

Part I. Management Discussion and Analysis

VA's Performance Scorecard for FY 2004

Strategic Goal	Performance Measure	Goal Achieved		FY 2004		Improved From FY 2003?
		Yes	No	Goal	Actual	
1. Restore the capability of veterans with disabilities to the greatest extent possible, and improve the quality of their lives and that of their families	Compensation and pension national accuracy rate for core rating work (pp. 64, 130)		✓	90%	87%*	Yes
	Compensation and pension rating-related actions - average days to process (pp. 62, 130)		✓	145	166	Yes
	Compensation and pension rating-related actions - average days pending (pp. 63, 130)		✓	80	118	No
	Vocational rehabilitation and employment rehabilitation rate (pp. 66, 130)		✓	67%	62%	Yes
2. Ensure a smooth transition for veterans from active military service to civilian life	Average days to complete: Original education claims Supplemental education claims (pp. 72, 132)		✓	24	26	No
	Foreclosure avoidance through servicing (FATS) ratio (pp. 74, 132)		✓	47%	44%	No
3. Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation	Percent of patients rating VA health care service as very good or excellent: Inpatient Outpatient (pp. 82, 132)	✓		70%	74%*	No-same
		✓		72%	72%*	No
	Percent of primary care appointments scheduled within 30 days of desired date (pp. 80, 132)	✓		93%	94%*	Yes
	Percent of specialist appointments scheduled within 30 days of desired date (pp. 81, 132)	✓		90%	93%*	Yes
	Clinical Practice Guidelines Index (pp. 78, 134)	✓		70%	77%*	Yes
	Prevention Index II (pp. 79, 134)	✓		82%	88%*	Yes
	Increase non-institutional long-term care as expressed by average daily census: (pp. 83, 134)	✓		29,631	29,631*	Yes
	Average days to process insurance disbursements (pp. 87, 134)	✓		2.7	1.8	Yes
	Percent of veterans served by a burial option within a reasonable distance (75 miles) of their residence (pp. 91, 136)	✓		75.3%	75.3%	Yes
	Percent of respondents who rate the quality of service provided by the national cemeteries as excellent (pp. 92, 136)		✓	95%	94%	No-same
4. Contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation	Number of Career Development Awardees (pp. 100, 136)		✓	237	229	Yes
	Percent of respondents who rate national cemetery appearance as excellent (pp. 107, 136)	✓		98%	98%	Yes
Enabling Goal. Deliver world-class service to veterans and their families by applying sound business principles that result in effective management of people, communications, technology, and governance	Ratio of collections to billings (pp. 118, 136)	✓		41%	41%*	No-same
	Dollar value of sharing agreements with DoD (\$ in millions) (pp. 119, 136)	✓		\$116	\$120	Yes

* Indicates preliminary or estimated actual data.

EXECUTIVE SUMMARY

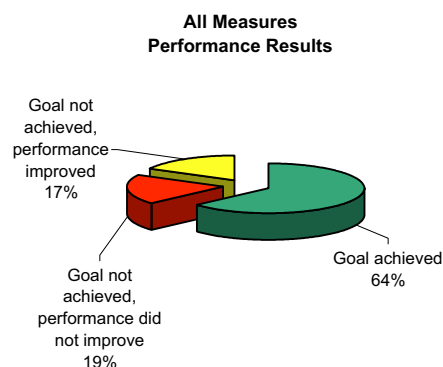
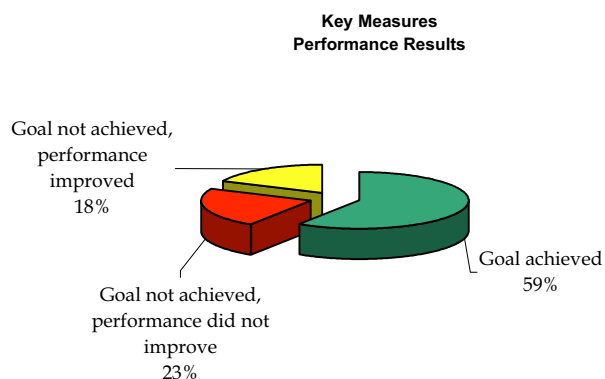
Mission

“To care for him who shall have borne the battle, and for his widow, and his orphan . . .”

The mission of the Department of Veterans Affairs (VA) is clear and compelling. It guides the efforts of nearly 220,000 employees who are committed to ensuring that VA provides timely, high-quality benefits and services to the millions of men and women who have served this country with honor.

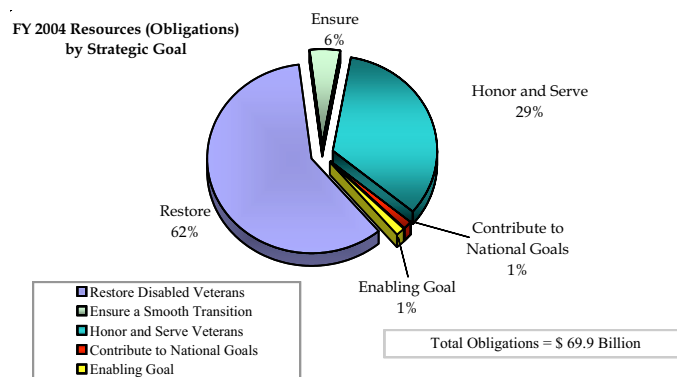
This report documents VA's progress during fiscal year (FY) 2004 toward meeting the strategic goals and objectives that directly support the Department's mission. These goals address the nine major programs that VA administers—medical care; medical research; compensation; pension; education; housing; vocational rehabilitation and employment; insurance; and burial.

To help gauge our progress, we established 127 performance goals at the beginning of the fiscal year, 22 of which were identified by VA's senior leadership as critical to the success of the Department. Our performance goals present a balance of both program outcomes that identify the impact that VA programs have on the lives of veterans and their families and



outputs that describe how well we manage and administer these programs. VA's Performance Scorecard for FY 2004 summarizes how well we did in meeting the key performance goals.

The following summaries highlight VA's FY 2004 performance associated with each of the Department's strategic goals. More detailed performance information is presented in Part II of this report (refer to pages 56-164).



Performance Results

Performance Results by Strategic Goal

Strategic Goal 1

Restore the capability of veterans with disabilities to the greatest extent possible and improve the quality of their lives and that of their families.

VA will restore the capability of veterans with disabilities by maximizing the ability of these veterans, including special veteran populations, and their dependents and survivors to become, to the degree possible, full and productive members of society through a system of health care, compensation, vocational rehabilitation, life insurance, dependency and indemnity compensation, and dependents and survivors education. This system of

benefits and services is aimed toward the broad outcome of restoring the individual capabilities of our Nation's veterans with disabilities.

The following table highlights important VA performance achievements related to Strategic Goal 1 along with estimates of the total resources devoted to this goal and its associated objectives during FY 2004.

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Objectives	Performance Results	\$41,459	59.3%
1.1 Maximize the physical, mental, and social functioning of veterans with disabilities and be recognized as a leader in the provision of specialized health care services.	<ul style="list-style-type: none"> Increased to 86 percent the score on the Prevention Index II for special populations of veterans (goal was 80 percent) Increased to 79 percent the proportion of homeless veterans discharged from domiciliary or residential care settings to an independent or secured institutional living arrangement (goal was 67 percent) 	\$13,121	18.8%
1.2 Provide timely and accurate decisions on disability compensation claims to improve the economic status and quality of life of service-disabled veterans.	<ul style="list-style-type: none"> Improved to an average of 166 days the timeliness for completing rating-related actions on C&P claims (goal was 145 days) Average days pending for C&P rating-related actions increased to 118 days (goal was to decrease to 80 days) Improved to 87 percent the national accuracy rate for C&P core rating work (goal was 90 percent) 	\$27,299	39.0%

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Objectives	Performance Results	\$41,459	59.3%
1.3 Provide all service-disabled veterans with the opportunity to become employable and obtain and maintain suitable employment, while providing special support to veterans with serious employment handicaps.	<ul style="list-style-type: none"> Increased to 62 percent the proportion of all veteran participants who exited the vocational rehabilitation program and found and maintained suitable employment (goal was 67 percent) 	\$676	1.0%
1.4 Improve the standard of living and income status of eligible survivors of service-disabled veterans through compensation, education, and insurance benefits	<ul style="list-style-type: none"> Reduced to 125 the average number of days to process claims for dependency indemnity compensation (DIC) (goal was 126 days) 99 percent of DIC recipients were above the poverty level (goal was 75 percent) 80 percent of DIC recipients were satisfied that VA recognized their sacrifice (goal was 50 percent) 	\$363	0.5%

Performance Summary

Every action the Department takes must focus first and foremost on the needs of service-connected disabled veterans. They have made enormous sacrifices to help preserve freedom, and many of them continue to live with physical and psychological scars directly resulting from their military service to this Nation. During FY 2004, VA made progress toward achieving the ultimate aim of Strategic Goal 1 through a variety of performance accomplishments focused on providing health care services and other benefits for those who carry the permanent reminders of war.

The following performance achievements demonstrate the progress VA made in addressing the ultimate aim of Strategic Goal 1:

- Established priority access to health care for veterans with service-connected disabled conditions.
- Worked with the Department of Defense (DoD) to ensure that veterans or servicemembers returning with

an injury or illness from Operation Enduring Freedom or Operation Iraqi Freedom have timely access to the Department's special health care services; this includes treatment for spinal cord injuries, traumatic brain injuries, post traumatic stress disorder, prosthetics, and rehabilitation of the blind.

- Made advancements in preventive health care for special populations of veterans, including those with service-connected disabling conditions.
- Reduced the average time it takes to process a claim for compensation and pension benefits.
- Improved the accuracy of our claims decisions.
- Assisted approximately 10,500 veterans with service-connected disabling conditions in obtaining and maintaining suitable employment after completing VA's vocational rehabilitation program.
- Improved the income status of eligible survivors of service-connected disabled veterans, as evidenced by the fact that virtually all survivors were above the poverty level in FY 2004.

Strategic Goal 2

Ensure a smooth transition for veterans from active military service to civilian life.

Veterans will be fully reintegrated into their communities with minimum disruption to their lives through health care, readjustment counseling, employment services, vocational rehabilitation, education assistance, and home loan guarantees.

The following table highlights important VA performance achievements related to Strategic Goal 2 along with estimates of the total resources devoted to this goal and its associated objectives during FY 2004.

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Objectives	Performance Results	\$3,281	4.7%
2.1 Ease the reentry of new veterans into civilian life by increasing awareness of, access to, and use of VA health care, benefits, and services.	<ul style="list-style-type: none"> • 20 percent of compensation claimants were participants in the Benefits Delivery at Discharge program (goal was 25 percent) • 100 percent of VA medical centers provided electronic access to health information provided by DoD on separated service persons (goal was 100 percent) 	\$641	0.9%
2.2 Provide timely and accurate decisions on education claims and continue payments at appropriate levels to enhance veterans' and servicemembers' ability to achieve educational and career goals.	<ul style="list-style-type: none"> • Processed original education claims in 26 days (goal was 24 days) • Processed supplemental education claims in 13 days (goal was 12 days) • Maintained a payment accuracy rate of 94 percent (goal was 94 percent) 	\$2,246	3.2%
2.3 Improve the ability of veterans to purchase and retain a home by meeting or exceeding lending industry standards for quality, timeliness, and foreclosure avoidance.	<ul style="list-style-type: none"> • Foreclosure Avoidance Through Servicing ratio declined to 44 percent (goal was 47 percent) 	\$394	0.6%

Performance Summary

One of VA's primary responsibilities is to provide veterans with a variety of benefits and services that help them make a smooth transition from active duty military service to civilian life. The Department assists veterans at the time they are discharged from military service by providing them with information about the benefits for which they are eligible and employing strategies that expedite the process of filing claims for benefits. In addition, VA offers continuing assistance through education and housing benefit programs that help ensure veterans are not placed at a disadvantage after they leave military service.

VA recorded some noteworthy achievements during FY 2004 that helped move the Department closer to reaching the ultimate aim of Strategic Goal 2. The achievements included:

- Conducting the Benefits Delivery at Discharge (BDD) program at 139 sites to help servicemembers transition more smoothly to civilian life; carried out in close cooperation with DoD, the BDD program assists active duty military personnel in filing claims for benefits at or near their time of discharge in order to expedite the processing of their claims.
- Ensuring all medical centers provided electronic access to health information (furnished by DoD) to separated service persons and veterans benefits offices, which helped ensure continuity of health care.
- Processing claims for education benefits in a timely fashion and with great accuracy.
- Guaranteeing over 375,000 home loans worth nearly \$50 billion; about four of every five veterans who used the housing program would not have qualified for a conventional loan.

Strategic Goal 3

Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation.

Veterans will have dignity in their lives, especially in time of need, through the provision of health care, pension programs, and life insurance, and the Nation will memorialize them in death for the sacrifices they have made for their country. VA will achieve this goal by improving the overall health of and providing a continuum of health care for all enrolled veterans and eligible family members. VA will ensure that the burial

needs of veterans and eligible family members are met, and provide veterans and their families with timely and accurate symbolic expressions of remembrance.

The following table highlights important VA performance achievements related to Strategic Goal 3 along with estimates of the total resources devoted to this goal and its associated objectives during FY 2004.

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Objectives	Performance Results	\$23,293	33.3%
3.1 Provide high-quality, reliable, accessible, timely, and efficient health care that maximizes the health and functional status for all enrolled veterans, with special focus on veterans with service-connected conditions, those unable to defray the cost, and those statutorily eligible for care.	<ul style="list-style-type: none"> • Increased to 77 percent the score on the Clinical Practice Guidelines Index (goal was 70 percent) • Increased to 88 percent the score on the Prevention Index II (goal was 82 percent) • Increased the percent of primary care appointments scheduled within 30 days of the desired date to 94 percent (goal was 93 percent) • Increased the percent of specialist appointments scheduled within 30 days of the desired date to 93 percent (goal was 90 percent) • Maintained a score of 74 percent of patients rating VA health care service as "very good" or "excellent" for inpatients (goal was 70 percent); achieved a score of 72 percent for outpatients (goal was 72 percent) • Increased to 29,631 the non-institutional long-term care average daily census (goal was 29,631) 	\$17,568	25.1%

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Objectives	Performance Results	\$23,293	33.3%
3.2 Process pension claims in a timely and accurate manner to provide eligible veterans and their survivors a level of income that raises their standard of living and sense of dignity.	<ul style="list-style-type: none"> Improved to an average of 166 days the timeliness for completing rating-related actions on C&P claims (goal was 145 days) Average days pending for C&P rating-related actions increased to 118 days (goal was to decrease to 80 days) Improved to 87 percent the national accuracy rate for C&P core rating work (goal was 90 percent) 	\$3,501	5.0%
3.3 Maintain a high level of service to insurance policy holders and their beneficiaries to enhance the financial security for veterans' families.	<ul style="list-style-type: none"> Reduced to 1.8 days the average days to process insurance disbursements (goal was 2.7 days) 	\$1,912	2.7%
3.4 Ensure that the burial needs of veterans and eligible family members are met.	<ul style="list-style-type: none"> Increased the percent of veterans served by a burial option within a reasonable distance (75 miles) of their residence to 75.3 percent (goal was 75.3 percent) Maintained the percent of respondents who rated the quality of service provided by the national cemeteries as excellent at 94 percent (goal was 95 percent) 	\$247	0.4%
3.5 Provide veterans and their families with timely and accurate symbolic expressions of remembrance.	<ul style="list-style-type: none"> Increased the percent of graves in national cemeteries marked within 60 days of interment to 87 percent (goal was 78 percent) 	\$65	0.1%

Performance Summary

VA recorded many significant accomplishments during FY 2004 that focused on the goal of honoring veterans in life and memorializing them in death for the sacrifices they made on behalf of the Nation. This strategic goal encompasses four of the Department's nine programs—medical care, pension, insurance, and burial. We made good progress in delivering timely, high-quality benefits and services in these areas.

As notable examples of our progress toward reaching the ultimate aim of Strategic Goal 3, VA:

- Improved the quality of patient care beyond levels that had already been recognized as leading the health care industry; by increasing the degree to which we followed nationally recognized clinical practice guidelines, our health care delivery led to improved health outcomes for our veteran patients.
- Enhanced access to health care by providing more timely appointments for both primary and specialty care services, and by expanding opportunities for veterans to receive long-term care in non-institutional settings such as community-based care and health care provided in the patients' own homes.
- Reduced the time required to process claims for compensation and pension benefits, while at the same time improved the high degree of accuracy with which these claims were processed.
- Lowered the average number of days to process insurance disbursements, with particular emphasis on expeditiously handling all claims arising from Operation Enduring Freedom and Operation Iraqi Freedom.
- Continued the development of five new national cemeteries to serve veterans in the areas of Atlanta, Georgia; Detroit, Michigan; Pittsburgh, Pennsylvania; south Florida; and Sacramento, California.
- Began the process to establish six new congressionally mandated cemeteries to serve veterans in the areas of Bakersfield, California; Birmingham, Alabama; Columbia/Greenville, South Carolina; Jacksonville, Florida; Sarasota, Florida; and southeastern Pennsylvania.
- Improved the timeliness with which graves were marked in national cemeteries.

Strategic Goal 4

Contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation.

VA will support the public health of the Nation as a whole through medical research and medical education and training, and by serving as a resource in the event of a national emergency or natural disaster. VA will support the socioeconomic well-being of the Nation through the provision of education, vocational rehabilitation, and home loan programs. VA will also preserve the memory and sense of patriotism of the Nation by maintaining our

national cemeteries as national shrines and hosting patriotic and commemorative ceremonies and events.

The following table highlights important VA performance achievements related to Strategic Goal 4 along with estimates of the total resources devoted to this goal and its associated objectives during FY 2004.

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Objectives	Performance Results	\$1,039	1.5%
4.1 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 support to national, state, and local emergency management and homeland security efforts.	<ul style="list-style-type: none"> • 100 percent of Group 1 emergency preparedness officials received training or, as applicable, participated in exercises relevant to VA's COOP plan on the national level (goal was 85 percent) • 42 percent of Group 2 emergency preparedness officials received training or, as applicable, participated in exercises relevant to VA's COOP plan on the national level (goal was 75 percent) 	<\$1M	<0.1%
4.2 Advance VA medical research and development programs that address veterans' needs, with an emphasis on service-connected injuries and illnesses, and contribute to the Nation's knowledge of disease and disability.	<ul style="list-style-type: none"> • Increased to 229 the number of Career Development Awardees (goal was 237) 	\$452	0.6%
4.3 Sustain partnerships with the academic community that enhance the quality of care to veterans and provide high-quality educational experiences for health care trainees.	<ul style="list-style-type: none"> • On a scale of 0-100, medical residents and other trainees scored their clinical training experience in VA at 83 (goal was 82) 	\$493	0.7%

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Objectives	Performance Results	\$1,039	1.5%
4.4 Enhance the socioeconomic well-being of veterans, and thereby the Nation and local communities, through veterans' benefits; assistance programs for small, disadvantaged, and veteran-owned businesses; and other community initiatives.	<ul style="list-style-type: none"> Statutory goal: 23 percent of total procurement dollars to be spent on small business* <p>*Data unavailable due to migration to new reporting system (Federal Procurement Data System—Next Generation)</p>	<\$1M	<0.1%
4.5 Ensure that national cemeteries are maintained as shrines dedicated to preserving our Nation's history, nurturing patriotism, and honoring the service and sacrifice veterans have made.	<ul style="list-style-type: none"> Increased the percent of respondents who rated national cemetery appearance as excellent to 98 percent (goal was 98 percent) 	\$94	<0.1%

Performance Summary

While VA's first three strategic goals focus on benefits and services provided directly to veterans and their families, Strategic Goal 4 is broader in scope as it addresses how the Department contributes to the well-being of the country as a whole. VA accomplishes this through emergency preparedness efforts; the medical research program; an education and training program for health profession students and residents; assistance programs devoted to small, disadvantaged, and veteran-owned businesses; and maintaining national cemeteries as shrines dedicated to preserving our Nation's history, nurturing patriotism, and honoring the service and sacrifice veterans have made.

The following accomplishments demonstrate the progress VA made during FY 2004 in addressing the ultimate aim of Strategic Goal 4:

- Sponsored an independent assessment of more than 100 infrastructure sites that are not only crucial to the continuity of VA operations, but that are also critical to the country's response in times of national emergencies; VA is responding to the vulnerabilities identified during these assessments in order to be

better positioned to respond during disaster threats and other major emergencies.

- Continued a long-standing record of success through a variety of medical research projects that benefit veterans and the general population; among the discoveries made last year were a synthetic compound that reverses bone loss and may lead to new treatments to prevent osteoporosis for millions of people and offer safer alternatives than current hormone treatment protocols.
- Provided clinical training to over 76,000 students from all health profession fields through partnerships with affiliated academic institutions; nearly three of every four physicians receive some portion of their training in VA health care facilities.
- Continued to assist small, disadvantaged, and veteran-owned businesses through the Department's procurement program.
- Sustained its commitment to maintain national cemeteries as national shrines that serve as an expression of the appreciation and respect of a grateful Nation for the service and sacrifice of her veterans; this is evidenced by survey results that showed virtually all family members rated national cemetery appearance as excellent.

Enabling Goal

Deliver world-class service to veterans and their families by applying sound business principles that result in effective management of people, communications, technology, and governance.

VA's enabling goal is different from the four strategic goals. The enabling goal and its corresponding objectives represent crosscutting activities that support all VA organizational units in carrying out the Department's mission. The activities focus on enhancing workforce assets and internal processes, improving communications, and furthering a crosscutting approach to providing seamless service to veterans and their families through an improved governance structure that applies sound business principles. As such, many of these activities are transparent to veterans and their families.

However, they are critical to our stakeholders and VA employees who implement our programs. VA is making efforts to operate as an integrated veteran-centric organization. We will achieve this goal while ensuring full compliance with applicable laws, regulations, financial commitments, and sound business principles.

The following table highlights important VA performance achievements related to the Enabling Goal along with estimates of the total resources devoted to this goal and its associated objectives during FY 2004.

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Objectives	Performance Results	\$898	1.3%
E-1 Recruit, develop, and retain a competent, committed, and diverse workforce that provides high-quality service to veterans and their families.	<ul style="list-style-type: none"> Increased to 90 percent the proportion of employees who were aware that alternate dispute resolution (ADR) is an option for addressing workplace disputes (goal was 80 percent) Increased to 60 percent the proportion of cases using ADR techniques (goal was 70 percent) 	\$81	0.1%
E-2 Improve communications with veterans, employees, and stakeholders about the Department's mission, goals, and current performance as well as the benefits and services VA provides.	<ul style="list-style-type: none"> Increased to 70 percent the participation rate in the monthly Minority Veterans Program Coordinators conference call (goal was 75 percent) Maintained at 30 percent the proportion of funded grants providing services to homeless veterans that are faith-based (goal was 33 percent) 	\$14	<0.1%
E-3 Implement a <i>One VA</i> information technology framework that supports the integration of information across business lines and that provides a source of consistent, reliable, accurate, and secure information to veterans and their families, employees, and stakeholders.	<ul style="list-style-type: none"> Began the process of transforming business lines to achieve a secure veteran-centric delivery process that enables veterans and their families to register and update information, submit claims or inquiries, and obtain status (goal was 2 business lines transformed) 	\$186	0.3%

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Objectives	Performance Results	\$898	1.3%
E-4 Improve the overall governance and performance of VA by applying sound business principles, ensuring accountability, and enhancing our management of resources through improved capital asset management; acquisition and competitive sourcing; and linking strategic planning, budgeting, and performance planning.	<ul style="list-style-type: none"> • Maintained at 41 percent the ratio of collections to billings (goal was 41 percent) • Achieved a dollar value of sharing agreements with DoD of \$120 million (goal was \$116 million) 	\$616	0.9%

Performance Summary

While not strictly programmatic in nature, VA's Enabling Goal encompasses a wide variety of support functions that create an environment within which the Department's benefits and services may be delivered as effectively and efficiently as possible. This goal deals with many activities that provide the tools necessary to accomplish programmatic objectives, including human resources management, internal and external communication, information technology, financial management, capital asset management, planning, and budgeting.

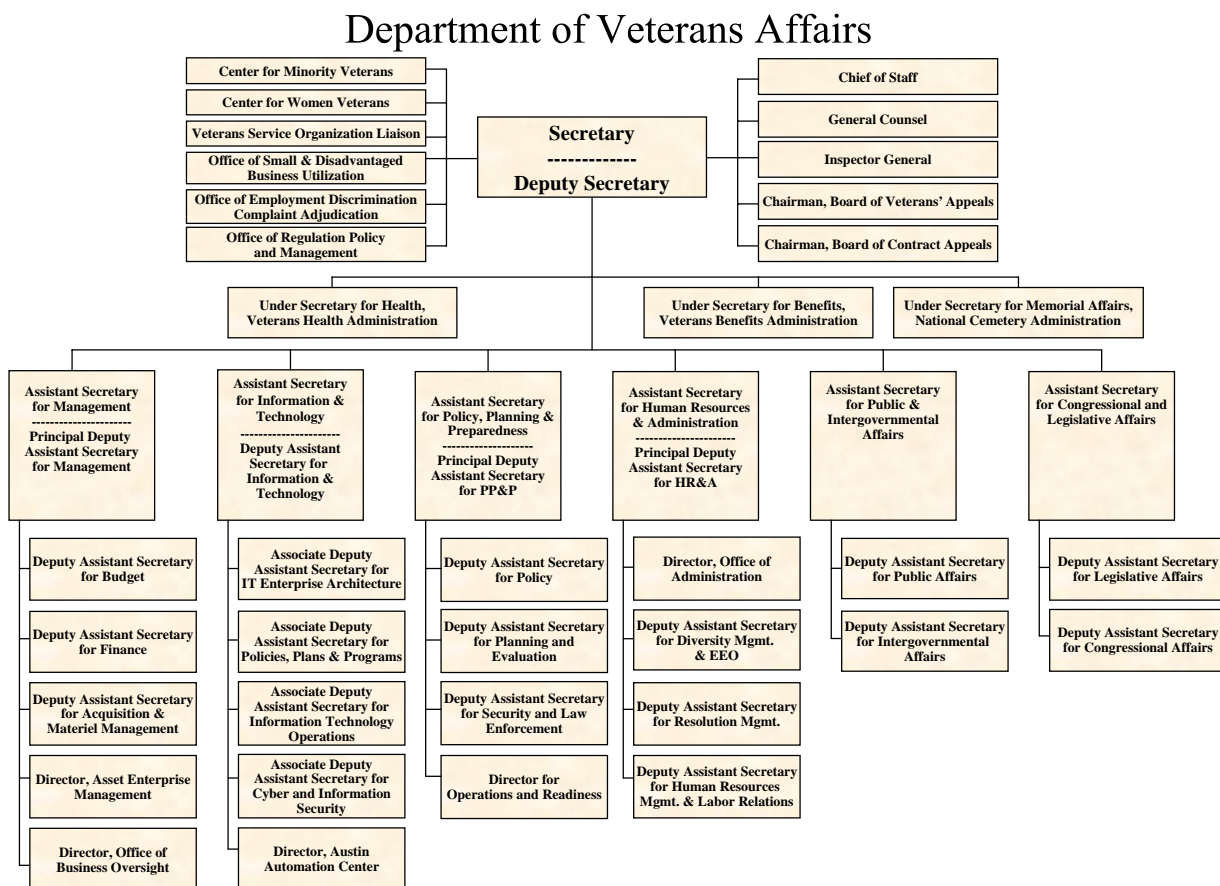
VA accomplished several initiatives during FY 2004 that helped enable the program offices to achieve their record of success throughout the year. Accomplishments included:

- Increasing internal and external recruitment and retention programs, developing and enhancing education and training programs, and fostering a corporate culture that proactively integrates women, minorities, and people with disabilities into management positions.
- Producing two key publications that helped employees and our stakeholders better understand the current and future priorities for the Department—the *Strategic Plan for Employees* and the *Results Report*.

- Instituting a contact initiative to reach all former prisoners of war not currently using VA benefits to inform them of benefits and services that they may be entitled to receive.
- Establishing the Center for Faith-Based and Community Initiatives that will seek advice from responsible parties within the faith-based and community organizations structure to enhance communication and coordination efforts and optimize resources targeted at the homeless and at-risk veteran populations.
- Making significant progress in the area of cyber security to ensure the integrity, availability, and confidentiality of automated information systems, to include deployment of a Departmentwide anti-virus program; and better protection of VA's information technology infrastructure from external attack through implementation of a plan to collapse the more than 200 VA-wide Internet access points into several national Internet gateways that have hardened security controls and enhanced intrusion detection capabilities.
- Helping ensure accountability for performance through monthly performance reviews involving the Department's senior leaders; these reviews include a continual analysis of financial and program performance, workload, and major construction and information technology projects.

Who We Are

"To care for him who shall have borne the battle, and for his widow, and his orphan"



VA is striving to fulfill the words spoken by President Lincoln 140 years ago by working to provide world-class benefits and services to veterans in a cost-effective manner. The statutory mission for VA defines our organizational commitment to America's veterans: "to administer the laws providing benefits and other services to veterans and the dependents and the beneficiaries of veterans." (38 U.S.C. 301(b)) This mandate sets forth the Department's role as the principal advocate for veterans and charges VA to ensure that veterans receive the medical care, benefits,

social support, and lasting memorials they deserve in recognition of their service to this Nation.

President Lincoln's words guide nearly 220,000 VA employees who have the privilege of serving veterans today. More than 193,000 employees support VA's health care system, one of the largest in the world. Approximately 13,000 employees are involved with providing benefits to veterans and their families, and over 1,400 employees provide burial and memorial benefits for veterans and their eligible spouses and children.

The delivery of veterans services is accomplished through VA's 157 hospitals, more than 850 community and facility-based clinics, 42 domiciliaries, 206 vet centers, 57 regional offices, and 120 national cemeteries and 33 other cemeterial installations. VA actively recognizes and preserves America's past and is the caretaker of a significant number of the Nation's historic properties. These properties that belong to the American people include 75 hospital campuses that are historic districts encompassing over 1,600 designated historic buildings as well as 66 VA national cemeteries, including 59 Civil War-era national cemeteries that are listed on the National Register of Historic Places. VA has facilities in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and U.S. territories.

Dating back to the earliest days of our country, support for veterans and their families has been a national priority. Veterans programs have evolved to the comprehensive set of health care, benefits, and memorial services VA provides today. Veterans programs have four broad purposes, which form the basis for VA's four strategic goals.

- To restore the capability of veterans with disabilities.
- To ensure a smooth transition as veterans return to civilian life in their communities.
- To honor and serve all veterans for the sacrifices they made on behalf of the Nation.
- To contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation.

VA also plays a substantial role in ensuring national emergency medical preparedness and providing medical support to DoD. VA's enabling goal helps ensure continuous focus on providing world-class service to veterans and their families through responsible resource stewardship and effective governance. The enabling goal also provides measures to assess performance in the strategic management of human capital, information technology, capital asset management, and governance.

Just as VA's history has evolved, we expect the needs of veterans to change; how VA responds will continue to transform as well. Whatever veterans' needs are, VA will be ready. Today, there are approximately 25 million living men and women who served in the uniformed services. VA currently provides health care, benefits, and memorial services to millions of veterans as well as eligible survivors and dependents.

Each of the three VA administrations has a field structure to enable it to provide efficient, accessible service to veterans throughout the country. The Veterans Health Administration (VHA) has 21 Veterans Integrated Service Networks (VISNs), integrated networks of health care facilities that provide coordinated services to veterans to facilitate continuity through all phases of health care. The Veterans Benefits Administration (VBA) has 57 regional offices (VAROs) that receive and process claims for VA benefits. The National Cemetery Administration (NCA) has five Memorial Service Networks (MSNs), which provide direction, operational oversight, and engineering assistance to the 120 cemeteries by specific geographic area.

The Department accomplishes its mission through partnerships among VHA, VBA, NCA, the Board of Veterans' Appeals (BVA), and Departmental staff organizations by integrating related activities and functions of our major programs. VA provides services and benefits through the following nine major business lines:

Medical Care

VA meets the health care needs of America's veterans by providing primary care, specialized care, and related medical and social support services. Also included are health care education and training programs designed to help ensure an adequate supply of clinical care providers for veterans and the Nation.

Medical Research

The medical research program contributes to the Nation's overall knowledge about disease and disability.

Compensation

The compensation program provides monthly payments and ancillary benefits to veterans, in accordance with rates specified by law, in recognition of the average potential loss of earning capacity caused by a disability, disease, or death incurred, or aggravated during, active military service. This program also provides monthly payments, as specified by law, to surviving spouses, dependent children, and dependent parents in recognition of the economic loss caused by the veteran's death during active military service or, subsequent to discharge from military service, as a result of a service-connected disability.

Pension

The pension program provides monthly payments, as specified by law, to needy wartime veterans at age 65 or over or who are permanently and totally disabled. This program also provides monthly payments, as specified by law, to needy surviving spouses and dependent children of deceased wartime veterans who die as a result of a disability unrelated to military service.

Education

The education program assists eligible veterans, servicemembers, reservists, survivors, and dependents in achieving their educational or vocational goals.

Vocational Rehabilitation and Employment

The vocational rehabilitation and employment program assists veterans with service-connected disabilities to achieve functional independence in daily activities, become employable, and obtain and maintain suitable employment.

Housing

The housing program helps eligible veterans, active duty personnel, surviving spouses, and selected reservists purchase and retain homes.

Insurance

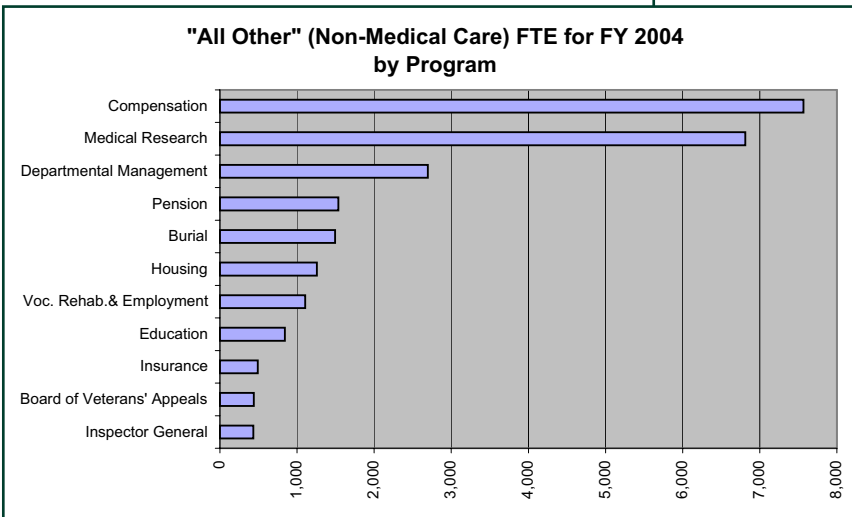
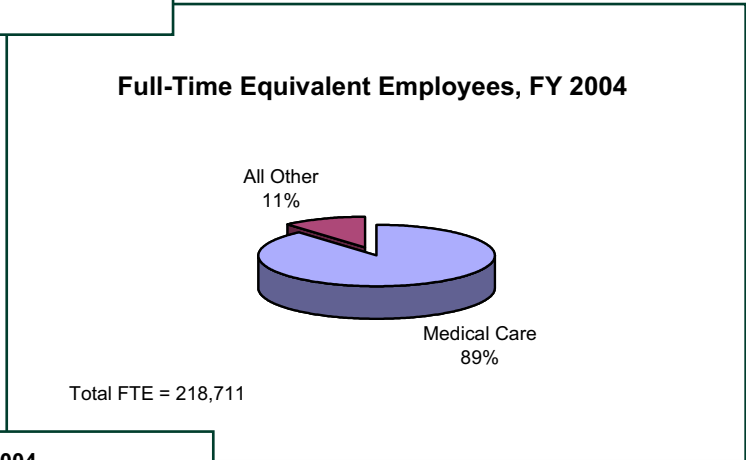
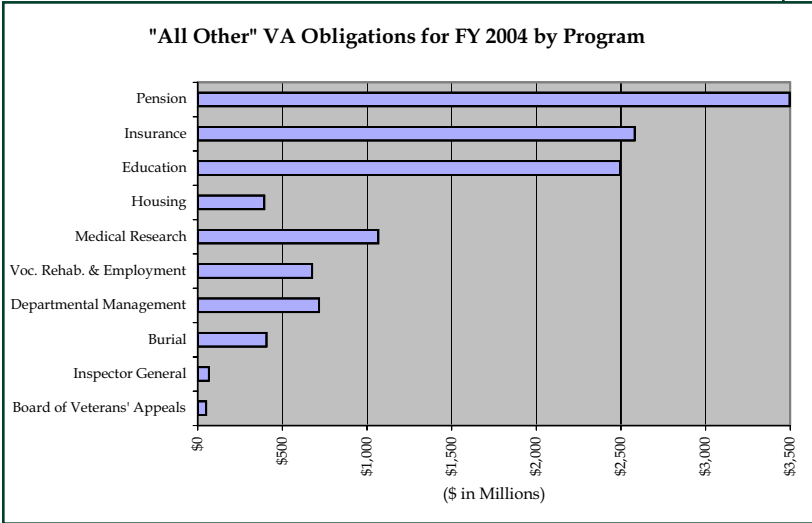
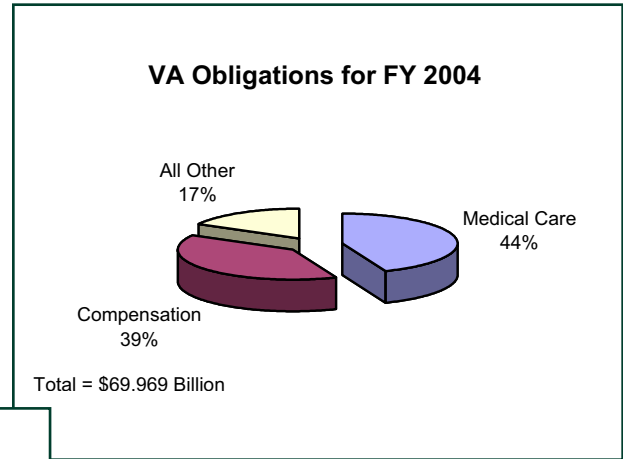
The insurance program provides veterans, servicemembers, and family members with life insurance benefits, some of which are not available from other providers — such as the commercial insurance industry — due to lost or impaired insurability resulting from military service. Insurance coverage is made in reasonable amounts and at competitive premium rates comparable to those offered by commercial companies. The program ensures a competitive, secure rate of return on investments held on behalf of the insured.

Burial

Primarily through NCA, VA honors veterans with a final resting place and lasting memorials that commemorate their service to the Nation.

Program	FY 2004 Participants
Medical Care	
Unique Patients	5,104,000
Compensation	
Veterans	2,555,700
Survivors/Children	340,700
Pension	
Veterans	342,900
Survivors	222,500
Education	
Veterans/Servicepersons	332,800
Reservists	88,700
Survivors/Dependents	68,900
Vocational Rehabilitation	
Veterans	96,000
Housing	
Loans Guaranteed	335,800
Insurance	
Veterans	1,932,500
Servicepersons/Reservists	2,448,500
Spouses/Dependents	3,090,000
Burial	
Interments	93,000
Graves Maintained	2,641,000
Headstone/Markers (Processed)	350,700
Presidential Memorial Certificates	435,600

In FY 2004, VA obligated \$70 billion and had nearly 220,000 employees. Over 96 percent of total funding went directly to veterans in the form of monthly payments of benefits or for direct services such as medical care. The following charts show how VA spent the funds with which it was entrusted as well as the distribution of full-time employees by program.



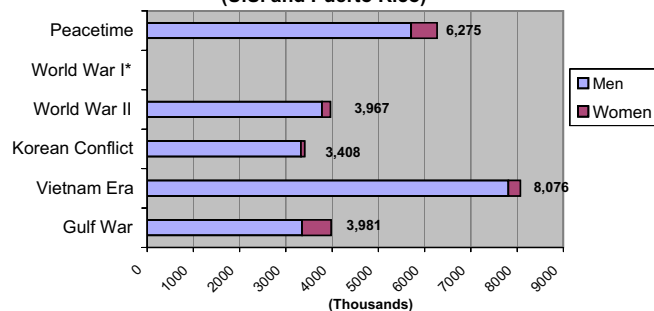
Who We Serve

Our Continuous Focus on the Veteran

This section of the report presents social and demographic data on the veteran population. Data on the number of veterans by age, sex, period of service, and state of residence are from official VA estimates and projections based upon VetPop2001Adj data with initial adjustments to reflect the Census 2000 data.

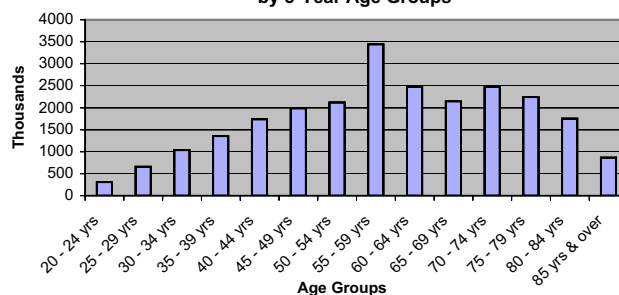
Beginning with our Nation's struggle for freedom more than 2 centuries ago, approximately 42 million men and women have served this country during wartime periods. Today, there are approximately 24.6 million veterans living in the United States and the Commonwealth of Puerto Rico; over 18 million (74 percent) of these veterans served during at least one wartime period. The veteran population decreased by an estimated 1.9 million between April 2000 and September 2004. There are also approximately 38 million family members of living veterans and survivors of deceased veterans. The accompanying table depicts the veteran population by period of service.

Veteran Population by Period of Service (U.S. and Puerto Rico)**



Data as of 09/30/04 Source: VetPop 2001 Adjusted, Office of the Actuary
 *There are too few living WW I veterans to estimate their number with an acceptable level of reliability.
 **Sum by period of service will exceed number of all veterans due to veterans who served in multiple periods.

Age Distribution of the Veteran Population by 5-Year Age Groups



Data as of 9/30/04

Source: VetPop 2001 Adjusted, Office of the Actuary

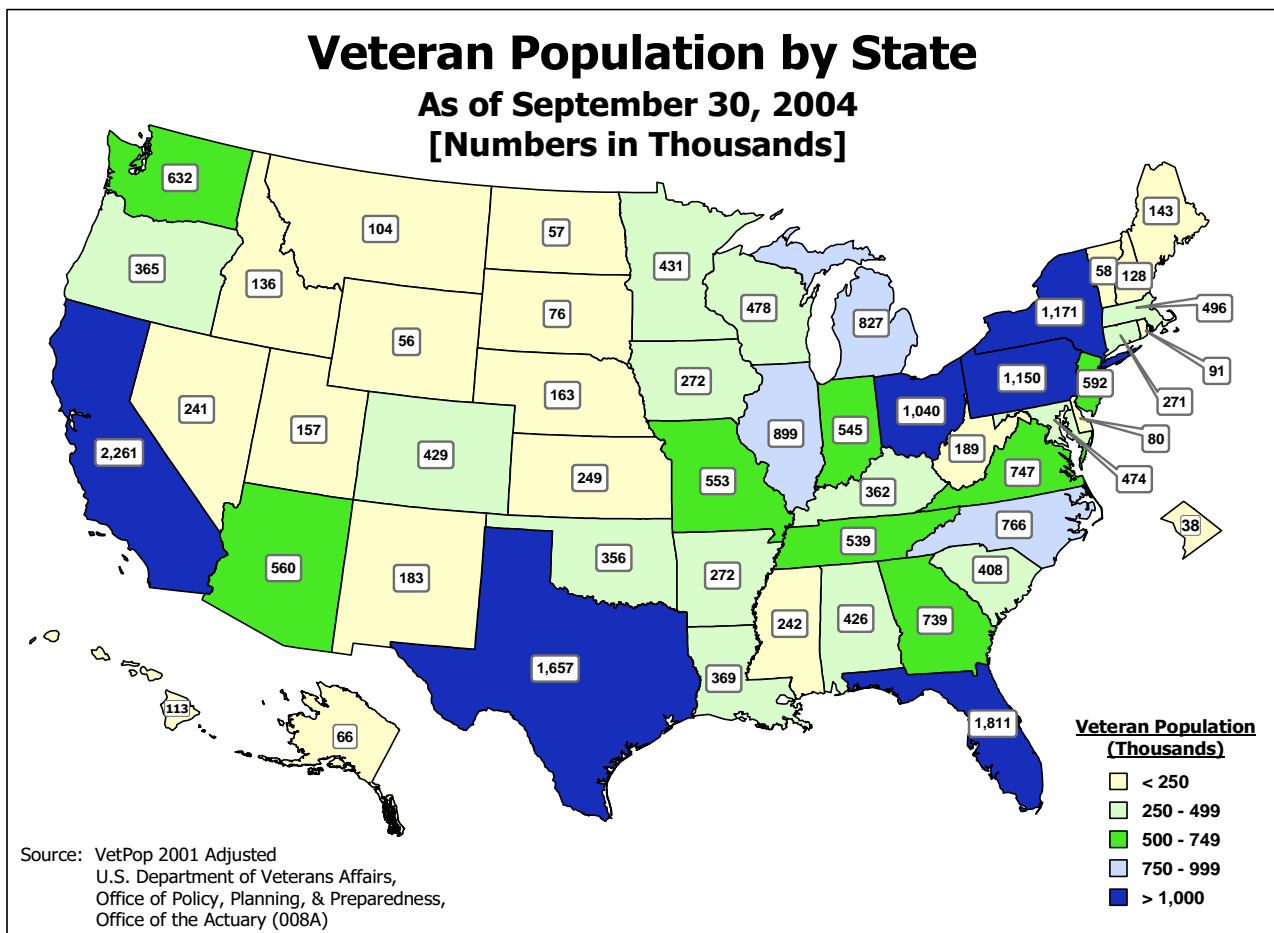
As of September 2004, the median age of all living veterans was 59 years. The number of veterans 85 years of age and older totaled nearly 864,000. In April 1990, there were only 164,000 veterans in this age range. This large increase in the oldest segment of the veteran population has had significant ramifications on the demand for health care services, particularly in the area of long-term care.

As of September 2004, the 1.69 million women veterans constituted 6.9 percent of all veterans. The population of women veterans as a percentage of all veterans is expected to increase as the number of military servicewomen continues to grow. The demographic profile of the female veteran population is generally younger than that of male veterans with the median age of female veterans being 15 years younger than that of male veterans—45 versus 60. The growing number of

women in the military in recent years is reflected in period-of-service differences between male and female veterans. The number of women veterans enrolled in VA's health care system grew from 226,000 in FY 2000 to 378,000 in FY 2004, an increase of 67 percent.

Veterans in just three states – California, Florida, and Texas – comprised over 23 percent of the total number of veterans living in the United States and Puerto Rico

as of September 2004. The three next largest states in terms of veteran population are New York, Pennsylvania, and Ohio. These six states account for more than 37 percent of the total veteran population. At the other end of the scale, the three least populous states in terms of veteran population—Wyoming, North Dakota, and Vermont—plus the District of Columbia, collectively accounted for less than 1 percent of the total.



Leadership Initiatives

VA Executive Board and Strategic Management Council

Senior VA leadership communicates regularly to improve performance and increase accountability. In May 2001, the Secretary established two leadership forums to provide a more integrated and collaborative governance, performance review, and decision-making process. The VA Executive Board (VAEB), chaired by the Secretary, includes the Deputy Secretary, Chief of Staff, General Counsel, and Under Secretaries for Health, Benefits, and Memorial Affairs. The Strategic Management Council (SMC), chaired by the Deputy Secretary, includes the six Assistant Secretaries; the Deputy Under Secretaries for Health, Benefits, and Memorial Affairs; the Deputy General Counsel; Chair for the Board of Veterans' Appeals; Chief of Staff; Counselor to the Secretary; and the Senior Advisor to the Deputy Secretary. In most cases, the SMC makes recommendations to the VAEB, which makes key decisions affecting VA.

Early in 2004, the Secretary held a planning conference for VAEB and SMC members. During the conference each administration and staff office presented its accomplishments achieved to date and discussed the specific actions necessary to achieve outstanding commitments to the President, Congress, veterans service organizations, other stakeholders, and our Nation's veterans and their families.

Examples of accomplishments presented include improving the health of veterans by providing quality, accessible, and timely care; improving resource management and business practices; and providing research, education, and contingency support. Also, VA ensured that veterans receive prompt accurate decisions

on disability claims and institutionalized the seamless transition into VA health care for servicemembers who leave active duty with an illness or disability. The Department continued the effort to restore VA's national cemeteries to national shrines and managed the expansion of VA's national cemeteries. VA reformed the procurement process, ensured project managers are capable and certified, implemented capital asset management, and increased VA/DoD information sharing. Finally, the Department improved cyber security, implementing an integrated enterprise architecture, refining continuity of operations, and enhancing *One VA* telecommunications networking initiatives.

Business Oversight Board

The VA Business Oversight Board (Board) meets quarterly to review all major business policy and operations issues involving procurement, collections (primarily medical collections), capital asset management, and business revolving funds (Canteen, General Post Fund, Franchise Fund, Supply Fund). The Board monitors performance of the operating plans approved by the Secretary and identifies and manages key business issues facing VA. The Board also approved several organizations' operating charters and the Pershing Hall construction loan pay-off.

Over the past year, the Board has focused on restructuring the Department's capital assets with the goal of reducing the funds needed to operate and maintain the capital asset infrastructure. The Board has directed actions to ensure better oversight. Those actions include consolidating official records, redistributing responsibilities for enhanced-use trusts, performing trust audits, more closely tracking cash flow,

and assessing current structure and procedures. Experts have been brought in to provide legal and financial guidance for these unique instruments. The savings can then be used to provide enhanced care for veterans in the most advantageous settings and locations.

The General Post Fund investment strategies received additional scrutiny this year. Previously, the General Post Fund reserve was invested in short-term Treasury securities earning 1 percent per annum. The investment strategy has been diversified, and a portion of those reserve investments has been shifted over the last 3 months to earn 4 percent per annum with longer investment maturities. The additional revenue received from investments will be used to support veterans programs such as the Wheelchair Games.

One of the Board's primary focuses has been procurement reform. To date, the Department has completed 50 of the 65 reforms recommended by the Secretary's Procurement Reform Task Force to VA's nearly \$9 billion-a-year contracting operations. The Department is on track to complete all 65 recommendations by the end of calendar year 2004. This will improve efficiency and extend VA's buying power for its health care system.

In FY 2004, the Board reduced Franchise Fund reserves (accumulated over the last 3 years) by \$15.1 million by providing a billing holiday to customers.

The Board has monitored VA's progress in improving the way the Department manages and tracks collections and ensures accurate insurance information. Through August 2004, compared to prior year performance, VA has realized the following revenue process improvements:

- Collections increased \$175 million from \$1.372 billion as of the end of August 2003 to \$1.546 billion through August 2004.

- Billed Amount increased \$430 million from \$3.353 billion as of the end of August 2003 to \$3.784 billion through August 2004.

In addition, Accounts Receivable outstanding greater than 90 days decreased from 40.2 percent in July 2003 to 35.4 percent in July 2004. VA is continuing to identify areas of improvement based on comparisons to metrics used in the private sector health care industry.

As part of its oversight function, the Board continued to coordinate the work of existing oversight groups and activities in an effort to improve overall business process efficiency and effectiveness.

Monthly Performance Reviews

Monthly performance reviews were instituted in December 2001 to help address the Secretary's top priority issues such as disability claims processing times and patient waiting times for appointments. All Under Secretaries and Assistant Secretaries report to the Deputy Secretary on the status of their organization's financial and program performance, workload, and major construction and information technology projects.

In FY 2004, the Deputy Secretary held 11 monthly performance reviews. Senior VA leadership discussed the causes for any variances from planned activities, and identified and implemented corrective action plans where necessary in order to help ensure the Department achieved its performance goals for the year.

These meetings provide senior managers with an increased, in-depth understanding of issues and accomplishments affecting the entire Department. They enable us to link performance directly to our budget plan on a month-by-month basis. Our intent is to ensure that our programs produce the intended results of the legislation that created them and that the outcomes for veterans are those intended by Congress and the American people.

Public Benefits

VA's inherent responsibility is to serve America's veterans and their families with dignity and compassion and to be their principal advocate for medical care, benefits, social support, and lasting memorials. VA promotes the health, welfare, and dignity of all veterans in recognition of their service to the Nation. VA positively impacts the lives of veterans and their families, as well as the Nation as a whole. As stewards for the government, VA strives to improve the efficiency, effectiveness, and management of all VA programs. The following illustrations are a few examples of VA innovation and our desire to improve.

Medical Care

The Veterans Health Administration (VHA) has four distinct missions: provide health care; provide health professional training; conduct medical research; and serve as backup to the Department of Defense (DoD) and National Disaster Medical System. These missions not only serve veterans but provide benefits to the general public as well. The primary mission of VHA is to provide health care to veterans. VA health care facilities are involved in advancing the prevention, diagnosis, and treatment of disease conditions prevalent in the VA as well as the non-VA population. VHA has consistently improved the quality of care provided to veterans over the past several years. According to two organizations that monitor quality of care across the country, the National Committee for Quality Assurance and the Behavioral Risk Factor Surveillance System, in FY 2003 VA outperformed both the Medicare fee-for-service system and non-government medical systems in 18 of 18 comparable clinical indicators. In September 2004, the Congress on Improving Chronic Care recognized VA for pioneering work and contributions in the care of the chronically ill. VA was recognized for its performance measurement procedures and electronic health record system; officials credited VA for influencing the national discussion of improving health care quality by leading through example. VA has become the benchmark in a

number of areas of quality of care, which benefits the Nation as a whole.

VHA is the vanguard for national standards for electronic medical records. VHA is participating with the Department of Health and Human Services (HHS) in an initiative to adopt uniform national standards throughout the Federal government for electronic health records. To date, 24 health care related standards have been approved for adoption. The VA electronic health record system is fully electronic, portable, and readily accessible. It was developed by VA employees working closely over time with clinicians and other end users. VHA developed the electronic record system to provide a single place for health care providers to review and update a patient's health record and order medications, special procedures, X-rays, diets, laboratory tests, and nursing orders. In VHA's system, all aspects of a patient's record are integrated including active problems, allergies, current medications, laboratory results, vital signs, hospitalizations, and outpatient clinic history. These records are all password-protected to guarantee patient privacy. President George W. Bush chose the VHA medical center in Baltimore to announce his commitment to ensuring that all U.S. citizens have an electronic health record in the next 10 years. The setting selected by the President exemplifies the positive impacts on quality of care and patient safety obtained

through VHA's use of electronic health records for all veterans.

VHA is collaborating with the Centers for Medicare and Medicaid Services, an agency of HHS, to transfer VHA's electronic health record technology to the private physician office setting. This software, *VistA* Office EHR (Electronic Health Record), will include existing *VistA* functions of order entry, documentation, results reporting, etc. *VistA* Office EHR will be enhanced in the area of physician office patient registration and will interface to existing billing systems and provide for reporting of quality measures. Distribution of the software is expected to begin in July 2005. *VistA* is currently being used by the Department of Health for the District of Columbia and health care systems in Finland, Germany, Egypt, and Nigeria.

VA conducts an education and training program for health professions students and residents that enhances the quality of care provided to veteran patients within the VHA health care system. VA's graduate medical education is conducted through affiliations with university schools of medicine. Each year some 28,000 medical residents and 16,000 medical students receive part of their clinical training in VHA facilities through affiliations with 107 of the Nation's 126 medical schools and over 1,200 educational institutions. VA supports 8,800 physician resident positions in almost 2,000 university programs accredited by the Accreditation Council on Graduate Medical Education. VA is a leader in the training of associated health professionals. Through affiliations with over 1,200 individual health professions schools and colleges, some 32,000 associated health students receive training in VA facilities each year. Clinical traineeships and fellowships are provided to students in more than 40 professions, including nurses, pharmacists, dentists, audiologists, dietitians, social workers, psychologists, physical therapists, optometrists, nuclear medicine technologists, physician assistants, respiratory therapists, and nurse practitioners. VA is the largest provider of health care training in the United States.

Homelessness is a problem throughout the country, and approximately one-third of the adult homeless population is thought to be veterans. On any given day, as many as 250,000 male and female veterans may be living on the streets or in shelters. During the past year, more than 74,000 homeless and at-risk veterans received medical or mental health care from VA, and more than 20,000 veterans received transitional and supported housing, directly or in partnerships with grant and per diem or contract residential care providers. Additionally, VA is participating in a collaborative initiative with the Departments of Housing and Urban Development and HHS to provide permanent housing, health care, and other supportive services to those experiencing chronic or long-term homelessness. The total cost of this pilot program is \$35 million with VA contributing \$5 million. VHA, through its Homeless Providers Grant and Per Diem Program, awarded funding through four separate initiatives during the past year: Per Diem Only Awards, Special Need Grant, Life Safety Code Grant, and a Technical Assistance Grant.

VHA provided Per Diem Only awards to 80 projects in 30 states that will create 1,583 new beds and 2 service centers. With the addition of these awards to other Grant and Per Diem Program actions, VHA now supports nearly 7,000 beds that are available to homeless veterans. Special Need Grants totaling approximately \$15.7 million have been awarded to 29 current Grant/Per Diem providers to enhance the delivery of services to the homeless veteran population of women, including women who have care of minor dependents; frail elderly; terminally ill; and the chronically mentally ill. This funding is for 3 years to provide for operational costs that would not otherwise be incurred but for the fact that the recipient is providing services to this population. Most organizations chose to collaborate their delivery of service with their local VA medical center (VAMC) that will receive approximately \$4.3 million annually in internal funding. Approximately \$900,000 was awarded under the Life Safety Code Grant to 8 existing Grant/Per Diem providers to renovate facilities to comply with the

Life Safety Code of the National Fire Protection Association. Also, VHA awarded \$1.5 million to 2 organizations under the Technical Assistance Grant component. These organizations have expertise in preparing grant applications relating to the provision of assistance for homeless veterans and will use this expertise to assist nonprofit community-based groups so that they may successfully locate and apply for grants. All of these activities benefit not only homeless veterans, but the entire homeless population.

VHA has continued efforts to increase scientific career opportunities for under-represented minorities. These efforts include supporting institutional collaborations between VA and minority-serving institutions, involving students and faculty from these institutions partnered with VA mentors; providing applied training in research on VA-funded projects to participants ranging from high school students and college undergraduates to graduates and pre-doctoral students; and offering a supportive career path for mentored research within VA for people who have completed their clinical fellowships or doctoral training within the last 2 years. The program provides a full salary to awardees for 3 years. This program, modeled after successful programs offered by the National Institutes of Health and the Robert Wood Johnson Foundation, strengthens VHA's partnerships with historically black colleges and universities, Hispanic-serving institutions, tribal colleges and universities, and other institutions with sizeable concentrations of Asian Americans, Pacific Islanders, native Hawaiians and Alaska natives.

Rural American Indian veterans and Alaska Native veterans have benefited from a formal agreement between VHA and HHS that augments historical local collaboration between VHA and the Indian Health Service. This agreement advances efforts to share information and technology; develop health promotion programs; and allow joint appointments, financial reimbursements, and provider certification. Formal collaboration, including co-sponsoring of continuing medical training for health care staff, combines the

strengths and expertise of both VHA and IHS to increase access and enhance services.

The Richmond VAMC established a Parkinson's Disease Research Education and Clinical Center. The Center has an interdisciplinary team operating a core Parkinson's clinic that provides neurology exams and nursing interviews as well as physical exams, psychological assessments, neuropsychological screenings, telemedicine clinics, and caregiver support groups. As knowledge is gained from this clinic, recommendations for improving the efficiency and effectiveness of health care services to this target population will be shared inside and outside VA.

VHA made effective use of the Internet to educate veterans and the public on health and other issues. A comprehensive Web site on hepatitis C was launched through a collaborative effort between VHA and the University of California at San Francisco's Center for HIV Information. The new Web site is accessible to veterans and health care providers as well as the general public. It includes general information and links to other Web sites. The site also offers information for health care providers that is searchable by topic and includes best practices, guidelines, and slides.

VA also developed a Web site entitled *VA Kids* designed to help young people understand what it means to be a veteran. The *VA Kids* Web page supports President George W. Bush's initiatives on education and volunteerism by providing an entertaining and informative way for young people to learn why veterans are special. The Web page contains information targeted for students in kindergarten through grade 12 and for teachers. *VA Kids* also has information about VA, Veterans Day, scholarships, student volunteer opportunities, rehabilitative and special events for disabled veterans, and links to veteran-related sites. For younger students, *VA Kids* has interactive activities such as puzzles, coloring pages, matching contests, and age-appropriate language to describe a number of patriotic topics. For older students, there is information on

volunteer programs, scholarships, and more sophisticated educational resources, games, and reference links. The teachers' section contains additional information, links, and suggested classroom activities.

VA also provides backup medical services to DoD in time of war and to the National Disaster Medical System in times of national emergencies or natural disasters. For example, VA provided emergency assistance to the States of Florida, Mississippi, and Alabama in the aftermath of hurricanes Charley, Frances, Ivan, and Jeanne. VA augmented local hospitals with more than 300 VA health care workers to help care for the injured. Employees at VA facilities volunteered their time to help victims of the hurricanes by collecting donations such as non-perishable food, personal hygiene items, and gift certificates to local businesses for disaster-area residents.

Medical Research

VA conducts medical research in a wide array of areas that address veterans' illnesses and disabilities and benefit the United States population as a whole. Some of the exciting advances in the past year included:

- **New center for limb loss care:** VA awarded \$4.7 million over 5 years to researchers at its medical center in Providence, Rhode Island, to develop state-of-the-art care for veteran amputees, in collaboration with Brown Medical School and the Massachusetts Institute of Technology. The new "Center for Rebuilding, Regenerating and Restoring Function After Limb Loss" will provide patient care and conduct research in tissue engineering, neurotechnology, materials science, robotics, and advanced surgical techniques. VA expects the center to significantly improve outcomes for recent combat-injured veterans and other VA patients who have suffered amputation.
- **Study questions benefits of costly schizophrenia drug:** A VA study comparing an older, pennies-a-day schizophrenia drug with a newer, far more expensive

one found little advantage to the higher priced drug. The researchers compared haloperidol, given with a drug to minimize its side effects, to olanzapine, the most expensive among the newer antipsychotic drugs. The study showed little difference in the overall effectiveness of the drugs, despite the huge price difference: Olanzapine costs VA more than \$8 per day per patient, compared to about 10 cents per day for the haloperidol combination.

- **Harmless virus helps slow HIV progression by boosting immune proteins:** A study at the Iowa City VA Medical Center and University of Iowa shed light on the workings of a harmless virus, GBV-C, that has been shown to slow the progression of HIV and prolong survival for many patients. Scientists infected white blood cells with GBV-C and HIV, or with HIV alone. The cells with GBV-C showed an increase in immune-system proteins that bind to the same white-blood-cell receptors, or molecular "docking sites," used by HIV. When the receptors are not available, HIV is unable to infect the cells and spread through the body.
- **Study explains role of brain chemicals in sleep:** Researchers at the Greater Los Angeles Healthcare System and UCLA showed for the first time how three brain chemicals—serotonin, norepinephrine and histamine—play distinct roles in regulating sleep. According to the study, serotonin and norepinephrine affect muscle tone, keeping the body still at night, while histamine controls wakefulness. The researchers discovered this by studying dogs with narcolepsy, a sleep disorder. Narcolepsy is marked by cataplexy, a state in which the body goes limp, as if asleep, but the brain stays fully alert. Using electrodes to monitor the dogs' brain activity, the researchers noted that during cataplexy, neurons with histamine remained active, while those containing serotonin and norepinephrine fell silent.
- **Researchers link two molecules to multiple sclerosis nerve damage:** Scientists with VA, Yale and University College London identified two molecules that may underlie nerve-fiber degeneration in secondary progressive multiple sclerosis (MS). MS is a disease of the central nervous system that attacks myelin, the

protective coating around nerve fibers. The new finding is the first observation in humans of specific molecules that contribute to the degeneration of nerve fibers.

- **Brain scans show how a placebo eases pain:** A VA researcher and colleagues produced the strongest evidence yet that a placebo—the mere expectation of relief, with no real treatment—causes physical changes in how the brain responds to pain. In related studies at the Ann Arbor VAMC and two universities, scientists used functional magnetic resonance imaging to map changes in blood flow in the brains of volunteers. The volunteers were subjected to harmless but occasionally painful electric shocks or heat. When they believed an anti-pain cream had been applied to their arm, they rated the pain as less intense—and the pain circuits in their brain showed less activity.

Benefits

VA's compensation program is critical to improving the quality of veterans' lives and that of their families. In FY 2004, over 2.5 million veterans received compensation benefits for disabilities incurred in or aggravated during military service. VA recognizes that certain veteran populations have unique needs or disabilities based on the circumstances of their service, and the compensation program specifically addresses these populations. Regulations that provide for presumptive service connection ease the veterans' burden of showing that certain medical conditions are related to service; these veterans include prisoners of war, those exposed to radiation in service or exposed to herbicides in Vietnam, and Gulf War veterans. Through new legislation, the list of presumptive conditions continues to expand. The list of presumptive conditions for veterans who were exposed to herbicides in Vietnam now includes diabetes; unexplained chronic multi-symptom illnesses were added to the list of presumptive conditions for veterans who served in the Southwest Asia Theater of Operations during the Gulf War.

In FY 2004, Secretary Principi sent a letter to each veteran returning from Southwest Asia and Afghanistan

and having separated from military service. The letter was to thank those veterans for their service and to inform them of VA benefits and services available to them. Approximately 200,000 letters were mailed for this initiative. VA continues to expand its outreach efforts to those who served in Operation Iraqi Freedom and Operation Enduring Freedom to ensure the successful dissemination of valuable information.

In addition, the compensation program provides additional allowances for a veteran's dependents if the veteran is at least 30 percent disabled from a service-connected condition. It also provides for veterans' survivors in the Dependency and Indemnity Compensation (DIC) program, making benefit payments to the eligible parents, unremarried surviving spouses, and children under 18 years of age of veterans who either died of a service-connected disability, or died from a disease or injury incurred or aggravated while on active duty for training, or died from an injury incurred while on inactive training. In certain circumstances, DIC payments may also be authorized for survivors of veterans who were totally disabled from a service-connected disability when they died, even though this disability did not cause their deaths. Surviving spouses and parents receiving DIC may be granted a special allowance to pay for aid and attendance by another person if they are patients in a nursing home or require the regular assistance of another person. Surviving spouses receiving DIC may be granted a special allowance if they are permanently housebound. Each year over 300,000 dependents receive benefits from this program.

VA's benefits programs also address other quality-of-life issues for service-disabled veterans by providing for specially adapted home grants to eligible veterans. This includes remodeling a home to accommodate special needs arising as a result of certain service-connected disabilities, such as loss of use of lower extremities, or blindness. Grants for adaptive equipment for an automobile are available to qualified veterans, as well as clothing allowances for qualified veterans who use prosthetic or orthopedic appliances as a result of a service-connected disability.

A pension benefit is of critical importance to many low-income veterans. It is available to veterans with qualifying wartime service who are permanently and totally disabled, and to their survivors. Veterans of a period of war who are age 65 or older and meet service and income requirements are also eligible to receive pension, regardless of their current physical condition. Death pension is provided for surviving spouses and children of wartime veterans who died of nonservice-connected causes, subject to specific income limitations. Each year, over 500,000 veterans and their surviving family members receive benefits from these programs. The average age of veterans in this program is 68 years old. In FY 2004, more than 342,000 veterans and more than 220,000 of their survivors received this benefit.

VA's education programs assist veterans in readjusting to civilian life by helping them obtain affordable higher education. These programs enhance the Nation's competitiveness through the development of a more highly educated and productive workforce. About 321,800 veterans received Montgomery GI Bill program benefits in FY 2004. An independent evaluation of VA's education programs demonstrated a positive return on investment of 2 to 1 in the form of increased income taxes for every program dollar spent.

Each year, VA supports more than 200,000 veterans in their applications for home loans. The main purpose of the VA home loan program is to help veterans finance the purchase of homes with favorable loan terms and at a rate of interest that is competitive with the rate charged on other types of mortgage loans. While clearly of direct benefit to our veterans, this activity also impacts on local economies across the country.

VA also plays a critical role in helping veterans maintain home ownership in certain trying situations. Alternatives to foreclosure can help veterans either retain their homes or avoid damage to their credit ratings, while reducing government costs.

VA's Vocational Rehabilitation and Employment (VR&E) program provides services to more than 55,000 disabled veterans annually. Eligible service-disabled veterans are given the assistance necessary to enable them to become employable and to obtain and maintain suitable employment to the maximum extent possible. VR&E also offers independent living services for severely disabled veterans who do not have employment potential.

In FY 2004, approximately 11,000 disabled veterans were successfully rehabilitated. This represents a 15 percent increase over the number rehabilitated during FY 2003.

The Philadelphia VA Insurance Center was chosen from among 22 organizations as the recipient of the 2004 Government Customer Support Excellence Award in the category of Overall Excellence for the performance of a nationwide toll-free call center. Sponsored by the Government Customer Support Association, the award recognizes customer support excellence by call centers and help desks. The Insurance Center was also named the recipient of the 2004 Leo C. Wurschmidt, Jr. Customer Service Team Award, VBA's highest award for customer service. The award was based on a program of special outreach created to ensure that recently separated, disabled veterans were taking advantage of VA life insurance benefits.

The special outreach program was developed in response to findings that severely disabled veterans underutilize insurance benefits. The program includes creating a database of matches to identify non-takers of the insurance, personally calling and sending letters to each veteran, and expediting the application process. To date, over \$90 million in insurance benefits have been extended to disabled veterans as a result of this special outreach. For recently separated servicemembers, the Insurance Center worked in coordination with the Servicemembers' Group Life Insurance's marketing department to develop informational brochures to be distributed through VA's Transition Assistance Program. The brochures provide information on all open insurance programs and are designed to assist veterans in making an educated choice

regarding their life insurance needs. VA hopes that these efforts will ensure the retention of a valuable benefit for those most in need and will also raise all veterans' awareness of their earned insurance benefits.

Burial

Primarily through NCA, VA honors veterans with a final resting place and lasting memorials that commemorate their service to the Nation.

VA provides interment of veterans and eligible family members. In FY 2004, more than 93,000 decedents were interred in 120 VA national cemeteries.

VA provides headstones and markers for the graves of eligible persons in national, state, other public, and private cemeteries. Presidential Memorial Certificates, bearing the President's signature, are issued to recognize the contributions and service of honorably discharged deceased veterans. In FY 2004, VA processed nearly 351,000 applications for headstones and markers and issued more than 435,000 Presidential Memorial Certificates. VA also provides an American flag to drape the casket of an eligible deceased veteran. Far more veterans receive a headstone or marker, a Presidential Memorial Certificate, and/or an American flag from VA than are buried in a national cemetery. Delivery of these benefits is not dependent on interment in a national cemetery.

In FY 2004, VA maintained more than 2.6 million graves and nearly 7,200 developed acres in a manner befitting national shrines, so that bereaved family members are comforted when they come to the cemetery for the interment, or later to visit the grave(s) of their loved one(s).

In FY 2004, VA launched a Web-based (Internet) Nationwide Gravesite Locator system. This innovation will make it easier for anyone with Internet access to search for the gravesite locations of deceased family members and friends and to conduct genealogical research. The nationwide grave locator contains more than 3 million records of veterans and dependents buried

in VA's 120 cemeteries since the Civil War. It also has records of some burials in state veterans' cemeteries and burials in Arlington National Cemetery (under the jurisdiction of the Department of the Army) from 1999 to the present. Making burial locations more accessible may bring more visitors to the honored resting places that VA considers national shrines and historical treasures.

VA is partnering with the National Center for Preservation Technology and Training (NCPTT), an office of the National Park Service (NPS), to conduct research on the methods to clean historic headstones and markers. After VA, NPS has the largest number of national cemeteries, including Gettysburg National Cemetery, under its jurisdiction. Under a 2-year interagency agreement, NCPTT will identify alternatives for cleaning historic headstones and markers.

VA is partnering with Save Outdoor Sculpture! (SOS!), a non-profit organization that uses volunteers to survey public outdoor sculpture nationwide, to develop the first comprehensive inventory of memorials located in more than 100 national cemetery properties across the country. Since national cemeteries were established in 1862, they have become the sites of memorials erected to recall distinctive heroics, group burials, and related commemorations. These memorials range from modest blocks of stone, sundials, and tablets affixed to boulders to more sophisticated obelisks and single soldiers on granite pedestals. Since the project's inception in spring 2002, the number of memorials identified during the course of the inventory has risen from approximately 300 to approximately 800. More than 200 volunteers are spending an average of 8 hours researching and documenting each memorial. In addition to gathering historical information about the memorials, volunteers also document materials, dimensions, appearance, evidence of damage, and setting. The inventory will help VA prioritize conservation needs as well as develop a maintenance plan for all its memorials. When the project is complete, the inventory data will reside at VA as well as being publicly accessible online through another SOS! partner, the Smithsonian American Art Museum.

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.

Management Controls, Systems, and Compliance with Laws and Regulations

The auditors' report on internal controls, prepared at the completion of VA's FY 2004 financial statement audit, includes two repeat material weaknesses: "Information Technology (IT) Security Controls" and "Integrated Financial Management System." In the IT finding, the auditors reported that VA's program and financial data continue to be at risk due to serious weaknesses related to access control, segregation of duties, and service continuity. In the second finding, the auditors reported continuing difficulties related to the preparation, processing, and analysis of financial information to support the efficient and effective preparation of VA's consolidated financial statements.

The Department has made progress in correcting the IT Security Controls material weakness. Resources have been maximized to make improvement in the overall security posture. Although work continued during FY 2004 on the Integrated Financial Management System material weakness, final resolution of this weakness is a multi-year effort. VA is proceeding with a plan to address this material weakness.

The auditors' report on compliance with laws and regulations, also prepared as a result of the FY 2004 financial statement audit, discusses Departmental non-compliance with the Federal Financial Management Improvement Act requirements concerning Lack of Integrated Financial Management System and Information Technology (IT) Security Controls. Except for these instances of non-compliance, the report concludes that for the items tested, VA complied with those laws and regulations materially affecting the financial statements.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish management controls over their programs and financial systems. Throughout the fiscal year, VA managers monitor and improve the effectiveness of management controls associated with their programs and financial systems. The results of monitoring and conducting other periodic evaluations provide the basis for the Secretary's annual assessment of and report on management controls. VA managers are required to identify material weaknesses relating to

their programs and operations pursuant to sections 2 and 4 of the Act as defined:

- Section 2 seeks to assess internal controls necessary to ensure compliance with applicable laws; protect against loss from waste, fraud, and abuse; and ensure receivables and expenditures are properly recorded.
- Section 4 seeks to assess nonconformance with governmentwide financial systems requirements.

Progress on Material Weaknesses

VA managers continue to make progress in correcting existing material weaknesses and non-conformances. The FY 2004 Consolidated Financial Statements Audit Report disclosed no new material weaknesses. In addition, there are no new management control material weaknesses disclosed or reported under FMFIA. At the end of 2003, two audit-related material weaknesses¹ (Information Technology Security Controls and Lack of Integrated Financial Management System) and three management control weaknesses consisting of two nonconformances were carried forward in FY 2004.

Corrective actions were implemented and closure approved during FY 2004 for one of the material weaknesses — Compensation and Pension System — Lack of Adaptability and Documentation. The remaining four material weaknesses (two audit-related material weaknesses and two management control material weaknesses) are scheduled for correction according to the timelines shown in the below tables, which provide the current status of the Department's material weaknesses.

Audit Material Weaknesses		
Description	Current Status	Resolution Target Date
Information Technology Security Controls – VA's assets and financial data are vulnerable to error or fraud because of weaknesses in information security management, access to controls and monitoring, and physical access controls.	Plans are being implemented to address this weakness. The Department has maximized limited resources to make significant improvement in VA's overall security posture in the near term through prioritizing Federal Information Security Management Act remediation activities.	September 2005
Lack of Integrated Financial Management System – Difficulties exist in the preparation, processing, and analysis of financial information to support the efficient and effective preparation of VA's consolidated financial statements.	A board of directors, chaired by the Assistant Secretary for Information and Technology and including senior VA leadership, is examining the results of the CoreFLS pilot program at the Bay Pines VA Medical Center and the other two pilot sites and will make recommendations to the VA Secretary concerning the future of the program.	TBD

¹The use of the term "material weakness" should not be confused with use of the same term by government auditors to identify management control weaknesses, which, in their opinion, pose a risk or threat to the internal control systems of an audited entity, such as a program or operation. Auditors are required to identify and report those types of weaknesses at any level of operation or organization, even if management of the audited entity would not report the weaknesses outside the agency.

Management Control Weaknesses

Description	Current Status	Resolution Target Date	Section 2	Section 4
PAID System–Mission Performance – VA’s central payroll and personnel system, PAID, lacked the ability to expand.	The PAID system has been modified to allow an employee’s pay/benefits to be allocated to four fund/cost center combinations and to pass this distribution labor cost to FMS. Final reports confirming this functionality were provided to the OIG in October 2004.	November 2004		X
Internal Control Weaknesses in the Compensation and Pension Payment Process – Erroneous and fraudulent payments were found.	Procedures are underway to augment internal controls in the area of erroneous payments. Measures are being taken to pinpoint the amount of overpayments in each program area and to determine the nature and causes of the overpayments.	December 2005	X	

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) encourages agencies to have systems that generate timely, accurate, and useful information with which to make informed decisions and to ensure accountability on an ongoing basis. The Department faces challenges in building and maintaining financial management systems that comply with FFMIA. Under FFMIA, VA is substantially compliant — with the exception of Federal financial management systems requirements. VA’s noncompliance in this area was to have been resolved with implementation of the Department’s Core Financial and Logistics System (CoreFLS) in 2006. Although the system was piloted at the Bay Pines VA Medical Center and two other VA sites, the results led to a decision to return these pilot sites to VA’s existing financial management system (FMS) at the beginning of FY 2005. Consequently, VA is

proceeding with a plan consisting of discreet activities to support an enhanced CoreFLS program moving forward to full deployment at VA facilities nationwide. Key early components of the plan include incorporation of lessons learned into our detailed project plan, analysis and re-evaluation of the "As Is" and the "To Be" business processes leading to department standardization of procedures, and validation of software alternatives. We plan to verify our activities using Independent Verification and Validation (IV&V). Other activities include resolution of gaps, implementation planning, pilot testing, and system deployment. Parallel planning for both evaluation and implementation activities will ensure VA can respond proactively to results of the analysis and validation. An executive project committee will make recommendations to the VA Secretary concerning the future of the program.

Federal Information Security Management Act

The Federal Information Security Management Act (FISMA) provides the framework for securing the federal government's information technology. All agencies covered by the Paperwork Reduction Act must implement the requirements of FISMA and report annually to the Office of Management and Budget and Congress on the effectiveness of the agency's security programs. The reports must also include independent evaluations by the agency Inspector General.

VA is aware of the vulnerability of its assets and financial data to error or fraud and is in the process of correcting the information security controls material weakness. Implementation plans are in place to address this significant deficiency, as well as associated reportable conditions, which were identified in the FY 2004 Annual FISMA Report.

IG Act Amendments of 1988

VA collected \$16.7 million in disallowed costs from VA-contracted suppliers in 2004.

The Inspector General (IG) Act requires management to complete all final actions on recommendations within 1 year of the date of the IG's final report. Departmentwide, there are five reports that have been pending final action for over 1 year. Since 1997, there has been a reduction in the number of unimplemented reports pending final action. Delays were incurred in implementing recommendations as a result of the development and implementation of new regulations or directives, collection and/or write-off activities, and system changes. Per the IG Act reporting requirements, the following table is a summary of the Office of Inspector General reports with the management dollar value of Disallowed Costs and Funds to Be Put to Better Use.

Disallowed Costs and Funds to Be Put to Better Use Reporting Period October 1, 2003–September 30, 2004 (dollars in millions)				
	Disallowed Cost		Funds to Be Put to Better Use	
	Reports	Value	Reports	Value
Balance 9/30/03	5	\$0.1	11	\$176.3
New Reports	26	\$16.9	112	\$1,389.2
Total	31	\$17.0	123	\$1,565.5
Completed	26	\$16.7	104	\$822.2
Balance 9/30/04	5	\$0.3	19	\$743.3

Source: *Compliance with the IG Act Amendments of 1988* section reported by Office of Inspector General, Operational Support Division.

Prompt Payment Act

VA continued to enhance vendor payment processes throughout FY 2004. The Department processed over 5.3 million Prompt Payment Act-eligible invoices worth over \$8.4 billion, with nearly 99 percent paid on time. In FY 2004, interest payments VA-wide declined by \$45,000 to \$862,000—a 5 percent improvement over FY 2003 levels and an annual reduction of \$515,000, or 37 percent over the past 2 years. At the same time, discounts earned surged by \$469,000 to over \$2.7 million, a 21 percent improvement over FY 2003 levels. VA's percentage of discounts earned also improved from 82.0 percent in FY 2003 to 86.1 percent in FY 2004. Combined, payment processing improvements saved VA \$514,000 in FY 2004—savings the Department can use to improve veterans care. VA also continued to gain efficiencies and improved results through a completed initiative in FY 2004 to centralize vendor payment activities at the Financial Services Center (FSC) in Austin, Texas. By centralizing vendor payment activities at the FSC, VA strengthened its focus on identifying and preventing vendor payment errors. The FSC also enhanced audit recovery efforts over improper/duplicate vendor payments. The FSC routinely reviews VA vendor payments daily to systematically identify, prevent, and recover improper payments made to commercial vendors. Current payment files are matched to identify and, where possible, prevent duplicates prior to payment. Also, payments from prior fiscal years are matched to identify potential duplicate payments for further analysis, assessment and, as appropriate, collection. The FSC staff also reviews vendor payments to identify and collect improper payments resulting from payment processing such as erroneous interest penalties, service charges, and sales taxes. This initiative, started in FY 2004, recovered over \$31,000 in erroneous interest penalties, service charges, and sales taxes for reuse by VA entities.

Overall, during FY 2004, collections of improper payments and the recovery of unapplied vendor statement credits totaled over \$3.7 million—a 22 percent increase over

FY 2003 collections. Improved payment oversight also enabled the VA to identify and cancel nearly \$3.9 million in potential improper payments prior to disbursement during FY 2004. Since the FSC audit recovery effort's inception in FY 2001, VA has recovered over \$10.5 million in improper payments and prevented the improper payment of another \$9.7 million.

Through September 2004, the Department aggressively used the government-wide commercial purchase card program. Over 3.6 million purchase card transactions were processed, representing over \$1.9 billion in purchases. The electronic billing and payment process for centrally billed card accounts earned VA \$30 million in credit card rebates—compared to \$18 million during the same period in FY 2003. These rebates are returned to VA entities for use in veterans programs. The increase in rebates can be mostly attributed to the increase in basis points VA receives as a result of the recompeted contract with the contract bank.

VA's fee basis credit card program went “live” in September 2003. This program electronically automates Health Care Fee Basis payments, eliminates processing of paper checks, and earns VA additional purchase card rebates. During FY 2003, the program generated 88 transactions and \$8,000 in payments. In FY 2004, the number of Fee Basis purchase card transactions exceeded 21,000 and were valued at \$5 million in payments, earning VA over \$81,000 in additional rebates.

VA's Prime Vendor Payment System automates payments under a nationwide prime vendor centralized purchasing contract. During FY 2004, 126 VA medical centers used the Prime Vendor System to electronically process over 454,000 transactions worth over \$3.5 billion compared to over \$3.1 billion during FY 2003.

VA's Travel Management Centers (TMC) serve veterans and employees who travel frequently. The billings are transmitted electronically from each TMC, and payment

is sent daily through the Department of the Treasury's Electronic Certification System. During FY 2004, the travel management program processed over 105,000 transactions, disbursed payments of over \$19 million and earned over \$300,000 in rebates compared to over \$223,000 during FY 2003.

VA's FSC staff continued to provide vendor payment history on the Internet. Currently, the Vendor Inquiry System (VIS) Internet application stores almost 2 years of information on invoices. Once vendors complete an authentication process, they can access a secure Web site to view payment information for their company. Currently, there are 6,270 registered vendors who have made over 319,000 requests in FY 2004 and a total of over 619,000 requests since VIS's inception in April 2003. The VIS provides FSC vendors an easy-to-use tool for immediate access to their payment information 24 hours a day without having to call and wait for a person to provide payment information. The VIS has also improved customer service efficiency of the FSC staff by handling many routine inquiries and freeing staff to work the more difficult issues for customers.

The FSC also continued to improve the Intranet online invoice certification process that allows invoices to be certified electronically by VA facilities and schedule them for payment. VA's On Line Certification System (OLCS) allows the FSC to notify certifying officials via e-mail of any invoice requiring payment certification. Through the Intranet, the certifying official can view, certify, and forward the invoice to the FSC for payment processing, reducing the processing time to hours rather than days. During 2004, functionality was enhanced to add the Fund Control Point Clerk to the processing workflow as well as the capability to work rejected invoices at the station level. The FSC expanded the certified invoice service throughout the Veterans Health Administration (VHA) in 2004 and implemented OLCS at all facilities as part of the VHA payment centralization initiative. That brought the number of OLCS users to more than 9,000 VA employees. The FSC is currently working with the Veterans Benefits Administration to centralize their payments at the FSC.

Improper Payments Information Act of 2002

(Summary of Implementation Efforts for FY 2004 and Agency Plans for FY 2005 through 2007)

Overview

VA identified 19 programs, totaling \$58.214 billion, for review under the Improper Payments Information Act of 2002 (IPIA). Two programs, Housing and Vocational Rehabilitation and Employment, were not able to be reviewed during the FY 2004 cycle. These programs will be reviewed during FY 2005. A risk assessment of all 19 VA programs was accomplished, but it was decided that statistical sampling would be performed on all programs.

The statistical samples revealed that 12 of the programs had estimated improper payments less than \$10 million; thus, no report was required for these programs. The remaining five programs either had estimated improper payments exceeding \$10 million or were programs previously identified in the former Section 57 of Office of Management and Budget Circular A-11. The five programs include Compensation, Dependency and Indemnity Compensation (which is reported as part of Compensation), Pension, Insurance, and Education. Further details are provided in Part IV starting on page 270.

Accomplishments

Because of the importance of all programs identified for review relative to the IPIA, VA designated a senior official to be responsible for implementing IPIA. VA's Assistant Secretary for Management (Chief Financial Officer) is the VA official responsible for establishing policies and procedures to assess VA program risks of improper payments, taking actions to reduce those payments, and reporting the results of those actions to VA management. Managers of all programs identified for review are aware of the importance of the IPIA. Seventeen of the 19 programs identified for review completed the required statistical sampling during 2004, in accordance with VA's IPIA plan. In addition, VA also used quality reviews to correct systemic problems, identified reports needed and training needs, piloted a

prototype automated claims processing system, and identified accountability for the quality of claims processing.

Plans to Accomplish

Efforts are ongoing to rewrite regulations into clear and understandable language, develop an automated claims processing system for Education, consolidate pension workload processing, improve matching programs with other Government agencies, improve quality reviews to identify error trends and causes, and improve training programs for rating specialists. The goal is to reduce the amount of erroneous payments in all programs.

Financial Management Systems Framework

The Department's strategy, defined about 12 years ago, is based on goals to replace outdated and noncompliant systems with more modern, commercial off-the-shelf (COTS), Joint Financial Managers Improvement Program (JFMIP)-compliant systems based on new technology. In the last 7 years, the strategy was enhanced to incorporate business process reengineering in the requirements, acquisition, and development and implementation phases of projects.

VA's updated financial systems inventory provides details on all major financial and mixed systems. The major financial system initiatives funded by the Department over the last 12 years to achieve VA's strategic goals have included:

- The Financial Management System (FMS), a project to replace VA's 1970's central accounting system. In the FMS initiative, completed in 1995, VA successfully met its stated objectives and implemented FMS as its

single, core accounting system based on a certified COTS, JFMIP-compliant system with interfaces to all other VA payment and accounting systems. In the succeeding, post-implementation years, VA completed several studies and determined there were remaining inefficiencies in the overall financial management processes, areas of noncompliance in our mixed systems, and new mission business requirements that could not be supported economically in the current systems. As a result, in 1998, VA began another initiative, the Core Financial and Logistics System (CoreFLS), to determine how best to address these weaknesses while continuing VA's overall strategy.

- CoreFLS was a project to replace FMS and the Integrated Funds Distribution, Control Point activity, Accounting and Procurement system, and other financial and logistics systems interfacing to FMS with a fully integrated system comprised of COTS software. Although piloted at three sites during FY 2004, pilot

activities were phased out. Consequently, VA is proceeding with a plan to support an enhanced CoreFLS program moving forward to full deployment at VA facilities nationwide. For key early components of the plan, see page 38.

- VA is participating in the Federal-wide plan to consolidate Federal payroll services and processes that is included in the President's Management Agenda for Improving Internal Efficiencies and Effectiveness. VA has been aligned with the Defense Finance and Accounting Service as its future payroll provider.

VA's financial system recent accomplishments and plans for the next 5 years are detailed as follows.

Financial Management System (FMS) Accomplishments and Plans

As part of its financial systems strategy, VA is continuing migration of core accounting functions from mixed systems to the current core accounting system as opportunities arise. VA has already migrated small and manual benefit systems accounting to FMS. As the major benefit systems are replaced or modernized, the financial components of those systems will be made JFMIP- and Standard General Ledger-compliant or will be migrated to FMS.

A significant accomplishment in FY 2004 was the final accreditation of FMS by the VA Chief Information Officer on April 4, 2004. This accreditation provides full authorization for VA to operate FMS until April 1, 2007, unless a significant change warrants an earlier re-certification. Another major initiative planned for FMS and VA's other financial management systems was to implement the Department's proposed new budget structure. Although approval was not received from Congress to institute this new budget structure aligned with VA's major business lines effective for FY 2004, Congress did authorize a major restructure of the Veterans Health Administration

(VHA) budget. The successful realignment of the VHA budget structure was a significant accomplishment in FY 2004. FMS staff also completed work necessary to redefine various VHA funds in FMS (Nursing Home, Pershing Hall Extended Care, and Enhanced Use Lease Proceeds) to individual Medical Care Collection Fund collection accounts. VHA began using these new collection accounts effective October 2004. Following the decision to revert the Bay Pines VAMC and the two additional pilot sites that operated under CoreFLS during FY 2004 to FMS, substantial work was completed to successfully revert these sites in October 2004.

VA plans to continue operation of FMS as the Department's core financial management system through FY 2009, at which time CoreFLS will be fully operational.

CoreFLS Accomplishments and Plans

Although the Bay Pines VAMC and two other pilot sites began piloting the program in October 2003, the CoreFLS pilot was suspended in July 2004. The pilot was designed to test a new computerized financial management and logistics system and to highlight the strengths and weaknesses of certain commercial off-the-shelf technology programs in a complex medical environment. The target phase-out date of October 1 was established for the pilot program at Bay Pines and the two other pilot sites to return to VA's existing Financial Management System. An executive project committee, chaired by VA's Assistant Secretary for Information and Technology and made up of senior leaders of the Department, is examining the results of the CoreFLS pilot program at Bay Pines and the other two pilot sites and will make recommendations to the VA Secretary concerning the future of the program. CoreFLS was intended to comply with the Federal Financial Management Improvement Act of 1996, which required all governmental agencies to

integrate their financial management systems based on available commercial, off-the-shelf programs.

PAID Accomplishments and Plans

As part of VA's strategy to ensure the legacy payroll and HR systems (i.e., PAID and related systems) will still be useable for the next 5 to 10 years, VA has completed the following activities:

Following the successful implementation of Employee Express (EEX) in FY 2003, VA automated interfaces from EEX to PAID. This has allowed VHA to reassign staff at the VA Health Revenue Center (HRC) from duties relating to employee self service to cost recovery and revenue generation tasks. In May 2003 the HRC had 88 FTE supporting employee self service, and as of May 2004, only 8 FTE were supporting EEX. The recurring costs for VA's previous employee self-service system were approximately \$3.8 million in FY 2003; VA's FY 2004 costs for EEX were \$775,000, an annual savings of \$3.025 million.

PAID received final accreditation by the VA Chief Information Officer on January 13, 2004. This accreditation provides full authorization for VA to operate PAID until December 10, 2006, unless a significant change warrants an earlier recertification.

VA made substantial progress in completing the Web-enabling of its HR system user interface. Nationwide roll-out of the Web interface was scheduled to begin in mid-October 2004 with all sites implemented by the end of the calendar year. Seventy deferred requirements were successfully completed for PAID, including:

- Implementation of "labor distribution" and new VHA accounting structure.
- Expansion of garnishment fields.
- Addition of a "telework" indicator and report.

- Advance notice when mandatory retirement date is near for certain law enforcement officers and firefighters.
- Changes to allow additional report distribution options for integrated stations.

Nine of the deferred requirements remain to be implemented and will be incorporated into the e-Payroll initiative.

Extending the Service Life Initiatives

Commensurate with work on the e-Payroll initiative, VA has begun planning for the following three initiatives to be completed by September 2005 in an attempt to extend the service life of PAID and related systems for the next 5 to 10 years:

Web-Reports (design, development, and implementation of a Web-based reporting tool for extraction of data from PAID). This initiative will use a relational database to create reports. It will also acquire and deploy Web-based reports and tools to improve human resources and payroll reporting. A pilot was completed in March 2004. Because of the need to focus resources on the e-Payroll initiative, further development on the Web-Reports has been deferred and will be incorporated into the e-Payroll project plan.

Web-Time & Attendance (development of a Web-based time and attendance (T&A) system for VA employees). This initiative will improve customer access and usability, contain better cost distribution and reporting features, contain modern graphical user interfaces, and feature drop-down menus, radio buttons, and online help. In support of e-Payroll, VA is soliciting technical support to assist in defining the functional requirements that a modern time and attendance system for VA must support.

Modernize the OLDE Infrastructure (convert the OLDE database to a relational database and use this database for the Web-Reports and Web-T&A initiatives). This initiative will improve the ability of PAID customers to share data between systems (e.g., accounting systems) and improve VA's ability to meet reporting needs. Given the movement to DFAS as VA's e-Payroll provider and the planned future migration under the eHR Line of Business initiative, the database conversion portion has been abandoned.

e-Payroll Accomplishments and Plans

FY 2004 Accomplishments

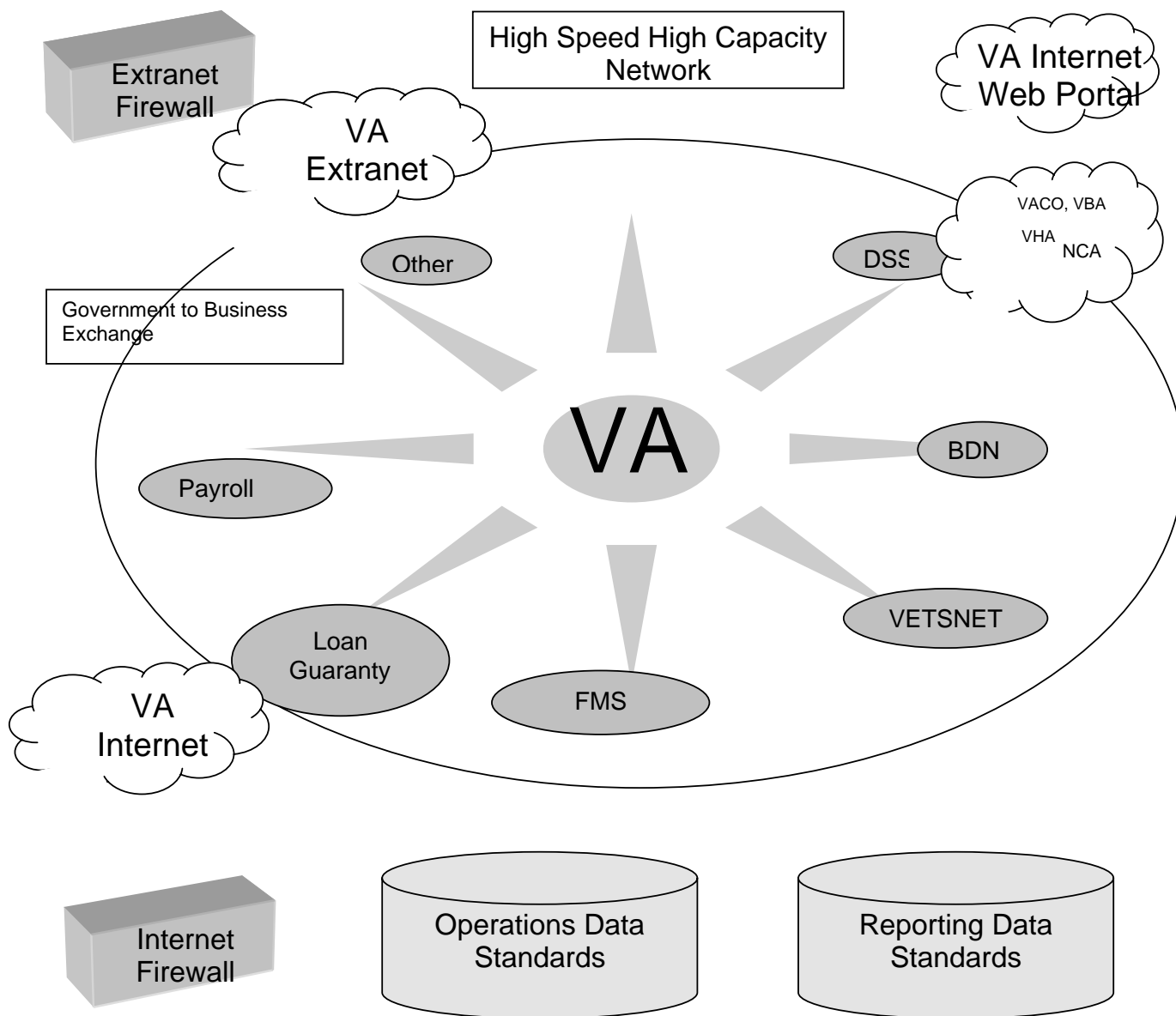
Following the decision to align VA with the Defense Finance and Accounting Service (DFAS), VA has provided DFAS with high-level VA requirements for payroll and related services. This has included detailed requirements of earnings and deductions for the diverse types of VA employees as well as the requirements for using VA appropriations to issue payments to/on behalf of these employees. VA also provided DFAS with business processes for payroll, benefits, and human resources along with the associated policies and procedures. VA and DFAS have identified differences/gaps in processes between the two agencies. This fit-gap analysis is being negotiated for final resolution in early FY 2005. Internally, VA will be analyzing its "time and attendance" processes, in conjunction with this initiative, in order to provide necessary interfaces to DFAS and to evaluate the long-term support options regarding VA's decentralized Electronic Time and Attendance system (ETA). VA has also begun work to finalize a migration schedule and overall milestone plan based on a phased approach. Subsequent to conversion, VA's PAID system will continue to be used for HR processes until VA and other agencies migrate to the integrated HR and payroll system that is expected to be available under the eHR Line of Business.

e-Travel Accomplishments and Plans

FY 2004 Accomplishments

Use of VA's existing travel systems continued in FY 2004, including PCTravel, Gelco, and Zegato. VA began working with the General Services Administration (GSA) in July 2004 on efforts to migrate to the government eTS travel solution. The GSA eTS system will allow travelers and/or travel arrangers to electronically prepare and submit travel information using a Web-based system and access an online booking engine for trip planning. VA is focusing efforts on evaluation and selection of one of the three GSA eTS vendors available on the GSA master contract. VA has established an e-Travel steering committee and evaluation panel to assist in this initiative. The steering committee will monitor project status, address issues presented by the evaluation panel, and recommend selection of a specific vendor to VA executives. The evaluation panel has completed the acquisition plan, test scenarios, and request for quote and will be involved in analyzing, reviewing, and testing the available vendor solutions. VA plans to complete the evaluation of eTS vendors in November and recommend a final award by December 31, 2004, in accordance with the GSA-mandated timeline. Final implementation of the approved vendor would proceed in FY 2005 and be completed by September 2006.

FINANCIAL AND LOGISTICS MANAGEMENT SYSTEMS MODEL FY 2005
 Supporting
 Veterans Health Administration, Veterans Benefits
 Administration and National Cemetery Administration



VA is Building a High Capacity Network and Developing
 Corporate Standards for Architecture, Data and Security

Other Systems Accomplishments and Plans

Electronic Commerce (EC)/Electronic Data Interchange (EDI) System.

EC/EDI uses commercially available, off-the-shelf software and national standards to move mission-critical information between VA and each of its trading partners — which includes vendors, mortgage service providers, and health care entities. EC/EDI also provides for internal exchange of information among VA application systems. Electronic data transfers enable program offices to restructure their work processes, take advantage of the accuracy and timeliness of electronic data, and concentrate on service objectives.

VA's Financial Services Center (FSC) provides EDI services to process VHA Medical Care Cost Recovery (MCCR) health care billings. The FSC is also supporting VHA initiatives such as electronic Insurance Identification and Verification (e-IIV), electronic Pharmacy (e-Pharmacy), electronic Medicare Remittance Advice (e-MRA), and the MCCR lockbox initiative for recording receipt of payments for billed items. Additionally, the FSC provides EDI services to assist the Veterans Canteen Service in receiving and processing invoices.

The FSC will continue to support VA's efforts to increase cost savings and program efficiencies through the expansion of electronic data transfers in VA applications. The FSC will also continue to support VHA's efforts to comply with EC/EDI mandates identified in the Health Insurance Portability and Accountability Act (HIPAA) of 1996. The FSC recently procured software to electronically ensure the validity of data with regards to HIPAA compliancy.

In addition to VHA, the FSC provides EC services to VA's Denver Distribution Center for invoices and payment vouchers, and to VA's subsistence prime

vendor program. Furthermore, VBA benefits from FSC EC services in the FSC's handling of loan processing, identifying the status of loan defaults, and processing loan guaranty certificates.

Tasks	Target Dates
Support MCCR lockbox receipt of payments.	FY 2005
Support (by providing both development and production support services) VHA's HIPAA compliance efforts.	FY 2005
Support EDI production projects on a continuing basis.	FY 2005 - FY 2009

On-line Certification System (payment certification). The FSC developed the On-line Certification System (OLCS) in FY 2000. The OLCS application, based on input and suggestions from FSC customers, provides a simple, effective method for certifying officials to view and certify invoices without having to manually route paper invoices. Under OLCS, vendors send invoices directly to the FSC. Within 24 hours, an invoice is scanned into the FSC's document management system (DMS), given a document locator number, and indexed with the information required to process the invoice. The DMS is the FSC's optical imaging system used to route and process all documents in a paperless form. Once scanned, the invoice becomes an electronic image that can be stored for the remainder of its useful life. The OLCS allows officials in the field to have access to invoices requiring certification. When invoices are received at the FSC, the system sends an e-mail notification to certifying officials and provides information on how to access the invoices. This application received an *e-GOV 2000 Trailblazer* award. The OLCS was further improved in FY 2004 with system enhancements to allow VA activities to process rejected invoices online and by adding functionality to

permit review of invoices by fund control personnel at the VA activity. Approximately 11,700 employees currently use the OLCS within VA.

The OLCS was an essential enabler in permitting VA to successfully centralize VHA certified invoice payment processing to the FSC in FY 2004. Certified invoices sent to the FSC for processing are managed by certifying officials through the OLCS and then paid by the FSC. As a result, VA has realized a tremendous increase in the efficiency of the payment process resulting in significant savings in resources. At the same time, the OLCS and centralization has substantially reduced interest penalties and increased discounts earned.

The FSC's certified payments process represents a full life cycle of services performed from the time the FSC receives an invoice until the Department of the Treasury (Treasury) renders proper payment. The services include processing cancelled checks, check tracers, vendor re-certifications, rejects and adjustments, inquiries, vendor reclaims, bills of collection, Treasury offsets, tax levies, and fax-hold followups. The FSC provides these services in compliance with applicable VA regulations and directives and the Prompt Payment Act.

Tasks	Target Date
Implement programming enhancements based on customer feedback.	Ongoing

Document Management System (DMS). The FSC implemented an imaging system, referred to as the DMS, in May 1994. The DMS allows the FSC to provide a paperless work environment, reduce physical storage needs, and process

high volumes of documents. Documents are stored on optical platters and can be retrieved in seconds. Backups are stored offsite.

Initially, DMS was used to process commercial payments and inquiries. Subsequently, the FSC's use of DMS has been expanded to include other functions such as vendorizing requests, Federal accounts, preparation of the SF-224 report, and OLCS. Additionally, the DMS has shown potential in storing and retrieving finance records, official personnel folder data, contract files, and legal documents.

VA's Franchise Fund Board of Directors approved the FSC's FY 2005 business plan, which further refined the FSC's plan to offer DMS as a product line. The FSC currently provides storage and retrieval services via the Intranet to VA customers and provides the same types of services to other government agencies (OGA) via the Internet.

Tasks	Target Dates
Add new OGA and VA customers.	FY 2005 – FY 2009
Upgrade DMS.	FY 2005
Provide program support for DMS.	FY 2005 – FY 2009

The President's Management Agenda

The President's Management Agenda (PMA), which was announced in 2001, is an aggressive strategy for improving the management of the Federal government. It focuses on five areas of management weakness across the government where the most progress can be made. VA is working closely with OMB to resolve problems identified in each of these areas. OMB issues reports quarterly and uses a 'stoplight' scorecard to reflect progress made by each Federal agency. VA is also reporting on one additional agency-specific area of focus: improved coordination of VA and DoD programs and systems.

The following is a discussion of VA's progress in each of the areas.

Initiative	As of September 30, 2004			
	Status	Change from September 2003	Progress in Implementation	Change from September 2003
Human Capital	Y	↑	G	↔
Competitive Sourcing	R	↔	R	↔
Financial Performance	R	↔	R	↓
E-Government	Y	↔	Y	↓
Budget and Performance Integration	Y	↔	G	↔
DoD/VA Coordination	Y	↔	Y	↓

* Arrows indicate change from September 30, 2003.

Strategic Management of Human Capital

In FY 2004 VA implemented multiple initiatives to address this area of the President's Management Agenda.

The Department focused on implementation of the goals contained in its first national Strategic Human Capital Management Plan that was completed in July 2003. VA's human capital goals for FY 2005 center on updates to organizational workforce plans and movement to a Web-based workforce planning process using "Proclarity," a state-of-the-art workforce analysis tool.

VA's Senior Executive Service (SES) candidate development program continued to develop future leaders. Five members of the initial 20 candidates selected for the class of 2003 have been placed in SES positions. A new class of 32 candidates has been selected and will begin the program of intensive training and developmental experiences during the fall of 2004.

The report from the Secretary's Task Force on the Employment and Advancement of Women and Minorities in VA was published in April 2003. Goals identified by the Task Force include increasing internal and external recruitment and retention programs; developing and enhancing education and training programs; and fostering a corporate culture that proactively integrates women, minorities, and people with disabilities into GS-13, GS-14, GS-15, and SES positions. Initiatives in the report are monitored and significant progress continues to be made.

VA's online entrance and exit survey process continues to provide VA with information from new as well as separating employees to help the Department understand what influences individuals to work for or leave VA. As of August 2004, over 15,000 survey responses have been collected and maintained in a database.

VA's childcare tuition assistance program assists lower-income employees in offsetting the high cost of childcare. As of August 2004, there were 1,462 employees participating in the VA childcare program, which represents a total of 1,960 children. VA's program continues to be showcased by OPM as a "model" program, which has the highest number of employees participating and the highest enrollment rate of children in the Federal government.

VA placed major emphasis on marketing in FY 2004 by:

- Enhancing the VA Job Opportunities Web site to make it more user-friendly for prospective applicants. The site averages more than 100,000 "hits" per month.
- Distributing a state-of-the-art "VA Recruitment" CD ROM in September 2004 to colleges, universities, military transition centers, and other potential recruitment sources, including 141 Hispanic-serving institutions, 97 Historically Black Colleges and Universities, and 34 Tribal Colleges.
- Employing 20 Presidential Management Fellows in FY 2004 (as of August 2004).
- Implementing pilot radio advertisements in several localities in the Southeast U.S. and Washington, DC metropolitan area promoting hard-to-fill health care occupations. There was an increase of 9,000 Web site "hits" during this time with 28 applications received as a result of the advertisements.

Plans for FY 2005 include:

- Updating organizational workforce plans and the national VA Strategic Human Capital Management Plan using Web-based technology.
- Conducting quarterly status assessments of initiatives in the VA Strategic Human Capital Management Plan.
- Deploying fully the competency-based High Performance Development Model throughout VA.
- Continuing to focus on creative, state-of-the-art marketing initiatives and outreach to prospective applicants.

Competitive Sourcing

VA recognizes that competitive sourcing can be an effective management tool to reduce program costs and improve operational efficiencies. VA intends to support the Administration's goals through a variety of approaches aimed at improving both the efficiency and effectiveness of operations.

The bulk of competitive sourcing within VA was halted in April 2003 when VA's General Counsel opined that section 8110 of title 38 U.S.C. prevents VA from conducting cost comparisons on VHA positions unless Congress provides specific funding for the competitions. The Administration is seeking legislative relief so that VA can restart its planned competitive sourcing program. However, funding has not been appropriated for this purpose. As a result, no positions within VHA were studied for possible conversion to private sector performance during FY 2004.

The title 38 prohibition is targeted at cost comparisons and does not preclude the development of studies for determining the "most efficient organizations" or "high performing organizations." As part of its normal business operations, and as part of the Secretary's priority of applying sound business principles, VA continuously assesses the demand for benefits and services from veterans and ensures that it has the capabilities to meet those needs. This market-based analysis often results in VA contracting with the private sector for medical care and other services in specific geographic areas when it is determined to be a better value to VA.

Once relief from this prohibition is obtained, VA will proceed with studies of selected commercial activities on both a national and local basis using our three-tiered, streamlined, market-based analysis approach. Based on agreements with OMB, VA plans to use this approach to study approximately 16 ancillary service functions that involve some 35,000 employees over a 5-year period. The total annual salaries for the

employees in these functions are over \$1 billion, and cumulative savings are currently estimated at over \$1 billion over 5 years. This focus on ancillary functions will allow VA to meet the intent of the PMA and produce potential long-term cost savings for the Department.

Until such time as VA obtains legislative relief from the prohibition of title 38, the Deputy Secretary has charged the Office of Policy, Planning, and Preparedness with implementing a management analysis/business process reengineering (MA/BPR) initiative, and to integrate the results into VA's workforce planning process. Relying primarily on management analysis, benchmarking, and BPR approaches provides a viable alternative to the cost-comparison approach of competitive sourcing as delineated under the provisions of OMB Circular A-76. Integrating BPR results into workforce planning policies and processes may negate the need for a long-term competitive sourcing program. Projected cumulative savings from this initiative are currently estimated at \$1 billion over 5 years.

The Management Systems Improvement Service (MSIS) continues to lead an intra-departmental team committed to the current approach of strategically identifying opportunities for MA/BPR studies. This team, the MA/BPR Working Group, includes representatives from the three administrations and the major support functions within VA. The MSIS has established a staff dedicated to performing this initiative in conjunction with seeking consultant support.

VA's strategy to integrate BPR results with workforce planning would enable VA to meet the ultimate goal of significant savings and noticeable performance improvements identified in the PMA competitive sourcing initiative without violating the prohibition of 38 U.S.C. 8110; initially reduce and eventually eliminate the need for a separate competitive sourcing program within VA; minimize any adverse impacts on the workforce by providing ample time to implement any service delivery process changes that would enable impacted employees

more opportunities for transitioning to other activities; and demonstrate to OMB and Congress that current workforce and future service delivery process decisions are based on documented and supportable business case decisions.

Improved Financial Performance

Audit Opinion and Improved Performance. VA received an unqualified opinion on the Department's financial statements from the auditors, continuing the success first achieved in 1999. Interest penalties continued to decrease to \$862,000, approximately 5 percent below the 2003 level. Discounts earned increased to over \$2.7 million, 21 percent above last year's level. Following are some additional ways VA improved its financial performance in 2004.

Material Weaknesses. VA took steps to address previously reported FMFIA material weaknesses in three areas — internal control weakness in the compensation and pension (C&P) payment process, the Personnel and Accounting Integrated Data (PAID) system lack of ability to expand, and security-related vulnerabilities in PAID and the Financial Management System (FMS). VA modified the PAID system to provide needed labor distribution functionality; final reports detailing this functionality were provided to the OIG in October 2004. If acceptable, this will lead to the closure of this material weakness early in FY 2005. In addition, actions to correct security-related vulnerabilities in the PAID and FMS systems have been scheduled, and new control procedures are being implemented as recommended by VA auditors. One FMFIA material weakness was closed in FY 2004 — C&P Lack of Adaptability and Documentation. The Internal Control Weakness in the C&P Payment Process (VBA) is scheduled for closure in FY 2006.

Core Financial and Logistics System (CoreFLS). The Bay Pines VA Medical Center and two other pilot sites began piloting the program, an integrated system combining logistical, billing, and other management functions, in

October 2003. The pilot was designed to test a new computerized financial management and logistics system at designated pilot sites and to highlight the strengths and weaknesses of certain commercial off-the-shelf technology programs in a complex medical environment. However, due to technology and other issues, a decision was made to phase out the pilot and return the pilot sites to VA's existing FMS at the beginning of FY 2005. An executive project committee, chaired by VA's Assistant Secretary for Information and Technology (VA Chief Information Officer) and comprised of other VA senior leaders, is examining the results of the CoreFLS pilot program at Bay Pines and the other two pilot sites and will make recommendations to the VA Secretary concerning the future of the program. CoreFLS was intended to comply with the Federal Financial Management Improvement Act of 1996, which required all governmental agencies to integrate their financial management systems based on commercially available, off-the-shelf programs.

Improper Payments. As detailed on page 41 and Part IV, page 270, VA completed actions to sample 17 of the 19 programs identified. Actions will continue in FY 2005 in accordance with VA's OMB-approved plan for addressing the requirements of the Improper Payments Information Act of 2002.

Electronic Government

To support the President's vision for expanding electronic government, VA is participating in all four categories of E-Government (E-Gov) customer groupings and the crosscutting initiative, E-Authentication. In FY 2004, VA signed official agreements with managing partner agencies and provided funds and/or commitments to support the following initiatives: GovBenefits; E-Loans; E-Authentication; Integrated Acquisition Environment; E-Payroll; USA Services; E-Rulemaking; E-Training; E-Travel; E-Grants; Federal Asset Sales; E-Records Management; Business Gateway; E-Clearance; and Recruitment One-Stop. VA FY 2004 accomplishments are as follows:

- Issued E-Gov guidance to VA administrations and staff offices describing VA's role, responsibilities, and policy to implement and comply with the E-Government Act of 2002. VA also issued a policy stipulating that planned and existing IT acquisitions costing \$2 million or more must not duplicate any of the 24 Federal E-Government initiatives.
- Provided DFAS detailed VA requirements for payroll and related services, along with related business processes for payroll, benefits, and human resources. Gaps in processes between DFAS and VA have been identified and final negotiations will be completed in early FY 2005. Work to finalize a migration schedule has also begun (see page 45).
- Launched a new E-Travel system, saving time and money by reducing the paperwork needed to process travel requests. The new Web-based system is available 24 hours per day; over 60 VA stations are using it effectively. Work is now focused on migration to the Government's eTS travel solution.
- Initiated privacy impact assessments of VA's major IT investments. To meet privacy requirements, VA implemented an enterprise-wide Web site audit program, auditing 42 of VA's most prominent Web sites for persistent tracking technologies in the form of persistent "cookies." The assessment confirmed that persistent tracking mechanisms do not exist on these Web sites. VA efforts in this area will continue.
- Identified critical job categories, specialty areas, skills, and competencies based on Office of Personnel Management (OPM) guidelines to support the Department's IT workforce planning and management efforts. VA continues its active partnership with OPM on workforce development, succession planning, training, and recruitment. A number of special programs support VA's efforts. Specific examples include VA Learning University initiatives, individual development planning strategies, a CIO intern development program, and use of the Web site, GOLearn.gov.
- Expanded its adaptive training program to comply with section 508 of the 1973 Rehabilitation Act and increase employment opportunities for people with disabilities. Under this program, VA has completed a

thorough analysis of 1,777 VA IT products and tested 15 IT systems. VA has established a Department-wide Section 508 Committee to work on disabilities issues and provide recommendations for future implementation.

- Co-led the Federal Consolidated Health Informatics, a Quicksilver E-Gov initiative. VA created Health@People as a strategy to work with other Federal agencies and public and private sector organizations. (Health@People (Federal) includes the joint VA/DoD Electronic Health Record System interoperability plan.)

FY 2005 Plans and Major Actions

In partnership with other Federal departments and agencies, VA will support the “next generation” Lines of Business Task Forces to draft a common solution and architecture in the areas of financial management, human resources, and Federal health architecture. In addition to providing continued support and funding of Federal E-Gov initiatives, VA will continue developing and implementing new electronic systems that improve the way VA communicates with and serves veterans and their families.

Budget and Performance Integration

Last year VA continued to make good progress towards more effectively integrating budget and performance information. One of the most important approaches the Department uses to address this PMA initiative is to hold monthly performance reviews. Chaired by the Deputy Secretary of Veterans Affairs, these reviews provide a forum for VA’s senior leaders to assess progress toward achieving the Department performance goals. The monthly performance reviews focus on financial and program performance, workload, and major construction and information technology projects. By comparing actual versus planned performance, the Department’s leaders identify where problems exist, and then immediately develop and implement corrective action plans in order to help ensure performance goals are reached.

With the submission of the FY 2005 Congressional budget, VA more fully integrated performance information with the Department’s request for resources. Rather than prepare a separate performance plan, VA’s FY 2005 budget identified the performance goals for each program and staff office along with the resources required to achieve these goals. The Department’s budget request included a summary of the Program Assessment Rating Tool (PART) reviews that have been completed. Through the FY 2005 budget process, VA had completed PART reviews on 46 percent of our programs covering more than 90 percent of the Department’s budget. PART reviews of all VA programs are expected to be completed by the time the FY 2007 budget is submitted to Congress.

VA has implemented a new five-tier performance appraisal system for non-bargaining unit employees that effectively differentiates between various levels of performance. Employee awards are linked to their performance appraisals and are tied to the organization’s mission, goals, and objectives.

Future efforts pertaining to this initiative will focus on the development and implementation of improved measures of program outcomes and program efficiency. VA will use the results of our recently completed program evaluations conducted by independent contractors as one source of information for assistance in developing and implementing new outcome and efficiency measures.

Improved Coordination of VA and DoD Programs and Systems

Over the past year VA and DoD have continued their efforts to improve beneficiary access to quality health care and to increase efficiency. Using the PMA and the Final Report of the President’s Task Force to Improve Health Care Delivery for Our Nation’s Veterans as guidelines, the Departments developed a strategy to enhance VA/DoD collaboration.

The first VA/DoD joint strategic plan (JSP) was signed in April 2003. A significant step toward institutionalizing the VA/DoD partnership, the plan articulated a vision for collaboration; established priorities for partnering; launched processes to develop and implement interagency policy decisions; developed joint operations guidelines; and instituted performance monitors to track progress. Examples of enhanced collaboration derived from the JSP include:

The Health Executive Council adopted a schedule to develop interoperable electronic medical records by the end of FY 2005, made significant progress in easing the transition of separating servicemembers from active duty to veteran status, and developed initiatives that improved the continuity of care and services provided to separating servicemembers who sustained injuries, illnesses, and/or disabilities in Operation Enduring Freedom or Operation Iraqi Freedom.

The Benefits Executive Council simplified the transition process by increasing the number of sites participating in the Benefits Delivery at Discharge initiative and by developing and successfully piloting a single physical examination that meets both the military services' separation requirements and VA's disability compensation examination criteria. This initiative eliminates the need for the separating servicemember to have a separate physical examination solely to rate a

service-connected disability. The pilot provided the basis for the development of a national policy on the implementation of the single physical examination. A national memorandum of agreement between VA and DoD to codify this policy is in the concurrence process and is expected to be implemented during the second quarter of FY 2005.

The Joint Executive Council established a Joint Capital Asset Planning Committee to provide a forum to facilitate collaboration in achieving an integrated approach to capital coordination. This coordination considers both short and long-term strategic capital issues beneficial to both Departments and provides the oversight necessary to ensure that collaborative opportunities for joint capital asset planning are maximized.

Many other joint projects are underway including the areas of procurement, provider credentialing, health care and business operations, data exchange, and information management.

The accomplishments of the VA/DoD executive councils, including those associated with the joint strategic plan, will be documented in the First Annual Report of the VA/DoD Joint Executive Council. This report will be submitted by the Secretary of Veterans Affairs and the Secretary of Defense by the end of calendar year 2004.