STATEMENT OF THE HONORABLE ROBERT J. HENKE

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FOR PRESENTATION BEFORE THE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY

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Mr. Chairman and members of the committee, good afternoon. I am pleased to be here today to discuss the Department of Veterans Affairs' (VA) experience in carrying over unobligated funds from one fiscal year to the next and what impact this practice has on our budgeting and program management activities. I will also address the statutory authority permitting these financial management practices and will describe what impact this authority has on our ability to deliver benefits and services to our nation's veterans and their families.

Let me begin by expressing our appreciation for the statutory authority Congress has provided VA to carry over unobligated funds and to shift resources between accounts during the year. These authorities are sufficient to allow us the flexibility we need to ensure resources appropriated for veterans' programs are managed in a way that maximizes the delivery of timely, high-quality benefits and services to those who have defended and preserved freedom around the world. The carryover authorities also allow us to place increased emphasis on managing the Department's resources to achieve programmatic results rather than to spend down an account prior to the end of a given fiscal year.

Unobligated Balances

VA carried over approximately $21.6 billion from fiscal year 2005 into fiscal year 2006. About 89 percent, or $19.2 billion, of this total unobligated balance pertains to resources for entitlement programs (including revolving and trust funds) that can be used only for benefits specifically mandated by law. These have all been authorized by Congress as no-year funds, i.e., funds that do not expire. The remaining 11 percent, or $2.4 billion, of the funds carried forward into fiscal year 2006 is from unobligated balances in our discretionary accounts.

Unobligated Balances in Mandatory Accounts

Three accounts collectively comprised 83 percent of the $19.2 billion in mandatory funds carried forward to this year.

First, approximately $9.1 billion of our unobligated balance is accounted for by funds in the National Service Life Insurance Fund. Started in 1940 to finance life insurance for World War II veterans, income placed in this trust fund is derived primarily from premiums and interest on investments. The Department oversees this trust fund on behalf of veterans who have paid life insurance premiums, and by law, these resources must remain available to meet future needs of the program.

In our housing program, VA carried over about $5.7 billion. Almost all of these funds are associated with our off-budget Guaranteed Loan and Direct Loan

Financing accounts. These unobligated balances are used to cover the cost of future liabilities resulting from defaults on loans, to fund new obligations, or are returned to the Treasury General Receipt Account. These activities are authorized under the Federal Credit Reform Act of 1990.

Finally, VA carried over an unobligated balance of nearly $1.1 billion into this fiscal year in the Compensation and Pensions account. This account provides for compensation payments to service-connected disabled veterans and their survivors, pension payments to war-time veterans who are permanently and totally disabled from nonservice-connected causes and to their survivors, and burial and other benefits to veterans and their survivors. Monthly compensation and pension payments to veterans and their families total nearly $3 billion per month. The unobligated balance carried forward from fiscal year 2005 to fiscal year 2006 was used to make compensation and pension benefit payments to veterans in 2006.

Unobligated Balances in Discretionary Accounts

Two accounts comprised the overwhelming majority of the $2.4 billion in discretionary funds carried over into fiscal year 2006.

The Department carried forward $996 million in major construction funding from last year to this year. VA's major construction account is a no-year appropriation and unobligated balances are carried over each year. This account is for constructing, altering, extending, and improving any VA facility, including planning, assessments of needs, architectural and engineering services, and site acquisition, where the estimated cost of a project is $7 million or more. Major construction projects require 12 months to make design awards, on average, and another 18 to 24 months to make construction awards. As a result, a large share of the unobligated balance is derived from projects started in previous years. Funds are obligated as key project milestones are achieved in the construction process. Having the authority granted by Congress to carry over funds in major construction is vital to ensure that these multi-year projects are completed on time, without interruption, and at the lowest possible cost.

VA carried over more than $1.1 billion in health care funds from fiscal year 2005. While the Department typically carries over medical care funds, the unobligated amount at the close of fiscal year 2005 was unusually large. This resulted from the fact that VA received $1.5 billion in supplemental funds for health care in late 2005. Given the timing with which these funds were received, much of the supplemental amount was carried over and is being used to provide health care services to veterans in 2006.

VA's health care system is the largest unified medical care system in the nation. Financing of this system has been specifically designed to provide VA management with the flexibility needed to oversee such a large and complex enterprise. Recent appropriations acts funding VA, including Public Law 109-

114, the Military Quality of Life and Veterans Affairs Appropriations Act, 2006, have provided the Department with the authority to carry over funds from one fiscal year to the next for our medical care program, including third-party insurance collections.

VA employs numerous financial management practices to ensure the Department minimizes the amount of funds that expire for those accounts that have a limited period of availability. The potential for expiring funds does not present a significant problem for VA. In those few instances in which funds do expire, the resources are returned to the Treasury. For example, in fiscal year 2005, only $13 million, or less than one percent, of the $21.6 billion unobligated balanced lapsed.

Shifting Funds between Accounts

Public Law 109-114 also provides VA with the authority to transfer funds between certain appropriated accounts. Resources may be moved 30 days after the Department has notified Congress of its intent to transfer funds. I would like to highlight the transfer authorities that have the most significant impact on our program operations.

The Act provides funds for VA medical care through three accounts—medical services, medical administration, and medical facilities. This medical care account structure is still relatively new as it was initially implemented by

Congress in fiscal year 2004. Prior to that, all medical care funds were appropriated through a single account. The medical services appropriation provides funding for health care services for eligible veterans and beneficiaries through a comprehensive, integrated system of medical centers, outpatient clinics, contract hospitals, state homes, and outpatient programs on a fee-for-service basis. The medical administration account provides funds for the management, security, and administration of VA's health care system, including quality of care oversight, legal services, billing and coding activities, as well as procurement, financial management, and human resource management. And finally, the medical facilities account provides for the operations and maintenance of the Department's health care capital infrastructure. This includes funding for utilities, engineering, capital planning, leases, laundry and food services, facility repair, fire protection, and other related activities.

Section 216 of Public Law 109-114 states that amounts made available for fiscal year 2006 under these three accounts may be transferred among the appropriations to the extent necessary to implement the restructuring of these three accounts. For example, Congress recently approved VA's request to transfer $370 million from medical services to medical administration. The Department needed to make this transfer of funds because VA received $1.5 billion in supplemental resources in 2005 and an additional $1.452 billion from a 2006 budget amendment entirely in the medical services account. The $370 million transfer to medical administration was required to meet the resource needs associated with the business operations of our health care system. As VA gains additional experience with this relatively new account structure, we will be able to more accurately estimate the resource needs for each of the three appropriations. But until we gain this experience, the authority to transfer funds among the three medical care accounts is a vital mechanism to ensure that all aspects of VA health care are funded at a level that ensures efficient and effective delivery of health care services.

In fiscal year 2006, Congress established a new Information Technology (IT) systems account. This new appropriation consolidates all non-payroll IT resources into a single account. Prior to this year, non-payroll IT funding was contained within the accounts that funded each of the Department's programs. Congress has granted VA appropriate transfer authorities to ensure the successful establishment of this new IT appropriation.

For example, Public Law 109-114 states that funds may be transferred to or from the IT systems account from any of six specified VA appropriations. Given the IT account is new, we benefit greatly from the transfer authority Congress provided to us through this Act. This critical management tool helps us ensure the most appropriate funding balance is achieved to address the Department's non-payroll IT costs as well as to meet our critical programmatic needs funded through other accounts.

Transfer authority pertaining to IT funds is also provided which allows amounts made available for IT systems to be transferred between specific IT projects provided that the total cost of any individual project is not changed by more than $1 million. This authority is important to ensure that each IT project identified in the new IT systems account is funded at the most appropriate level. This gives the Department the management flexibility to shift funds among projects in response to changing conditions throughout the year, such as the pace at which IT development projects are progressing compared to the initial schedules presented in the budget.

Summary

Mr. Chairman, I once again want to thank you and the committee for the opportunity to appear before you today to discuss VA's financial management practices associated with unobligated balances and the impact this has on our budgeting and program operations. We continually strive to ensure that every dollar devoted to veterans' programs is used in a manner that will maximize the efficient and effective delivery of the benefits and services earned by those who have served this country in uniform.