Financial Highlights

Pursuant to the requirements of 31 U.S.C. 3515(b), VA's principal financial statements have been prepared to report the financial position and results of operations of the Department. Deloitte & Touche LLP, performed the audit of the statements under the direction of the Office of Inspector General. While the statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles for federal entities and the formats prescribed by the Office of Management and Budget, they are, in addition to the financial reports, used to monitor and control budgetary resources that 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, a sovereign entity.

VA received an unqualified opinion on the Department's financial statements for 2007 and 2006 from the external auditors, Deloitte & Touche LLP. As a result of its audit work, Deloitte & Touche LLP reported four material weaknesses, three of which are repeat material weaknesses. In addition, the auditors reported 13 Significant Deficiencies, three of which are not included in the material weaknesses.

VA programs operated at a net cost of $51.1 billion in 2007 compared with $101.5 billion in 2006. Again this year, the change in the actuarial liability for future years' veterans' compensation is primarily responsible for the significant variation in net cost from year to year. The actuarial liability decreased by $26.1 billion during 2007 and increased by $31.2 billion during 2006. The decrease in the actuarial liability for future years' veterans' compensation in 2007 was most heavily influenced by changes in COLA estimates as a result of economic projections included in the 2008 Mid-Session Budget review and the actual December 2007 COLA. Excluding the change in this actuarial liability from the net cost would result in an adjusted net cost for VA's programs of $76.2 billion and $69.3 billion for 2007 and 2006, respectively. Two VA programs, Medical Services and Compensation, accounted for the bulk of the increase in the adjusted net cost, $2.9 billion and $3.0 billion, respectively.

Assets and liabilities reported in VA's balance sheets do not show significant change from year to year with the exception of Fund Balance with Treasury, Public Accounts Payable, and Federal Employee and Veterans Benefits Liability. The majority of change in the Federal Employee and Veterans Benefits Liability, $26.1 billion, is driven by the actuarial estimate previously discussed. It should be noted that the future cash flows to liquidate the actuarial estimate liability are not supported by identifiable assets as they are anticipated to be funded from the future general revenues of the U.S. Government. The Fund Balance with Treasury increased by $6.1 billion due to an increase in appropriations received in FY 2007 over the FY 2006 amounts and the timing of the monthly compensation and pension benefits payments. Because October 1, 2006, was a Sunday, the monthly payments were paid in September 2006. The increase in the Public Accounts Payable is the result of this timing.

Medical care collections continue to improve. In 2007 collections totaled nearly $2.2 billion, which builds on the $2 billion collected in 2006, and is a significant increase over the 2005 total of nearly $1.9 billion. VA plans to continue to increase these collections, reaching $2.3 billion in 2008.

In the area of debt management, VA referred $422 million (99%) of eligible debt to Treasury for offset under the Treasury Offset Program (TOP). Under the cross-servicing program, VA referred $127 million (98%) of eligible debt to Treasury for collection.

VA is embarking on a Financial Policy Improvement Initiative project to assist in remediating two material weaknesses: "Financial Management Oversight" and "Financial Management System Functionality." This project entails developing a complete and comprehensive manual of all Departmental financial policies and procedures. The primary objective is to ensure that financial policy and procedural information are both accurate and used consistently across the Department. This project will also ensure that VA's financial policies comply with all Statements of Federal Financial Accounting Standards, financial management laws and regulations, and OMB and Treasury financial management guidance. The project will begin in FY 2008 and is estimated to take 3 years to complete.

During 2007 the Department aggressively used the Governmentwide commercial purchase card program. Over 4.2 million transactions were processed, representing $2.6 billion in purchases. As a result of VA's daily electronic billing and payment process for centrally billed accounts, VA earned over $42 million in refunds, compared to $37 million during 2006. These refunds are returned to VA entities for use in veterans programs. The increase in refunds is attributed to expanded use of the card and normal increases in the cost of products purchased.

Throughout 2007 VA continued to make operational enhancements, which resulted in improvements in interest paid, discounts earned, and audit recoveries. Interest improvements occurred largely because the Department centralized VHA-certified payments at the Financial Services Center (FSC) in Austin, Texas, while the percentage of discounts earned increased because of operational improvements implemented at the FSC and VA's National Acquisition Center. Interest paid per million dollars disbursed improved more than 15 percent from $99 per million in 2006 to $84 per million in 2007, and VA earned nearly 92 percent of its available discounts.

During 2007 the FSC collected improper payments and recovered unapplied vendor statement credits totaling nearly $3.0 million. Since the program's inception in 2001, VA has recovered $21.3 million in improper payments and cancelled another $32.9 million in improper payments before making payment.

VA awarded a new recovery audit contract in December 2004 to review past payments by VA's Health Administration Center for hospital care. The contract started on July 11, 2005, with requests for information sent to providers and VA medical centers. As of August 7, 2007, the contractor had identified 5,926 receivables totaling $22,283,670. Of that amount, VA has recovered $11,792,406.

VA continues to work diligently to address the IT Security Controls and the Financial Management System Functionality material weaknesses. Additional focus was placed in 2007 on the "Financial Management Oversight" material weakness due to the expansion of this significant deficiency to other fiscal areas in VA (expanded beyond simply VHA as described in 2006). VA developed and implemented a detailed remediation action plan to address the resolution of this material weakness. VA financial management made improvements throughout the year in providing additional and clarifying financial policies and procedures to VA's fiscal community, particularly in the area of internal controls. VHA's Business Process Improvement Committee (BPIC) continued to work toward improving VHA's internal controls and reforming VHA business processes to improve financial performance.

VHA also continues to monitor and improve reports, such as the Financial Indicators Report, that monitor facility operations on a monthly basis. In 2007 a Desk Guide to address the administration and management of non-health care debt was developed and released. A national training conference to address the requirements of the Desk Guide is planned for January 2008. Additionally, Web-based training modules in the areas of payroll, accounting, agent cashier, travel, budget, and funds control are being developed.

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

VBA is continuing its effort to centralize or consolidate finance functions, with a direct line to VBA's CFO. In January 2007, VBA consolidated the Committee on Waivers and Compromises (COWC) function to the Pension Maintenance Centers for Compensation, Vocational Rehabilitation and Employment, and employee debts. A joint VHA/VBA team was developed and is working on a plan to transfer finance functions related to automobile adaptive equipment to VHA. A pilot test will begin in the first quarter of FY 2008.

NCA implemented the business office concept to establish a single site for each of the primary activities: finance, acquisition, and asset management. Currently, a good portion of the major acquisition and associated accounting is accomplished by the operations support center in Quantico, with general acquisition, finance and asset management support being provided by a VA medical center or regional office. Centralization of activities began in 2007 with a limited number of sites and functions, and a full implementation plan is under development for the centralization of finance and acquisition.