Financial Highlights

Pursuant to the requirements of 31 U.S.C. 3515 (b), VA's financial statements 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 entity, in accordance with 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. One implication of this is that liabilities cannot be liquidated without legislation that provides the authority to do so.

VA received an unqualified opinion on the Department's financial statements for 2004 and 2003 from the external auditors, Deloitte & Touche, LLP, continuing the tradition of financial management excellence first achieved in 1999. As a result of their audit work, Deloitte & Touche, LLP continued to report two material weaknesses and two reportable conditions. The Department continues to make significant progress on correcting the repeat material weaknesses and reportable conditions.

VA programs operated at a net cost of $33.3 billion in 2004 compared with $162.5 billion in 2003. The calculation of the actuarial liability for future years' veterans' compensation, which decreased by $30.0 billion during 2004 and increased by $105.6 billion in 2003, heavily impacts each year's cost. The actuarial liability for future years' veterans' compensation decreased in FY 2004 due to a refinement in the experience assumptions used to estimate the liability for compensation for male veteran beneficiaries. Excluding the change in this actuarial liability from the net cost would result in an adjusted net cost for VA's programs of $63.6 billion and $56.9 billion for 2004 and 2003, respectively. The majority of this increase applies to three programs-- medical care, $1.8 billion, compensation, $1.8 billion, and loan guarantee, $2.1 billion.

An examination of assets and liabilities reported on VA's balance sheets reveals three lines with changes greater than $1 billion. The largest change is a decrease in the Federal Employee and Veterans Benefits Liabilities, which is related to the decrease in the actuarial liability for future compensation payments. It should be noted that the future cash flows to liquidate the Federal Employee and Veterans Benefits Liability are not supported by any identifiable assets, as they are anticipated to be funded from the future general revenues of the U.S. Government. The change in the compensation liabilities is the most significant component of the change in Cumulative Results of Operations. The second significant change is a decrease of $1.7 billion in loans receivable resulting from the Secretary's decision to discontinue VA's policy of financing the sale of foreclosed property. The third significant change relates to a decrease in the liability provision for future losses on credit reform guaranteed loans.

Medical Care collections continue to improve. In 2004, collections totaled approximately $1.7 billion, which builds on the $1.5 billion collected in 2003, and is a significant increase over the 2002 total of $1.2 billion. VA plans to continue to increase these collections, reaching $1.87 billion in 2005 and $ 2.15 billion in 2006.

In the area of debt management, VA exceeded the goals established with the Department of the Treasury for the Treasury Offset Program (TOP) and the cross servicing program. As of the most recent reporting period to Treasury (6/30/04), VA referred $239 million (98 percent) of eligible debt to Treasury for offset under TOP. Under the cross-servicing program, VA referred $127 million (97 percent) of eligible debt to Treasury for collection.

During 2004, the Department aggressively used the governmentwide commercial purchase card program. Over 3.6 million transactions were processed, representing over $1.9 billion in purchases. The electronic billing and payment process for centrally billed accounts earned VA $30 million in rebates – an 88 percent increase over rebates earned in FY 2003.

Throughout FY 2004, VA made operational enhancements which resulted in improvements in interest paid, discounts earned and audit recoveries. Improvements occurred largely because VA centralized VHA certified payments at the Financial Services Center. Interest paid as a percentage of principal decreased by 16 percent and discounts earned increased by 21 percent compared to FY 2003.

In FY 2004, VA's recovery audit program recovered improper payments and unapplied vendor credits totaling over $3.7 million - a 22 percent increase over FY 2003 collections. Since inception in FY 2001, VA has recovered over $10.5 million in improper payments. VA awarded a recovery audit contract in December 2000 to review past payments by the Health Administration Center for hospital care. As of September 30, 2004, the contractor has identified 51,247 receivables totaling $36,628,282, of which VA recovered $28,310,191. We also recovered $16.6 million in funds owed VA due to defective pricing and price reduction violations.

Under 38 U.S.C. 8161, et seq., VA entered into enhanced-use leases to maximize use of underutilized VA property. In return, VA has received fair consideration including goods, services, or space beneficial to VA's mission. In seven of these enhanced-use leases, the assets and liabilities were transferred to a trust. The agreements establishing the trusts are reviewed and where appropriate, the trust financial statements are consolidated with the VA consolidated financial statements in accordance with generally accepted accounting principles. Enhanced-use leasing has proven to be very beneficial to the Department and VA anticipates examining alternative leasing structures and expanding the use of enhanced-use leases to meet critical capital needs.

In an effort to address a repeat reportable condition on operational oversight reported by the Department's external auditors, VHA implemented several monitoring and performance measures, including evaluation of each facility's monthly financial indicators report that measures performance in 19 significant areas. During FY 2005, VHA will implement a Web-based process certification checklist that will require financial staff to certify monthly, quarterly, and annually that their processes are in compliance with financial policy and procedures. This information will be used to determine those facilities needing assistance, with follow-on assistance provided in a timely manner.

VA's three Administrations began efforts to improve internal controls over finance, acquisition, and asset management functions and realign them to maximize effectiveness and efficiency. VHA centralized certain operations at the VISN and facility levels and their structure includes a CFO, Chief Logistics Officer, Capital Asset Manager, and Financial Quality Assurance Manager (FQAM). VBA centralized these same activities into product lines, with a direct line to the VBA CFO. In 2004, VBA centralized administrative accounting functions for two regional offices into one location; an additional eight to ten stations will be centralized in FY 2005, with the remaining centralized in 2006 and 2007. NCA plans to establish one site for each of the primary activities -- finance, acquisition, and asset management. Currently, the greatest proportion of contracting, finance, and accounting support for the national cemeteries is provided by a VA medical center or regional office. NCA plans on assuming direct responsibility for these activities over the next several years.