



GAO

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United States Government Accountability Office
Washington, DC 20548

May 16, 2007

Congressional Committees

Subject: Department of Veterans Affairs' Lack of Timely and Accurate Information on Unexpended Balances Limits Effective Management and Congressional Oversight

The Department of Veterans Affairs (VA) holds about 5 percent of the real property owned by the federal government in terms of building floor area, including such facilities as hospitals and office buildings. VA's responsibility for managing its real property includes the construction of its facilities and cemeteries. Because these construction projects can span several years, VA is authorized to carry forward fund balances from year to year in its construction accounts. VA is responsible for keeping track of and managing these balances to ensure that any unexpended balances that remain after construction projects are completed are redirected to other construction project needs within the agency.¹

VA's budgets for new construction exist in two accounts—Major Construction and Minor Construction—which are funded as separate line items within the appropriation.² For purposes of this report, we refer to the Major and Minor Construction accounts as VA's construction accounts. Construction projects undertaken to replace existing facility components are funded through the Non-Recurring Maintenance (NRM) portion of the Medical Facilities budget account. For purposes of this report, we refer to the NRM as VA's facility account.

Under the Comptroller General's authority to conduct evaluations on his own initiative, and as part of a continued effort to assist Congress in overseeing real property management issues, we examined VA's management of unexpended construction balances.³ Specifically, we addressed the following question: To what extent does VA have readily available information about unexpended balances in its construction and facility accounts to effectively manage these funds?

¹Unexpended balances are the cumulative total of past fiscal years' unobligated and obligated-but-not-yet-outlayed balances.

²At the time of our review, major construction projects were those estimated to cost more than \$7 million, while minor construction projects were those estimated to cost \$7 million or less. See P.L. 109-114, 119 STAT. 2386-2387; 38 USC 8104(a)(3)(A).

³GAO, *High-Risk Series: Federal Real Property*, [GAO-03-122](#) (Washington, D. C.: January 2003); *High-Risk Series: An Update*, [GAO-07-310](#) (Washington, D. C.: January 2007).

To do this work, we reviewed the President's fiscal years 2006 and 2007 budgets, VA's fiscal year 2007 congressional budget justification, previous years' appropriations laws, conference reports, committee reports, VA Inspector General (IG) reports, and previous GAO reports. We reviewed Office of Management and Budget (OMB) guidance for budget preparation, Circular A-11. We limited our review to VA construction and facility budgets. We reviewed project financial information, project management information, and facility financial information provided by two of VA's agency entities—the Veterans Health Administration (VHA) and the National Cemetery Administration (NCA). We interviewed VA Washington, D. C., headquarters officials in budget, finance, and construction management. Working with these officials, we obtained budget authority and obligated and unexpended balances for each project, identified and verified all financial information gathered, and verified shortcomings we identified in gathering this information. We determined that the information was adequate for our purposes. We conducted our review from February 2006 to April 2007 in accordance with generally accepted government auditing standards.

Results in Brief

VA did not have readily available information in its construction and facility accounts about unexpended balances that were no longer needed and could have been redirected to other needs. Two issues hindered VA officials from identifying these unexpended balances in a timely manner. First, VA's systems lacked readily available information to track projects and provide timely and accurate information to VA management. For example, it took several months for VA to provide us with corrected information on VHA and NCA construction projects. Second, VA lacked effective policies and procedures for identifying unexpended balances when construction projects are completed and the funds designated for those projects are no longer needed. For example, instead of identifying construction projects as they are completed, VA identified projects for closure on an ad hoc basis. As a result of these two issues, unexpended balances on completed construction project accounts have been allowed to accumulate. We identified about \$11 million in unexpended balances from completed construction projects during our review. Although these unexpended balances were small compared to VA's fiscal year 2007 congressional budget submission of \$597 million for its construction accounts, the inability to track these funds leaves VA vulnerable to larger balances accumulating and not being redirected in a timely manner to other construction project needs within the agency. Furthermore, VHA lacks tools to monitor financial project information in its facility account projects at its Washington, D. C., headquarters.

Although there were no unobligated construction balances from completed projects in VHA's facility accounts, there was a related issue concerning its practice of obligating most facility funds in the last month of the fiscal year, which poses a risk. For example, in September 2006, VA obligated about \$248 million—almost 60 percent of its approximately \$424 million facility budget—even though OMB apportions VHA's Medical Facilities appropriation (which contains facility funding) quarterly. Our past work has shown that year-end spending can place government programs at

risk for waste. Additionally, the fiscal year 2006 appropriations act required VA to submit a quarterly report on the financial status of VHA to the Committees on Appropriations of both Houses of Congress, and the accompanying Conference Report specified that the quarterly report include the status of the facility account funds.⁴ GAO reported in September 2006 that VA did not include the status of the facility account funds in the three quarterly reports that VA had provided. Our review found that VA's two subsequent reports on the financial status of VHA—for the fourth quarter of fiscal year 2006 and the first quarter of fiscal year 2007—reported the status of NRM funds. However, in these reports, VA did not explain (1) its practice of holding the majority of NRM funds from OMB's quarterly apportionment until the end of the fiscal year and (2) its use of the \$69 million difference between planned and actual NRM funds for fiscal year 2006. We are making recommendations to VA aimed at strengthening its ability to manage and track unexpended balances and reporting the status of facility account funds to Congress. VA agreed with our recommendations related to tracking and managing unexpended balances that could be redirected but disagreed with our recommendation to be more transparent with regard to reporting NRM funds in its quarterly reports to the Committees on Appropriations of both Houses of Congress.

Background

VA receives funding for major and minor construction projects as separate line items within its appropriation. Funds for projects considered to be major construction must be specifically authorized by law before they are appropriated.⁵ Typically, major and minor construction project funds that are not NRM are appropriated as “no-year” money (that is, the funding is available until expended without time constraints). As shown in table 1, for fiscal year 2007, VA requested \$399 million for major construction projects and \$198 million for minor construction projects.⁶ As also shown in table 1, in VA's fiscal year 2007 congressional budget submission, two entities were responsible for almost 90 percent of the funds requested for VA's construction accounts—VHA (\$457 million) and NCA (\$78 million).

⁴Section 222 of P.L. No. 109-114; H. R. Rep. No. 109-305, at 50 (2005) (Conf. Rep.).

⁵38 USC 8104(a) (2).

⁶*Department of Veterans Affairs FY 2007 Budget Submission*, “Construction and 5 Year Capital Plan,” Volume 3 of 4, 1-1, Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2007* (Washington, D. C., Feb. 6, 2006), 980 - 981.

Table 1: VA’s Fiscal Year 2007 Construction Request by Organization
Dollars in millions

Agency	Major construction ^a	Minor construction ^a	Total request
Veterans Health Administration	\$307	\$150	\$457
National Cemetery Administration	53	25	78
Veterans Benefits Administration	0	14	14
Staff Offices	38	9	47
Total ^b	\$399	\$198	\$597

Source: GAO analysis of VA fiscal year 2007 congressional budget submission.

^a Major construction projects are greater than \$7 million; minor construction projects, \$7 million or less.

^b Non-Recurring Maintenance is identified within VA’s Veterans Health Administration Medical Facilities Land and Structures budget and not included in this total.

The funds VA receives for Medical Facilities, which includes NRM construction projects, are primarily annual (1-year) funding that is available to be obligated only in the fiscal year it is appropriated.⁷ VA requested almost \$514 million for its NRM, which is about 99 percent of the nearly \$519 million Land and Structures portion of VHA’s Medical Facilities congressional budget submission.⁸ According to VHA headquarters officials, NRM projects are those undertaken to replace existing facility components, whereas major and minor projects are generally new work. Past NRM projects include replacements of a power plant, roofs, and elevators.

In the President’s budget for fiscal year 2007, it was estimated that at the end of fiscal year 2006 its construction accounts would contain unexpended balances collectively totaling approximately \$1 billion dollars—\$966 million in the Major Construction account and \$61 million in the Minor Construction account. VA informed us that the facility account did not have any unobligated balances as of September 2006, the end of the fiscal year.

VA Lacks Readily Available, Accurate Data on Unexpended Balances Needed to Manage Construction and Facility Funds

VA did not have readily available information about unexpended balances in its construction and facility accounts to ensure effective management of these funds at VHA and NCA. Furthermore, different VA systems contained conflicting information and errors. VA headquarters officials in Washington, D. C., took several months to

⁷P.L. 109-114, 119 STAT. 2385.

⁸*Department of Veterans Affairs FY 2007 Budget Submission. “Medical Programs,”* Volume 1 of 4, 5-13, Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2007* (Washington, D. C., Feb. 6, 2006), 961.

provide us with information we requested on major and minor construction projects. Specifically, in response to our request in May 2006, it took VHA almost 2 months to identify 64 major projects that could be closed and almost 5 months to identify minor project funds that could be reallocated.⁹ In response to our request in June 2006, it took NCA almost 3 months to identify 21 major projects that could be closed and minor project funds that could be reallocated.

We found that VA's systems lacked readily available and accurate information to track projects and provide to VA management for the following types of project accounts we reviewed.

- *VHA Minor Projects.* VHA provided documents—generated from different systems—that contained conflicting information and mathematical errors. Specifically, VHA provided construction data for those projects that had been generated by (1) its Financial Management System (FMS), which listed 1,466 projects with about \$256 million in unobligated funds, and (2) its Project Tracking Report (PTR), which listed 701 projects. VHA headquarters officials in Washington, D. C., told us FMS listed more projects than PTR because it did not delete projects that are closed out. We also found almost \$1 million in math errors in the FMS document, along with some projects showing negative balances. VHA headquarters officials confirmed the mathematical errors and stated that the negative balances reflected interest payments on invoices that had not been paid promptly. VA officials explained that to comply with the prompt payment requirements, interest charges are paid automatically by an electronic payment system, which takes the funds from an account other than the project account.¹⁰ Because the system did not notify VA management that the interest charges had been paid, the project had a negative balance. As a result of our review, VHA made several corrections to its project and financial data.
- *NCA Minor Projects.* NCA headquarters officials in Washington, D. C., told us that its project management information system consisted of text reports on each project that were entered in headquarters. According to these officials, a list of projects was not normally compiled and, thus, was unavailable. Nevertheless, NCA provided data in a spreadsheet that showed contradictory financial and project information. Specifically, NCA identified 172 line items for minor projects, with projects separated into several line items. Of these, there was no information on project status for about 105 project line items. Of the almost 67 remaining project line items that contained status information, about 44 line items for projects where construction had been completed had unexpended balances totaling about \$1.5 million. However, NCA data noted that reallocations from about 29 project lines, amounting to about \$0.9 million, had been made. After we requested clarification, NCA headquarters officials

⁹We could not obtain a definitive number of completed minor construction projects from the data provided by VHA and NCA.

¹⁰5 CFR §1315.10.

provided another spreadsheet that listed 97 projects that were no longer separated into several line items. Of these, we found about 29 projects with unexpended balances totaling about \$1.1 million that were identified as having construction completed and one project with no project information and almost \$141,000 in unexpended balances. However, NCA data identified about 24 projects as having reallocations totaling about \$0.9 million. Additionally, we received an FMS report that showed math errors, lacked project status, and had negative balances, similar to the FMS report on VHA's minor projects.

- *VHA and NCA Major Projects.* Both VHA and NCA have an electronic project information system to track the status of major projects. However, these information systems did not contain readily available data, as both VHA and NCA relied on contacting project management personnel to update the project status before providing these data to us.

A related issue compounds these problems with the lack of readily available, accurate project information in VA's systems. VA lacks effective policies and procedures designed to identify completed construction projects that have funds remaining in VHA's and NCA's Major and Minor Construction accounts. We found in past work that clear, consistent, and enforceable policies and procedures can help ensure the best value when acquiring goods and services.¹¹ However, VHA and NCA lack effective policies and procedures related to how completed projects with unexpended balances are to be identified, despite the fact that unexpended balances are common in construction projects and authorized transfers between VA project accounts take place. For example, according to VHA headquarters officials in Washington, D. C., when active projects need additional funds, VHA identifies some completed projects and redirects any unexpended balances to the active projects. NCA also periodically identifies completed projects and transfers any unexpended balances to other construction projects. For example, in January 2006, NCA reallocated about \$6.2 million from 13 completed projects.

As a result of our review, VA reallocated about \$11 million in unexpended balances from completed construction projects. Specifically, from the 64 major projects that VHA found could be closed, it reallocated about \$3.8 million, along with about \$2.1 million of unexpended balances from minor projects. Also, as a result of our review, NCA reallocated about \$4.2 million from its 21 major projects and about \$0.9 million from unexpended balances for minor projects. While these amounts are small given the size of VA's FY 2007 construction budget request of \$597 million, VA Washington, D. C., headquarters officials acknowledged that the approximately \$11 million in unexpended balances that we found were no longer needed for the projects they were originally designated for. Also, in some cases the projects had been completed for several years. For example, one VHA construction project with a balance of almost \$100,000 was completed in 1995 but not closed out. Without readily available information on completed construction projects with unexpended balances, funds in

¹¹GAO, *Transportation Security Administration: High-Level Attention Needed to Strengthen Acquisition Function*, GAO-04-544 (Washington, D. C.: May 2004).

these project accounts can accumulate and not be redirected in a timely manner to other construction project needs within the agency.

VHA Non-Recurring Maintenance Construction Projects

We also found during our review that VHA lacks tools to monitor project financial information at its headquarters in Washington, D. C., on NRM construction projects for the 21 Veterans Integrated Service Networks (VISN) that function as VHA's regional construction oversight offices. VHA headquarters officials do not have readily available financial information on individual NRM projects, as they have access only to FMS summary information. Specifically, VHA headquarters officials do not have access to the financial information system that VISN regional offices use to track the status of individual NRM projects.

Furthermore, VHA did not obligate the bulk of NRM funds until September, the last month of the fiscal year. For example, in September 2006, VHA obligated almost 60 percent (about \$248 million) of the total NRM budget of about \$424 million for NRM work. Although the funds for NRM within the Medical Facilities account are apportioned quarterly by OMB, VHA headquarters officials told us that VHA's regional officials hold onto the NRM funds in case there are other needs or expenses that require funding. VHA headquarters officials also believe that retaining these funds and deferring NRM work until the end of the fiscal year gives them flexibility to address any unforeseen needs or shortfalls that may arise within VHA's overall budget.¹² However, these officials also noted that the funds cannot be transferred from the VHA Medical Facilities account into other VHA medical accounts without congressional notification.¹³ The practice of year-end spending is discouraged in VA guidance¹⁴ and VA has also published guidance stating that expenditure planning "should be consistent with the activity's obligation plan and should reflect the need for an even and orderly flow of procurements."¹⁵ Our previous work has shown that when budget execution is not monitored effectively, fiscal year-end spending can be wasteful, as agencies sometimes attempt to spend funds that would otherwise expire and no longer be available for new obligations after the fiscal year ends.¹⁶ Therefore, when the bulk of the NRM funds are not used for unforeseen needs or shortfalls,

¹²GAO, *VA Health Care: Budget Formulation and Reporting on Budget Execution Need Improvement*, [GAO-06-958](#) (Washington, D. C.: September 2006).; Department of Veterans Affairs Office of Inspector General, *Report of Audit: Congressional Concerns over Veterans Health Administration's Budget Execution*, Report No. 06-01414-160 (Washington, D. C., June 30, 2006).

¹³Section 216 of P.L. No. 109-114; H.R. Rep. No. 109-305, at 49 (2005) (Conf. Rep.).

¹⁴VA Office of Acquisition & Material Management, *Policies & Regulations, VA Acquisition Regulations, Part 807*, Acquisition Planning: §807.172.5.

¹⁵VA, Office of Acquisition & Material Management, *Policies & Regulations, VA Acquisition Regulations, Part 807*, Acquisition Planning: §807.102.4.

¹⁶GAO, *Year-End Spending: Reforms Underway But Better Reporting and Oversight Needed*, [GAO/AIMD-98-185](#) (Washington, D. C.: July 31, 1998).

there is a risk of wasteful year-end spending when the funds, which were apportioned quarterly, are finally used for the NRM work in the last month of the fiscal year.

This practice has been brought to the attention of VA management and Congress through recent GAO and VA Inspector General reports.¹⁷ Furthermore, the fiscal year 2006 appropriations act required VA to submit a quarterly report on the financial status of VHA to the Committees on Appropriations of both Houses of Congress, and the accompanying Conference Report specified that the quarterly report should include the status of NRM funds.¹⁸ GAO reported in September 2006 that VA did not include a status of NRM funds in the three quarterly reports that VA provided for fiscal year 2006.¹⁹

We found that VA's two subsequent reports on the financial status of VHA—one for the fourth quarter of fiscal year 2006 and one for the first quarter of fiscal year 2007—reported the balance of NRM funds. In the fiscal year 2006 fourth quarter report, VA provided an end-of-year summary of obligations and collections that showed the actual spending had been 14 percent (almost \$69 million) less than planned. In our discussions concerning the use of fiscal year 2006 funds, VA officials said the NRM funds were to be used for other unforeseen needs or shortfalls but did not provide us with detailed information on their use for such purposes. Furthermore, we found that in its financial reports, VA did not explain (1) its practice of holding the majority of NRM funds from OMB's quarterly apportionment until the end of the fiscal year or (2) the unforeseen needs or shortfalls for which it used the variance between planned and actual NRM spending. VA's lack of reporting NRM status has hindered congressional oversight of these funds.

Conclusions

Although the amount of unexpended balances that could be redirected to support other agency priorities is small compared to the size of VA's construction and facilities budget, the sums we found point to larger concerns. Without updated and current project information, VA did not have readily available information about unexpended balances in its construction and facility accounts to ensure effective management of these funds at VHA and NCA. Additionally, because VA lacks effective policies and procedures designed to identify completed construction projects with funds remaining in VHA's and NCA's Major and Minor Construction accounts, much greater amounts could potentially accumulate and not be redirected in a timely manner to other construction project needs within the agency, hindering VA's ability to efficiently and effectively use all available resources at its disposal. Furthermore, congressional oversight of VA has been hindered by VHA's lack of transparency when reporting on the status of NRM funds in the congressional quarterly reports that VA provided for fiscal years 2006 and 2007.

¹⁷[GAO-06-958](#); Department of Veterans Affairs Office of Inspector General, Report No. 06-01414-160.

¹⁸Section 222 of P.L. No. 109-114; H. R. Rep. No. 109-305, at 50 (2005) (Conf. Rep.).

¹⁹[GAO-06-958](#).

Recommendations for Executive Action

To help strengthen VA's ability to track and manage unexpended balances and report the status of facility account funds to Congress, we are making four recommendations to the Secretary of Veterans Affairs. Specifically, we recommend that the Secretary establish policies and procedures to

- update and keep the project information systems current,
- update and keep current the project financial management system that will notify VA management when payments have exceeded project funding,
- periodically identify completed projects for close-out and redirect the unexpended balances in a timely manner to other construction project needs within VA, and
- explain (1) VA's rationale for holding the majority of NRM funds from OMB's quarterly apportionment until the end of the fiscal year and (2) how VA used the variance between planned and actual NRM in the quarterly report on the financial status of the Veterans Health Administration to the Committees on Appropriations of both Houses of Congress.

Agency Comments and Our Evaluation

We provided a draft of this report to VA for review and comment. VA provided written comments, which are reprinted in enclosure I together with our responses to specific points VA raised. VA concurred with our first, second, and third recommendations—which relate to keeping the electronic project information system and electronic financial information system current, periodically identifying completed projects for close-out, and redirecting unexpended balances in a timely manner to other construction project needs within VA. Additionally, VA said that it is updating existing procedures to improve fund recovery from unexpended balances. VA further stated that the \$11 million in unexpended balances represents .0037 percent of the available budgetary resources, and while this does not excuse the handling of these individual projects, VA believes it does not point to a mismanagement of the program. We did not include a discussion on the materiality of the unexpended balances in the report—nor did we use the phrase "mismanagement of the program" in the report—as we are discussing VA's inability to track these project funds, which leaves VA vulnerable to larger balances accumulating and not being redirected in a timely manner to other construction project needs within the agency. VA agreed to work on those recommendations that relate to construction projects.

However, VA disagreed with our fourth recommendation to explain (1) its rationale for holding the majority of NRM funds from OMB's quarterly apportionment until the end of the fiscal year and (2) how it used the variance between planned and actual NRM in the quarterly report on the financial status of the Veterans Health

Administration to the Committees on Appropriations of both Houses of Congress. We agree with VA (1) that agencies do have some flexibility to manage funds within apportionment classifications and (2) that VA makes decisions on where to reallocate resources to address current issues and needs. Although VA's spending for NRM differs from the apportionment OMB sets for the Medical Facilities account as a whole, we did not recommend—for the reasons VA cited—an even spending of funds throughout the year. However, we did not find transparent explanations of NRM funds in the VA quarterly reports to Congress provided for our review. For example, regarding the OMB apportionments, it would be helpful for Congress to know the reasons for the year-end spending of NRM funds. Furthermore, we found that VA is not offering transparent explanations of the variances between actual and planned NRM spending as part of the quarterly report. For example, the explanation VA provided was given in a footnote in the last two reports we reviewed (fourth quarter of fiscal year 2006 and first quarter of fiscal year 2007) and states that NRM is included in the Medical Facilities total and is shown as a non-add item on this table (of financial data). As a result, we continue to make this recommendation because VA's lack of transparency in reporting NRM status has hindered congressional oversight of these funds.

We are sending copies of this report to interested congressional committees, the Secretary of VA, and the Director of OMB. We will also make copies available to others on request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any question, please contact me at (202) 512-2834 or goldsteinm@gao.gov. Contact points for our Office of Congressional Relations and Office of Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report include David Sausville (Assistant Director), Lindsay Bach, and George Depaoli.



Mark L. Goldstein
Director, Physical Infrastructure Issues

List of Congressional Committees

The Honorable Tim Johnson
Chairman

The Honorable Kay Bailey Hutchison
Ranking Minority Member
Subcommittee on Military Construction and Veterans' Affairs
Committee on Appropriations
United States Senate

The Honorable Daniel K. Akaka
Chairman

The Honorable Larry E. Craig
Ranking Minority Member
Committee on Veterans' Affairs
United States Senate

The Honorable Susan M. Collins
Ranking Minority Member
Senate Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Chet Edwards
Chairman

The Honorable Roger F. Wicker
Ranking Minority Member
Subcommittee on Military Construction, Veterans' Affairs, and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable Bob Filner
Chairman
Committee on Veterans' Affairs
House of Representatives

The Honorable Michael Michaud
Chairman

The Honorable Jeff Miller
Ranking Minority Member
Subcommittee on Health
Committee on Veterans' Affairs
House of Representatives

List of Congressional Committees (cont'd.)

The Honorable Henry A. Waxman
Chairman

The Honorable Tom Davis
Ranking Minority Member
Committee on Oversight and Government Reform
House of Representatives

Enclosure I

Comments from Veterans Affairs

Note: GAO comments supplementing those in the report text appear at the end of this enclosure.



THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON
April 16, 2007

Mr. Mark Goldstein
Director
Physical Infrastructure Team
U. S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Goldstein:

The Department of Veterans Affairs (VA) has reviewed your draft report, *Veterans Affairs: VA Needs to Better Manage Unexpended Balances and Improve Related Reporting to Congress* (GAO-07-410) and agrees with its findings. VA concurs with the Government Accountability Office's (GAO) recommendations to establish policies and procedures to strengthen VA's ability to track and manage unexpended balances and to improve reporting the status of facility account funds to Congress. Nevertheless, we disagree with GAO's premise that VA deviates from the Office of Management and Budget (OMB) apportionments. OMB does not specifically apportion non-recurring maintenance funds; rather, OMB apportions the entire medical facilities appropriation. It is important to note that Veterans Health Administration (VHA) spending for the medical facilities appropriation has not exceeded OMB's quarterly apportionment.

See comment 1.

It is also important to note that the amount of funds unexpended on closed-out projects cited in this report is insignificant on a percentage basis when measured against the total funding VA has received for Major and Minor Construction projects over the past 3 years. VA has received around \$3 billion in combined funding for these projects. When compared to the \$11 million in funds not timely managed; this represents .0037 percent of the available budgetary resources. If some of these funds relate to older projects, the percentage is even smaller. While this does not excuse the handling of these individual projects, it does not point to a mismanagement of the program.

See comment 2.

Finally, during the course of GAO's review, VHA's Office of Facilities Management underwent a reorganization to become the Department's Office of Construction and Facilities Management (OCFM) within the Office of the Secretary. OCFM consolidates the major construction execution/real property responsibilities of the National Cemetery Administration and the major/minor construction financial execution responsibilities of VHA's Chief Financial Officer. The Administrations will continue to be responsible for the programmatic execution of their maintenance and minor construction programs.

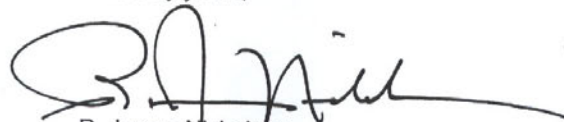
Enclosure I (cont'd.)

Page 2

Mr. Mark Goldstein

The enclosure addresses your recommendations in detail as well as specific issues within your report that need clarification. VA appreciates the opportunity to comment on your draft report.

Sincerely yours,



R. James Nicholson

Enclosure

Enclosure I (cont'd.)

Enclosure

Department of Veterans Affairs (VA) comments to
Government Accountability Office (GAO) draft report,
***Veterans Affairs: VA Needs to Better Manage Unexpended Balances and
Improve Related Reporting to Congress***
(GAO-07-410)

To help strengthen its ability to track and manage unexpended balances and reporting the status of facility account funds to Congress, GAO recommends that the Secretary of Veterans Affairs establish policies and procedures to:

- **Update and keep current the project information systems; and**

Concur - VA will begin updating existing policies and procedures to address this recommendation. The Veterans Health Administration's (VHA) draft Minor Construction Handbook details procedures and responsibilities for ensuring that project information is accurate and entered timely into the project tracking database. For minor projects, reminders are sent monthly to the medical center engineers to update the project tracking reports. Required fields, such as project status and the percentage of project completion, are tagged to ensure certain data are entered prior to allowing an exit of the project tracking database. As an added measure in April 2007, VHA's Capital Asset Management and Planning Service (CAMPS) will begin reviewing the monthly updates to ensure 95 percent of active projects have been updated within the month.

For non-recurring maintenance (NRM) projects, reminders are currently sent monthly to the medical center engineers to update the project tracking reports. Required fields, such as project status and percentage of project completion, are tagged to ensure certain data are entered prior to allowing an exit of the project tracking database. As an added measure in April 2007, the Veterans Integrated Service Network Support Center will begin reporting to Health Care Engineering the results of the monthly reviews of NRM project tracking reports to ensure active projects have been updated within the month.

The National Cemetery Administration (NCA) currently uses a desk-top management information system to update project information on a monthly basis. To address this recommendation, NCA will adopt the use of a Web-based COTS project management tool for minor projects that will allow multiple users to access and input real-time project information.

Enclosure I (cont'd.)

Enclosure

Department of Veterans Affairs (VA) comments to
Government Accountability Office (GAO) draft report,
***Veterans Affairs: VA Needs to Better Manage Unexpended Balances and
Improve Related Reporting to Congress***
(GAO-07-410)
(Continued)

- **Update and keep current the project financial management system that will notify management when payments have exceeded project funding; and**

Concur - VA will begin updating existing policies and procedures to address this recommendation.

- **Periodically identify completed projects for close-out and redirect the unexpended balances, in a timely manner, to other construction project needs within VA; and**

Concur - VA will begin updating existing policies and procedures for general ledger and maintenance of funding allotments to address this recommendation. VHA's draft Minor Construction Handbook will be updated to reflect a quarterly review of project completions versus unexpended balances by April 2007. Prior to the GAO audit, VHA's Capital Asset Management and Planning Service (CAMPS) had established a course of action to compare the project tracking database to the financial database to ensure unexpended balances were not left on closed projects. However, this practice was done annually and will now be completed quarterly. Using VHA's draft Minor Construction Handbook as a guide, NCA will initiate a quarterly review of unexpended balances and formalize the process in a directive.

- **Should explain (1) its rationale for deviating from OMB's quarterly apportionment, or (2) how it used the variance between planned and actual NRM, in the quarterly report on the financial status of the Veterans Health Administration to the Committees on Appropriations of both Houses of Congress.**

Do not concur - VA does not agree with the conclusion that it deviates from its apportionments. All funds are made available up to the limits and conditions set by each apportionment. Agencies do have some flexibility to manage funds within apportionment classifications, and VA makes decisions on where to re-allocate resources to address current issues and needs. Nevertheless, VA is offering explanations on the variances between actual and planned non-recurring maintenance (NRM) obligations as part of the quarterly report.

See comment 1.

Enclosure I (cont'd.)

Enclosure

Department of Veterans Affairs (VA) comments to
Government Accountability Office (GAO) draft report,
***Veterans Affairs: VA Needs to Better Manage Unexpended Balances and
Improve Related Reporting to Congress***
(GAO-07-410)
(Continued)

Additional Comments

Pages 6 and 7

**(VA Lacks Readily Available Data on Unexpended Balances Needed to
Manage Construction and Facility Funds...)**

GAO comment – “.....We found that VA’s systems lacked readily available information to track projects and provide such information to VA management for the following types of project accounts (VHA and NCA minor projects, and VHA and NCA major projects) we reviewed.”

VA comment – For major and minor projects, the unexpended balance data, along with unreleased holdbacks are readily available from the Financial Management System (FMS). The FMS obligation data even includes the contract number to tie the project to the obligation. Determining the status of these projects in relation to the funding is not difficult.

GAO comment – “Specifically, VHA provided construction data for those projects that had been generated by (1) its Financial Management System (FMS) that listed 1,466 projects with \$256 million in unobligated funds and (2) its Project Tracking Report (PTR) that listed 701 projects. VHA headquarters officials in Washington, DC, told us that the reason more projects existed on the FMS documents was because FMS did not delete projects that are closed out.”

VA comment – It is true that FMS lists all projects, open and closed. The projects that do not have unliquidated obligations are closed and awaiting to be archived.

Page 13 (Conclusions)

GAO Comment – “Additionally, because VA lacks policies and procedures aimed at identifying completed construction projects that have funds remaining in VHA’s and NCA’s Major and Minor Construction accounts, the potential exists that much greater amounts could accumulate and not be redirected, in a timely

See comment 3.

See comment 4.

Enclosure I (cont'd.)

Enclosure

Department of Veterans Affairs (VA) comments to
Government Accountability Office (GAO) draft report,
***Veterans Affairs: VA Needs to Better Manage Unexpended Balances and
Improve Related Reporting to Congress***
(GAO-07-410)
(Continued)

manner, to other construction project needs within the agency, hindering VA's ability to efficiently and effectively use all available resources at its disposal."

VA Comment – We disagree with the above comment. Construction projects are treated the same financially as undelivered orders. Therefore, they are reviewed for validity and proper disposition of unexpended funds. In addition, VA does have policies and procedures in place which are described below under MP-4, Part V, Chapter 3, "Allotment Accounting," Section 3B.03j "Maintenance of Allotment Ledgers," and 3C.01a "Closing of Allotment Ledgers for Unexpired Annual Appropriations."

CHAPTER 3. ALLOTMENT ACCOUNTING

3B.03 MAINTENANCE OF ALLOTMENT LEDGERS

j. The undelivered order and accrued services files will be analyzed monthly, and the initiating offices notified of those documents which appear to have been outstanding for an unreasonable length of time. FL4-297, Request for Information Re: Undelivered Orders and Commitments, or computer generated listings, may be used for this purpose. The initiating office will ascertain the status of such authorizations or orders and notify the Fiscal activity accordingly. During the monthly reconciliation of undelivered orders, the undelivered order file will be reviewed to identify those undelivered orders inactive for 90 days or more. Those outstanding undelivered orders inactive for more than 90 days will be called to the attention of the Supply activity for review and verification of validity of the order. Once identified as inactive for 90 days or more, such identified inactive undelivered orders will continue to be reviewed and verified for validity every 90 days. In addition, general ledger account 2242, accrued expenditure and undelivered order adjustments-expired appropriations, will be analyzed monthly to ascertain the propriety of entries.

See comment 5.

Enclosure I (cont'd.)

Enclosure

Department of Veterans Affairs (VA) comments to
Government Accountability Office (GAO) draft report,
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(GAO-07-410)
(Continued)

**3C.01 CLOSING OF ALLOTMENT LEDGERS FOR UNEXPIRED
ANNUAL APPROPRIATIONS**

a. Allotment ledger sheets maintained for unexpired annual appropriations will be closed as of September 30. As part of the year end closing procedures all documents in the undelivered order file will be reviewed, and, where there is a slight possibility that the order will be received, action should be taken to have the order canceled. Upon completion of the above action the balances remaining in the accrued expenditure, undelivered order, allotment, and unobligated columns should be verified with the related account balances in the general ledger. Any remaining unobligated balance will be dropped.

The following are GAO's comments on the Department of Veterans Affairs (VA) letter dated April 16, 2007.

GAO Comments

1. We agree with VA that agencies do have some flexibility to manage funds within apportionment classifications—VA makes decisions on where to reallocate resources to address current issues and needs. However, we do not find transparency in the quarterly reports to Congress provided for our review because VA did not explain (1) its practice of holding the majority of non-recurring maintenance (NRM) funds from OMB's quarterly apportionment until the end of the fiscal year and (2) the unforeseen needs or shortfalls for which it used the variance between planned and actual NRM spending. For example the explanatory footnote given in the last two reports (fourth quarter of fiscal year 2006 and first quarter of fiscal year 2007) states that NRM is included in the Medical Facilities total and is shown as a non-add item on this table. Although VA's spending for NRM differs from the apportionment OMB sets for the Medical Facilities account as a whole, we did not recommend—for the reasons VA cited—an even spending of funds throughout the year. Additionally, our report did not find that VA has exceeded OMB's apportionment and, in response to VA's comments, we have removed the word "deviated." However, because VA's lack of transparency in reporting NRM status has hindered congressional oversight of these funds, we continue to make this recommendation.
2. VA reiterated our discussion that unexpended balances were small compared to VA's fiscal year 2007 congressional budget submission of \$597 million for its construction accounts by describing them as insignificant on a percentage basis when measured against the total funding VA has received for Major and Minor Construction projects over the past 3 years. However, VA further stated that the \$11 million in unexpended balances represents .0037 percent of the available budgetary resources, and while this does not excuse the handling of these individual projects, VA believes it does not point to a mismanagement of the program. We did not include a discussion on materiality of the unexpended balances in the report—nor did we use the phrase "mismanagement of the program" in the report—as we are discussing VA's inability to track these project funds, which leaves VA vulnerable to larger balances accumulating and not being redirected in a timely manner to other construction project needs within the agency
3. In providing more details on its belief that information on unexpended balances is readily available from its financial system, VA's comments do not address our central concern related to unexpended balances—that is, while it is true that VA's financial systems provide information about unexpended balances, they do not identify unexpended balances that are no longer needed

and can be directed to other needs. Having such information would allow VA to better ensure effective management of these funds and not allow them to accumulate. For each project balance, VA had to manually determine whether the funds were no longer needed, demonstrating our point that VA is unable to make this determination in a systematic manner.

4. VA agreed with our report that FMS listed all projects, open and closed. VA further stated that the closed reports were waiting to be archived. However, VA did not provide evidence that any projects had been archived or that it had any guidelines or procedures for archiving projects.
5. VA said that the conclusions should show that policies and procedures are in place to identify completed projects and that VA was not hindered in its ability to efficiently and effectively use all available resources. As discussed in comment 2, our findings focus on the fact that VA does not know when unexpended funds are available for other purposes. We clarified the report to recognize that policies and procedures exist but have not been effective in identifying unexpended balances that could be redirected.

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