment of all unamortized tenant improvements and rent concessions not yet earned. GSA OAs 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 the total rent obligation of VA.

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

Due to the number of equipment operating leases and the decentralization of equipment lease records, VA does not present information on non-cancellable equipment leases.

VA's operating lease rental costs for the period ended September 30, 2022 are $1.106 billion for real property rentals and $186 million for equipment rentals. The FY 2021 operating lease costs are $1 billion for real property rentals and $178 million for equipment rentals.

The following table represents VA's projected future non-cancellable operating lease commitments.

(dollars in millions) **For the Years Ending:**	**GSA OAs**	**Third Party Direct Leases**	**Total Real Property**
2023	$ 180	$ 587	$ 767
2024	169	547	716
2025	164	510	674
2026	150	483	633
2027	122	468	590
2028 and Thereafter (in total)	386	3,442	3,828
Total Future Lease Payments (For Non-Cancellable Real Property Operating Leases)	**$ 1,171**	**$ 6,037**	**$ 7,208**

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

The EUL program consists of 77 operational leases of land and/or buildings to state and local governments and the private sector. VA also has four projects with signed leases that are not yet operational as buildings are under construction or awaiting construction. The leases related to NCA's leasing of excess land and buildings at cemeteries are more fully described in Note 20 under the caption, Public Exchange Transactions. The rental income recognized from the EUL program is $2 million for each of the periods ended September 30, 2022 and 2021. The future rental income to be recognized over the next five years and thereafter approximates $72 million.

NOTE 17. LIFE INSURANCE BENEFITS

VA administers six life insurance programs: USGLI, NSLI, VSLI, VRI, S-DVI and VMLI, which are described in Note 1.O.

INSURANCE LIABILITY BALANCES

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

(dollars in millions) **As of September 30, 2021**	**Insurance Death Benefits**	**Death Benefit Annuities**	**Disability Income & Waiver**	**Reserve Totals**
NSLI	$ 1,040	$ 19	$ 4	$ 1,063
USGLI	-	1	-	1
VSLI	770	2	3	775
S-DVI	945	6	742	1,693
VRI	33	-	-	33
VMLI	241	-	-	241
Subtotal	3,029	28	749	3,806
Insurance Dividends Left on Credit or Deposit				567
Dividends Payable to Policy Holders				14
Unpaid Policy Claims				143
Insurance Liabilities Reported on the Balance Sheet				4,530
Less Liabilities not Covered by Budgetary Resources (Note 12)				(1,765)
Liability Covered by Budgetary Resources				**$ 2,765**

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. As of September 30, 2022 and 2021, the USGLI program had a total unpaid policy claim and estimate of claim value less than $0.5 million.

SCHEDULE FOR RECONCILING LIFE INSURANCE UNPAID POLICY CLAIM LIABILITY

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

(dollars in millions) **As of September 30, 2021**	**Unpaid Claim Liability as of October 1, 2020**	**Claims Expenses**	**Less Payments to Settle Claims**	**Ending Unpaid Claim Liability Balance**
NSLI	$ 98	$ 390	$ (414)	$ 74
VSLI	32	141	(144)	29
S-DVI	31	136	(136)	31
VRI	4	11	(13)	2
VMLI	7	34	(34)	7
Total	**$ 172**	**$ 712**	**$ (741)**	**$ 143**

VA supervises two life insurance programs: SGLI and VGLI, which are described in Note 1.O. Within its revolving fund, VA holds excess funds that are not required to cover program liabilities held by Prudential but are available to support the SGLI and VGLI programs. In June 2019, the Secretary determined that $3.4 billion held by Prudential for VGLI were excess reserve funds that were no longer needed to sustain the adverse fluctuations of the program. As a result, Prudential and VA signed an agreement to transfer the excess reserves to VA over a period of five years. Through September 30, 2022, VA has received 13 installments totaling $2.5 billion.

A. CASH SURRENDER VALUE

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

(dollars in millions) **As of September 30,**	**2022**	**2021**
NSLI	$ 716	$ 1,006
VSLI	631	742
S-DVI	785	752
VRI	24	32
Total*	**$ 2,156**	**$ 2,532**

*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 USED

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

(dollars in millions) **For the Period Ended September 30, 2021**	**Program Costs**	**Premiums Collected**	**Appropriations Used**
NSLI	$ 469	$ 29	$ -
VSLI	181	12	-
S-DVI	169	69	103
VRI	15	-	-
VMLI	34	6	28
Total	**$ 868**	**$ 116**	**$ 131**

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.

	2022 Policies	2021 Policies	2022 Face Value	2021 Face Value
	(number of policies)		(dollars in millions)	
Supervised Programs (UNAUDITED)				
SGLI Active Duty	1,442,000	1,478,000	$ 559,639	$ 566,359
SGLI Ready Reservists	675,500	684,500	214,465	214,803
SGLI Post Separation	88,000	77,000	32,203	27,718
SGLI Family - Spouse	905,000	932,000	89,426	92,062
SGLI Family - Children	1,676,000	1,705,000	16,760	17,050
TSGLI*	-	-	211,750	216,250
VGLI	445,419	440,225	89,053	84,739
Total Supervised	5,231,919	5,316,725	1,213,296	1,218,981
Administered Programs				
NSLI	63,983	90,489	808	1,149
VSLI	49,790	59,612	751	896
S-DVI	273,933	276,060	2,883	2,907
VRI	2,739	3,647	27	37
USGLI**	1	3	-	-
VMLI	2,311	2,479	323	353
Total Administered	392,757	432,290	4,792	5,342
Total Supervised and Administered Programs	**5,624,676**	**5,749,015**	**$ 1,218,088**	**$ 1,224,323**

* TSGLI is an automatic rider for all SGLI-insured Service members and the policies are included in the SGLI policy counts.
**USGLI has only one active policy remaining with a face value of less than $0.5

D. POLICY DIVIDENDS

The Secretary determines annually the excess funds available for dividend payment. Policy dividends for FY 2022 and 2021 were $13 million and $27 million, respectively.

NOTE 18. COMMITMENTS AND CONTINGENCIES

VA records a contingent liability of $796 million and $774 million for FY 2022 and FY 2021, 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 Treasury spot rates as of August 2022 and 2021, respectively.

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

(dollars in millions) For the Periods Ended September 30, 2021	Accrued Liabilities	Estimated Range of Loss Low	High
Legal Contingencies			
Probable - Medical Malpractice and Other Torts	$ 548	$ 548	$ 548
Probable - Non-Tort	226	226	560
Reasonably Possible - Non-Tort	-	162	182
Total	**$ 774**	**$ 936**	**$ 1,290**

As of September 30, 2022 and 2021, 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 2019, the US Court of Appeals for Veterans Claims (CAVC) granted a writ petition and certified a class of claimants whose claims for reimbursement of non-VA, non-service-connected emergency treatment expenses were denied because the amount owed was a deductible or coinsurance liability. On March 17, 2022, VA won the appeal to overturn CAVC's judgment that ordered VA to re-adjudicate the reimbursement claims.

VA is involved in pending litigation regarding eligibility for Veterans with separate periods of service who qualify for both MGIB-AD and Post-9/11 GI Bill benefits to receive full benefits under both programs. Eligibility would be subject to an aggregate 48-month limit, which would increase total entitlement by an additional 12 months. In 2021, the Federal Circuit affirmed a CAVC decision that held such Veterans were entitled to additional education benefits. On February 3, 2022, the Federal Circuit granted VA's petition for a rehearing and vacated its prior decision. The parties filed new briefs with the court and oral arguments took place on October 6, 2022. VA is awaiting the court's decision.

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,	**2022**	**2021**
Fiscal Year Settlement Payments	$ 279	$ 176
Less Contract Dispute and “No Fear” Payments	(4)	(4)
Imputed Financing-Paid by Other Entities*	**$ 275**	**$ 172**

*The Imputed Financing-Paid by Other Entities in the table above, when combined with the Total Imputed Expenses – Employee Benefits reported in Note 13 reconciles to total Imputed Financing costs reported in the Consolidated Statement of Changes in Net Position with the difference being Department of Homeland Security (DHS) imputed costs associated with cybersecurity services.

In accordance with 38 Code of Federal Regulations (CFR) § 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 2018 through FY 2022, the average medical care cost per year is $86.5 billion.

NOTE 19. FUNDS FROM DEDICATED COLLECTIONS

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

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

Dedicated Collections Fund Name	Authority	Purpose of Fund	Financing Source
Servicemembers and Veterans Group Life Insurance	38 U.S.C.1965	Insurance to active duty, ready and retired reservists and cadets attending service academies and ROTC.	Public, Veterans
Veterans Reopened Insurance Fund	38 U.S.C.1925	Insurance to World War II and Korean Veterans.	Public, Veterans
Service-Disabled Veterans Insurance Fund	38 U.S.C.1922	Insurance to Veterans with service-connected disabilities.	Public, Veterans
National Service Life Insurance Fund	38 U.S.C.1920	Insurance - Premiums insure WWII Veterans.	Public, Veterans
U.S. Government Life Insurance	38 U.S.C.1955	Insurance - Premiums insure WWI Veterans.	Public, Veterans
Veterans Special Life Insurance Fund	38 U.S.C. 1923 101-228	Insurance - Premiums insure Korean conflict Veterans.	Public, 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 benefit land and buildings

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

(dollars in millions)	Insurance	All Other	Total Combined	Eliminations	Total Consolidated
Balance Sheet as of September 30, 2021					
Assets					
Intragovernmental					
Fund Balance with Treasury	$ 113	$ 592	$ 705	$ -	$ 705
Investments	5,145	91	5,236	-	5,236
Accounts Receivable	-	4	4	-	4
Total Intragovernmental	**$ 5,258**	**$ 687**	**$ 5,945**	**$ -**	**$ 5,945**
With the Public					
Cash	$ -	$ 3	$ 3	$ -	$ 3
Accounts Receivable, Net	1,412	745	2,157	-	2,157
Direct Loan and Loan Guarantees, Net	164	-	164	-	164
Inventory	-	15	15	-	15
General PP&E	-	86	86	-	86
Total Assets	**$ 6,834**	**$ 1,536**	**$ 8,370**	**$ -**	**$ 8,370**
Liabilities					
Intragovernmental					
Accounts Payable	$ 17	$ (5)	$ 12	$ -	$ 12
Total Intragovernmental Liabilities	$ 17	$ (5)	$ 12	$ -	$ 12
With the Public					
Accounts Payable	$ 21	$ 43	$ 64	$ -	$ 64
Federal Employee and Veterans Benefits	4,282	-	4,282	-	4,282
Advances from Others and Deferred Revenue	24	-	24	-	24
Other Liabilities	-	16	16	-	16
Total Liabilities	**$ 4,344**	**$ 54**	**$ 4,398**	**$ -**	**$ 4,398**
Net Position					
Total Net Position	$ 2,490	$ 1,493	$ 3,983	$ (11)	$ 3,972
Total Liabilities and Net Position	**$ 6,834**	**$ 1,547**	**$ 8,381**	**$ (11)**	**$ 8,370**
Statement of Net Cost for the Period Ended September 30, 2022					
Gross Program Costs	$ 377	$ 852	$ 1,229	$ -	$ 1,229
Less Earned Revenues	240	3,461	3,701	(11)	3,690
Net Cost/(Benefit) of Operations	**$ 137**	**$ (2,609)**	**$ (2,472)**	**$ 11**	**$ (2,461)**
Statement of Changes in Net Position for the Period Ended September 30, 2022					
Unexpended Appropriations					
Beginning Balance	$ -	$ 300	$ 300	$ -	$ 300
Net Change in Unexpended Appropriations	-	(244)	(244)	-	(244)
Total Unexpended Appropriations: Ending	**-**	**56**	**56**	**-**	**56**
Cumulative Results of Operations	**$ 2,324**	**$ 1,642**	**$ 3,966**	**$ -**	**$ 3,966**
Budgetary and Other Financing Sources	303	(2,814)	(2,511)	-	(2,511)
Net (Cost)/Benefit of Operations	(137)	2,609	2,472	(11)	2,461
Change in Cumulative Results of Operations	**166**	**(205)**	**(39)**	**(11)**	**(50)**
Cumulative Results of Operations: Ending	**2,490**	**1,437**	**3,927**	**(11)**	**3,916**
Total Net Position	**$ 2,490**	**$ 1,493**	**$ 3,983**	**$ (11)**	**$ 3,972**

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.

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.

B. PUBLIC EXCHANGE TRANSACTIONS

Under 38 CFR 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 utilized. 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 Community Care (OCC) website. Revenue earned but unbilled is estimated using historical average data. An allowance for contractual adjustments from insurance companies and uncollectible amounts is determined using historical average data.

Per 38 CFR 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 § 3712 or to loan assumptions. Rental fees are collected on a small number of properties during the period when the property is titled to VA.

NCA has the following exchange revenue activity:

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

NOTE 21. NET PROGRAMS COSTS BY ADMINISTRATION

(dollars in millions) **For the Period Ended September 30, 2022**	**VHA**	**VBA**	**NCA**	**Indirect Admin**	**Total**
Intragovernmental					
Program Costs	$ 16,204	$ 1,057	$ 71	$ 645	$ 17,977
Less Earned Revenues	(65)	(311)	-	(309)	(685)
Net Intragovernmental Program Costs	**$ 16,139**	**$ 746**	**$ 71**	**$ 336**	**$ 17,292**
With the Public					
Program Costs	$ 101,595	$ 142,248	$ 437	$ 2,399	$ 246,679
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	-	155,088	-	-	155,088
Less Earned Revenues	(4,891)	(212)	-	(305)	(5,408)
Net Program Costs	**$ 96,704**	**$ 297,124**	**$ 437**	**$ 2,094**	**$ 396,359**
Net Program Cost by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions	$ 112,843	$ 297,870	$ 508	$ 2,430	$ 413,651
Net (Gain)/Loss from Actuarial Liability Assumptions (Note 13)	-	1,526,453	-	-	1,526,453
Net Cost of Operations	**$ 112,843**	**$ 1,824,323**	**$ 508**	**$ 2,430**	**$ 1,940,104**

(dollars in millions) **For the Period Ended September 30, 2021**	**VHA**	**VBA**	**NCA**	**Indirect Admin**	**Total**
Intragovernmental					
Program Costs	$ 14,954	$ 972	$ 65	$ 565	$ 16,556
Less Earned Revenues	(106)	(286)	-	(259)	(651)
Net Intragovernmental Program Costs	**$ 14,848**	**$ 686**	**$ 65**	**$ 306**	**$ 15,905**
With the Public					
Program Costs	$ 93,053	$ 131,059	$ 409	$ 1,992	$ 226,513
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	-	110,954	-	-	110,954
Less Earned Revenues	(3,502)	(257)	-	(187)	(3,946)
Net Program Costs	**$ 89,551**	**$ 241,756**	**$ 409**	**$ 1,805**	**$ 333,521**
Net Program Cost by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions	$ 104,399	$ 242,442	$ 474	$ 2,111	$ 349,426
Net (Gain)/Loss from Actuarial Liability Assumptions (Note 13)	-	346,307	-	-	346,307
Net Cost of Operations	**$ 104,399**	**$ 588,749**	**$ 474**	**$ 2,111**	**$ 695,733**

NOTE 22. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

A. BORROWING AUTHORITY

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

	2022		2021	
(dollars in millions)	**Value**	**Interest Rate**	**Value**	**Interest Rate**
Home Loan Guarantee Program	$ 114	1.6%	$ 684	2.3%
Vocational Rehabilitation Program Direct Loans	1	0.2%	1	1.6%

B. PERMANENT INDEFINITE APPROPRIATIONS

VA has two permanent and indefinite appropriations to cover housing financial transactions and unexpected housing losses. They are: 1) The Veterans Housing Benefit Program Fund account covers all subsidy costs (i.e., 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 Housing Loan Program account covers all subsidy costs arising from Veteran Native American direct loan obligations.

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

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

The table below reflects material differences between the FY 2021 Statement of Budgetary Resources and the actual amounts reported in the FY 2023 President's Budget of the U.S. Government. The FY 2024 President's Budget with the actual amounts from VA's FY 2022 Statement of Budgetary Resources is expected to be released in February 2023 and may be obtained from OMB or the Government Publishing Office.

(dollars in millions) **For the Period Ended September 30, 2022**	**Budgetary Resources**	**New Obligations & Upward Adjustments**	**Distributed Offsetting Receipts**	**Net Outlays**
Actual Balances per the 2023 Budget of the U.S. Government	$ 314,666	$ 261,695	$ (4,323)	$ 241,663
Reconciling Items:			-	-
Expired Unobligated Funds	2,632	-	-	-
Expired Prior Year Budget Authority	1,528	-		-
Medical Care Collection Fund - Copayments	-	-	(3,146)	-
Special Funds not in the U.S. Budget but in the SBR	7	-	1	(365)
Offsetting Differences between the U.S. Budget and the SBR	-	-		-
Miscellaneous Differences	3	4	(48)	(1)
Per the 2021 Statement of Budgetary Resources	**$ 318,836**	**$ 261,699**	**$ (7,516)**	**$ 241,297**

D. USE OF UNOBLIGATED BALANCE OF BUDGET AUTHORITY

Within the Statement of Budgetary Resources, Unobligated Balances represents 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,**	**2022**		**2021**	
	Paid	**Unpaid**	**Paid**	**Unpaid**
Intragovernmental Undelivered Orders	$ 2,483	$ 6,707	$ 2,634	$ 4,467
Undelivered Orders	-	17,477	25	16,182
Total Undelivered Orders	**$ 2,483**	**$ 24,184**	**$ 2,659**	**$ 20,649**

F. LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

(dollars in millions) **As of September 30,**	**2022**	**2021**
Unapportioned Amounts Unavailable for Future Apportionments	$ 11,579	$ 7,795
Expired Authority	2,472	2,632
Total Unobligated Balances	**$ 14,051**	**$ 10,427**

G. CONTRIBUTED CAPITAL

For the years ended September 30, 2022 and 2021, General Post Fund donations totaled $40 million and $77 million, respectively.

H. NET ADJUSTMENTS TO UNOBLIGATED BALANCE BROUGHT FORWARD

(dollars in millions)

As of September 30,	**2022**	**2021**
Unobligated Balance, Prior Year	$ 57,137	$ 39,514
Funds Paid to Treasury	(18)	(77)
Recoveries of Prior Year Obligations	3,139	3,864
Other	(21)	(67)
Unobligated Balance from Prior Year Budget Authority, Net	**$ 60,237**	**$ 43,234**

NOTE 23. BUDGET AND ACCRUAL RECONCILIATION

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

(dollars in millions) For the Period Ended September 30, 2022	Intra-governmental	With the Public	Total
Net Operating Cost (SNC)	**$ 17,292**	**$ 1,922,812**	**$ 1,940,104**
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant and Equipment Depreciation Expense	-	(1,853)	(1,853)
Property, Plant and Equipment Disposal and Reevaluation	-	(317)	(317)
Adjustment to Prior-Year Credit Reform Subsidy Re-Estimates	-	5,301	5,301
Cost of goods sold	(1,173)	(160)	(1,333)
Applied Overhead/Cost Capitalization Offset	-	596	596
Increase/(Decrease) in Assets:			
Accounts Receivable, net	(985)	266	(719)
Loans Receivable, net	-	(6)	(6)
Other Assets	(226)	44	(182)
Investments	7	-	7
(Increase)/Decrease in Liabilities:			
Accounts Payable	1,324	8,714	10,038
Federal Employee and Veterans Benefits	-	(1,679,328)	(1,679,328)
Other Liabilities	(124)	1,217	1,093
Other Financing Sources			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(3,081)	-	(3,081)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(4,258)**	**(1,665,526)**	**(1,669,784)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	252	3,268	3,520
Inventories and Related Property	(9)	482	473
Effects of Prior Year Credit Reform Subsidy Reestimates	154	-	154
Total Components of Net Operating Cost Not Part of the Budget Outlays	**397**	**3,750**	**4,147**
Financing Sources			
Transfers in/out without Reimbursements	(160)	-	(160)
Total Financing Sources	**(160)**	**-**	**(160)**
Miscellaneous Items			
Appropriated Receipts for Trust/Special Funds	4,029	-	4,029
Distributed Offsetting Receipts	-	(4,724)	(4,724)
Other	22	236	258
Total Miscellaneous Items	**4,051**	**(4,488)**	**(437)**
Total Net Outlays			**$ 273,870**
Budgetary Agency Outlays, Net (SBR)			
Budgetary Agency Outlays, Net			**$ 273,870**

(dollars in millions) For the Period Ended September 30, 2021	Intra-governmental	With the Public	Total
Net Operating Cost (SNC)	**$ 15,905**	**$ 679,828**	**$ 695,733**
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant and Equipment Depreciation Expense	-	(1,814)	(1,814)
Property, Plant and Equipment Disposal and Reevaluation	-	(205)	(205)
Year-End Credit Reform Subsidy Re-Estimates	(2,744)	-	(2,744)
Cost of goods sold		(317)	(317)
Inventory disposals and revaluations	-	32	32
Increase/(Decrease) in Assets:			
Accounts and Taxes Receivable, net	(2,288)	(1,096)	(3,384)
Loans Receivable, net	-	(22)	(22)
Other Assets	200	9	209
Investments	595	-	595
(Increase)/Decrease in Liabilities:			
Accounts Payable	(1,691)	5,194	3,503
Loans Guarantee Liability	-	1	1
Environmental and Disposal Liabilities	-	23	23
Federal Employee and Veterans Benefits	-	(461,070)	(461,070)
Other Liabilities	1,660	527	2,187
Other Financing Sources			
Federal Employee Retirement Benefit Costs Paid by OPM Imputed to Agency	(2,781)	-	(2,781)
Other Imputed Finance			
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(7,049)**	**(458,738)**	**(465,787)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	-	3,313	3,313
Inventories and Related Property	-	302	302
Negative Subsidy Credit Reform	2,117	-	2,117
Effects of Prior Year Credit Reform Subsidy Reestimates	221	-	221
Total Components of Net Operating Cost Not Part of the Budget Outlays	**2,338**	**3,615**	**5,953**
Financing Sources			
Transfers in/out without Reimbursements	(155)	-	(155)
Total Financing Sources	**(155)**	**-**	**(155)**
Miscellaneous Items			
Year-End Credit Reform Upward Reestimate Accruals	2,927	-	2,927
Activity in Fund Types with no Budgetary Outlays	120	3,018	3,138
Distributed Offsetting Receipts	(7,516)	-	(7,516)
Other	(512)	-	(512)
Total Miscellaneous Items	**(4,981)**	**3,018**	**(1,963)**
Total Net Outlays			**$ 233,781**
Budgetary Agency Outlays, Net (SBR)			
Budgetary Agency Outlays, Net			**$ 233,781**

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 are disclosed below.

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

(dollars in millions) **As of September 30, 2021**	**Actual Amount Received in FY**	**Actual Amount Paid in FY**	**Estimated Amount to be Received in Future Years**	**Estimated Amount to be Paid in Future Years**
EUL	$ 2	$ 14	$ 69	$ -
ESPC	-	63	-	914
UESC	-	33	-	191
Total	$ 2	$ 110	$ 69	$ 1,105

A. ENHANCED USE LEASES

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

Most recently, VA's EUL authority was amended by P.L. 117-168, PACT Act, which was enacted on August 10, 2022. This law broadened VA's existing EUL authority as follows: VA is now permitted to enter into EULs that provide supportive housing or enhance the use of the leased property by directly or indirectly benefitting Veterans; VA EULs are now permitted to be up to 99 years in duration; and there is no longer an expiration date on VA's EUL authority. The PACT Act also provided VA with $922 million to enter into EULs.

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

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

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

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

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

Benefits to VA from the EUL program include:

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

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

(dollars in millions) **As of September 30, 2021**	**Total Cumulative Funding by VA over life of Arrangement**	**Total Cumulative Funding by Private Sector over life of Arrangement**
EUL	$ 78	$ 1,673

B. ENERGY SAVINGS PERFORMANCE CONTRACTS AND UTILITY ENERGY SERVICE CONTRACTS

VA has entered into energy savings performance contracts (ESPC) and utility energy service contracts (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.

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

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

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

The benefits of ESPCs and UESCs include:

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

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

(dollars in millions) As of September 30, 2021	**Total Cumulative Funding by VA over life of Arrangement**	**Total Cumulative Funding by Private Sector over life of Arrangement**
ESPC	$ 100	$ 640
UESC	115	199
Total	**$ 215**	**$ 839**

NOTE 25. COVID-19 ACTIVITY

VA has experienced significant challenges related to COVID-19 and to address these challenges, Congress enacted a series of supplemental appropriations in FY 2020 and FY 2021.

A. AMERICAN RESCUE PLAN ACT OF 2021

In FY 2021, VA received supplemental appropriations of $17.1 billion to respond to COVID-19 under the ARP Act, (P.L. 117-2). The ARP Act funds have various periods of availability, ranging from September 2021 through 2023, or until expended. The Consolidated Appropriations Act, 2022 (P.L. 117-103) rescinded $76.1 million from the Office of Information Technology, Section 8003 of the ARP supplemental appropriation (P.L. 117-2). As shown below, the remaining amounts available under ARP for obligation is approximately $5.2 billion.

(dollars in millions) **For the Period Ended September 30, 2022**	**Appropriations Received**	**Allocated (with Transfers)**	**Obligations Incurred**	**Remaining Available for Obligation**	**Outlays (cumulative)**
Veterans Medical Care and Health Fund	$ 14,482	$ 14,482	$ 9,687	$ 4,795	$ 7,238
Medical Services	628	653	650	3	640
Medical Community Care	322	332	331	1	331
Grants for Construction of Extended Care Facilities	500	500	499	1	5
Medical Care Collections Fund	300	265	248	17	248
General Operating Expenses (VBA)	262	262	141	121	121
Readjustment Benefits	386	386	203	183	141
Information Technology Systems	100	24	24	-	-
Office of Inspector General	10	10	9	1	6
Emergency Employee Leave	80	80	26	54	26
Board of Veterans Appeals	10	10	5	5	5
Total	**$ 17,080**	**$ 17,004**	**$ 11,823**	**$ 5,181**	**$ 8,761**

(dollars in millions) **For the Period Ended September 30, 2021**	**Appropriations Received**	**Allocated (with Transfers)**	**Obligations Incurred**	**Remaining Available for Obligation**	**Outlays (cumulative)**
Medical Care and Health Needs	$ 14,482	$ 14,482	$ 7	$ 14,475	$ 5
Prohibited Copayments and Cost Sharing	1,000	1,000	244	756	244
State Veterans Homes	750	750	354	396	250
Veteran Rapid Retraining Assistance Program	386	386	32	354	49
Claims and Appeals	272	272	2	270	1
Supply Chain Modernization	100	100	-	100	-
Emergency Employee Leave	80	80	18	62	18
Office of Inspector General	10	10	-	10	-
Total	**$ 17,080**	**$ 17,080**	**$ 657**	**$ 16,423**	**$ 567**

The below provides the purpose for each COVID fund established under the ARP Act.

Program	Purpose
Medical Care and Health Needs	To cover the impacts of delays in care and Veterans' greater reliance on VA health care due to loss of other health insurance or other economic impacts from the pandemic. To fund sustainment of CARES Act supported staffing and service-level expansions, in suicide prevention, women's health, VA homelessness programs and telehealth.
Prohibited Copayments and Cost Sharing	Allows VA to waive copays that otherwise would be charged to Veterans for VA health care services and authorizes VA to reimburse Veterans who have recently submitted payments for care they received during this period.
State Veterans Homes (SVHs)	Construction funds to states for projects to upgrade and enhance safety and operation of SVHs. One-time emergency payments to enhance treatment of Veterans, including cleaning services, PPE or other equipment and temporarily expanding staffing levels.
Veteran Rapid Retraining Assistance Program	To support up to 12 months of retraining assistance for Veterans who are unemployed due to COVID-19 and do not have other Veteran education benefits. To cover the cost of the retraining program and a housing allowance while they undergo training.
Claims and Appeals	To mitigate the impacts of the pandemic on the benefits claims and appeals backlog caused by delays in claim development, which resulted from COVID-19 related shutdowns. To increase staff overtime in FY 2022, expand VBA funded scanning of service records from Federal records facilities impacted by COVID-19 and improve scheduling of hearings. To support the Board's mail processing, add temporary intake specialists, attorneys and staff to support tele-hearings.
Supply Chain Modernization	To provide investments in information technology systems to support the acceleration of VA's supply chain modernization efforts.
Emergency Employee Leave	A new fund established to pay VA for the use of paid leave by any covered employee who is unable to work due to impacts from COVID-19.
Office of Inspector General	To support oversight of VA projects and activities carried out pursuant to the ARP Act.
Information Technology	To support increased telework, telehealth and call center capabilities, VA OIT switched to remote working environment for all non-health employees, increasing bandwidth to assist the delivery to health care, benefits services and financial management activities directly related to coronavirus, including the purchasing of devices to support, plan, execute and monitor resources needed to support a rapid pandemic response.

B. FAMILIES FIRST CORONAVIRUS RESPONSE ACT AND CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT

In FY 2020, VA received supplemental appropriations of $60 million under the Families First Act (P.L. 116-127) and $19.6 billion under the CARES Act (P.L. 116-136) to respond to COVID-19. The Consolidated Appropriations Act, 2021 (P.L. 116-260), Continuing Appropriations Act, 2021 and Other Extensions Act (P.L. 116-159) authorized the transfer of funds among the class of COVID appropriations. The result of such allocations is captured under the As Reallocated column. As of September 30, 2022, the funds available for obligation under the Families First and CARES Act are approximately $256 million as shown in the table below.

(dollars in millions) **As of September 30, 2022**	**Appropriation**	**As Reallocated**	**Obligated (cumulative)**	**Unobligated**	**Outlays (cumulative)**
Medical Services	$ 14,462	$ 8,021	$ 7,816	$ 205	$ 7,625
Medical Community Care	2,130	7,630	7,630	-	7,630
Medical Support and Compliance	100	355	328	27	324
Medical Facilities	606	746	742	4	637
Canteen Service	-	140	140	-	140
Joint DOD-VA Medical Facility Demonstration Fund	-	10	10	-	10
Information Technology Systems	2,150	2,195	2,188	7	2,116
General Operating Expenses (VBA)	13	351	339	12	272
National Cemetery Administration	-	12	11	1	10
Grants for Construction of State Extended Care Facilities	150	150	150	-	47
General Administration	6	6	6	-	6
Board of Veterans Appeals	-	1	1	-	1
Office of Inspector General	12	12	12	-	12
Total	**$ 19,629**	**$ 19,629**	**$ 19,373**	**$ 256**	**$ 18,830**

(dollars in millions) **As of September 30, 2021**	**Appropriation**	**As Reallocated**	**Obligated (cumulative)**	**Unobligated**	**Outlays (cumulative)**
Medical Services	$ 14,462	$ 8,021	$ 7,964	$ 57	$ 7,159
Information Technology Systems	2,150	2,195	2,195	-	1,589
Medical Community Care	2,130	7,630	7,630	-	7,630
Medical Facilities	606	756	752	4	505
Grants for Construction of State Extended Care Facilities	150	150	150	-	-
Medical Support and Compliance	100	355	332	23	270
General Operating Expenses (VBA)	13	351	347	4	86
Canteen Service	-	140	140	-	140
Office of Inspector General	12	12	12	-	12
National Cemetery Administration	-	12	12	-	2
General Administration	6	6	6	-	4
Board of Veterans Appeals	-	1	1	-	1
Total	**$ 19,629**	**$ 19,629**	**$ 19,541**	**$ 88**	**$ 17,398**

The below provides the purpose for each COVID fund established under the CARES Act.

Program	Purpose
Medical Services	To support the increased demand for health care services at VA facilities and through telehealth, the purchase of medical equipment and supplies, testing kits and personal protective equipment. To support vulnerable Veterans through programs assisting Veterans who are homeless or at-risk of becoming homeless, as well as VA-run nursing homes and community living centers. VA also provides support to the public during declared emergencies such as COVID-19. VA is currently authorized to provide care and certain health services for non-Veterans.
Information Technology	To support increased telework, telehealth and call center capabilities, VA OIT switched to remote working environment for all non-health employees, increasing bandwidth to assist the delivery to health care, benefits services and financial management activities directly related to coronavirus, including the purchasing of devices to support, plan, execute and monitor resources needed to support a rapid pandemic response.
Medical Community Care	To support increased demand for care in the community, specifically emergency room and urgent care.
Medical Facilities	To support development of alternative sites of care and procurement of mobile treatment centers to meet the demand for health care services, improvements in security and non-recurring maintenance projects to existing infrastructure and utility systems at VA facilities.
Grants for Construction of Extended Care Facilities	To support modification or alteration of existing hospital, nursing home and domiciliary facilities in state homes to prevent, prepare for and respond to COVID-19.
Medical Support and Compliance	To increase outreach efforts to ensure Veterans know how and where to receive care and expand 24-hour operations of the crisis response and continuity of operations within VA's Office of Emergency Management (OEM). This includes overtime, travel and transportation of materials to enable OEM to manage the response to COVID-19.
General Operating Expenses	To provide additional software licenses and telework support for VBA staff and to enhance cleaning and sanitation service contracts.
Canteen Service	To prevent, prepare for and respond to COVID-19. For offsetting losses of Canteen Service collections.
Office of Inspector General	To support oversight of VA's efforts to prevent, prepare for and respond to COVID-19.
National Cemetery Administration	To support operations, maintenance and other expenses to prevent, prepare for and respond to COVID-19, including the elimination of backlogs that may have occurred.
Emergency Management	To expand and maintain 24-hour operations of Crisis Response and Continuity of Operations Plan implementation at various sites, and to expand cleaning and sanitation service in high traffic facilities.
Board of Veterans' Appeals	To support personnel costs and other expenses to prevent, prepare for and respond to COVID-19, including the reduction of appeals pending intake and hearing requests.

NOTE 26. 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 a 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 2021 FR can be found on the Treasury website and a copy of the FY 2022 FR will be posted to this site as soon as it is released, generally in January.

FY 2022 VA Statement of Net Cost (dollars in millions)		**Funds from Dedicated Collections**	**Funds From Dedicated Collections Elimination**	**Other than Funds from Dedicated Collections Net of Elimination**	**Elimination Between Dedicated and Other than Dedicated**	**Line Items Used to Prepare FY 2022 Government-wide Statement of Net Cost**	
Financial Statement Line	Amounts					Amounts	Reclassified Financial Statement Line
Gross Costs	419,818						Non-federal Costs
		609	-	401,158	-	401,767	Non-federal Gross Cost
		609	-	401,158	-	401,767	Total Non-federal Costs
							Intragovernmental Costs
		30	-	9,982	-	10,012	Benefit Program Costs
		-	-	3,081	-	3,081	Imputed Costs
		52	-	2,146	(77)	2,121	Buy/Sell Costs
		-	-	74	-	74	Purchase of Assets
		-	-	20	-	20	Borrowing and Other Interest Expense
		-	-	2,743	-	2,743	Other Expenses (w/o Reciprocals)
		82	-	18,046	(77)	18,051	Total Intragovernmental Costs
Total Gross Costs	**419,818**	**691**	**-**	**419,204**	**(77)**	**419,818**	Total Reclassified Gross Costs
Earned Revenue	(6,167)	(4,874)	-	(534)	-	(5,408)	Non-Federal Earned Revenue
							Intragovernmental Revenue
		(32)	10	(438)	69	(391)	Buy/Sell Revenue
		-	-	(74)	-	(74)	Purchase of Assets Offset
		(128)	-	-	-	(128)	Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange)
		-	-	(166)	-	(166)	Borrowing and Other Interest Revenue
		(160)	10	(678)	69	(759)	Total Intragovernmental Earned Revenue
Total Earned Revenue	**(6,167)**	**(5,034)**	**10**	**(1,212)**	**69**	**(6,167)**	Total Reclassified Earned Revenue
Gain/Loss-Pension/ORB/OPEB Assumptions	1,526,453	-	-	1,526,453	-	1,526,453	Gain/Loss on Changes in Actuarial Assumptions (Non-Federal)
Net Cost	**1,940,104**	**(4,343)**	**10**	**1,944,445**	**(8)**	**1,940,104**	Net Cost

FY 2022 VA Statement of Changes in Net Position *(dollars in millions)*		**Funds from Dedicated Collections**	**Funds From Dedicated Collections Elimination**	**All Other Funds Net of Elimination**	**Elimination Between All Other and Dedicated Collections**	**Line Items Used to Prepare FY 2022 Government-wide Statement of Changes in Net Position**	
Financial Statement Line	**Amounts**					**Amounts**	**Reclassified Financial Statement Line**
UNEXPENDED APPROPRIATIONS							
Unexpended Appropriations, Beginning Balance	62,076	56	-	62,020	-	62,076	Net Position, Beginning of Period
Appropriations Received	271,310	(35)	-	271,345	-	270,613	Appropriations Received as Adjusted
Other Adjustments	(697)	-	-	(697)	-		Appropriations Received as Adjusted
Appropriations Transferred In/Out	159	-	-	159	-	159	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources (Federal)
Total Appropriations Transferred In/Out	159	-	-	159	-	159	Total Reclassified Appropriations Transferred In/Out
Appropriations Used	(264,683)	(5)	-	(264,678)		(264,683)	Appropriations Used (Federal)
Net Change in Unexpended Appropriations	6,089	(40)	-	6,129	-	6,089	Net Change in Unexpended Appropriations
Total Unexpended Appropriations	**68,165**	**16**	**-**	**68,149**	**-**	**68,165**	**Total Unexpended Appropriations**
CUMULATIVE RESULTS OF OPERATIONS							
Beginning Balance	(4,429,975)	3,916	-	(4,433,891)	-	(4,429,975)	Net Position, Beginning of Period
Appropriations Used	264,683	5	-	264,678	-	264,683	Appropriations Expended
Non-Exchange Revenues	23	-	-	23	-	23	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	17	-	-	-	40	Other Taxes and Receipts (Non-Federal)
Donations and Forfeitures of Property	23	23	-	-	-		
Transfers In/Out without Reimbursement	160	3,887	-	-	(3,887)	-	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-In
		(3,887)	-	-	3,887	-	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-Out
		-	-	3,887	(3,887)	-	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
		(3,887)	-	(10)	3,887	(10)	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
		108	-	153	(108)	153	Expenditure Transfers-In of Financing Sources
		-	-	(108)	108	-	Expenditure Transfers-Out of Financing Sources
		(8)		17	8	17	Transfers-in/out w/o Reimbursement
		(3,787)	-	3,939	8	160	Total Reclassified Transfers In/Out w/o Reimbursement – Budgetary (Federal)
Other	(3,456)	-	-	(1,537)	-	(1,537)	Non-Entity Custodial Collections Transferred to the General Fund
		-	-	(1,919)	-	(1,919)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund
Total Other	(3,456)	-	-	(3,456)	-	(3,456)	Total Reclassified Other
Imputed Financing	3,081	-	-	3,081	-	3,081	Imputed Financing Sources (Federal)
Net Cost of Operations	(1,940,104)	4,343	(10)	(1,944,445)	8	(1,940,104)	Reclassified Net Cost of Operations
Net Change	(1,675,573)	601	(10)	(1,676,180)	16	(1,675,573)	Net Change
Ending Balance – Cumulative Results of Operations	**(6,105,548)**	**4,517**	**(10)**	**(6,110,071)**	**16**	**(6,105,548)**	**Ending Balance – Cumulative Results of Operations**
Total Net Position	**(6,037,383)**	**4,533**	**(10)**	**(6,041,922)**	**16**	**(6,037,383)**	**Total Net Position**

REQUIRED SUPPLEMENTARY INFORMATION

DEFERRED MAINTENANCE AND REPAIRS

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

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

VA facilities reported their cost estimates for deferred maintenance and repairs by performing periodic Facility Condition Assessment (FCA) Surveys, which are inspections of PP&E based on generally accepted methods and standards. These are consistently applied to assign condition ratings and estimate costs for each fixed asset to correct deficiencies. An independent interdisciplinary professional contractor team tours and evaluates approximately 6,000 VA buildings on a three-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 general 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 general 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,	**2022**	**2021**
General PP&E	$ 13,263	$ 12,647
Heritage Assets	1,203	1,083
Total Deferred Maintenance and Repairs	**$ 14,466**	**$ 13,730**

COMBINING STATEMENT OF BUDGETARY RESOURCES

DEPARTMENT OF VETERANS AFFAIRS
COMBINING STATEMENT OF BUDGETARY RESOURCES
FOR THE PERIOD ENDED SEPTEMBER 30, 2022
(dollars in millions)

	Veterans Health Administration						
	0140 Medical Community Care	**0152 Medical Support**	**0160 Medical Services**	**0162 Medical Facilities**	**0172 Veterans Choice Fund**	**All Other Funds**	**VHA Total**
Budgetary Resources							
Unobligated Balance from Prior Year Budget Authority, Net	$ 2,086	$ 781	$ 5,798	$ 1,179	$ 293	$ 22,367	$ 32,504
Appropriations	23,956	8,373	61,462	7,067	-	11,226	112,084
Spending Authority from Offsetting Collections	-	57	136	21	-	516	730
Total Budgetary Resources	**$ 26,042**	**$ 9,211**	**$ 67,396**	**$ 8,267**	**$ 293**	**$ 34,109**	**$ 145,318**
Status of Budgetary Resources							
New Obligations and Upward Adjustments	$ 25,622	$ 8,460	$ 62,817	$ 7,210	$ 20	$ 21,530	$ 125,659
Apportioned, Unexpired Accounts	346	207	3,651	914	273	12,253	17,644
Unapportioned, Unexpired Accounts	-	-	-	-	-	8	8
Unexpired Unobligated Balance, End of Year	346	207	3,651	914	273	12,261	17,652
Expired Unobligated Balance, End of Year	74	544	928	143	-	318	2,007
Unobligated Balance, End of Year	420	751	4,579	1,057	273	12,579	19,659
Total Status of Budgetary Resources	**$ 26,042**	**$ 9,211**	**$ 67,396**	**$ 8,267**	**$ 293**	**$ 34,109**	**$ 145,318**
Outlays, Net							
Outlays, Net	$ 25,260	$ 8,531	$ 62,079	$ 6,875	$ 8	$ 17,387	$ 120,140
Distributed Offsetting Receipts	-	-	-	-	-	(3,962)	(3,962)
Agency Outlays, Net	**$ 25,260**	**$ 8,531**	**$ 62,079**	**$ 6,875**	**$ 8**	**$ 13,425**	**$ 116,178**
Disbursements, Net	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

(Continued on next page)

DEPARTMENT OF VETERANS AFFAIRS
COMBINING STATEMENT OF BUDGETARY RESOURCES
FOR THE PERIOD ENDED SEPTEMBER 30, 2022
(dollars in millions)

	Veterans Benefits Administration						
	0102 Compensation and Pensions	**0137 Readjustment Benefits**	**4129 Veteran Housing Program**	**8132 Life Insurance Fund**	**0151 General Operating Expenses**	**All Other Funds**	**VBA Total**
Budgetary Resources							
Unobligated Balance from Prior Year Budget Authority, Net	$ 9,336	$ 5,477	$ 7,643	$ -	$ 621	$ 3,648	$ 26,725
Appropriations	139,183	14,947	-	361	3,543	2,776	160,810
Borrowing Authority	-	-	-	-	-	115	115
Spending Authority from Offsetting Collections	-	151	5,587	11	2,588	1,492	9,829
Total Budgetary Resources	**$ 148,519**	**$ 20,575**	**$ 13,230**	**$ 372**	**$ 6,752**	**$ 8,031**	**$ 197,479**
Status of Budgetary Resources							
New Obligations and Upward Adjustments	$ 130,936	$ 11,679	$ 2,335	$ 372	$ 6,403	$ 3,362	$ 155,087
Apportioned, Unexpired Accounts	17,423	8,896	-	-	132	4,470	30,921
Unapportioned, Unexpired Accounts	-	-	10,895	-	-	154	11,049
Unexpired Unobligated Balance, End of Year	17,423	8,896	10,895	-	132	4,624	41,970
Expired Unobligated Balance, End of Year	160	-	-	-	217	45	422
Unobligated Balance, End of Year	17,583	8,896	10,895	-	349	4,669	42,392
Total Status of Budgetary Resources	**$ 148,519**	**$ 20,575**	**$ 13,230**	**$ 372**	**$ 6,752**	**$ 8,031**	**$ 197,479**
Outlays, Net							
Outlays, Net	$ 139,732	$ 11,862	$ -	$ 453	$ 3,484	$ 1,850	$ 157,381
Distributed Offsetting Receipts	-	-	-	(25)	-	(612)	(637)
Agency Outlays, Net	**$ 139,732**	**$ 11,862**	**$ -**	**$ 428**	**$ 3,484**	**$ 1,238**	**$ 156,744**
Disbursements, Net	**$ -**	**$ -**	**$ (3,279)**	**$ -**	**$ -**	**$ (54)**	**$ (3,333)**

(Continued on next page)

DEPARTMENT OF VETERANS AFFAIRS
COMBINING STATEMENT OF BUDGETARY RESOURCES
FOR THE PERIOD ENDED SEPTEMBER 30, 2022
(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	$ 33	$ 60	$ 15	$ 550	$ 350	$ 975	$ 60,237
Appropriations	444	420	233	-	244	897	274,235
Borrowing Authority	-	-	-	-	-	-	115
Spending Authority from Offsetting Collections	2	371	-	1,852	2,206	4,429	14,990
Total Budgetary Resources	**$ 479**	**$ 851**	**$ 248**	**$ 2,402**	**$ 2,800**	**$ 6,301**	**$ 349,577**
Status of Budgetary Resources							
New Obligations and Upward Adjustments	$ 435	$ 792	$ 221	$ 1,829	$ 1,854	$ 4,696	$ 285,877
Apportioned, Unexpired Accounts	34	24	8	573	445	1,050	49,649
Unapportioned, Unexpired Accounts	4	6	15	-	497	518	11,579
Unexpired Unobligated Balance, End of Year	38	30	23	573	942	1,568	61,228
Expired Unobligated Balance, End of Year	6	29	4	-	4	37	2,472
Unobligated Balance, End of Year	44	59	27	573	946	1,605	63,700
Total Status of Budgetary Resources	**$ 479**	**$ 851**	**$ 248**	**$ 2,402**	**$ 2,800**	**$ 6,301**	**$ 349,577**
Outlays, Net							
Outlays, Net	$ 407	$ 412	$ 225	$ (112)	$ 141	$ 666	$ 278,594
Distributed Offsetting Receipts	-	-	-	-	(125)	(125)	(4,724)
Agency Outlays, Net	**$ 407**	**$ 412**	**$ 225**	**$ (112)**	**$ 16**	**$ 541**	**$ 273,870**
Disbursements, Net	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (3,333)**

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 utilized, underutilized or not being put to optimum use.

VA LAND BY PREDOMINANT USE

Land held by VA is categorized into two predominant use categories: commercial and operational. The estimated acreage by each predominant use category is presented below.

Commercial land is property intended to generate a profit or commercial benefit. At VA, there are limited circumstances where previously underutilized 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.

Operational land is property that serves functions or activities directed toward achieving VA's mission. The majority of VA land holdings fall within this category across all three administrations, supporting activities such as clinical care, benefits provision and active cemeteries. VA's national cemeteries are classified as stewardship land. For more information, refer to Note 9 and Note 10.

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

	Commercial	Operational	Total Estimated Acreage
General PP&E			
End of Current Year	0.13	16,143.97	16,144.10
Stewardship Land			
End of Current Year	-	23,220.70	23,220.70
Held for Disposal or Exchange			
End of Current Year	-	202.62	202.62

LAND RIGHTS

VA uses leasing as an acquisition solution to promote swift activation and flexibility to meet Veteran demographic changes, and to meet short-term space demands. For more information, refer to Note 16.

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 2022 and 2021

AUDIT	**REPORT #22-01155-14**	**NOVEMBER 15, 2022**

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

November 15, 2022

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 2022 and 2021

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, 2022 and 2021, and for the fiscal years then ended. This audit is an annual requirement of the Chief Financial Officers Act of 1990. The results of CLA's audit are presented in the attached report.
2. CLA provided an unmodified opinion on VA's financial statements for fiscal year (FY) 2022 and FY 2021. 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 are as follows:
   - Controls over significant accounting estimates
   - Financial systems and reporting
   - Information technology security controls
4. CLA also identified two significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The two significant deficiencies are as follows:
   - Obligations, undelivered orders, and accrued expenses
   - Entity-level controls including chief financial officer organizational structure

5. The information technology security controls material weakness has been reported for more than 10 years. Regarding the other material weaknesses and significant deficiencies, CLA has changed titling, elements, or classification either as a material weakness or significant deficiency over time, but in general, CLA has reported control deficiencies in these areas at least since FY 2016.

6. Regarding noncompliance with laws and regulations, CLA identified:

- Substantial noncompliance with federal financial management systems requirements and the United States Standard General Ledger at the transaction level under the Federal Financial Management Improvement Act of 1996 (FFMIA), reported in part for more than 10 years.
- Improvements needed to fully comply with the intent of the Federal Managers' Financial Integrity Act, reported since 2015.
- Instances of noncompliance with Title 38 of the United States Code, section 5315, pertaining to the charging of interest and administrative costs, reported for more than 10 years.
- Five violations of the Antideficiency Act, Title 31 of the United States Code, section 1341 (a), reported in FY 2022. CLA previously reported these five instances as potential violations carried forward from prior years that were deemed to be actual violations of the Antideficiency Act during FY 2021. CLA also reported that VA has two potential violations under review. CLA has reported actual or potential violations of the Antideficiency Act since FY 2012.
- Noncompliance with the Payment Integrity Information Act for FY 2021, previously reported by the OIG since 2012, originally as noncompliance with the Improper Payments Elimination and Recovery Act.

Page iii

To: Secretary of Veterans Affairs

7. CLA is responsible for the attached audit report dated November 15, 2022, and the conclusions expressed in the report. The OIG does not express opinions on VA's financial statements, internal control, or compliance with FFMIA, nor does the OIG express conclusions on VA's compliance with laws and regulations. The independent auditors will follow up on these internal control and compliance findings and evaluate the adequacy of corrective actions taken during the FY 2023 audit of VA's financial statements.

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

Attachment

CliftonLarsonAllen LLP
CLAconnect.com

Independent Auditors' Report

Secretary
United States Department of Veterans Affairs

Inspector General
United States Department of Veterans Affairs

In our audits of the fiscal years 2022 and 2021 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, 2022, and 2021, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- Three material weaknesses and two significant deficiencies for fiscal year (FY) 2022 in internal control over financial reporting based on the limited procedures we performed; and
- Five reportable noncompliance matters for FY 2022 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 2022 financial statement balances, and required supplementary information (RSI)[1] and other information[2] included in the Agency Financial Report (AFR); (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements and other matters; and (4) VA's response to our findings and recommendations.

Report on the Audit of the Financial Statements

<u>Opinion</u>
We have audited the accompanying financial statements of VA, which comprise the consolidated balance sheet as of September 30, 2022, and 2021; 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, 2022, and 2021, 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", and "Schedule of Budgetary Activity", 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 U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of VA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 13 to the financial statements, VA continued to make assumption updates and refinements to its actuarial models for compensation and education program type estimates in FY 2022. These models are based on assumptions and data that VA determines will reflect the best estimate of the present value of future cash flows; however, due to the inherent uncertainty and variability of actuarial estimates, actual results may materially differ from model outcomes. 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 obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to 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.

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.

INDEPENDENT AUDITORS' REPORT (Continued)

- 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 inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditors' 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.

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

INDEPENDENT AUDITORS' REPORT (Continued)

financial reporting and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, during our audit, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies, described below and in Exhibit A and Exhibit B.

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

Controls Over Significant Accounting Estimates

The Veterans Benefits Administration (VBA) modeling activities that produce significant accounting estimates for the compensation, education, and loan guaranty programs warrant management's continued focus.

Financial Systems and Reporting

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

Information Technology Security Controls

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

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

Obligations, Undelivered Orders (UDOs), and Accrued Expenses

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

Entity Level Controls including Chief Financial Officer (CFO) Organizational Structure

VA continues to have control weaknesses throughout the organization with respect to financial reporting, as described in this report. These weaknesses are primarily attributed to a decentralized and fragmented organizational structure for financial management and reporting; the lack of an effective, comprehensive, and

INDEPENDENT AUDITORS' REPORT (Continued)

integrated financial management system and a challenging IT environment; and the undue reliance placed on manual processes to identify or correct errors with financial information.

During our FY 2022 audit, we identified deficiencies in VA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant VA management's attention. We have communicated these matters to VA management separately.

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

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

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, 2022, in accordance with *Government Auditing Standards*, we considered VA's internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of VA's internal control over financial reporting or on management's assurance statement on the overall effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on VA's internal control over financial reporting or on management's assurance statement on the overall effectiveness of internal control over financial reporting. We are required to report all deficiencies that are considered to be material weaknesses or significant deficiencies. We did not consider or evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

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

INDEPENDENT AUDITORS' REPORT (Continued)

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 2022, 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*. Our responsibilities under those standards are further described in the Auditors' Responsibilities for Tests of Compliance section below.

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

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

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

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

INDEPENDENT AUDITORS' REPORT (Continued)

regulations, contracts, and grant agreements applicable to VA. We caution that noncompliance may occur and not be detected by these tests.

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

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of VA's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditors' Report, dated November 15, 2021. 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 44. 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, 2022

EXHIBIT A
Material Weaknesses

1. Controls over Significant Accounting Estimates

Background:

VBA is responsible for administering various programs that provide financial and other forms of assistance to Veterans, their dependents, and survivors. Three large benefit programs that have significant accounting estimates and impact VA's financial statements for FY 2022 reporting are (1) compensation, (2) education, and (3) loan guaranty programs. VBA has made progress in the development and implementation of corrective actions to mitigate financial reporting risks for these programs. However, we continue to identify control deficiencies within VBA's modeling activities that require management's continued focus and strengthening of internal controls.

The primary education benefit programs are the Post-9/11 GI Bill (Chapter 33), Veteran Readiness and Employment (VRE, Chapter 31), Survivor's and Dependents' Educational Assistance (Chapter 35), and Montgomery GI Bill Active Duty (Chapter 30), collectively referred to as education programs. VBA management is responsible for establishing a process for preparing accounting estimates, which should include relevant internal controls such as adequate review and approval of the estimate by appropriate levels of authority, and comparison of prior estimates with subsequent results to assess reliability of the process used to develop the estimate. VBA's Office of Financial Management (OFM) uses complex models to estimate the present value of future benefits for the compensation and education programs as of the end of the FY and reported a total liability of $6.1 trillion as of September 30, 2022.

VBA also manages VA's home loan guaranty program that provides a guarantee to commercial lenders against losses from Veterans' mortgage loan defaults. VBA uses complex econometric models to estimate future net cash flows to be paid by VA over the life of the loans and determine the cost of these guarantees on a present value basis for budgetary and financial reporting purposes. Ultimately, these models produce an estimate that is reported as the largest component of the Liability for Loan Guarantee (LLG) in the balance sheet. VBA's OFM, headed by VBA's CFO, is responsible for preparing the LLG estimate and maintaining the models and reported a total liability of $9.9 billion as of September 30, 2022.

Conditions:

VBA uses a variety of modeling techniques to produce the accounting estimates for their compensation, education, and loan guaranty benefit programs. These models require updates and refinements to their inputs such as financial data, assumptions, and non-financial data. VBA continues to make progress to correct certain control deficiencies related to their modeling efforts. VBA has expanded their team of actuaries that possess the technical knowledge and experience for performing these complex estimates and enhanced their collaboration and communication through the involvement of actuaries outside of VBA operations. In addition, VBA completed a number of experience studies which resulted in improvements to the assumptions used in the models for the Veterans benefits liability estimate. Although they have made these improvements, the following weaknesses remain for significant accounting estimates:

A. <u>Veterans Benefits Actuarial Liability Estimate</u>
The Veterans benefits liability balance reported at September 30, 2022, consists largely of VBA's compensation ($6.0 trillion) and education ($169.9 billion) liability estimates. The reasonableness of those estimates is highly dependent on the relevancy and completeness of the underlying data and the assumptions used within the actuarial models. While there are certain assumptions that get updated due to economic factors, such as cost-of-living-adjustments (COLA) and discount

EXHIBIT A
Material Weaknesses

rates, others are based on experience studies conducted by VBA. In FY 2022, there were large changes in the compensation and education estimates due to these types of studies and other modeling refinements, as described below. Variability and uncertainty are inherent in an estimation process, and updates are necessary as better information or methodologies are identified. However, large changes may indicate the need for adjustments to the timing of studies or refinements and require management's continued focus.

1. Assumption updates based on experience studies and refinements – There were significant changes to management's estimates as a result of the following updates or refinements:
   - Compensation – There was an increase of $728.0 billion due to the Veterans new case and benefit level distribution rates assumption update from FY 2017 and the Veterans mortality rates update from FY 2016.
   - Education – There was a total net increase of $18.7 billion, of which $16.3 billion is a result of changes in assumptions other than COLA and discount rates. These changes were due to various updates and refinements to the program models such as changing to a more relevant and reliable data source and developing related assumptions, payment calibration, using external data for benefit growth rates, using new case and mortality rates from the compensation study, and changing the benefit status code.
2. Performing actual-to-expected analyses (look-back) – VBA performed actual-to-expected payment analyses on both model types, which compared the prior year model projection for the current year to the actual FY 2022 expenses, including a look-back to the enhanced models, which suggested there was model improvement (i.e., smaller variance). However, the education programs continued to have variances that require further research and consideration for assumption updates or refinements, including whether the frequency is appropriate.

B. <u>Loan Guarantee Liability</u>

VBA's Housing Model summarizes historical data on activities related to the VA loan programs, estimates specific assumptions regarding the programs' future performance, and calculates estimated future program cash flows. The model is comprised of two main components: the Variable Default Model (VDM) and the Cash Flow Model. Although VBA has improved some of the model deficiencies that we have reported in prior years, the following still remain:

1. Lack of a loan level model approach – The VDM model is designed to estimate the probability of default at the loan cohort level. Specifically, cohorts are defined by the year of loan origination and the type of loan product. The lack of loan level modeling to include granular geographical location, mark-to-market and other critical underwriting characteristics at the individual loan level creates potential for bias and/or inefficiencies in assumptions. Forecasting estimates using loan-level data would allow for more robust modeling and an increased precision in projecting the amount and timing of cash flows.
2. VBA has made improvements regarding its documentation around model oversight and in the establishment of a governance structure. We note the governance around the models has improved by defining the processes for engaging and involving senior leadership outside of the budget office for critical decisions and oversight over the loan guaranty subsidy modeling activities. However, the governance structure established had not been implemented for the majority of FY 2022, therefore the specifics around its processes, documentation, and efficacy over the LGY modeling activities remains undetermined.

EXHIBIT A
Material Weaknesses

Understanding that the recently established governance structure is maturing as a governing body, we continue to identify that model governance is still in need of improvement. Specifically:

- During the majority of FY 2022, there was a lack of model governance, which includes board oversight, a system of internal controls for ongoing monitoring, and adequate documentation. Additionally, for the majority of FY 2022, there was no formal board, or committee overseeing modeling and modeling activities.
- There is a lack of formalized and detailed processes and procedures for the monitoring, development, updating, and maintaining of modeling policies, controls, and risk assessment.
- There is a lack of comprehensive model validation to ensure ongoing monitoring, analysis, risk assessment, review, and documentation to support key model decision making and change management.

Criteria:

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

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

FASAB's Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of The Federal Government,* states "Postemployment benefits other than pensions (OPEB) include all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents". SFFAS 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*, Section 35, Reasonable Estimates, states, "The entity's estimates should reflect its judgment about the outcome of events based on past experience and expectations about the future. Estimates should reflect what is reasonable to assume under the circumstances."

FASAB's Federal Financial Accounting and Auditing Technical Release 6*: Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act*, provides specific guidance for loan and loan guaranty programs.

Government-wide audited Financial Statements Task Force Credit Reform, Issue Paper, Reference No. 96-CR-7, Section II, *Model Credit Program Methods and Documentation for Estimating Subsidy Rates and the Model Information Store.*

Cause:

A. Although the experience studies updated the significant assumptions according to the assumption update schedule (no more than 5-years), one of the studies was updated in the 6-year timeframe (i.e., mortality study). The schedule of the assumption updates and modeling refinements may have contributed to the significant impacts to the estimates.

EXHIBIT A
Material Weaknesses

B. Management has been delayed in addressing the corrective actions for the loan guaranty program models identified in the prior years. While a governance board has been implemented, there is a lack of developing and maintaining strong model governance, policies and controls over the model risk management framework.

Effect:

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

Recommendations:

We recommend that the Assistant Secretary for Management/CFO and the VBA CFO:

1. Strengthen the following practices regarding the compensation and education actuarial models by continuing to:
   a) Review and ensure the reasonableness of assumptions used and document the rationale behind these assumptions.
   b) Update/refine the actuarial 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.
   c) Consider changes in conditions or programs that require further research and analysis to update the assumptions when necessary. Changes to the model assumptions/inputs should be clearly documented and supported.
   d) Conduct the appropriate analyses, review, and validation of data sources.
   e) Perform sensitivity analyses to assess the impact on the estimates from the various changes in the assumptions. Based on the assumption, consider changing the variation (for example, lowering 25% to 10%).
   f) Annually, review the assumption update schedules in the policy and procedures document and assess whether adjustments are needed.

2. Continue and expand look-back analyses on the assumptions and other relevant factors used in the calculations to assess the reasonableness of the model outputs.
   a) Compare estimates with subsequent results to assess the reliability of the assumptions and data used to develop estimates. Perform these analyses for more than one year to identify trends and to ensure model updates are not creating greater variability in actual expenses and projections.
   b) Identify significant variances to be investigated and researched.

3. Include the following enhancements to the VA Home Loan Guaranty Program modeling activities:
   a) Utilize the best available data which is loan level data as input to the default model versus at a cohort level and ensure audit readiness in year of implementation. Include variables at the loan level to account for certain significant underwriting characteristics, geographic specific house price appreciation, and mark-to market valuations.
   b) Implement policies and procedures that support the formal model oversight, with a control framework for such areas as program, budget, accounting, and econometrics.
   c) Use a strong model oversight framework to:
      - Ensure comprehensive model validation.
      - Ensure policies and procedures are carried out and needed resources are allocated.

EXHIBIT A
Material Weaknesses

- Ensure the oversight framework includes the appropriate components of internal control as found in GAO's Standards for Internal Control in the Federal Government.

2. Financial Systems and Reporting

Background:

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

Conditions:

The majority of VA's financial systems and reporting control weaknesses stem from the antiquated financial management system and will remain until iFAMS is fully implemented. VA continues to refine its financial reporting practices, but many of these issues have existed for years and require extensive efforts to change the current business processes. Through FY 2022, VA's financial systems and reporting issues remain in the following areas:

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

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

EXHIBIT A
Material Weaknesses

1. VA's FMS system has limitations which result in transactions mapped to the incorrect Federal or Non-Federal attributes as a default. FMS does not have the system functionality to meet the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) reporting requirements. The high-volume, high dollar JVs are entered into MinX to adjust trading partner and general ledger attributes (including adding main account codes, changing "Fed and Non-Fed" attributes) in order 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 2022, VA recorded material adjustments to correct errors in recoveries for approximately $618 million (absolute value).

C. <u>Issues with Intragovernmental Agreements and Reconciliations</u>
VA does not have a complete centralized repository for all active intragovernmental agreements to support and facilitate its transaction level research and reconciliation. Therefore, the accounts involving intragovernmental financial transactions, such as obligations, unfilled customer orders, and offsetting collections recorded in FMS, do not agree to the agreement amounts in the repository. The VA intragovernmental differences by trading partner approximated $615 million as of June 30, according to the U.S. Department of Treasury.

Criteria:

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

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

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

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

Cause:

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

EXHIBIT A
Material Weaknesses

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 prior to recording them on the financial statements.
      - Continue to perform in-depth analyses and/or reviews of the PYR automated tool results to assess accuracy. The review should consist of selecting a predetermined sample of transactions and vouching to supporting documentation.
      - As part of the system modernization efforts, establish PYR practices and transaction codes that are consistent with USSGL when transactions occur.

EXHIBIT A
Material Weaknesses

3. Intragovernmental agreements and reconciliations:
   a) Ensure compliance with the reimbursable policy to provide the final agreement to the centralized repository. Continue to work to maintain and validate all intragovernmental agreements in that repository to ensure they are current and contain all the required terms and conditions. Perform an inventory review of those agreements to:
      - Determine whether balances are recorded in FMS accurately.
      - Ensure that agreements in the repository reflect an active or closed status, identify obligation amounts separately from the agreement values, and ensure that values are supported by agreements or task orders released against the agreement.
      - Automate cumulative reconciliation between the repository and the general ledger system and perform it monthly.
   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 in June 2021.

3. Information Technology Security Controls

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 47 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 2022. Examples of improvements within its IT control environment include further implementation of infrastructure monitoring and logging tools and techniques. VA has increased their visibility with these tools to their supporting server infrastructure in recent years. We also noted improvements in the system security documentation such as risk assessments, plan of action and milestones (POA&Ms), and interconnection agreements. VA also has continued predictive scanning of its networks allowing for the identification of vulnerabilities across field offices and continued to mitigate recent vulnerabilities present on its networks. VA has also piloted

EXHIBIT A
Material Weaknesses

passive vulnerability scanning for segments of the network typically isolated from normal scan activity.

The aforementioned controls require time to mature and show evidence of their effectiveness. Additionally, controls need to be applied in a comprehensive manner to information systems across VA in order to be considered consistent and fully effective. For example, VA continues to migrate systems to cloud environments which provide vendor support for a certain subset of security controls. However, we continue to identify weaknesses in control processes related to those applications even after migration. Therefore, the effective and consistent implementation of controls are inconsistent whether they are hosted at a VA data center or cloud environment. In addition, several weaknesses have been identified with increased frequency in 2022 such as more systems with inactive and terminated accounts, more instances of applications with account review or audit logging weaknesses, and instances of system outages or disruptions that were not recovered within stated objective timeframes. 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. Moving forward, VA needs to ensure a proven process is in place across the agency. VA also needs to continue to address control deficiencies that exist in other areas across all VA locations.

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

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

Conditions:

Configuration Management

- Systems including key databases supporting financial applications were not timely patched or securely configured to mitigate known and unknown information security vulnerabilities. The deployment of vendor patches, configuration settings, and system upgrades to mitigate the vulnerabilities was not effective across all VA facilities, systems, and network segments. Furthermore, VA did not scan all of the devices connected to its

EXHIBIT A
Material Weaknesses

networks with credentials and therefore did not have a complete inventory of vulnerabilities. Thus, we could not verify that all VA computers undergo continuous monitoring to ensure they remain securely configured, free of technical vulnerabilities, and adequately patched.

- Key financial management systems had configuration weaknesses and outdated technology that hinders mitigation of certain vulnerabilities. While VA has purchased extended support for some of its software, we noted many instances of unsupported software that did not have extended vendor support. This has resulted in numerous unresolved security issues that expose other VA systems to possible security breaches stemming from unmitigated software vulnerabilities.
- VA made progress in implementing controls to segment medical devices; however, we continued to identify instances where segmentation was not appropriately configured to prevent detection during vulnerability testing.
- There were weaknesses in the process for monitoring configuration baseline standards. Specifically, not all platforms were monitored for compliance with approved baselines.
- The process for developing and maintaining an accurate listing of software, hardware, and component inventory was not fully implemented throughout the enterprise.
- Change management procedures for authorizing, documenting, testing, and approving system changes were not consistently implemented for networks and mission-critical systems.
- VA did not employ automated mechanisms to prevent the execution of changes to systems prior to approval.
- An agency-wide process was not fully implemented for identifying and removing unauthorized application software on Agency systems. VA has made progress by expanding automated software monitoring and continues to work on implementing an enterprise wide continuous monitoring solution for unauthorized software.

Access Controls

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

EXHIBIT A
Material Weaknesses

Security Management

- Security Control Assessments (SCAs) were not consistently performed for new systems requiring an Authority to Operate (ATO) and existing systems going through re-authorization. In addition, most SCAs were conducted by groups that were not independent of the systems they manage, and the groups did not consistently assess the effectiveness of the controls in place. Additionally, we identified systems that were given ATOs without undergoing security reviews, privacy impact assessments (PIAs), and contingency plan tests.
- Security and risk management processes were not consistently performed and documented within the IT Governance, Risk and Compliance (GRC) tool. We identified instances of controls that were not adequately documented, controls that were not assessed, and incomplete risk assessments.
- VA's system of record for background investigations was inaccurate. In addition, some personnel did not receive the proper level of investigation for their position sensitivity levels. Furthermore, the centralized method for monitoring the investigation status of contractors was newly implemented and did not track all contractors.
- POA&Ms were not consistently updated to incorporate all known control weaknesses (i.e., those identified by SCAs) and documentation was inadequate to support closed actions.

Contingency Planning

- Contingency plans were not consistently documented, reviewed, updated, or tested. In addition, contingency plans were missing several key elements to identify which assets, interdependent systems, and processes directly support mission essential functions and business functions.
- High priority incidents involving system outages and disruptions were not recovered within documented recovery time objectives.

Criteria:

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

OMB A-130 also states that, "Agencies shall implement an agency-wide risk management process that frames, assesses, responds to, and monitors information security and privacy risk

EXHIBIT A
Material Weaknesses

on an ongoing basis across the three organizational tiers (i.e., organization level, mission or business process level, and information system level)."

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

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

Cause:

Dispersed locations, continued reorganization, and diversity of applications have impacted facilities' 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 above their baseline even though the risks still remain on their network. These weaknesses should not be counted as mitigated until technical or operational measures can be enacted to remove or reduce the risk.

In addition, VA recently underwent a system boundary re-organization which aligned their main systems along area and district territories. This has created a new system boundary structure and VA system inventory, thus complicating the consistent and effective implementation of an established information security program. Consequently, VA continues to be challenged with consistent and proactive enforcement of established policies and procedures throughout its geographically dispersed portfolio of legacy applications and newly implemented systems.

Effect:

By not effectively implementing and enforcing IT policies and procedures, there is an increased risk that financial and personally identifiable information may be inadvertently or deliberately misused and could result in improper disclosure or theft of information without detection. Further,

EXHIBIT A
Material Weaknesses

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 medical devices from unnecessary access to the general network.
3. Ensure that all baseline configurations are appropriately monitored for compliance with established VA security standards.
4. Fully develop a comprehensive list of approved and unapproved software. Implement automated continuous monitoring processes to identify and prevent the use of unauthorized software on agency devices.
5. Implement improved change control procedures to ensure the consistent documentation, testing, and approval of system changes for VA financial applications and networks.
6. Implement improved processes to ensure compliance with VA password policy and security configuration baselines on domain controls, operating systems, databases, applications, and network devices.
7. Implement improved processes for periodic reviews of system and application accounts to ensure appropriate access rights and remove generic and inactive accounts on systems and networks. Implement improved processes to ensure the proper completion of termination processes for separated personnel.
8. Implement improved processes to ensure the proper completion and retention of user access request forms that enforce principles of least system privilege. Implement technical access controls that will restrict user access based on defined roles and enforce adequate segregation of duties principles.
9. Strengthen agency-wide incident response procedures to ensure timely notification, reporting, updating, and resolution of computer security incidents. Implement improved processes for monitoring system audit logs for unauthorized or unusual activities and privileged functions across all systems and platforms.
10. Implement an improved continuous monitoring program including processes for reviewing and updating key security documentation; and processes to ensure security control implementation status and risks are accurately reported.

EXHIBIT A
Material Weaknesses

11. Strengthen processes to ensure appropriate levels of background investigations are completed, documented, and tracked. Implement improved processes for establishing and maintaining accurate investigation data within VA systems.
12. Implement improved mechanisms to ensure system owners and information system security officers follow procedures for establishing, tracking, updating, and closing POA&Ms.
13. Review and update existing contingency plans to include critical information systems, components, interdependencies, and detailed recovery priorities. Ensure contingency plans for all systems and applications are updated and tested in accordance with VA requirements.

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 2022, 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 17 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 were not closely monitored and validated by management to ensure recorded obligations and accrued expenses were not overstated. With respect to the potential overstatement of accrued expenses, VA continues to use a monthly auto-accrual process to liquidate obligations and record accruals for accounts payable without evidence of goods or services received. The auto-accrual process is prone to errors and cannot replace active monitoring by management to verify completeness and accuracy of the obligation and related accounts payable balances. The monitoring activities used by VA to validate accounts payable and accrued balances need to be strengthened. VA's obligations based on 1358s approximated $10.4 billion for the year ended September 30, 2022, of which $2.04 billion in UDOs remained outstanding at year-end.

VA did not adequately perform a comprehensive look-back analysis or validation of its accrual methodology for its non-Community Care activity, which resulted in significant manual adjustments of approximately $2.0 billion at June 30 and $2.3 billion at September 30 to accurately report the Accounts Payable balances. Further, a manual adjustment of approximately $557 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:

EXHIBIT B
Significant Deficiencies

- Untimely liquidation of inactive UDOs – Delays ranged from six months to three years and eleven months.
- Untimely recording of contracts or modifications into the general ledger system (FMS) – Delays ranged from approximately one month to three years and three months.
- Over-obligation of funds – Recorded obligations exceeded the contract or purchase order amounts.
- Procurement procedures were not followed in obtaining goods or services – 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 accompanied by the lack of effective oversight and monitoring controls.

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, 2022.

Recommendations:

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

1. Continue efforts to develop and refine methodologies for establishing and validating non-Community Care obligations and accruals to improve financial reporting.
2. For non-Community Care programs, establish and implement detailed guidance and procedures to assist staff in reviewing open obligations and automated accruals for potential adjustment. Include instructions, supplemented with trainings, on performing root cause analysis, and follow-up on inactive and aged obligations. Continue efforts to reduce the use of 1358s, research alternatives that provide better control, and improve monitoring of them. Develop strategies and controls to ensure the proper recording of contracts or modifications in FMS.
3. Improve the periodic look-back validations; i.e., perform analyses of obligation and accrual balances reported for non-Community Care programs against subsequent activity to:
   a) Ensure accuracy of financial reporting and to maximize budgetary resources.
   b) Identify significant variances to be investigated and researched.

EXHIBIT B
Significant Deficiencies

4. Perform 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. Entity Level Controls including Chief Financial Officer (CFO) Organizational Structure

Background:

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

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

Condition:

In FY 2022, VA continues to have control weaknesses throughout the organization with respect to internal controls over financial reporting. These weaknesses are primarily attributed to a decentralized and fragmented organizational structure for financial management and reporting; the lack of an effective, comprehensive, and integrated financial management system and a challenging IT environment; and the undue reliance placed on manual processes to identify or correct errors with financial information. Further, active involvement from VA's senior leadership is required to overcome organizational siloes and ensure a collaborative strategic structure to effectively mitigate the control weaknesses identified in this report.

A. <u>Control Environment</u>
The VA established the CFO Council to serve as an advisory committee to the VA CFO to address longstanding financial management control weaknesses. VA's internal controls over financial reporting continue to evolve in certain areas, and we have observed significant steps to address material weaknesses previously identified. However, we continue to identify weaknesses and areas for improvement around the untimely resolution of significant matters that impacted VA's financial reporting in FY 2022. These matters were included in Material Weaknesses 1, 2, and Significant Deficiency 1 of this report.

EXHIBIT B
Significant Deficiencies

B. Control Activities and Monitoring

The control activities of an organization are the policies, procedures, and techniques that management uses to address operational, programmatic, and financial reporting risks. These activities require sufficient and descriptive documentation that is clear and concise to ensure that the appropriate steps are executed to achieve the desired objective. In addition, active monitoring by VA at the entity level and within each business line (e.g., VHA, VBA, and National Cemetery Administration) is critical to evaluating the design and effectiveness of the internal control system. An effective monitoring system uses control activities such as regular management and supervisory reviews, reconciliation, automated tools, and other activities to identify deficiencies in need of corrective action. Overall, VA's risk assessment process should provide the principal basis for developing the appropriate responses to risks. However, we continue to report repeated weaknesses in VA's financial management and IT environment. VA has not effectively mitigated these weaknesses in a timely manner.

In FY 2022, we continued to identify deficiencies in control activities and monitoring at the entity level as identified in this report. Details can be found in the sections of this report describing individual material weaknesses, Significant Deficiency 1, and noncompliance with FFMIA and FMFIA. The resolution of these longstanding weaknesses requires senior management attention and VA-wide efforts and time to ensure consistent and focused implementation of corrective actions.

Criteria:

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

The CFO Act of 1990 stipulates the following:

Sec. 902. Authority and functions of agency Chief Financial Officers, states:
"a. An agency Chief Financial Officer shall—

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

EXHIBIT B
Significant Deficiencies

5. direct, manage, and provide policy guidance and oversight of agency financial management personnel, activities, and operations, including-
   A. the preparation and annual revision of an agency plan to-- (i) implement the 5-year financial management plan prepared by the Director of the Office of Management and Budget under section 3512(a)(3) of this title; and (ii) comply with the requirements established under sections 3515 and subsections (e) and (f) of section 3521 of this title;
   B. the development of agency financial management budgets;
   C. the recruitment, selection, and training of personnel to carry out agency financial management functions;
   D. the approval and management of agency financial management systems design or enhancement projects;
   E. the implementation of agency asset management systems, including systems for cash management, credit management, debt collection, and property and inventory management and control;
6. monitor the financial execution of the budget of the agency in relation to actual expenditures and prepare and submit to the head of the agency timely performance reports."

Cause:

Collaboration to mitigate financial reporting risks can take time to develop and strengthen in a decentralized financial management organization and may be difficult to maintain over time. Since VA has such a complex, disjointed, and legacy financial system architecture that cannot fully support financial management needs without significant manual intervention, continued involvement from senior leadership across the decentralized organization is required to ensure accountability controls at the enterprise level.

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 and CFO Council:

1. Continue efforts with executing a transparent, collaborative, and accountable culture across organizational components by:
   - Openly sharing information regarding issues, root causes of issues/findings, analyses, and best practices.
   - Working with responsible parties to implement corrective actions to timely address and mitigate identified issues/risks.
   - Encouraging communication and collaboration under the CFO's leadership to establish working level committees to resolve any identified accounting, financial management, and reporting issues.

EXHIBIT B
Significant Deficiencies

- Involving other stakeholders such as key leaders from acquisition, logistics, and asset management to collaboratively address financial management issues and develop risk mitigation strategies.
- Providing the necessary financial management training and performance monitoring to continuously elevate the financial management capabilities and knowledge within VA.

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

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 System 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 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 2022:

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

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

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

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

EXHIBIT C
Noncompliance Findings

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

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

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

- The Centralized Administrative Accounting Transaction System (CAATS)
- The Benefits Delivery Network (BDN)
- The Veterans Services Network (VETSNET)
- The interface from the Long Term Solutions (LTS) system (now Digital GI Bill or DGI) to the Benefits Delivery Network (BDN) is a one-way process. Education benefit payments were determined and processed in LTS/DGI and transferred through the system interface to BDN for payment by VBA. However, the payment data in BDN did not feed back into LTS/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, LTS/DGI, FOCAS (system used for Flight on the Job Training program), etc.), some of which do not interface with FMS. Further, due to the limited functionality of these systems, intensive manual efforts are necessary to adjudicate and process education benefits. These manual processes create additional inherent risk and leave room for error.

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

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

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

EXHIBIT C
Noncompliance Findings

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

2. Noncompliance with FMFIA

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

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

VA management continued in FY 2022 to strengthen VA Administrations' use of the Reporting Entity Internal Control Assessment (ICA) which supports the required assurances. The ICA is used to assess VA-wide entity level risk and to consolidate various on-going assessment efforts throughout VA to increase efficiency. However, we found the following areas in need of improvement in order to fully comply with the intent of FMFIA:

- VA did not implement best practices to use transactional level testing to support the assurance statements at the individual reporting entity level, which ultimately support the Secretary's assurance statement.
- 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 perform tests of design, tests of effectiveness, or both over key cycles such as Insurance, Loan Management, Revenue and Receivables Management, and Financial Reporting in FY 2022.

3. Noncompliance with 38 USC 5315

VBA did not charge interest or administrative costs on delinquent payments for receivables outstanding over 90 days related to the compensation, pension, and education benefit programs. Historically, VA's long-standing policy to not charge interest is based on a former VA Deputy Secretary's July 1992 instruction.

The requirement to charge interest and administrative costs on receivables not paid "within a reasonable period of time" after notification is specified in 38 USC Sec 5315, *Interest and administrative cost charges on delinquent payments of certain amounts due the United States*.

VA continues to be noncompliant with this requirement based on its long-standing policy.

EXHIBIT C
Noncompliance Findings

4. Actual and Potential Violations of the Antideficiency Act

VA reported five violations of the Antideficiency Act, 31 U.S.C. 1341 (a), during FY 2022, as follows:

A. ADA Violations Reported in FY 2022:

- Palo Alto VA Medical Center, combined a minor construction project and a non-recurring maintenance (NRM) project to exceed the $10 million ceiling allowed for minor projects.
- Puget Sound Healthcare System (HCS), combined two minor construction projects and an NRM project to exceed the $10 million ceiling allowed for minor projects.
- Oklahoma City VA Medical Center, combined a minor construction project with an NRM project to exceed the $10 million ceiling allowed for minor projects.
- Providence VA Medical Center, combined two minor construction projects to exceed the $10 million ceiling allowed for minor projects.
- West Haven VA Medical Center, an NRM project changed to a minor construction project, which subsequently exceeded the $10 million ceiling allowed for minor projects.

In the prior year, we reported that these five instances were carried forward from previous years as potential violations and were deemed to be actual violations of the Antideficiency Act during FY 2021.

B. Other Matters:
VA has two potential violations of the Antideficiency Act that are under review.

5. Noncompliance with Payment Integrity Information Act

On June 28, 2022, the VA Office of Inspector General reported that VA did not fully comply for FY 2021 with the Payment Integrity Information Act of 2019.

EXHIBIT D
Status of Prior Year Findings

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

Type of Finding	*Fiscal Year (FY) 2021 Finding*	*Fiscal Year (FY) 2022 Status*
Material Weakness	Controls Over Significant Accounting Estimates	Modified Repeat – See FY 2022 Material Weakness Finding 1
Material Weakness	Financial Systems and Reporting	Modified Repeat – See FY 2022 Material Weakness Finding 2
Material Weakness	Information Technology Security Controls	Modified Repeat – See FY 2022 Material Weakness Finding 3
Significant Deficiency	Obligations, Undelivered Orders (UDOs), and Accrued Expenses	Modified Repeat – See FY 2022 Significant Deficiency Finding 1
Significant Deficiency	Entity Level Controls including Chief Financial Officer (CFO) Organizational Structure	Modified Repeat – See FY 2022 Significant Deficiency Finding 2
Noncompliance	Noncompliance with FFMIA	Repeat – See Noncompliance Finding 1
Noncompliance	Noncompliance with FMFIA	Repeat – See Noncompliance Finding 2
Noncompliance	Noncompliance with 38 U.S.C. 5315	Repeat – See Noncompliance Finding 3
Noncompliance	Actual and Potential Violations of the Antideficiency Act	Modified Repeat – See Noncompliance Finding 4
Noncompliance	Noncompliance with Improper Payments Elimination and Recovery Act	Repeat – See Noncompliance Finding 5

OTHER INFORMATION

VA Honors Women on the Front Lines

Pictured in the previous page: U.S. Navy Lieutenant Elizabeth Rettle, Petty Officer 3rd Class Helen Kenworthy and U.S. Coast Guard, and Specialist Jessica Collet U.S. Army all performing services.

Historically, women served on the front lines as nurses, ambulance drivers and relief workers. Female physicians ran their own hospital units and served in the military as contract surgeons during World War I. More than 59,000 nurses served on the front lines in the Army Nurse Corps during World War II. They served under fire in field hospitals, on hospital trains and hospital ships, and as flight nurses on medical transport planes. Throughout both world wars and in the Korean and Vietnam conflicts, many faced discrimination and criticism when they prioritized serving their country over taking care of their families.

Women now serve on multiple front lines. They are leaders within their units, at hospitals, and serve as military police officers, chief nurses, educators and trainers, front-line combat pilots, disaster response coordinators, scientists, medical directors and more.

Today, women are also on the front line of establishing policy at the highest levels of national defense. U.S. Army General Laura Richardson currently leads the U.S. Southern Command and U.S. Air Force General Jacqueline Van Ovost currently leads the U.S. Transportation Command. The Honorable Christine Wormuth is the Secretary of the Army, and Dr. Kathleen Hicks is the Deputy Secretary of Defense.

During this ongoing pandemic, VA has seen our own front-line health care workers in leadership roles at their respective facilities. They delivered solutions to problems and led large-scale triage systems, urgent medical staffing, equipment and PPE ordering, and national telehealth programs.

Women front line workers championed VA in distributing 8.9 million vaccine doses to more than 4.1 million people nation-wide.

“As you reflect on your service on the front lines, know that we see you,” said Lourdes Tiglao, director of VA’s Center for Women Veterans. “We see your achievements. We see how much time and effort you’ve put into this as a front-line worker. See the sacrifices you’ve made in your own lives to provide healing and hope to others.”

INSPECTOR GENERAL'S MANAGEMENT AND PERFORMANCE CHALLENGES

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

September 30, 2022

FOREWORD

The Office of Inspector General's (OIG) mission is to serve veterans, their families and caregivers, and the public by conducting effective oversight of VA programs and personnel. Our oversight reports recommend enhancements to VA services, operations, processes, and systems that will help improve the lives of veterans and make the best use of taxpayer dollars. Each year, the Inspector General is required to provide an annual update summarizing VA's top management and performance challenges identified by OIG work, as well as an assessment of 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 ongoing concern: (1) healthcare services, (2) benefits, (3) stewardship of taxpayer dollars, (4) information systems and innovation, and (5) leadership and governance. The OIG conducts extensive oversight of VA programs and operations in each of these five areas through independent audits, inspections, investigations, and reviews. The challenges in these areas have been identified by OIG personnel, external oversight agencies and organizations, the veteran community, Congress, and other stakeholders. They reflect the OIG staff's unwavering commitment to our mission.

As we release this report, VA has a newly confirmed leader to oversee the nation's largest integrated public healthcare system; the National Cemetery Administration's leader has been in place for more than a year; and the benefits administration is being directed by a senior official serving as the acting undersecretary. The challenges they face are considerable as VA works to implement key systems modernization, such as the new electronic health record system; address staffing shortages and aging infrastructure; and respond to rapidly expanding programs, such as the PACT Act's extension of toxic exposure benefits to millions more veterans. VA personnel have continued to battle burnout and pandemic fallout as they have provided care, services, and benefits to veterans, their families, and communities. OIG staff are committed to providing fair and evidence-based oversight to help VA leaders and personnel make advancements in serving veterans and other beneficiaries while making the most effective use of taxpayer dollars.

(/s/) MICHAEL J. MISSAL

Inspector General

OIG CHALLENGE #1. HEALTHCARE SERVICES

Overall, VHA has been steadfastly meeting the healthcare needs of millions of veterans each year, particularly those with distinct and often complex diagnoses related to their service to our country. Among its many efforts, VHA has pioneered evidence-based mental health therapies and innovative approaches to treating victims of polytrauma and traumatic brain injury, and successfully served and supported veterans with chronic and often catastrophic visible and invisible injuries.

However, issues such as staffing shortages, the ongoing effects of the pandemic, barriers to care coordination, and systems failures that put patient safety at risk (see challenges 4 and 5 on electronic health records) have continued to pose significant challenges for VHA staff and leaders. OIG reports highlight such problems involving inadequate VHA reviews of provider performance and alleged misconduct, infection control practices, critical supply management, medication management, and telehealth device monitoring and administration that provide high-quality care in a safe environment to address a wide range of patient needs.

No other healthcare system is laser-focused on meeting the clinical needs of veterans in every encounter, while also addressing a broad range of psychosocial supports. However, not all veterans receive their care at VA facilities, and trying to provide the same quality of care in the community presents its own set of oversight and administrative challenges. VHA leaders are responsible for ensuring that patients receive quality care, treatment, and services that are always safe and effective, regardless of whether it is delivered by VA or non-VA providers.

Many VA OIG publications, including individual inspections, national reviews, and comprehensive healthcare inspection program reports have addressed the importance of improving the patient safety culture, and other VA OIG publications have also addressed concerns regarding prompt access to care, especially quality mental health care for high-risk veterans.

Why This Is a Challenge

The OIG found that all 139 VHA facilities reported at least one severe occupational staffing shortage. The total number of reported severe shortages was 2,622. Every year since 2014, the medical officer and nurse occupations were reported as severe shortages. Fiscal year (FY) 2022 was the first time that facilities identified more than 90 occupations as severe shortages, with a clear ongoing need for custodial workers and medical support assistance. The pandemic and competition from the private sector are just two contributing factors.

Burdens related to workforce fatigue and referral backlogs resulting from the pandemic have also increased the demand for care in the community. Coordination of the provision of medical care between the VHA healthcare system and community providers remains a significant challenge. Persistent administrative and communication errors, electronic record limitations, and failures between VHA and community care providers, as well as between the providers and their patients, undermine efforts to ensure a seamless experience for veterans.

For example, at the VA Phoenix Health Care System in Arizona, the OIG found that staff did not review a patient's initial community care consult for a mental health evaluation within the required time frame. Although a third-party administrator eventually scheduled the patient once the referral was approved, the patient was scheduled for the wrong intervention. These delays and processing errors resulted in missed opportunities to appropriately diagnose and address the needs of a patient who ultimately died by suicide.

As another example, the OIG substantiated an allegation that between June 2018 and June 2020, VHA Community Care nurses at the VA New Mexico Healthcare System in Albuquerque were completing consults (referrals) without scanning and attaching clinical documentation to the patients' electronic health records. While VHA care providers developed workarounds to obtain information necessary to meet their patients' needs, such strategies distract from their primary duties to care for veterans and increase the risk of human error in coordinating safe and effective care.

Given VA's goal of reducing suicide and addressing the burden of mental health issues, a shortage of qualified mental health providers means VHA must innovate to expand the reach of its providers and those in its community network. Many of the issues veterans face are multifactorial and demand prompt and accurate communications between VHA and community service or care providers. Coordination of that care and reliable information sharing across all providers are critical to ensuring demand is met in a seamless and safe manner and accurate information is communicated to patients.

The criticality of coordinated care is nowhere more visible than in VA's suicide crisis line. Its responders are often the vital link between at-risk veterans and prompt VHA or community care. VA encourages veterans and their loved ones to call when a veteran is in crisis, particularly when at risk for suicide. The crisis line responders provide veterans a broad range of assistance, from providing requested information on VA services or programs to conducting crisis intervention care services in the community.

Suicide prevention coordinators are essential to veterans receiving needed care. Coordinators are required to reach out to veterans who have contacted the crisis line and accepted a referral. Continued follow-up allows coordinators and other medical facility staff to ensure the veteran is safe and connected with appropriate care, benefits, or services within the VA system or in the community, and they perform additional suicide risk assessments. However, OIG reports have highlighted that some crisis line reporting data were not accurate because some coordinators mistakenly closed referrals using system codes that indicated they had reached the veteran when they had not. Also, the OIG has reported that some coordinators did not always follow up with veterans who received suicide intervention care in the community as required.

These conditions occurred because VHA and VISN and medical facility management officials needed to enhance the management of crisis line referrals and coordinator supervision. Strengthened training, guidance, and monitoring of crisis line referrals would improve coordinator performance. Without it, coordinators could continue closing referrals improperly and miss opportunities to assist at-risk veterans.

What VA Needs to Do

It is critical that hospitals have effective core services that promote quality care and patient safety and ensure key operations are running efficiently. VA has developed a diverse range of outreach programs, including for suicide prevention and firearms safety efforts. However, many of these programs are provided through the social work function and less routine methods that are not as well monitored by traditional hospital performance metrics. VA needs to address OIG-identified deficiencies using data-driven approaches. Leaders should develop processes to monitor specific outreach program performance of VA facilities against the relevant directives and better integrate VA social work activities that draw on non-VA resources in the community.

OIG oversight has also revealed that VHA's Office of Community Care needs to collaborate more effectively with other clinical program offices to evaluate how often user training is provided on the new technology for documenting the processes for scheduling community care consults.

Responsible staff are not always documenting information about routine community care consults in patients' records. This includes consistently recording contact attempts, updating contact information, and designating whether alternative forms of care are appropriate for the patient. VHA can also improve the consult process by ensuring that all those who process community care referrals have the information and training needed to schedule them efficiently and use all available scheduling tools.

OIG CHALLENGE #2. BENEFITS FOR VETERANS

Claims processing is at the core of providing myriad types of benefits, including disability compensation, education and vocational training, and pension benefits to the nation's veterans, as well as for compensation or benefits for their eligible family members and caregivers. The complex processes with mandated timelines require continuous monitoring and oversight by VBA leaders and personnel.

Among the many OIG-identified challenges for VBA are the processes associated with contracted medical examinations for disability claims processing. There is a noted lack of governance and accountability over exam contracts. Improvements in instructions to examiners and implementing other OIG recommendations would lead to more accurate exam results, better decisions and use of funds, and more veterans receiving the benefits for which they are eligible.

Also, recent OIG reports have highlighted that some claims processing has suffered from lack of oversight, guidance, and claims processors with sufficient experience to review complex claims. The demands on VBA are expected to escalate following the recent passage of the PACT Act, 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, extending eligibility to millions of combat veterans by adding 23 new presumptive conditions for burn pits and other toxic exposures and more presumptive-exposure locations for Agent Orange and radiation.

Why This Is a Challenge

The diversity of claims and the abundance of laws, policies, and procedures require continuous monitoring to incorporate updates, standardize decisions, and identify errors, which all could affect the accuracy of benefits decisions. VBA is completing more compensation claims than ever before. More than three million claims were processed in the past three fiscal years, triple the amount completed in 2000. However, OIG reporting shows that VBA's attempts at efficiency sometimes come at the cost of negative consequences for veterans. Since 2018, the OIG has issued at least four reports that demonstrate VBA personnel did not fully consider the effect their decisions would have on veterans and other beneficiaries. These decisions led to improper payments to veterans and their families, violations of veterans' due process rights, disclosure of veterans' personal information, and veterans undergoing unnecessary medical examinations. Other factors that contribute to errors and delays in claims processing include inadequate training or expertise, updates to processes, and oversight.

Several OIG reports highlight these deficiencies. For example, an OIG report found that in three distinct samples of claimed medical conditions commonly associated with burn pit exposure, VBA denials were premature. As a result, veterans may not have received the benefits for which they could be eligible because a determination of whether a condition was due to burn pit exposure was not fully developed. Incomplete development included failing to request opinions from medical examiners about whether conditions were "as likely as not" due to burn pit exposure, as required. Premature denials were also due to confusing guidance about how to process burn pit-related claims and lack of focused quality assurance.

OIG staff also found Camp Lejeune contaminated water claims were incorrectly processed due to staff having limited experience processing these types of claims. Aside from the Louisville Regional Office where most of the claims were processed by experienced staff, the remaining regional offices did not have dedicated teams, resulting in much higher error rates.

A similar lack of specialized claims processing experience and training is evident in the OIG's oversight of claims related to military sexual trauma (MST). In December 2010, the OIG determined a lack of specialized training for claims processors contributed to inconsistent evaluations and processing. In an August 2018 report, the OIG identified several processing deficiencies that led to the premature denial of nearly half of the reviewed denied MST-related claims. This was due to lack of specialization, insufficient staff training, inadequate internal controls, and discontinued focus reviews. An August 2021 report demonstrated that VBA's claims processors were not following the policies and procedures updated in response to prior OIG recommendations for processing MST-related claims. That same month, the OIG reported a number of MST coordinators at VA medical facilities were unable to fulfill their roles and responsibilities due to insufficiently protected administrative time, role demands, support staff, and inadequate funding and outreach materials.

What VA Needs to Do

The continued review of VBA's performance metrics is needed, such as those for exam timeliness tracked both monthly and quarterly. These metrics should be compared to vendor performance metrics in the Performance Work Statement to assess vendor performance. Other improvements include system enhancements, such as prohibiting VBA rating veterans service representatives from bypassing statutory housebound validation warnings without taking action or providing justification when processing special monthly compensation housebound benefits. Guidance should be improved, such as with Education Services staff updating the School Certifying Official Handbook and offering training aids to clearly detail how to better calculate and report attendance information for students. VBA officials have indicated that modernization efforts, specifically the Digital GI Bill, will improve the automated processing of education enrollments.

VBA should continue to implement controls to improve accuracy, including through its Systematic Technical Accuracy Review program. For example, Compensation Service personnel run a quarterly report through the remainder of FY 2022 to review claims related to burn pit exposure. If errors or trends are identified, Quality Assurance staff are expected to prepare reports and convene calls to ensure claims processors are aware of the trends detected and will make corrections to identified errors.

Also, VBA needs to update its adjudication procedures manual to provide separate and specific guidance for when claims should be considered based on burn pit exposure as well as proper development of these claims. In addition, VBA should modify the examination request application to add specialty language to medical opinion requests for burn pit exposure claims. VBA should also update training materials to ensure they are consistent with the adjudication procedures manual guidance for developing burn pit exposure claims.

VBA has an obligation to ensure eligible veterans receive the benefits to which they are entitled. This requires VBA to properly consider all requisite claim elements and relevant circumstances, conduct reviews to identify errors, and continuously improve its processes to correct those errors. As many OIG reports have stated, VBA leaders need to assess their governance structures, including responsibility for program oversight and implementing systems-level changes to improve the accuracy of claims processing.

OIG CHALLENGE #3. STEWARDSHIP OF TAXPAYER DOLLARS

Many OIG reports focus on wasteful spending, as with supplies, telehealth device plans, or pharmaceuticals that have not been properly managed. Often these are associated with information technology (IT) system failures discussed below. Other areas include overpayment of benefits to veterans due to claims processing issues and administrative errors. Still others relate to losses associated with undetected fraud. These are just some of the many areas in which VA is challenged to address inefficiencies, detect criminal activity, and prevent waste.

Complicating matters, VA's legacy Financial Management System (FMS), implemented in 1992, is complex and disjointed, has limited functionality, and no longer supports the stringent and demanding financial management and reporting requirements mandated by the Department of the Treasury and Office of Management and Budget. VA uses a system application, the Management Information Exchange system, to consolidate general ledger activities from FMS and create financial statements for external financial reporting; however, each accounting period in the Management Information Exchange system is independent. Therefore, numerous journal vouchers, reconciliations, and analyses must be manually redone and reentered in each period to produce VA's financial statements and trial balances. This significant manual intervention creates risks to the accuracy and completeness of financial reporting activities and reports.

Why This Is a Challenge

As described below, many of the challenges that undermine efforts to make the most effective use of taxpayer dollars can be traced to deficient systems and governance issues. Persistent issues also require extensive efforts to change business processes, research legacy differences, and implement workarounds or more lasting solutions to resolve them. Other contributing factors include the following:

Questionable controls over significant program accounting estimates: VBA models such as those used to estimate the compensation, education, and loan guarantee programs need improvement, continuous updating, and management's unflagging focus.

Decentralized and disjointed financial systems and reporting: As stated above, VA's legacy core financial management and general ledger system, FMS, cannot meet current financial management and reporting needs. VA continues to record many journal entries in FMS using manual processes and reconciliations to produce a set of auditable financial statements. Further, various financial reporting issues persist due to its decentralized infrastructure, though improvements have occurred in certain areas.

Serious control weaknesses throughout the organization with respect to financial reporting: These weaknesses are attributed to a decentralized and fragmented organizational structure for financial management; weaknesses in risk assessment and monitoring; the lack of an effective, comprehensive, and integrated financial management system; a challenging IT environment; and the reliance VA places on manual processes to identify or correct errors with financial information.

Without the deliberate and universal implementation of a centralized and testable financial management application, VA's history of noncompliance with major financial management regulations will continue. Previous OIG reports have identified the following:

- Substantial noncompliance with federal financial management systems requirements and the United States Standard General Ledger requirements at the transaction level under the Federal Financial Management Improvement Act of 1996, reported in part for more than 10 years.
- Improvements need to fully comply with the intent of the Federal Managers' Financial Integrity Act, reported since 2015.
- Instances of noncompliance with Title 38 of the United States Code, section 5315, pertaining to the charging of interest and administrative costs, reported for more than 10 years.
- One reported violation of the Antideficiency Act, Title 31 of the United States Code, section 1341 (a), in November 2020, and as of this publication the OIG is still examining whether another violation may have occurred. However, five other potential violations have carried forward from prior years and remain unresolved and under discussion with the Office of Management and Budget. Actual or potential violations of the Antideficiency Act have been reported each year since FY 2012.
- Noncompliance with the Improper Payments Elimination and Recovery Act for FY 2021, as reported by the OIG since 2012.

What VA Needs to Do

VA's Financial Management Business Transformation (FMBT) program has initiated deployment of the Integrated Financial and Acquisition Management System (iFAMS)—a streamlined, federally compliant, and Cloud-hosted financial and acquisition solution with business processes and capabilities. Through the iFAMS implementation, FMBT reports it will increase the transparency, accuracy, timeliness, and reliability of financial information across VA. FMBT will fully implement iFAMS by FY 2028. This is meant to result in improved fiscal accountability to taxpayers and in strengthening the Department's ability to provide care and services to veterans. Additionally, VA proposes that iFAMS will help to resolve a material weakness on its annual financial statements and increase its operational efficiency, productivity, agility, and flexibility.

VA needs to monitor the transition to iFAMS, to include establishing a plan to transfer data, sunset all legacy financial management applications currently used, and transition to the sole use of iFAMS.

OIG CHALLENGE #4. INFORMATION SYSTEMS AND INNOVATION

As the second largest federal agency, VA's wide-ranging IT systems and networks are critical to the provision of medical care, benefits, and services to millions of veterans and their families. VA is responsible for storing, managing, and providing secure access to enormous amounts of sensitive data, such as veterans' medical records, benefits determinations, financial disclosures, and education records. The OIG recognizes and appreciates that this is a tremendously complex undertaking. Safeguarding the secure operation of the systems and networks that contain this sensitive data is essential, especially with the wide availability and effectiveness of internet-based hacking tools. Without proper measures, these systems and networks are vulnerable to groups seeking to obtain sensitive information, commit fraud, disrupt operations, or launch attacks against other VA systems.

Why This Is a Challenge

VA's antiquated systems are burdensome, costly to maintain, cumbersome to operate, and difficult to adapt to VA's continuously advancing operational and security requirements. Developing and maintaining adequate safeguards is made more complex by VA's obsolete legacy systems. Given the risks associated with using outdated systems, internal controls over operations take on even greater importance to sustain the integrity, confidentiality, and reliability of critical data while reducing the risk of errors, fraud, and other criminal acts. It is vital that VA's IT investments are carefully deployed and monitored. To the extent that VA does not properly manage and secure its IT investments, they can become increasingly vulnerable to misuse and mishaps. Security failures also undermine the trust veterans put in VA to protect their sensitive information, which can affect their engagement with programs and services.

In addition, the OIG has found the Office of Information and Technology (OIT) has not consistently ensured adequate security and privacy controls are in place for certain systems and software. For example, the OIG found that staff unnecessarily put employee personally identifiable information and veteran's personal health information at higher levels of risk when deploying the Veterans Data Integration and Federation Enterprise Platform (VDIF) and Mission Accountability Support Tracker (MAST). Due to ineffective oversight, OIT did not properly follow National Institute of Standards and Technology and VA policy requirements for setting VDIF's security controls at a high level. In addition, VBA and OIT did not correctly follow privacy and security procedures when governing MAST, in part because OIT misclassified MAST as an asset instead of a minor application. Minor applications require more security controls than assets due to the sensitive nature of information they contain, such as personally identifiable information.

What VA Needs to Do

VA has launched several high-level action plans to address previously identified security weaknesses and the IT material weakness reported as part of the Consolidated Financial Statement audit. As part of these ongoing efforts, the OIG has noted improvements related to the following:

- Centralization of control functions
- Further maturation of the predictive scanning process and remediation of newer vulnerabilities
- New tools and software implemented to improve change management and the timeliness of background investigations
- Enhanced boundary protections and network threat-monitoring techniques
- Further enhancements and use of the centralized audit log collection and analysis tool

VA also needs to continue to address deficiencies that exist within access and configuration management controls across all systems and applications. Because of the issues with the consistent application of the security program and practices across VA's portfolio of systems, VA should have adequate control and risk management procedures applied to all their systems and applications to fully address previously identified weaknesses.

The OIG has called on OIT to take steps to make certain the appropriate security and privacy controls are implemented during the development of IT systems before they are hosted on VA's network. OIT should also follow through on implementing program management processes and protocols when establishing and monitoring security controls for IT systems.

While VA has made recent improvements on some aspects of information management and IT security, there remain considerable challenges. Secure IT systems and networks are essential to VA's fundamental mission of providing eligible veterans and their families with benefits and services. VA's information security program and its practices must protect the confidentiality, integrity, and access to VA systems and data. The recurrence of IT security concerns indicates the need for vigilance, and VA's incremental improvements are not enough to effect meaningful change. Until proven processes are in place to ensure adequate controls across the enterprise, VA's mission-critical systems and veterans' sensitive data remain at risk. Finally, major IT modernization efforts require careful planning and realistic timelines and budgets. This has been reported by the OIG as problematic for even much smaller endeavors VA has undertaken previously. The new electronic health record system discussed in the following section has been the subject of more than a dozen oversight reports and reveals challenges that are also often applicable to other major IT initiatives.

OIG CHALLENGE #5: LEADERSHIP AND GOVERNANCE

No initiative better reflects the intersection of the many major challenges VA faces than the implementation of the new electronic health record (EHR) system. Earlier OIG reports released on VA's efforts to deploy the new EHR detailed significant concerns with the initial deployment and staff readiness at the Mann-Grandstaff VA Medical Center in Spokane, Washington. More recent oversight has examined systems-level concerns and the effects on VA personnel, veterans, and VHA operations.

Most concerning are the issues the OIG identified that increase risks to patient safety. Deficiencies in data migration to the new system resulted in patients having inaccurate or incomplete medication lists in their records and made simple activities, such as refilling a prescription, more challenging. Initial data migration failures also affected the transfer of critical alerts within the patient record (flags) that identified veterans at high risk for suicide. "Disappearing" laboratory orders made diagnostic evaluations and treatment planning more difficult. Tools and processes for frontline system users to report concerns (including those pertaining to patient safety) and track the resolution of identified issues repeatedly failed. Frustrated staff stopped reporting issues and relied on workarounds to meet immediate needs, which was inefficient, sometimes bypassed security or safeguard measures, and increased the risk that known problems would remain unresolved.

The success of this monumental effort is put in peril if leaders are not responsive to the concerns of the clinical staff that navigate and rely on the functions of the EHR for everyday clinical decision-making. From October 24, 2020, through May 8, 2022, VHA staff reported 1,134 total patient safety events related to the new EHR. VHA's analysis has identified at least one catastrophic patient harm (death or major permanent loss of function) and two major patient harm cases (permanent lessening of bodily functioning). Patient safety issues must be prioritized and corrected as they are presented. Strong leadership is necessary to help navigate fatigued staff through the expected frustrations of adopting a new EHR.

Why This Is a Challenge

The critical role VHA serves in caring for veterans and in supporting our nation's healthcare systems underscores the need for the OIG's strong, independent oversight that has identified and reported on incidents and conditions in which quality of care and patient safety have been compromised, leaving veterans harmed or placing them at risk. The causes leading to these failings are often nuanced and multifactorial. However, common contributing factors the OIG has identified are poor, inconsistent, or ineffective leadership that cultivate a complacent and disengaged medical facility culture in which the VHA goal of "zero patient harm" is improbable, if not impossible.

A primary concern is governance: Is the right structure in place to identify potential issues to prevent their occurrence, to prioritize those issues that may affect prompt quality care to patients, and to resolve those issues before additional deployments? VHA experts must be heard and be fully engaged in the decision-making process to ensure medical facility personnel and patient concerns are adequately addressed. Another key concern is transparency. Is there transparency between the Electronic Health Record Modernization Integration Office, the facilities, VHA experts, OIT, and Oracle Cerner? Full and candid information sharing will help build confidence that issues are identified, prioritized, and adequately addressed. As VA prepares for future deployments in more complex facilities, proper governance, realistic timelines for addressing identified problems, and transparency with the public, Congress, and oversight bodies will be necessary to get it right. Failures in these areas risk cascading problems that put the entire program in jeopardy.

For example, between September 2020 and April 2021, the OIG experienced significant transparency challenges in receiving timely, complete, and accurate information during a healthcare review focused on employee training on the new EHR. While the OIG did publish a detailed report on the training program in June 2021, OIG staff had significant concerns about potential misconduct by two leaders of the then Office of Electronic Health Record Modernization's Change Management regarding their responses to requests for information about the plan to evaluate the training's effectiveness and data related to the post-training proficiency tests taken by employees. The OIG subsequently initiated an administrative investigation. While the investigation did not find that the two Change Management leaders intentionally sought to mislead OIG healthcare inspectors, the OIG found that their lack of due care and diligence resulted in inaccurate information being submitted to OIG staff.

What VA Needs to Do

Leaders across the enterprise must be intensely focused on patient safety at every interaction to mitigate these risks. The success of this EHR implementation is dependent on VA's transparency, fully developed planning, realistic and accurate timelines and budgeting, and recognition and remediation of patient safety and user concerns—not only identified by the OIG's oversight work but by VA's own experts and end users who navigate and rely on the functions of the EHR for everyday clinical decision-making.

The goal is to implement a modern platform that interacts with the network of providers and services within and external to VA and functions as a support tool for clinical and administrative staff to deliver safe and effective health care. Failure to acknowledge when a system presents obstacles to that goal and failure to immediately address those obstacles will expose patients to risk. Those failures also erode trust by the staff dedicated to delivering care and by the veterans who have been promised that care.

While implementation of the EHR is a dramatic example of challenges VA leaders will face in the next year and many years to come, other patient safety issues unrelated to IT systems persist that are more about people and processes.

In recent examples, leaders failed to address safety, staff, and environment of care concerns at the Tuscaloosa VA Medical Center in Alabama; quality of care concerns were cited at the VA Amarillo Healthcare System in Texas; multiple failures in test result follow-ups led to a delay in a patient's diagnosis of prostate cancer at the Hampton VA Medical Center in Virginia; and emergency department nurses failed to provide emergency care to a patient who arrived at the facility by ambulance at the Malcom Randall VA Medical Center in Gainesville, Florida. The patient later died. Leadership and governance were at the core of these failures.

VHA continues to face enormous challenges in providing high-quality care to the millions of veterans it serves. Despite these challenges, the OIG has witnessed countless examples of veterans receiving the care they need and deserve—delivered by a committed, compassionate, and highly skilled workforce. VHA staff have repeatedly overcome extraordinary obstacles to meet the complex needs of veterans. The OIG continues to emphasize the need for a cultural transformation within VHA, guided by accountable and attentive leaders that prioritize the safety of each veteran they encounter.

A change in organizational culture begins at the top. VA's under secretary for health needs to champion the changes that must be made to improve the culture within VHA. There must be close attention to the use of administrative punishments and rewards where patient safety issues are the subject of actions that were taken or should have been taken. There must be public celebration of those within VHA who do the right thing, and a consistent application of negative administrative action when shortcomings are identified.

APPENDIX A: RELATED REPORTS AND CONGRESSIONAL TESTIMONY

See selected related reports below that support VA's FY 2022 Major Management Challenges. All VA OIG reports are available at www.va.gov/oig/.

		Challenge				
Related Reports	**Date**	**#1**	**#2**	**#3**	**#4**	**#5**
Improved Processing Needed for Veterans' Claims of Contaminated Water Exposure at Camp Lejeune	8/25/2022	X	X			X
Veterans Prematurely Denied Compensation for Conditions That Could Be Associated with Burn Pit Exposure	7/21/2022	X	X			X
Airborne Hazards and Open Burn Pit Registry Exam Process Needs Improvement	7/21/2022	X				
OIG Determination of Veterans Health Administration's Occupational Staffing Shortages Fiscal Year 2022	7/7/2022	X				X
Failure of Leaders to Address Safety, Staffing, and Environment of Care Concerns at the Tuscaloosa VA Medical Center in Alabama	6/29/2022	X				X
Mission Accountability Support Tracker Lacked Sufficient Security Controls	6/22/2022		X		X	
Financial Efficiency Review of the VA El Paso Healthcare System in Texas and New Mexico	6/14/2022			X		X
Contract Medical Exam Program Limitations Put Veterans at Risk for Inaccurate Claims Decisions	6/8/2022		X	X		
Suicide Prevention Coordinators Need Improved Training, Guidance, and Oversight	6/6/2022	X				X
Veterans Data Integration and Federation Enterprise Platform Lacks Sufficient Security Controls	6/1/2022				X	X
Inspection of Information Technology Security at the Consolidated Mail Outpatient Pharmacy in Tucson, Arizona	6/1/2022				X	X

Related Reports	Date	Challenge #1	Challenge #2	Challenge #3	Challenge #4	Challenge #5
Inspection of Information Technology Security at the Consolidated Mail Outpatient Pharmacy in Dallas, Texas	6/1/2022				X	X
VHA Continues to Face Challenges with Billing Private Insurers for Community Care	5/24/2022			X		X
Joint Audit of the Department of Defense and the Department of Veterans Affairs Efforts to Achieve Electronic Health Record System Interoperability	5/5/2022			X	X	X
Facility Leaders' Response to Inappropriate Mental Health Provider-Patient Relationships at the VA Illiana Health Care System in Danville, Illinois	5/3/2022	X				X
The Electronic Health Record Modernization Program Did Not Fully Meet the Standards for a High-Quality, Reliable Schedule	4/25/2022				X	X
Quality of Care Concerns and Leaders' Responses at the Amarillo VA Health Care System in Texas	4/14/2022	X				X
Federal Information Security Modernization Act Audit for Fiscal Year 2021	4/13/2022				X	
Noncompliant And Deficient Processes and Oversight of State Licensing Board and National Practitioner Data Bank Reporting Policies by VA Medical Facilities	4/7/2022	X				X
Inspection of Information Technology Security at the VA Financial Services Center	3/31/2022				X	X
Financial Efficiency Review of the Durham VA Health Care System in North Carolina	3/29/2022			X		X
Improved Governance Would Help Patient Advocates Better Manage Veterans' Healthcare Complaints	3/24/2022	X				X

Related Reports	Date	Challenge #1	Challenge #2	Challenge #3	Challenge #4	Challenge #5
Independent Review of VA's Fiscal Year 2021 Detailed Accounting and Budget Formulation Compliance Reports to The Office of National Drug Control Policy	3/22/2022			X		
VA's Compliance with the VA Transparency & Trust Act of 2021	3/22/2022				X	
Medication Management Deficiencies after the New Electronic Health Record Go-Live at the Mann-Grandstaff VA Medical Center in Spokane, Washington	3/17/2022	X			X	X
Public Disability Benefits Questionnaires Reinstated but Controls Could be Strengthened	3/9/2022		X			X
First-Party Billing Address Management Needs Improvement to Ensure Veteran Debt Notification before Collection Actions	2/17/2022			X	X	
Audit of Community Care Consults during COVID-19	1/19/2022	X				X
MISSION Act Market Assessments Contain Inaccurate Specialty Care Workload Data	12/20/2021	X			X	
Financial Efficiency Review of the Marion VA Medical Center in Illinois	12/16/2021			X		X
Financial Efficiency Review of the Eastern Oklahoma VA Health Care System	12/15/2021			X		X
VHA Improperly Paid and Reauthorized Non-VA Acupuncture and Chiropractic Services	12/8/2021			X		X
VHA Risks Overpaying Community Care Providers for Evaluation and Management Services	12/8/2021			X		X
Audit of VA's Financial Statements for Fiscal Years 2021 and 2020	11/15/2021			X	X	X
New Patient Scheduling System Needs Improvement as VA Expands Its Implementation	11/10/2021	X			X	X

Related Reports	Date	Challenge #1	#2	#3	#4	#5
Inadequate Care Coordination for a Mental Health Residential Rehabilitation Treatment Program Resident in VISN 20, Oregon	11/9/2021	X				X
Successive VA Errors Created a $210,000 Debt for a Veteran with a "Service-Connected Mental Illness"	11/4/2021		X	X		

Related Congressional Testimony	Challenge #1	#2	#3	#4	#5
Statement of Julie Kroviak, MD, Deputy Assistant Inspector General, Office of Healthcare Inspections - Hearing on "Close to Home: Supporting Vet Centers in Meeting the Needs of Veterans and Military Personnel" February 3, 2022	X				X
Statement of Deputy Inspector General David Case - Hearing on "Next Steps: Evaluating Plans for the Continuation of the Department of Veterans Affairs Electronic Health Record Modernization Program" April 16, 2022	X			X	X
Statement of Inspector General Michael Missal - Hearing on "At What Cost? - Ensuring Quality Representation in the Veteran Benefit Claims Process" April 27, 2022		X	X		X
Statement of Inspector General Michael Missal - Hearing on "Quality of VA's Health Care" May 11, 2022	X				X
Statement of Deputy Inspector General David Case - Hearing on "VA's Electronic Health Record Modernization Program" July 20, 2022	X			X	X
Statement of Deputy Inspector General David Case - Hearing on "Protecting Our Veterans: Patient Safety and the Electronic Health Record Modernization Program" July 27, 2022	X			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 above.

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 FFMIA and Federal financial management system requirements outlined in the 2022 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
Total Material Weaknesses	3	-	-	-	3

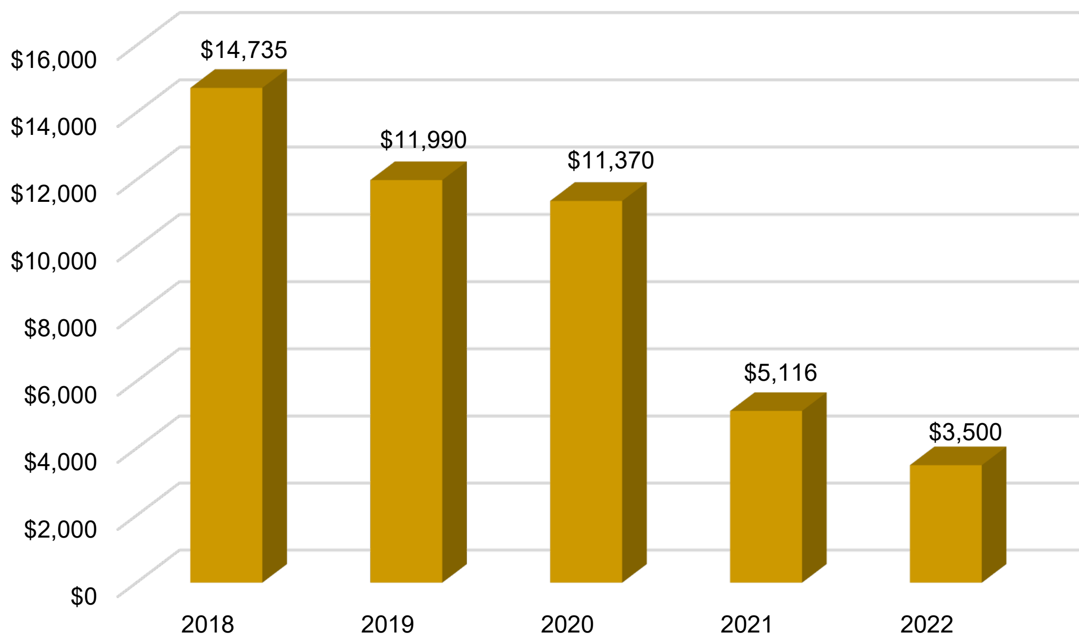
Summary of Management Assurances

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
Total Material Weaknesses	2	-	-	-	-	2
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform, except for the below nonconformance					
Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IT Security Controls	1	-	-	-	-	1
Total Nonconformances	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 2022, VA reports a reduction of $1.62 billion in improper and unknown payments, a reduction of over 32% from FY 2021 results. VA efforts to reduce improper and unknown payments outpaced outlay increases of $3.2 billion, or 11%, due to effective corrective actions and mitigation strategies. Since FY 2018, VA has reduced improper and unknown payments by $11.24 billion, or 76% and removed a total of seven programs from reporting requirements, utilizing mitigation strategies and corrective actions that prioritized the largest proportion of errors and noncompliance with laws and regulations.

Improper and Unknown Payment Totals
($ in Millions)



VA's Payment Integrity Information Act 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 table below 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	2022 (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 $25,076	VBA/Loan Guarantee	Federal Register 86 (01/21/2022): 7811-7813
Program Fraud Civil Remedies Act of 1986, as amended	Fraudulent Claims or Statements	1986	2022	$12,537	All VA Programs	Federal Register 86 (01/21/2022): 7811-7813

In January 2022, VA published a regulation in the Federal Register, reflecting the Federal Civil Penalties annual inflation adjustment for FY 2022. VA will also publish an updated regulation in the Federal Register, reflecting the Federal Civil Penalties annual inflation adjustment for FY 2023. Per the Inflation Adjustment Act, VA will update their penalty rates in the Federal Register annually by January 15.

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 two years or more prior to September 30, 2022. The summary of this information is disclosed in the table below.

CATEGORY	2-3 Years	>3-5 Years	>5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	8	29	14
Number of Grants/Cooperative Agreements with Undisbursed Balances	65	50	-
Total Amount of Undisbursed Balances	$2,636,527	$2,376,409	$ -

In FY 2022, the State Home Construction grant office was not able to meet its goal to close out all grants by September 30. Delays in closeout were primarily attributable to VA staffing shortages exacerbated by the COVID-19 pandemic. Additionally, many grantees required deadline extensions because of the COVID-19 material and labor shortages, which caused project deadlines to be delayed. State Home Construction comprises 39 of the grants with undisbursed balances, totaling $3,872,993.

The Adaptive Sports grant office has reduced the closeout backlog and grantees are being trained to further improve efficiency; however, they are still working to recover from years of staffing shortages and pandemic-related grant extensions. Adaptive Sports comprises 76 of the grants with undisbursed balances, totaling $1,139,943.

CLIMATE-RELATED FINANCIAL RISK

CLIMATE ACTION PLAN AND OTHER REPORTS

VA's climate-related reports provide valuable information relevant to climate-related to VA services, operations, programs and assets. Hyperlinks to VA's latest Climate Action Plan and other climate-related reports are below:

- **2021 Climate Action Plan:** Department of Veterans Affairs 2021 Climate Action Plan (sustainability.gov)
- **2022 Climate Action Plan Progress Report:** Department of Veterans Affairs Climate Action Plan 2022 Progress Report (sustainability.gov)

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 expand its adaptation efforts to include the full scope of its operations while continuing to deploy its climate adaptation strategy. The adaptation strategy falls into two primary categories, infrastructure resilience and health care resilience.

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. In 2011, VA conducted an agency-wide high-level study focusing on the risks that climate change poses to critical agency operations, facilities and systems. For the 2021 Climate Action Plan, VA built on prior adaptation actions and climate vulnerability analysis to update its assessment of climate vulnerabilities. VA also used its Department-level risk register and guidance from the Fourth National Climate Assessment and identified five vulnerabilities tied to management functions and decision points.

For more information on the five vulnerabilities, refer to the Forward-Looking Information section on page 39 in the Management's Discussion and Analysis Section. In FY 2023, VA plans to complete a nationwide assessment of climate vulnerabilities of its mission critical facilities.

METRICS

VA developed an internal tool to track implementation of its climate adaptation commitments from the 2021 Climate Action Plan. Progress is updated and shared with VA stakeholders on a monthly basis. In accordance with E.O. 14057, VA is also generating annual 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 and grants to assist eligible Veterans with certain service-connected disabilities to construct or adapt their home 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. Additionally, 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 will also 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. The initial dashboard was provided in June 2022, and VA is reviewing the information to determine recommended changes, as needed.

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.

DID YOU KNOW?

Oklahoma's Tribal Women's Summit is an opportunity for Tribal Women Veterans to learn about the benefits they have earned and share their unique experiences.

VA, Tribal Women Veterans, Oklahoma State Department of Veterans Affairs' Women Veterans Program and Muscogee Nation of Oklahoma met for their first in-person Summit since the start of the pandemic. "I always enjoy working directly with the Veterans we serve," says Mary Culley, VA Tribal Government Relations Specialist. "Even though we haven't had the opportunity to meet face-to-face in the last two years, VA used creativity and virtual platforms to help us bridge the gap."

Kiowa Women Warriors Color Guard prepares to post colors walking in holding flags to the Tribal Women's Summit.

The summit covered topics important to the Tribal Women Veterans like employment rights and Military Sexual Trauma. They also discussed Women Veteran Workshops and the Peer Mentoring Program.

VA employees Melanie Silva, a Marine Corps Veteran, and Marlene Diaz, a Navy Veteran, led the discussion. "The whole purpose of this event is to try to get tribal women Veteran specific services," said Silva. "[We want to] let them know that it's okay to feel lost sometimes, but they always have a place, and we want to help you find that."

"I know from personal experience when I got out of the Marine Corps, I was so lost. I didn't really have a place in my society. It's important for me to get that word out to let other women Veterans know that there is somebody. The biggest thing is to try to integrate them into their community."

Army Veteran Eleanor McDaniel attended the summit and was surprised to find out how many benefits were available for her. She enjoyed the camaraderie among other Veterans. "I really learned a lot today," said McDaniel. "I didn't know there was so much out there for me as a Veteran. I'm one of the few women Veterans in my tribe so it's good to connect with other women Veterans here."

APPENDIX

Disability Compensation and Benefits Available to Vietnam War Veterans

Pictured in the previous page: Vietnam Veterans wearing their jackets

Social workers from two VA medical centers a thousand miles apart recently teamed up to help a Veteran in need.

Each year on March 29, National Vietnam War Veterans Day brings Americans together to honor Veterans of this war and their families for their service and sacrifice. On that day in 1973, the last combat troops withdrew from Vietnam and the last prisoners of war held in North Vietnam arrived on American soil. With an estimated 6 million Vietnam Veterans currently living in the U.S. or abroad, VA remains dedicated to serving all Veterans of the Vietnam Era, along with their family members and caregivers.

While in the military, some Veterans may have been exposed to a variety of environmental and chemical hazards that carry potential health risks. During the Vietnam War, one such hazard was Agent Orange, a blend of herbicides sprayed from 1962 to 1971 to remove the leaves of trees and other foliage. In the years since, VA has recognized certain cancers and diseases as presumptive diseases associated with exposure to Agent Orange during qualifying military service.

If you're a Vietnam Veteran or the eligible survivor of a Veteran with a presumptive health condition, you may be eligible for VA disability compensation. A presumptive condition is a condition VA assumes is related to a Veteran's qualifying military service. If you have an illness that is not on the list of presumptive diseases, but you believe it is connected to military exposure, you can still file a claim for VA disability benefits. However, you will need to submit more evidence to support your claim.

You can file a claim or appeal a decided claim on your own or with help from an accredited attorney, claims agent or Veterans Service Officer. These professionals are trained and certified in the VA claims and appeals processes and can help you with VA-related needs. Find out more about accredited representatives and how they can help you by visiting: www.va.gov/disability/get-help-filing-claim/.

In addition to disability compensation, Vietnam Veterans may be eligible for a variety of other VA benefits, including monthly pension payments, home loans, life insurance, burial services and more. You can access the 2021 Federal Benefits for Veterans, Dependents and Survivors booklet here.

ABBREVIATIONS AND ACRONYMS

Acronym	Definition
ADA	Anti-Deficiency Act
AFR	Agency Financial Report
AGA	Association of Government Accountants
AMA	Veterans Appeals Improvement and Modernization Act of 2017
APG	Agency Priority Goal
APP&R	Annual Performance Plan and Report
ARP Act	American Rescue Plan Act
ATO	Authority to Operate
Board	Board of Veterans' Appeals
BDN	Benefits Delivery Network
CAATS	Centralized Automated Accounting Transaction System
CAP	Corrective Action Plan
CARES Act	Coronavirus Aid, Relief and Economic Securities Act
CAVC	Court of Appeals for Veterans Claims
CEAR	Certificate of Excellence in Accountability Reporting
CEHRIS	Center for Enterprise Human Resources Information Services
CFO	Chief Financial Officer
CIO	Chief Information Officer
C.F.R.	Code of Federal Regulations
CLA	CliftonLarsonAllen
COBOL	Common Business Oriented Language
COLA	Cost-of-Living Adjustment
COVID-19	Coronavirus Disease 2019
CPAC	Consolidated Patient Accounting Centers
Credit Reform Act	Federal Credit Reform Act of 1990
CSO	Commissioner's Standard Ordinary
CSRS	Civil Service Retirement System
CWS	Consolidated Wave Stack
DEA	Survivors' and Dependents' Educational Assistance
DGI	Digital GI
DHS	Department of Homeland Security
DoD	Department of Defense
DOJ	Department of Justice
DOL	Department of Labor
E.O.	Executive Order

Acronym	Definition
eCMS	Electronic Contract Management System
EHR	Electronic Health Record
ESCO	Energy Service Company
ESPC	Energy Saving Performance Contracts
ERM	Enterprise Risk Management
EUL	Enhanced-Use Lease
Families First Act	Families First Coronavirus Response Act
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCA	Facility Condition Assessment
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FEVB	Federal Employee and Veterans' Benefits
FFMIA	Federal Financial Management Improvement Act
FISMA	The Federal Information Security Modernization Act of 2014
FMBT	Financial Management Business Transformation
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management System
FOCAS	Flight On-the-Job Training, Correspondence, Apprenticeship System
FR	Financial Report
FTE	Full-time Employee
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GOE	General Operating Expenses
GPRAMA	Government Performance and Results Act Modernization Act
GRC	Governance, Risk and Compliance
GSA	General Services Administration
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System
HCS	Healthcare System

Acronym	Definition
HRA/OSP	Office of Human Resources and Administration/Operations, Security and Preparedness
ICA	Internal Control Assessment
iFAMS	Integrated Financial and Acquisition Management System
IFCAP	Integrated Funds Distribution, Control Point Activity, Accounting and Procurement System
IGT	Intra-governmental Transactions
IPPS	Invoice Payment Processing System
IT	Information Technology
IUS	Internal Use Software
JV	Journal Voucher
LGBTQ+	Lesbian, Gay, Bisexual, Transgender, Queer and Other Identities
LGY	Loan Guaranty
LLG	Liability for Loan Guarantee
LTS	Long Term Solutions
MAST	Mission Accountability Support Tracker
MCCF	Medical Care Collections Fund
MD&A	Management's Discussion and Analysis
MGIB-AD	Montgomery GI Bill Active Duty
MinX	Management Information Exchange
MST	Military Sexual Trauma
NCA	National Cemetery Administration
NFR	Notice of Findings and Recommendations
NRM	Non-Recurring Maintenance
NSLI	National Service Life Insurance
OA	Occupancy Agreements
OALC	Office of Acquisition, Logistics and Construction
OAWP	Office of Accountability and Whistleblower Protection
OBO	Office of Business Oversight
OCC	Office of Community Care
OCLA	Office of Congressional and Legislative Affairs
OEI	Office of Enterprise Integration
OEM	Office of Emergency Management
OFM	Office of Financial Management
OGC	Office of General Counsel
OIG	Office of Inspector General
OIT	Office of Information and Technology

Acronym	Definition
OM	Office of Management
OM+	Office of Management Plus
OMB	Office of Management and Budget
OPEB	Postemployment Benefits Other Than Pensions
OPIA	Office of Public and Intergovernmental Affairs
OPM	Office of Personnel Management
P.L.	Public Law
P3	Public-Private Partnerships
PACT Act	Honoring our Promise to Address Comprehensive Toxics Act
PCAFC	Program of Comprehensive Assistance for Family Caregivers
PIA	Privacy Impact Assessments
POA&M	Plan of Action and Milestones
PP&E	Property, Plant and Equipment
PPE	Personal Protective Equipment
PSA	Public Service Announcement
PYR	Prior Year Recovery
REO	Real Estate Owned
Reserve Fund	Housing Trust Reserve Fund
RSI	Required Supplementary Information
SBR	Statement of Budgetary Resources
SCA	Security Control Assessments
S-DVI	Service-Disabled Veterans Insurance
SFFAS	Statement of Federal Financial Accounting Standards
SGLI	Service members' Group Life Insurance
SNC	Statement of Net Cost
SSA	Social Security Administration
SSVF	Supportive Services for Veteran Families
STORM	Stratification Tool for Opioid Risk Mitigation
SVH	State Veterans Home
TFM	Treasury Financial Manual
Treasury	U.S. Department of Treasury
TSGLI	Servicemembers' Group Life Insurance Traumatic Injury Protection
UDO	Undelivered Orders
U.S.	United States
USC	United States Code
UESC	Utility Energy Service Contracts
USGLI	United States Government Life Insurance

Acronym	Definition
USSGL	U.S. Standard General Ledger
VA	Veterans Affairs
VAMC	VA Medical Center
VAPCP	Veterans Assistance Partial Claim Payment Program
VBA	Veterans Benefits Administration
VBM	Valuation Basic Male
VCS	Veterans Canteen Service
VDIF	Veterans Data Integration and Federation Enterprise Platform
VDM	Variable Default Model
VEO	Veterans Experience Office

Acronym	Definition
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
VMLI	Veterans' Mortgage Life Insurance
VR&E	Veteran Readiness and Employment
VRI	Veterans Reopened Insurance
VSLI	Veterans Special Life Insurance
VSO	Veterans Service Officer
WIP	Work-in-Process

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

Human Resources and Administration

Infertility

Insurance for Service members and Veterans

Intimate Partner Violence Support

Managing My Health as a Veteran

Medical Research in VA

Minority Veterans

Office of Rural Health

Operations, Security and Preparedness

Opportunities for Veteran-Owned Small Businesses

PACT Act and Your Care

PACT Act Helping Veterans

Pension Information for Veterans and Survivors

Privacy Policy Information

Public Health

Recently Published VA Regulations

Reports, Surveys, or Statistics Regarding the Veteran Population

Sexually Transmitted Infection Prevention / Treatment

Substance Use/Alcohol Treatment

Survivors Assistance

Tobacco Cessation Resources

VA Benefits

VA Directives and Handbooks

VA Transition Assistance Program

VA's AFR Submission and Strategic Plans

VA's Budget Submission

VA's Home Page

VA's Social Media Sites

Veteran Readiness and Employment

Virtual Mental Health Care

Vow to Hire Heroes

Women Veterans

ACKNOWLEDGMENTS

This report was produced through the tireless dedication of VA staff. We would like to offer our sincerest gratitude and acknowledgment to the participating offices and organizations. In particular, we would like to recognize the following for their contributions:

Office of the Secretary

Executive Secretariat

Veterans Health Administration

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

Additionally, 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 stand and salute in front of the Lincoln Memorial in Washington, DC on November 11, 2021 in celebration of Veterans Day.

U.S. Department
of Veterans Affairs

www.va.gov