

Secretary's Letter

November 15, 2004

To the President of the United States, President of the Senate, President Pro Tempore of the Senate, and Speaker of the House of Representatives:



I am pleased to submit the *Department of Veterans Affairs (VA) FY 2004 Annual Performance and Accountability Report*. The report documents the Department's progress towards meeting its performance goals. Our goals are aimed at providing our veterans with the best in benefits and health care by making VA a model of excellence. Each day, as our troops continue the fight against terrorism and strive to bring freedom and democracy to the people of Afghanistan and Iraq, we are reminded once again of the incredible sacrifices our men and women in uniform make in defense of freedom.

In fiscal year (FY) 2004, with resources of \$70 billion in obligations and nearly 220,000 employees, VA accomplished a great deal on behalf of America's veterans and their families. To help measure our progress, VA established 127 performance goals at the beginning of FY 2004, 22 of which were identified by VA's senior leadership as critical to the success of the Department. The primary accomplishments are summarized below by major business line.

Health Care: Providing High-Quality Health Care

The number of veterans using VA's health care system has risen dramatically in recent years, increasing from 3.8 million in FY 2000 to 5.1 million in FY 2004. Yet despite this 34 percent increase in health care users, our commitment to delivering high-quality health care remained our top priority. In FY 2004, VA accomplished the following in the health care area:

- Increased to 77 percent the Department's score on the Clinical Practice Guidelines Index. This is an industry-wide index that measures the quality of health care delivery. VA's FY 2004 goal was 70 percent.
- Increased the percent of appointments scheduled within 30 days of a patient's desired date as follows:
 - 94 percent for primary care, compared to 93 percent in FY 2003.
 - 93 percent for specialty care, compared to 89 percent in FY 2003.
- Ensured 100 percent of VA medical centers provided patients with electronic access to their Department of Defense (DoD) health care records.

Continuing our innovation in health care information technology, VA is implementing a new computer program to help patients make more informed decisions about their care. The Electronic Support for Patient Decisions initiative, the key element in this effort, will be operational at all 157 VA hospitals within a year. The main component of this initiative is customized software called iMedConsent, which will provide patients with information about treatment options and will standardize procedures among clinicians.

Benefits: Ensuring High Quality of Life After Military Service

VA achieved the following in the benefits area:

- Increased to 39,000 the number of compensation claimants who were participating in the Benefits Delivery at Discharge program, up 30 percent from the previous year. Carried out in close cooperation with DoD, this 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.
- Improved to an average of 166 days the timeliness for completing rating-related actions on compensation and pension claims. This is notable given completion timeframes of 223 days in FY 2002 and 182 days in FY 2003.
- Reduced to 1.8 days the average days to process insurance disbursements.

Most importantly, the Department accomplished these improvements at a time when VA has experienced an increase in the number and complexity of claims filed by veterans. To address the increased workload, while at the same time maintaining or improving performance, VA has trained about 1,300 new staff involved in claims processing over the last 4 years.

Cemeteries: Honoring Veterans for their Sacrifices on Behalf of the Nation

VA continues to honor the service and sacrifices of America's veterans in its national cemeteries. The Department worked to preserve our Nation's history, nurture patriotism, and honor veterans and their families by maintaining our national cemeteries as national shrines. To this end, the Department accomplished the following in the memorial affairs area:

- Increased to 75.3 percent the proportion of veterans served by a burial option within a reasonable distance (75 miles) of their residence.
- Increased to 87 percent the proportion of graves in national cemeteries marked within 60 days of interment; this is 38 percentage points higher than in FY 2002.
- Achieved a 98 percent threshold of respondents rating national cemetery appearance as "excellent."

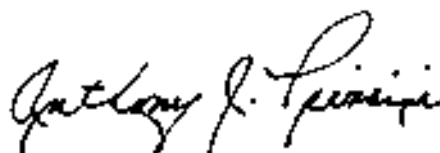
In addition, the first independent, nationwide review of conditions at VA's national cemeteries, completed in FY 2002, is now being used to make funding decisions and set priorities for making improvements and repairs. Action is underway to develop 11 new national cemeteries representing one of the Department's largest expansions since the Civil War era.

Finance: Proper Stewardship of Taxpayer Dollars

VA continued its tradition of financial excellence in FY 2004. For the sixth consecutive year, VA obtained an unqualified audit opinion on our financial statements—a testimony to VA's relentless efforts to provide stewardship and accountability over the resources entrusted to us by the American people to care for our Nation's veterans and their families.

The financial and performance data presented in this report are complete and reliable. Throughout the fiscal year, our senior managers assess the efficiency and effectiveness of their organizations and identify material inadequacies and the corrective tasks needed to resolve them. In accordance with requirements of the Federal Managers' Financial Integrity Act, I can provide a qualified statement of assurance that management controls are in place and the Department's financial systems conform with governmentwide standards. Corrective action plans have been developed and are being implemented to correct identified material weaknesses. In addition, we are committed to our ongoing efforts to integrate and improve our core financial systems. VA will continue to work with our external auditors to strengthen our fiscal management and accountability. A detailed discussion of material weaknesses and the status of corrective actions are presented in this report.

FY 2004 has been a year of great progress, progress that directly and positively impacted the lives of our Nation's veterans and their families.



Anthony J. Principi
Secretary of Veterans Affairs

Table of Contents

Secretary’s Letter	1
---------------------------------	---

Part I. Management Discussion and Analysis

Performance Scorecard	6
Executive Summary	7
Who We Are.....	19
Who We Serve.....	23
Leadership Initiatives	25
Public Benefits.....	27
Financial Highlights.....	34
Management Controls, Systems, and Compliance with Laws and Regulations.....	36
Federal Managers’ Financial Integrity Act	36
Federal Financial Management Improvement Act.....	38
Federal Information Security Management Act	39
IG Act Amendments of 1988	39
Prompt Payment Act.....	40
Improper Payments Information Act.....	41
Financial Management Systems Framework	42
The President’s Management Agenda.....	50

Part II. Performance Section

Performance Summaries by Departmental Objective	56
<i>Strategic Goal 1 – Restore Disabled Veterans</i>	
Objective 1.1 Provide Specialized Health Care Services	57
Objective 1.2 Improve Timeliness and Accuracy of Disability Compensation Claims Processing.....	60
Objective 1.3 Focus Vocational Rehabilitation Resources.....	65
Objective 1.4 Improve Standard of Living for Service-Disabled Veterans’ Survivors ..67	
<i>Strategic Goal 2 – Ensure a Smooth Transition</i>	
Objective 2.1 Increase Awareness of Benefits for New Veterans.....	69
Objective 2.2 Provide Timely and Accurate Education Assistance.....	70
Objective 2.3 Meet Lending Industry Standards for Home Loan Guaranty Benefits ...73	
<i>Strategic Goal 3 – Honor and Serve Veterans</i>	
Objective 3.1 Provide High Quality and Timely Health Care	75
Objective 3.2 Improve Timeliness and Accuracy of Pension Claims Processing	84
Objective 3.3 Maintain High Level of Service to Insurance Policy Holders	86
Objective 3.4 Ensure Burial Needs are Met	88
Objective 3.5 Provide Timely and Accurate Symbolic Expressions of Remembrance ..93	
<i>Strategic Goal 4 – Support National Goals</i>	
Objective 4.1 Improve the Nation’s Preparedness in Event of National Emergency ...96	
Objective 4.2 Focus Medical Research Programs	98
Objective 4.3 Provide Quality Education to Health Care Trainees	101
Objective 4.4 Enhance Socioeconomic Well-Being of Veterans	102
Objective 4.5 Maintain National Cemeteries as National Shrines	104

<i>The Enabling Goal</i>	
Objective E-1 Provide a Committed Workforce to Deliver High Quality Service	108
Objective E-2 Improve Communications	110
Objective E-3 Provide Reliable and Secure Information	112
Objective E-4 Improve Governance and Performance of VA	115
Assessment of Data Quality	120
VBA Quality Assurance Program (Millennium Act)	125
Key Measures Data Table	130
Performance Measures Tables	138
By Strategic Goal and Objective	139
By Organization and Program.....	151
Veterans Health Administration	151
Veterans Benefits Administration	154
National Cemetery Administration.....	160
Board of Veterans' Appeals	161
Departmental Management.....	162
Office of Inspector General.....	164

Part III. Financial Section

Letter from the Chief Financial Officer	165
Consolidated Financial Statements.....	166
Consolidated Balance Sheets	166
Consolidated Statements of Net Cost	167
Consolidated Statements of Changes in Net Position.....	168
Combined Statements of Budgetary Resources	169
Consolidated Statements of Financing	170
Notes to Consolidated Financial Statements.....	171
Independent Auditor's Report.....	206
Required Supplementary Stewardship Information (Unaudited).....	218
Required Supplementary Information (Unaudited)	222
Major Management Challenges	228

Part IV. Additional Information

Improper Payments Information Act Reporting Details	270
Definitions.....	284
List of Abbreviations and Acronyms	299
Key Report Officials	305

For additional copies of this report, please call the VA Budget Office at 202-273-5289. An electronic version is available on the World Wide Web at www.va.gov/budget/report

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

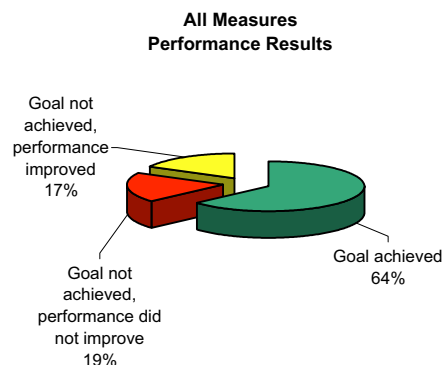
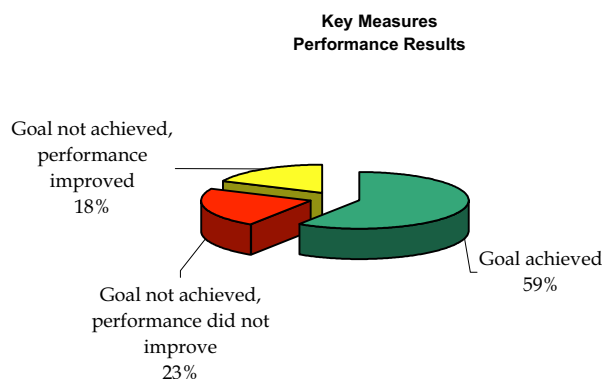
Mission

“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.

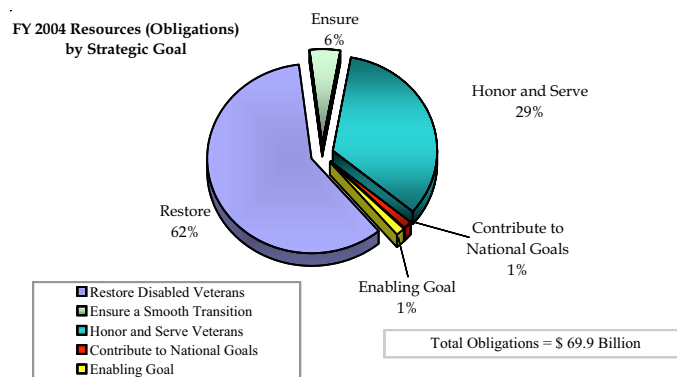
This report documents VA's progress during fiscal year (FY) 2004 toward meeting the strategic goals and objectives that directly support the Department's mission. These goals address the nine major programs that VA administers—medical care; medical research; compensation; pension; education; housing;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

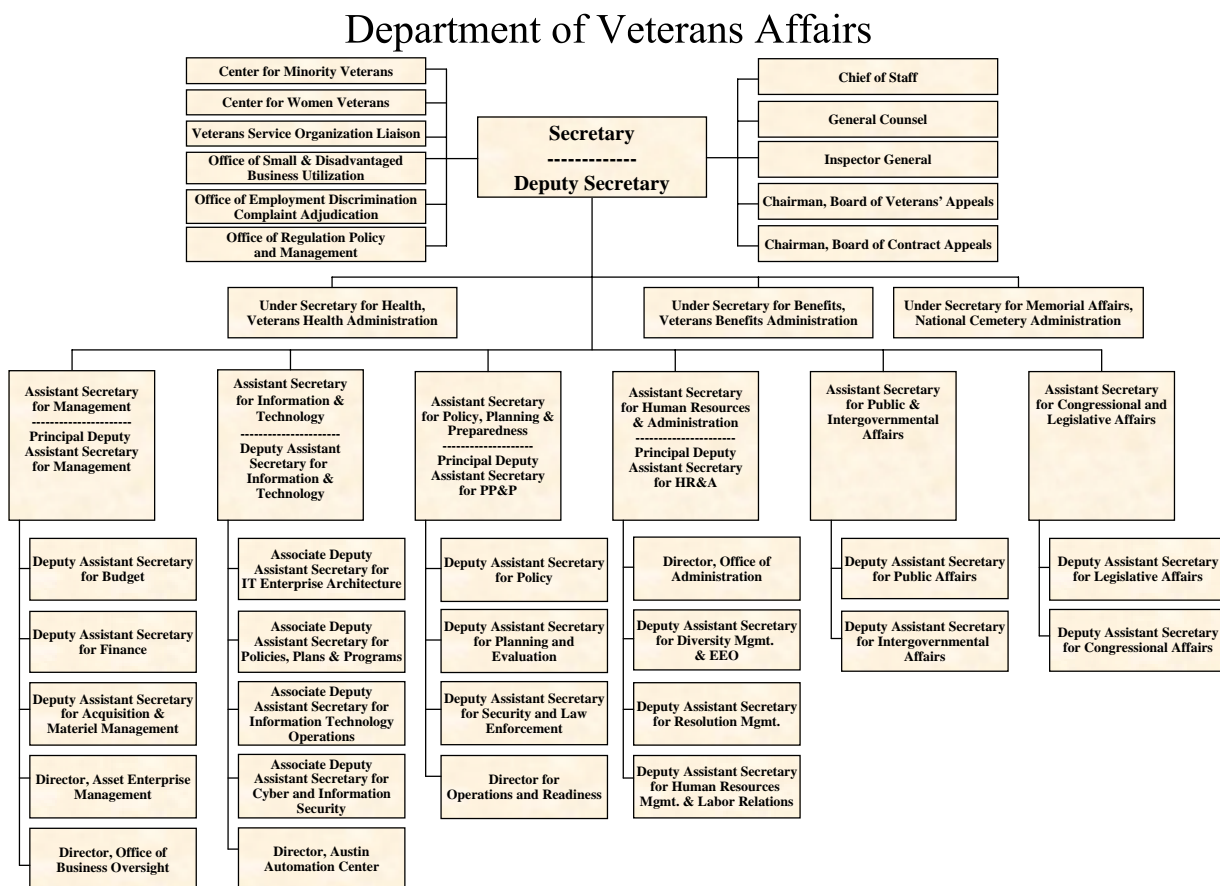
VA accomplished several initiatives during FY 2004 that helped enable the program offices to achieve their record of success throughout the year. Accomplishments included:

- 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

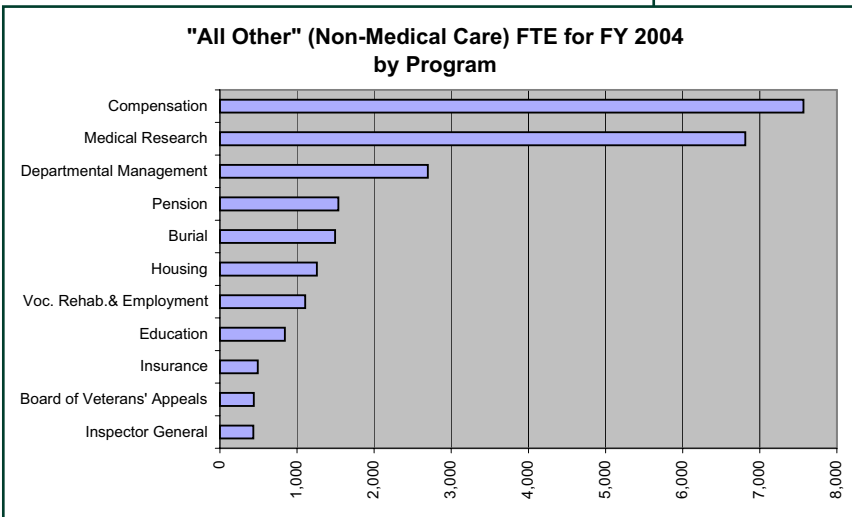
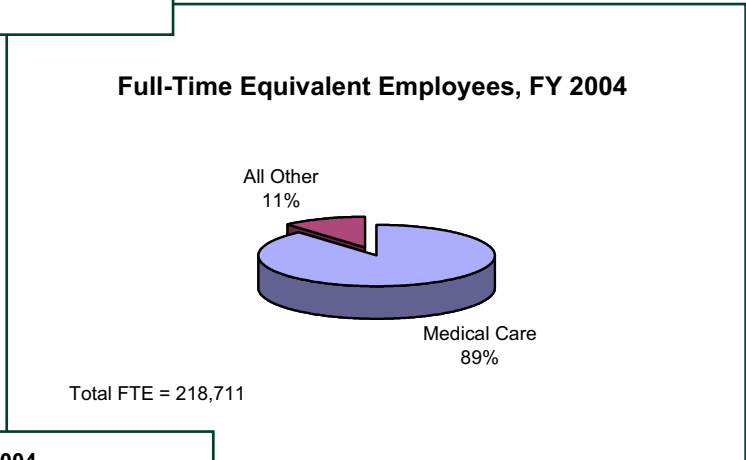
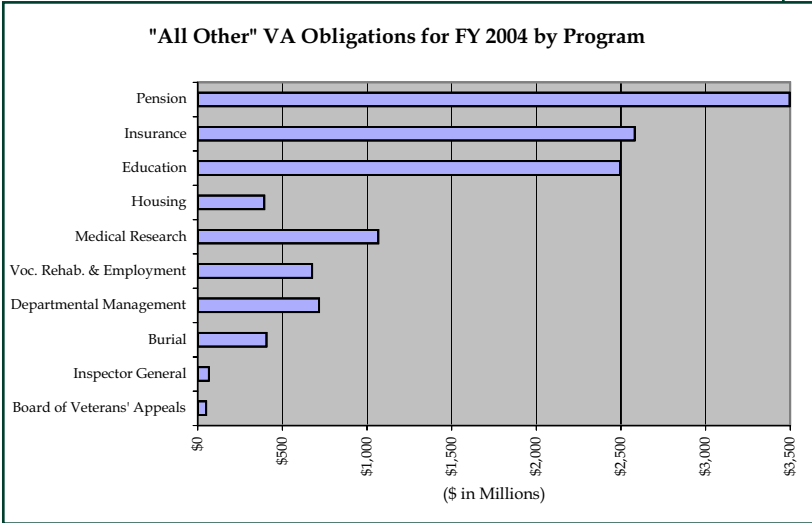
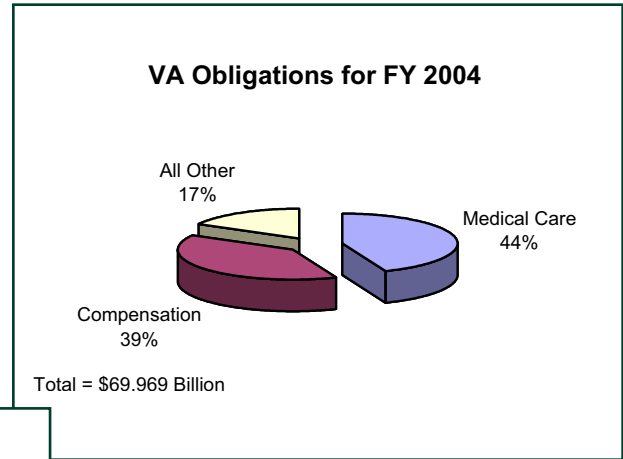
The insurance program provides veterans, servicemembers, and family members with life insurance benefits, some of which are not available from other providers — such as the commercial insurance industry — due to lost or impaired insurability resulting from military service. Insurance coverage is made 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.

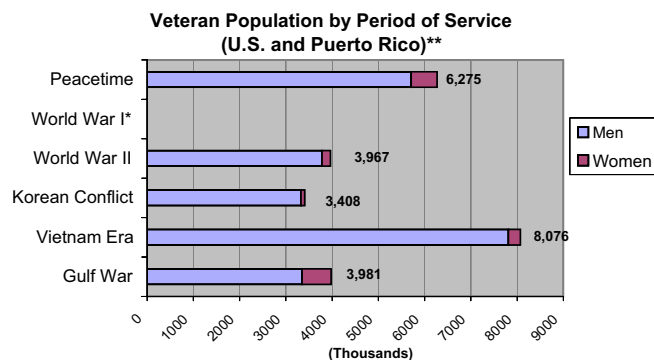


Who We Serve

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.

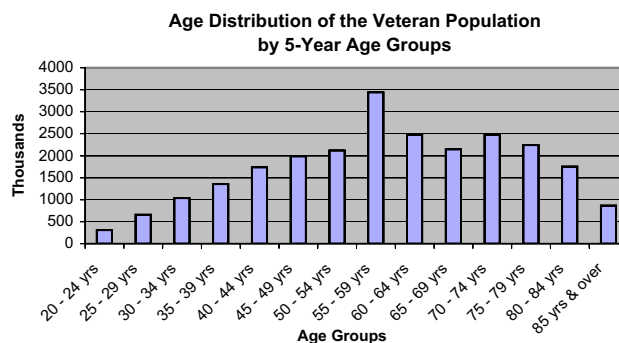
Beginning with our Nation's struggle for freedom more than 2 centuries ago, approximately 42 million men and women have served this country during wartime periods. Today, there are approximately 24.6 million veterans living in the United States and the Commonwealth of Puerto Rico; over 18 million (74 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.



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.



Data as of 9/30/04

Source: VetPop 2001 Adjusted, Office of the Actuary

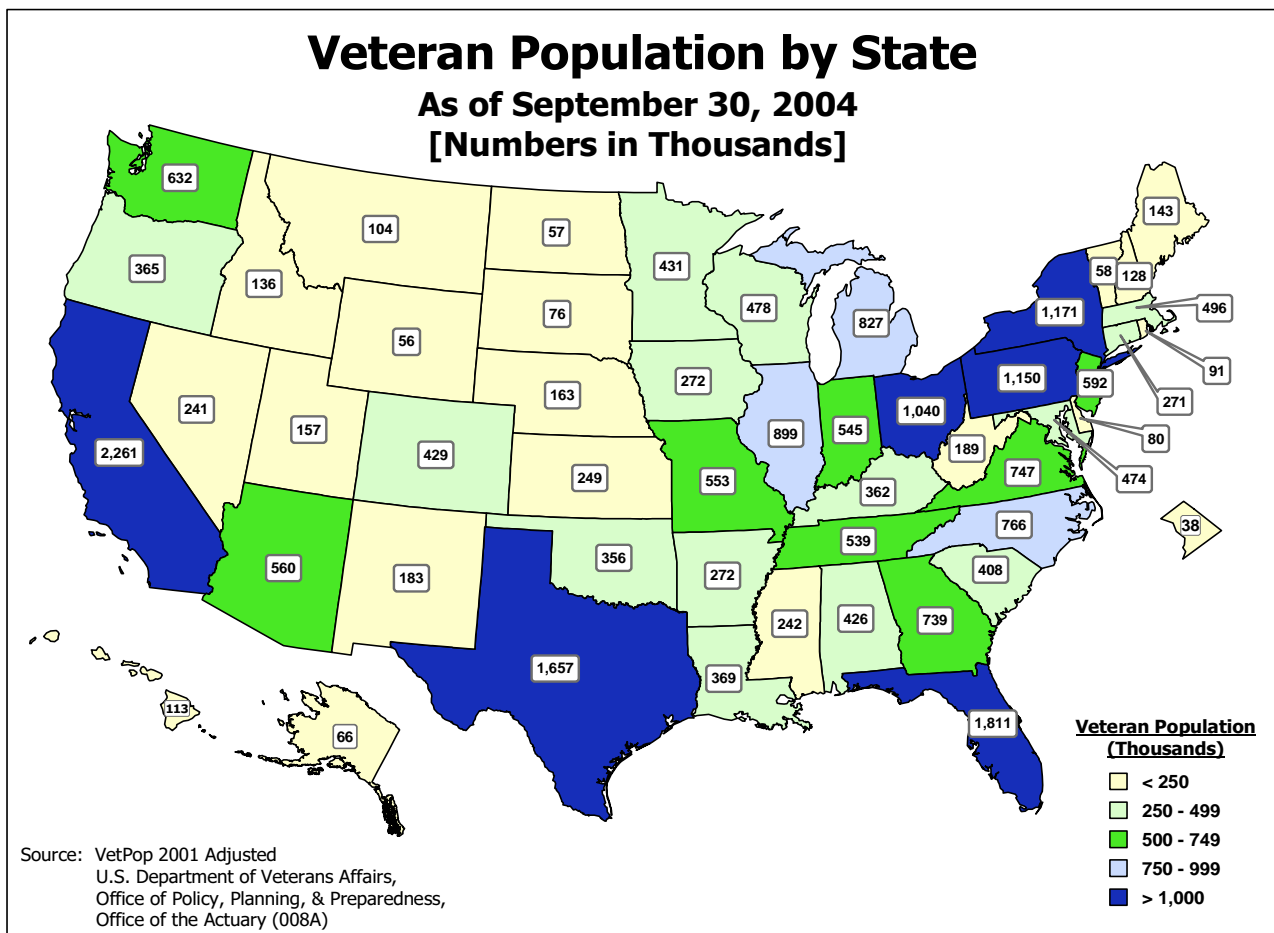
As of September 2004, the median age of all living veterans was 59 years. The number of veterans 85 years of age and older totaled nearly 864,000. In April 1990, there were only 164,000 veterans in this age range. This large increase in the oldest segment of the veteran population has had significant 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

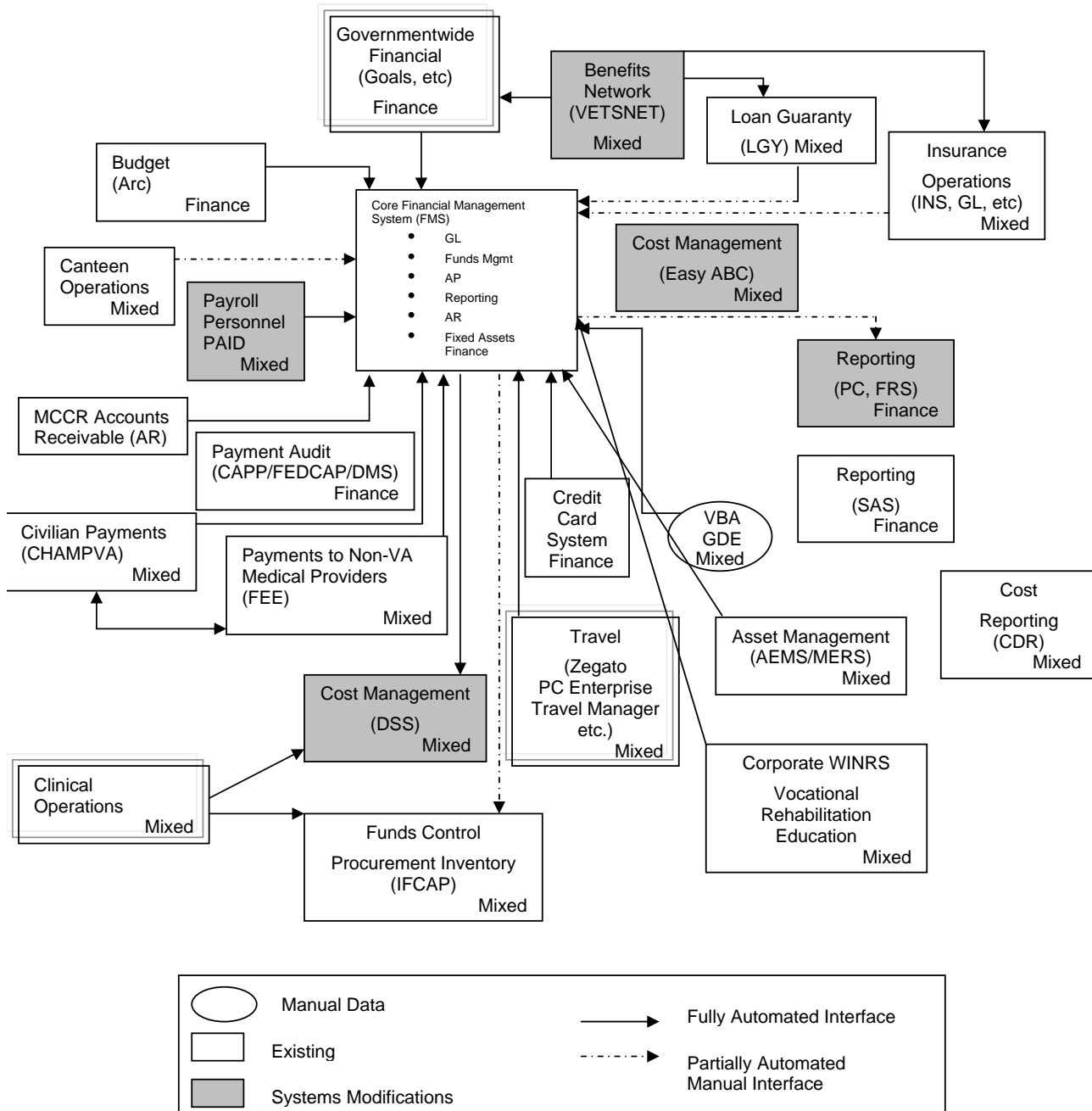
Following the decision to align VA with the Defense Finance and Accounting Service (DFAS), VA has provided DFAS with high-level VA requirements for payroll and related services. This has included detailed requirements of earnings and deductions for the diverse types of VA employees as well as the requirements 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

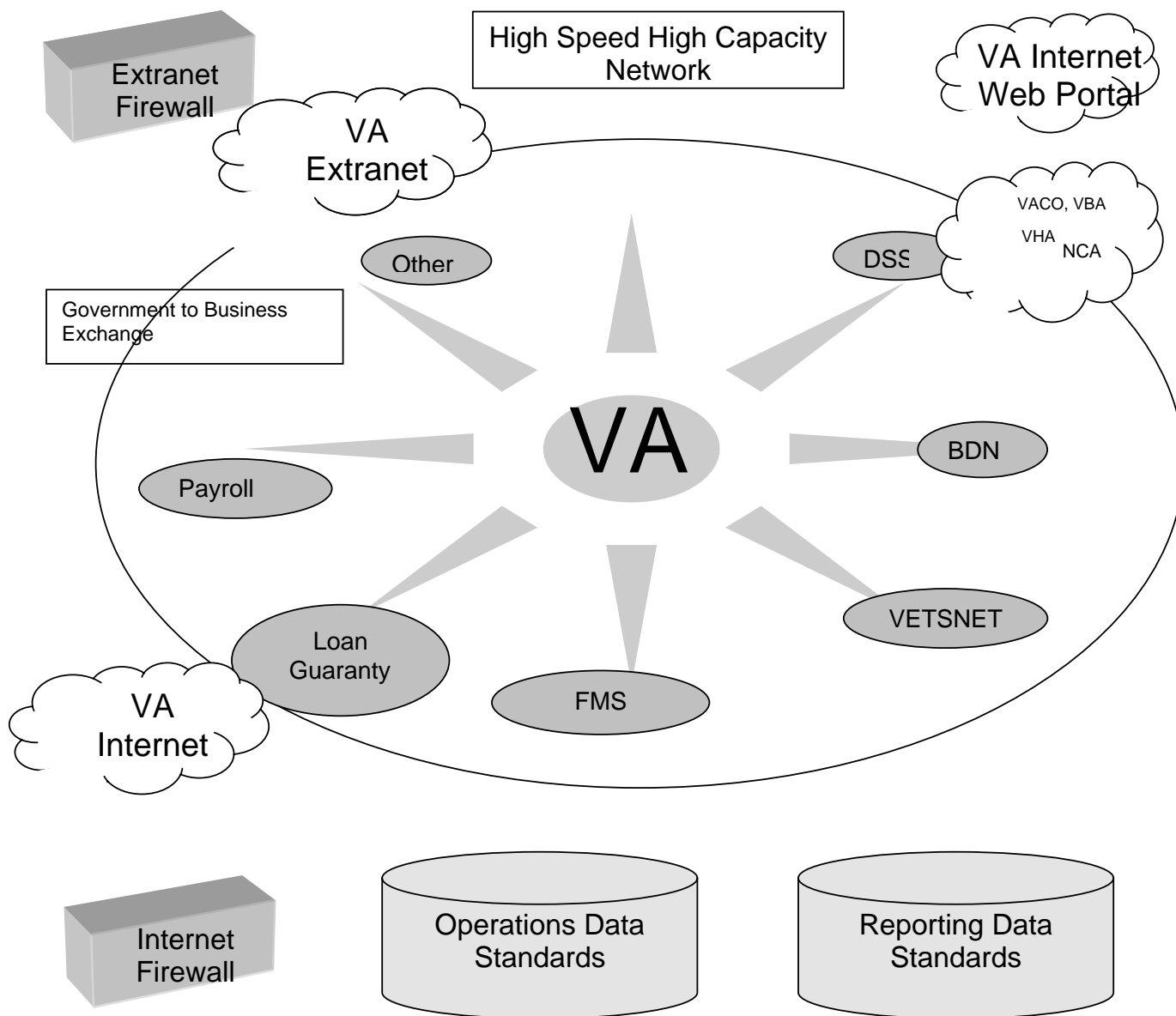
FY 2004 Accomplishments

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.

VA Financial Management Systems Current Functional Model FY 2004



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.

Performance Summaries By Departmental Objective

The following sections of the report describe VA's accomplishments associated with each of the objectives identified in the Department's strategic plan. This information complements and provides additional detail beyond the summaries of performance associated with each strategic goal (refer to the executive summary on pages 7-18).

For each objective, we include the following:

- A summary of performance achievements.
- The resources used during the year in support of the objective.
- A description of any related Program Assessment Rating Tool evaluations conducted.
- A list of any major management challenges identified by VA's Office of Inspector General or the Government Accountability Office that have an impact on this objective.
- Any program evaluations that have been completed or are ongoing.
- An outline of new policies and procedures that were implemented in support of the objective.

Following the summary of accomplishments for each objective, we include brief descriptions of the key performance goals that support the objective. A few objectives do not have key goals although these are under development. For these objectives, we assess our progress by examining the results of supporting measures (see the table of performance measures by strategic goal and objective beginning on page 139).

The key performance goal narratives include the following:

- Bar charts that show:
 - FY 2004 actual level of performance.
 - FY 2004 performance goal.
 - Preliminary FY 2005 performance goal (final FY 2005 goals will be shown in VA's FY 2006 Congressional budget justifications).
 - Long-range strategic target.
 - Up to 5 years of historical data.
- Management efforts and policy issues including means and strategies used to achieve results.
- Where applicable:
 - Explanations of why the FY 2004 performance goal was not achieved.
 - Actions that will be taken to improve performance in the future in those instances in which we fell short of the performance goal for the year.

Taken together, the performance summaries at the strategic goal, objective, and performance goal levels provide a hierarchy of VA's achievements that provide somewhat different, but supporting, views of how well the Department is doing in meeting its mission.

Objective 1.1

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
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.		\$41,459	59.3%
Objective	Performance Results		
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%

Performance

VA's principal focus in the delivery of health care services is to provide timely, high-quality care to our core service population—service-connected disabled veterans, veterans with lower incomes, and veterans with special health care needs. During FY 2004 the Department continued to make progress toward achieving Objective 1.1, in part by establishing priority access to health care for veterans with service-connected disabled conditions. VA worked with the Department of Defense (DoD) to ensure that veterans or servicemembers returning from Operation Enduring Freedom or Operation Iraqi Freedom with an injury or illness have timely access to VA'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. In addition, VA established six new centers specializing in research, education, and clinical care for Parkinson's disease and

two new centers specializing in studying the treatment of war-related illnesses among active duty military patients and veterans. With a strong emphasis on the provision of high-quality health care, VA raised its score on the Prevention Index II for special populations from 80 percent to 86 percent. This index charts the outcomes of nine medical interventions that measure how well VA follows national primary-prevention and early-detection recommendations for several diseases or health factors that significantly determine health outcomes for veterans with special needs, including those with disabilities. The Department was also successful in placing 79 percent of homeless veterans previously cared for in domiciliaries or other residential settings to independent living, halfway houses, or transitional housing. VA administers three special programs providing outreach, psychosocial assessments, referrals, residential treatments, and follow-up case management to homeless veterans.

Program Assessment Rating Tool (PART) Evaluation

During the development of the FY 2005 budget, the Administration conducted a PART evaluation of the medical care program that relates to the accomplishment of Objective 1.1. This assessment reviewed the combined effectiveness of the legislative and executive branches in designing and implementing the many aspects of VA's medical care program. The PART evaluation for the medical care program resulted in a rating of "Adequate," an improvement from the FY 2004 budget year PART rating of "Results Not Demonstrated." The improvement in the PART evaluation of the medical care program resulted from several factors, including VA's sharpening its focus on providing timely, high-quality health care to our highest priority veterans—those with service-connected disabled conditions, veterans with lower incomes, and those with special health care needs.

Major Management Challenges

VA's Office of Inspector General has identified the following health care issues as major management challenges related to Objective 1.1 (the program's response to each challenge may be found on the pages referenced below):

- Part-time physician time and attendance – implementation of management controls continues to need improvement to ensure that part-time physicians meet their employment obligations (refer to pages 230-231 for more information).
- Staffing guidelines – lack of staffing standards for physicians and nurses continues to impair VA's ability to adequately manage personnel resources (refer to pages 231-232 for more information).
- Quality management – senior hospital managers need to ensure that the quality management process is effectively maintained in all clinical departments (refer to page 232 for more information).
- Long-term health care – challenges remain in the community nursing home program, homemaker/home health aide program, and community residential program (refer to pages 232-234 for more information).

- Security and safety – further work is needed to improve overall security, inventory, and internal controls over biological, chemical, or radioactive agents at VA health care facilities (refer to pages 234-235 for more information).
- Management of violent patients – further steps need to be taken to enhance employee security in the management of violent patient events (refer to page 235 for more information).

The Government Accountability Office has identified the following health care issues as major management challenges related to Objective 1.1 (the program's response to each challenge may be found on the pages referenced below):

- Access – more needs to be done to ensure veterans receive the care they need, when they need it (refer to pages 250-251 for more information).
- Long-term care – improvements are needed in nursing home inspections and increasing access to non-institutional long-term care services (refer to page 251 for more information).
- Hepatitis C – further efforts are needed in screening and testing veterans for hepatitis C, notifying veterans who test positive, and evaluating veterans' medical conditions regarding potential treatment options (refer to pages 251-252 for more information).

Program Evaluations

The Department is currently developing detailed plans for a program evaluation of the services for severely mentally ill patients. Four patient populations have been defined for study: schizophrenia; bi-polar; post-traumatic stress disorder; and major depressive disorder. These populations represent high-volume, high-cost patients. Patient-centered outcomes have been developed for each of the patient populations along a continuum of care from diagnosis and assessment, treatment, and chronic disease management through rehabilitation. In addition to the evaluation of outcomes for each diagnosis group, research questions will address other aspects of mental health treatment. These will include

such areas as variations in availability of services, receipt of care for non-mental health diagnoses, barriers to access for care, and comparison of services and outcomes for non-VA patients.

The statement of work is currently being approved within VA. The evaluation is expected to be contracted to a firm in partnership with a university school of public health or medicine by the end of calendar year 2004. The study will take approximately 2 years to complete.

Booz Allen Hamilton and Northwestern University completed a program evaluation of the services provided by VA's Prosthetics and Sensory Aids Service in 2003. The specific populations studied included veterans at risk for amputations; lower extremity amputees; patients on home oxygen; patients who are legally blind, hearing impaired, or use motorized wheelchairs; and those at risk for additional heart attacks. Outcomes for each of these groups were developed and evaluated. In addition, the study evaluated VA contracts to provide home oxygen, veteran access to some new technologies, the effect of VA's program for those at risk for amputations, and the possibility for accreditation of VA's orthotics and prosthetics laboratories.

A major portion of the study evaluated the Preservation Amputation Care and Treatment Program, a program dedicated to caring for those at risk for amputations and those who already have had amputations. The results showed a program that is a model of care to prevent amputations being implemented differently across facilities, with a high percentage of veterans appropriately screened for risk. However, facilities with highly implemented programs did more amputations. Other results showed that VA is unique in providing

computer access training and computer readers to veterans who show interest and capability, and a full 97 percent of blind veterans receive either a computer reader or a closed circuit television. VA also provides automated implantable cardiac defibrillators and motorized wheelchairs to those needing such devices. The study suggested that VA could do a better job of performing cochlear implants to those who could benefit from them. The study recommended that VA mandate that its orthotics and prosthetics laboratories become accredited.

New Policies and Procedures

Several new policies have been implemented recently that highlight our focus on our core service population in support of Objective 1.1. For example, VA has:

- Moved service-connected disabled veterans rated 50 percent or more to the top of the priority list for outpatient care.
- Provided priority access to medical care for all veterans returning from Gulf War duty, particularly those with service-connected disabled conditions.
- Suspended additional enrollments for new priority 8 veterans in order to ensure sufficient resources are available to care for veterans with military-related disabilities, lower incomes, or needing specialized care.
- Implemented additional programmatic and cost-sharing policies further aimed at focusing resources on the Department's core service population.
- Continued to work closely with DoD and other Federal agencies in such areas as interoperable computerized patient health data, improved data on insurance coverage, and enrollment and eligibility information to improve resource utilization.

Objective 1.2

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
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.		\$41,459	59.3%
Objective	Performance Results		
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%

Performance

VA's top priority related to the many benefits programs the Department administers is to process claims in a timely and accurate manner. There are many measures that indicate how well we are doing in meeting Objective 1.2, but the three most important indicators of success are the average number of days it takes to process rating-related compensation and pension (C&P) claims, the average number of days pending for rating-related C&P claims, and the national accuracy rate for C&P claims. While the Department did not meet the FY 2004 performance goal for any of these three measures, we 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. Entering FY 2004, VA was well positioned to meet our performance goals pertaining to the timeliness of processing claims. However, a September 2003 decision by the Federal

Circuit Court in the case of the *Paralyzed Veterans of America et al. v. the Secretary of Veterans Affairs* required VA to keep veterans' claims open for 1 year before making a decision. As a result, decisions on over 62,000 claims were deferred, many for as much as 90 days or longer. While the President signed correcting legislation in December 2003, the impact of the court decision in the early portion of FY 2004 was substantial. The number of claims pending grew dramatically, and the timeliness of claims processing deteriorated rapidly. VA made significant progress during the last half of the year, but we were not able to fully overcome the negative effects from this court decision on the timeliness of our claims processing.

The Survey of Veterans Satisfaction with the VA Compensation and Pension Claims Process is administered on an annual basis in order to measure veteran satisfaction at the national and regional office levels. In FY 2003 (the most recent annual data

available), 42 percent of all survey respondents receiving compensation benefits felt they were kept informed of the full range of their available benefits. This figure is 2 percentage points higher than the previous year's level. When looking at compensation and pension recipients together, the survey revealed that 59 percent were very or somewhat satisfied with the way their claims were handled. This was 3 percentage points higher than the satisfaction level 2 years earlier. The contract for the next survey was signed in September 2004. Data for 2004 will be available in January 2005.

Program Assessment Rating Tool (PART) Evaluation

During the development of the FY 2004 budget, the Administration conducted a PART evaluation of the disability compensation program that relates to the accomplishment of Objective 1.2. This assessment reviewed the combined effectiveness of the legislative and executive branches in designing and implementing the many aspects of the disability compensation program. The PART evaluation for this program resulted in a rating of "Results Not Demonstrated." The primary reasons for this rating were a determination that the purpose of the disability compensation program is not clear, and that additional work needs to be done to develop sufficient performance measures that address the outcomes of this program.

Major Management Challenges

VA's Office of Inspector General has identified the following benefits issues as major management challenges related to Objective 1.2 (the program's response to each challenge may be found on the pages referenced below):

- Compensation and pension timeliness – VA still needs to address recommendations made by the Office of Inspector General during its review of this program and should fully implement the recommendations made by the Secretary's Claims Processing Task Force (refer to pages 236-237 for more information).

- Compensation and pension program's internal controls – further actions need to be taken to address program vulnerabilities (refer to pages 237-238 for more information).

The Government Accountability Office has identified the following benefits issues as major management challenges related to Objective 1.2 (the program's response to each challenge may be found on the pages referenced below):

- Challenges to improving timeliness – additional work needs to be done in addressing delays in obtaining evidence to support claims, ensuring experienced staff are available for the long term, and implementing information systems to help improve productivity (refer to pages 259-260 for more information).
- Decision accuracy and consistency – further work should be done to fully implement the Training and Performance Support System, and a system needs to be established to regularly assess and measure the degree of consistency across all levels of VA claims adjudication (refer to pages 260-261 for more information).
- Disability criteria – disability criteria need to be aligned with medical and technological advances, and steps need to be taken to ensure disability ratings are based on current information (refer to pages 261-263 for more information).

Program Evaluations

In November 2003, the President signed Public Law 108-136 that established the Veterans' Disability Benefits Commission. This commission will conduct an independent study of the benefits provided to compensate and assist veterans and their survivors for disabilities and deaths attributable to military service. The commission will examine and make recommendations concerning the appropriateness of the benefits, the appropriateness of the level of the benefits, and the appropriate standard(s) for determining whether a disability or death of a veteran should be compensated. A summary of the commission's findings and recommendations will be included in future reports.

New Policies and Procedures

New policies and procedures have recently been implemented in support of Objective 1.2. For example, VA has:

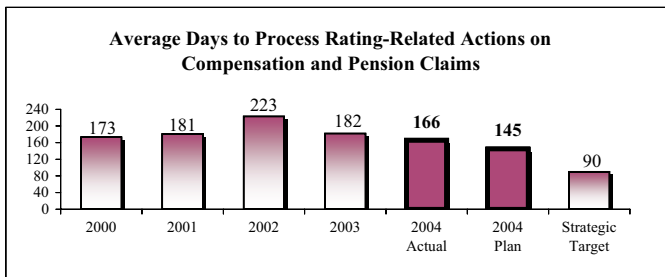
- Expanded the use of the Benefits Delivery at Discharge (BDD) program at military installations around the country. Conducted in close collaboration with the Department of Defense, the BDD program assists active duty military personnel in filing claims for benefits at or near their time of discharge in order to expedite the processing of these claims.
- Identified service center teams within distinct functional areas to allow for greater workload control, development

of expertise by the staff, higher quality decisions, and more efficient and timely processing of claims.

Beginning in FY 2005, VA will track a variety of performance measures relating to the timeliness, accuracy, and quality of compensation claims processing. This will be the first year the Department will collect and report on claims processing data separately for the compensation program. Prior to this, data on the compensation program were combined with claims processing information on the pension program.

Objective 1.2 — Key Performance Goal

Complete processing of Compensation and Pension rating-related actions within 145 days, on average.



Description, Importance, and Results

The timeliness of claims processing is measured from the date VA receives a claim until a decision is rendered. Data are captured by the Benefits Delivery Network as a part of the claims process. Cases are periodically called in for review from the regional offices to ensure the integrity of the data being reported.

Although the goal was not met in FY 2004, an improvement in the average days to process a rating claim was made from FY 2003 performance, reducing the cumulative average by 16 days.

Management and Policy Issues

Our partnership with the Department of Defense (DoD) and our liaison work with the Center for Unit Records Research continue to be major factors in decreasing the average number of days to process a disability compensation claim. Under the Benefits Delivery at Discharge (BDD) program, VBA and VHA developed a joint examination protocol with DoD for servicemembers leaving active military service. As of August 2004, 28 out of 139 BDD sites use the Single Separation Examination Protocol, which meets DoD's discharge requirements and VA's compensation requirements.

VBA is making technological enhancements to current software applications to streamline our claims process, which will assist us in meeting our goal. We continue to prioritize the oldest claims in our inventory as well as claims from our older veteran population. VA has restructured the Veterans Service Centers at all regional offices as well as the Pension Maintenance Centers and redesigned the work flow to reflect the steps in the

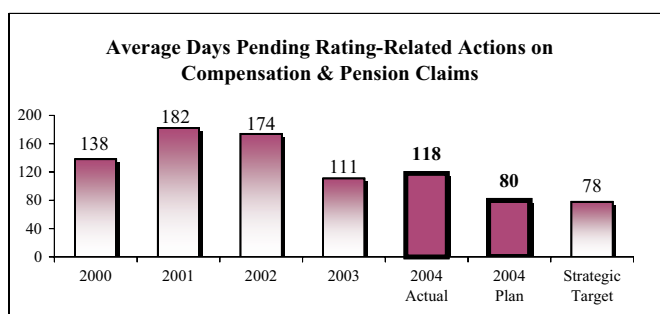
claims process, allowing us to achieve increased efficiencies and reduce our cycle times. As we continue to analyze and make improvements in our processing cycles and work to further reduce our pending inventory, the length of time required to process claims will continue to decline.

Data Quality

Please refer to the Key Measures Data Table on page 130.

Objective 1.2 — Key Performance Goal

Reduce Compensation and Pension rating-related cases pending to 80 days, on average.



Description, Importance, and Results

The timeliness of claims pending is measured from the date VA receives a claim through the current date. Data are captured by the Benefits Delivery Network as a part of the claims process. Cases are periodically called in for review from the regional offices to ensure the integrity of the data being reported.

We did not meet our goal for FY 2004. While we were on track at the end of FY 2003 to make our goal for this year, our workload was severely impacted by the court decision, *Paralyzed Veterans of America et al. v. the Secretary of Veterans Affairs*. Over 62,000 claims were deferred, many for as much as 90 days or longer. Consequently, the effect on the number of claims pending and the timeliness of claims processing was significant. With enactment of correcting legislation, signed by the President in December 2003, VA made significant progress in reducing these numbers.

However, we have not fully recovered from the negative effects of this court decision, and continue to strive to reduce the pending backlog.

Management and Policy Issues

We will continue collaborations with DoD on information data exchange. We are currently working with DoD's Joint Requirements and Integration Office to obtain limited access to active-duty personnel data in order to process claims. Once access is granted, VA will have the ability to query the DoD database to obtain information on servicemembers, including combat history, service dates, reserve status/drill dates, dependency information, and history of exposure to radiation, toxins, etc.

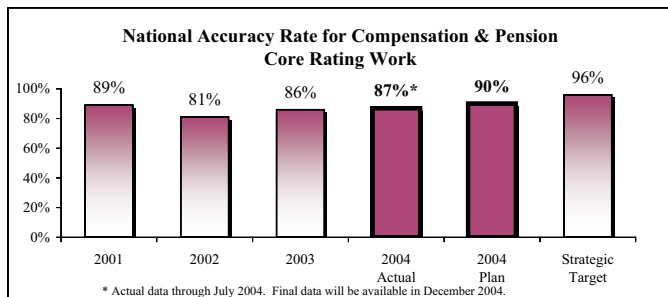
In addition, the Training, Responsibility, Involvement and Preparation of claims program will assist in meeting this goal for FY 2005. This program provides training and certification of skills to veterans service officers on the proper procedures of developing a claim. These skills result in the submission of more complete evidence, which in turn provides for quicker decisions.

Data Quality

Please refer to the Key Measures Data Table on page 130.

Objective 1.2 — Key Performance Goal

Increase to 90% the national accuracy rate for Compensation and Pension core rating work.



Description, Importance, and Results

While the goal was not met, the accuracy rate slightly improved during the course of the year, and finished 1 percentage point above FY 2003. With increased sample reviews and ongoing training, it is anticipated that future accuracy goals will be met.

Management and Policy Issues

Training remains a VBA priority. A variety of mediums are used for centralized training, including satellite

broadcasts, training letters, and computer-assisted training. In addition, local training is conducted based on needs identified through ongoing local individual performance reviews. Particular effort is made to ensure high-quality centralized training for new veterans service representatives and rating veterans service representatives.

We also implemented a national individual performance review plan with standardized review categories, sample size, and performance standards. In order to ensure that quality is a top priority, the regional offices must certify corrective actions for all documented errors.

Data Quality

Please refer to the Key Measures Data Table on page 130.

Objective 1.3

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
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.		\$41,459	59.3%
Objective	Performance Results		
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%

Performance

The purpose of VA's vocational rehabilitation and employment program is to provide for all services and assistance necessary to enable veterans with service-connected disabilities to achieve maximum independence in daily living, and to the maximum extent feasible, to become employable and obtain and maintain suitable employment. The key measure that the Department uses to gauge progress toward meeting the purpose of this program, and thus the extent to which we are achieving Objective 1.3, is the rehabilitation rate. During FY 2004, the share of all veteran participants who exited the vocational rehabilitation program and found and maintained suitable employment (i.e., the rehabilitation rate) increased to 62 percent, up from the FY 2003 rate of 59 percent. Program participation and successful attainment of the rehabilitation goal are closely related to the state of the employment market. Our performance improvement, in part, was limited by the challenging job market conditions that persisted throughout much of FY 2004.

Over 55,000 disabled veterans participated in a VA rehabilitation program during FY 2004 and another 15,000

were in the evaluation and planning stages of their program at year's end. Approximately 11,000 disabled veterans were successfully rehabilitated last year, a total 15 percent above the number rehabilitated during FY 2003.

Program Assessment Rating Tool (PART) Evaluation

The PART review of the vocational rehabilitation and employment program that relates to the accomplishment of Objective 1.3 is scheduled to be conducted during FY 2005 as part of the formulation of the FY 2007 budget. The results of this upcoming PART review will be presented in future reports.

Major Management Challenges

Neither VA's Office of Inspector General nor the Government Accountability Office identified any major management challenges related to Objective 1.3.

Program Evaluations

In May 2003 the Secretary of Veterans Affairs approved a charter to create a Vocational Rehabilitation and Employment (VR&E) Task Force. At the initial meeting of

the group, the Secretary directed the members to “. . . give our program an unvarnished, top to bottom independent examination, evaluation and analysis . . . I want to ensure that veterans, and America, receive the maximum return from the dedication and energy invested by VA employees who have dedicated their lives to transforming disabled veterans into productive participants in civilian society.” The Secretary appointed 12 members who represented a diverse group of public and private sector experts from the disability, vocational rehabilitation, clinical, and consulting communities and veterans service organizations. In March 2004 the task force completed its work and released its findings and recommendations. Many of the recommendations on how to improve the program, which directly relate to Objective 1.3, were implemented during FY 2004.

New Policies and Procedures

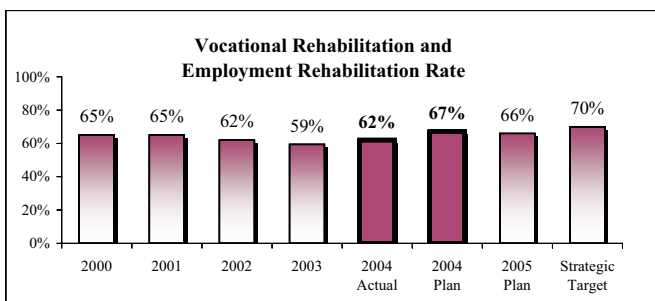
In response to the VR&E Task Force’s recommendations, several new policies and procedures were implemented in support of Objective 1.3 during FY 2004.

These included:

- Reorganizing headquarters staff and establishing new positions, including independent living coordinator, training and outreach supervisor, and senior policy analyst.
- Creating an employment work group to strengthen employment services.
- Increasing training for VR&E officers and counselors.
- Strengthening partnerships with other VA organizations, the Department of Labor, Council of State Administrators of Vocational Rehabilitation, and Commission of Accreditation of Rehabilitation Facilities.
- Conducting a study, in conjunction with VA’s Office of Policy, Planning, and Preparedness, on why veterans drop out of the VR&E Chapter 31 program or interrupt their rehabilitation plans before finding suitable employment. The results of this survey will be used to design and implement a risk mitigation program to improve the VR&E rehabilitation rate.
- Focusing and increasing our outreach efforts to veterans transitioning from military careers to civilian careers through the Transition Assistance Program and Disabled Transition Assistance Program.

Objective 1.3 — Key Performance Goal

At least 67 percent of all veteran participants who exit the vocational rehabilitation program will be rehabilitated.



Description, Importance, and Results

Rehabilitation programs are directed toward service-disabled veterans who have an employment handicap.

The goal of this program is to assist a veteran in obtaining suitable employment within that veteran’s physical and emotional capabilities and consistent with the veteran’s pattern of abilities, aptitudes, and interests.

VBA did not meet its goal of a 67 percent rehabilitation rate for service-disabled veterans exiting a vocational rehabilitation program and acquiring and maintaining suitable employment. Fewer employment opportunities along with a greater number of veterans who chose to leave the program before completion had a negative impact on achieving the targeted rehabilitation rate.

Management and Policy Issues

In 2003, Secretary Principi assembled a task force to evaluate the VR&E program and recommend ways to improve service to disabled veterans. More than 100 recommendations were issued emphasizing a “new, integrated service delivery system based on an employment-driven process.” One of the main recommendations, the Five-Track Employment Process, focuses on finding suitable employment quickly, rather than entering a long-term training or education program.

In FY 2005, VBA will pilot Job Resource Labs in four regional offices. These labs will include the necessary resources to aid VBA staff and veterans to conduct comprehensive analyses of local and national job

outlooks, prepare for interviews, develop resumes, and conduct thorough job searches. Such improved service will make it easier for veterans to search for and find employment.

VBA is conducting a study on why veterans discontinue a program or interrupt their rehabilitation plans before finding suitable employment. The results of this survey will be used to design and implement a risk mitigation program to improve the rehabilitation rate.

Data Quality

Please refer to the Key Measures Data Table on page 130.

Objective 1.4

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
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.		\$41,459	59.3%
Objective	Performance Results		
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

The primary vehicle through which the Department provides economic assistance to the survivors of veterans who had service-connected disabilities is the dependency and indemnity compensation (DIC) program. DIC is provided for surviving spouses, dependent children, and dependent parents of veterans who died of service-connected causes or while on active duty on or after January 1, 1957. During FY 2004 the Department made significant strides toward achieving Objective 1.4, based largely on the finding that 99 percent of all DIC recipients were above the poverty level. In addition, four of every five DIC recipients indicated they were satisfied that VA recognized their sacrifice. For both of these important measures, the Department exceeded the performance goals established at the beginning of the year. Not only did we largely achieve the intended outcome associated with Objective 1.4, but we also administered the DIC program in an efficient manner. VA reduced the average number of days required to process claims for DIC benefits by 18 percent during FY 2004 (from 153 days to 125 days). During FY 2004 the Department provided DIC benefit payments to more than 340,000 surviving family members.

Program Assessment Rating Tool (PART) Evaluation

During the development of the FY 2004 budget, the Administration conducted a PART evaluation of the disability compensation program that relates to the accomplishment of Objective 1.4. This assessment reviewed the combined effectiveness of the legislative and executive branches in designing and implementing the many aspects of the disability compensation program, both for living veterans as well as their surviving spouses and dependent family members. The PART evaluation for this program resulted in a rating of "Results Not Demonstrated." The primary reasons for this rating were a determination that the purpose of the disability compensation program is not clear, and that additional work needs to be done to develop sufficient performance measures that address the outcomes of this program.

Major Management Challenges

The major management challenges related to this objective are the same as those for Objective 1.2. Please refer to page 61 for more information.

Program Evaluations

In 2001 the Department published the results of an independent study titled "Program Evaluation of Benefits for Survivors of Veterans with Service-Connected Disabilities." This independent evaluation found that several of the expected program outcomes are largely fulfilled, although there are some areas in which program changes or enhancements are required. The study outlines numerous recommendations pertaining to both the DIC and insurance programs administered by VA. Many of the suggested program changes require legislative action for implementation. The Department has thoroughly evaluated these recommendations and will continue to work towards implementing the highest priority considerations.

In November 2003, the President signed Public Law 108-136 that established the Veterans' Disability Benefits Commission. This commission will conduct an independent study of the benefits provided to compensate and assist veterans and their survivors for disabilities and deaths attributable to military service. The commission will examine and make recommendations concerning the appropriateness of the benefits, the appropriateness of the level of the benefits, and the appropriate standard(s) for determining whether a disability or death of a veteran should be compensated. A summary of the commission's findings and recommendations will be included in future reports.

New Policies and Procedures

In support of Objective 1.4, VA conducts outreach visits to family members and has streamlined the application process for DIC benefits. This expedited process includes the electronic exchange of information between the Department's headquarters office in Washington, DC, and the Philadelphia Regional Office and Insurance Center to assist in processing insurance claims.

Objective 2.1

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Strategic Goal 2 Ensure a smooth transition for veterans from active military service to civilian life.		\$3,281	4.7%
Objective	Performance Results		
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%

Performance

VA employs numerous approaches to ease the transition of active duty servicemembers to civilian life. One of the most important measures as to how well the Department is progressing toward achieving Objective 2.1 is the extent to which eligible servicemembers that file compensation claims take advantage of the Benefits Delivery at Discharge (BDD) program. Conducted in close collaboration with the Department of Defense, 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 these claims. VA now conducts this program at 139 sites to help servicemembers transition more smoothly to civilian life. Under the BDD program, VBA and VHA, in conjunction with DoD, developed the Single Separation Examination Protocol. This one examination meets the requirements for VA's disability examination and DoD's separation physical. Eventually all BDD sites will be conducting examinations under this protocol. As of August 2004, 28 out of 139 BDD sites have used the Single Separation Examination Protocol. During FY 2004,

VA representatives conducted nearly 1,000 pre- and post-deployment briefings attended by more than 70,000 Reserve/National Guard members. Returning servicemembers can also attend Transition Assistance Program workshops offered by the Department. With regard to health care, all VA medical centers provide electronic access to health information furnished by DoD on separated service members, which helps ensure continuity of care. Last fiscal year the Department provided information and assistance to about 3,000 hospitalized returning service persons who received health care at Walter Reed Army Medical Center in Washington, DC; the National Naval Medical Center in Bethesda, Maryland; and other DoD medical treatment facilities.

Program Assessment Rating Tool (PART) Evaluation

There are no PART evaluations that have been completed, nor are there any planned, that specifically address Objective 2.1.

Major Management Challenges

The Government Accountability Office has identified the following issue as a major management challenge related to Objective 2.1 (the program's response to this challenge may be found on the pages referenced below):

- VA/DoD sharing – a long-term approach to improving the VA/DoD sharing database is required (refer to pages 255-257 for more information)

Program Evaluations

There have not been any independent program evaluations conducted recently that specifically address Objective 2.1.

New Policies and Procedures

Several procedures have recently been implemented in support of Objective 2.1. For example, VA has:

- Worked closely with DoD, through the Seamless Transition Task Force, to ensure that earned services are provided expeditiously to veterans returning from Operation Iraqi Freedom and Operation Enduring Freedom.
- Accelerated initiatives to streamline interagency activities to facilitate the seamless transition of servicemembers to veteran status and ensure continuity of care is maintained for those individuals whose medical care is transferred from the military health care system to VA's health care system.
- Improved coordination and education of staff in all VA benefit facilities regarding returning servicemembers by ensuring that the staff identifies and maintains knowledgeable points of contact and case managers and prominently displays materials to identify such individuals.

Objective 2.2

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Strategic Goal 2 Ensure a smooth transition for veterans from active military service to civilian life.		\$3,281	4.7%
Objective	Performance Results		
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%

Performance

VA continued to move forward in its efforts to meet Objective 2.2. While the Department barely missed meeting its performance goals for the timeliness with which claims for education benefits were processed in FY 2004, the performance levels were comparable to those recorded last fiscal year and were still much improved over the timeliness figures from 2 years ago. VA processed claims for education benefits in an extremely accurate fashion, achieving a payment accuracy rate of 94 percent. These performance levels were achieved despite an ongoing increase in the number of education program participants. VA worked with the Administration and Congress to significantly increase monthly benefits for veterans and dependents training under the Montgomery GI Bill. This resulted in an increase in monthly benefits for veterans and dependents under this education program from \$672 per month in October 2001 to \$1,004 per month in October 2004. This rise of nearly 50 percent in the level of education benefits during the last 3 years has helped ensure that more veterans and servicemembers had the level of financial assistance necessary to assist in achieving their educational and career goals. In addition, the most recent survey data (from FY 2003) revealed that an extremely large share (89 percent) of those filing claims for education benefits were very or somewhat satisfied with the way VA handled their education claims. This continues an improvement trend since 1998 when 78 percent were very or somewhat satisfied.

Program Assessment Rating Tool (PART) Evaluation

During the development of the FY 2005 budget, the Administration conducted a PART evaluation of the education program that relates to the accomplishment of Objective 2.2. This assessment reviewed the combined effectiveness of the legislative and executive branches in designing and implementing the many aspects of the education program. The PART evaluation

for this program resulted in a rating of "Results Not Demonstrated." The primary reason for this rating was the finding that the Department needed to develop better outcome-oriented goals and performance measures.

Major Management Challenges

Neither VA's Office of Inspector General nor the Government Accountability Office identified any major management challenges related to Objective 2.2.

Program Evaluations

In 2000 the Department published the results of an independent program evaluation of VA's education programs. The principal finding of this evaluation was that the Department's primary education programs for veterans and reservists showed some success in meeting the intended purposes of the legislation establishing these programs, and that they returned over \$2 to the economy for every \$1 in taxpayer money funding the 2-year and 4-year degree programs. Compared to those who have not taken advantage of the education program, the men and women who furthered their education with government support have lower unemployment, have increased career and education goals, and enjoy an earnings advantage. In addition, one-half of the users of the education programs believe they could not have pursued their education without the education benefits provided by the Department's programs. This independent evaluation also recommended that the level of VA education program benefits be raised, which the Department has successfully achieved through close collaboration with the Administration and Congress.

New Policies and Procedures

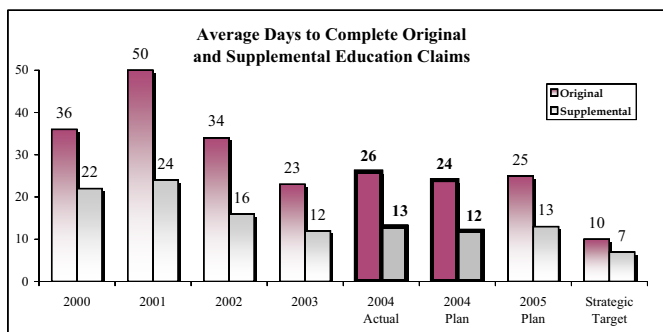
In support of Objective 2.2, VA embarked on an aggressive outreach program to ensure that all potential beneficiaries receive timely information about the VA education programs available to them. This action is in direct response to one of the recommendations from the

program evaluation completed in 2000 which stated that VA should improve its communication of information to beneficiaries and must ensure that this communication is correct, consistent, and coordinated across departments of the federal government. As part of this

effort, VA is now mailing informational brochures to active duty military personnel providing them a description of VA education benefits. These brochures enhance servicemembers' awareness and understanding of these benefits.

Objective 2.2 — Key Performance Goal

Process original and supplemental education claims in 24 and 12 days, respectively.



Description, Importance, and Results

Prompt decisions on education claims assist individuals in securing the financial means to accomplish chosen educational pursuits.

Higher program usage coupled with lower staffing levels early in the fiscal year hindered our ability to meet this goal. With some hiring in the latter part of the year, improvements in timeliness began to occur. We expect this trend to continue as we strive toward next year's goal.

Management and Policy Issues

Overall processing timeliness is affected by the quality of the enrollment and certification information received from school officials. To improve overall processing

time, VA developed an electronic education certification program (VACERT) that allows schools to send enrollment certifications to VA electronically. At this time, over half of all schools use VACERT. VAONCE, an Internet application, will replace VACERT, making the application more attractive to schools. This system was deployed on a limited basis in FY 2003, and will continue to be expanded and improved in FY 2005. In addition, we continued to offer training to school officials in FY 2004 and will continue the training in FY 2005.

Additional ongoing efforts to improve performance include:

- Improvements to the Electronic Certification Automated Processing (ECAP) system.
- Judicious use of seasonal employees and overtime to reduce pending workload during peak enrollment periods.
- On-site visits at each regional processing office, in conjunction with regular quality assurance reviews, to monitor compliance and operational performance.

Data Quality

Please refer to the Key Measures Data Table on page 132.

Objective 2.3

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Strategic Goal 2 Ensure a smooth transition for veterans from active military service to civilian life.		\$3,281	4.7%
Objective	Performance Results		
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.	Foreclosure Avoidance Through Servicing ratio declined to 44 percent (goal was 47 percent)	\$394	0.6%

Performance

The primary measure of the degree to which the Department is meeting Objective 2.3 is the extent to which VA is able to assist veterans in avoiding foreclosure. During FY 2004, foreclosures would have been 44 percent higher had VA not pursued alternatives to foreclosure. While this share was somewhat below the performance goal for the year, the Department continued to assist numerous veterans in making home ownership a reality. Last year VA guaranteed over 375,000 home loans worth nearly \$50 billion. About 80 percent of the veterans who used the housing program would not have qualified for a conventional loan. VA's home loan program does not require a down payment, and the overwhelming majority (88 percent) of housing program participants cited this as the key reason why they used this program. Even after adjusting for demographic differences related to age and income, veteran home ownership rates exceed those of the general population by 5 percent. This is an excellent indicator of the overall success of the housing program in improving the ability of veterans to purchase a home.

Program Assessment Rating Tool (PART) Evaluation

The PART review of the housing program that relates to the accomplishment of Objective 2.3 is being conducted as part of the formulation of the FY 2006 budget. The results of this review will be presented in future reports.

Major Management Challenges

Neither VA's Office of Inspector General nor the Government Accountability Office identified any major management challenges related to Objective 2.3.

Program Evaluations

An independent evaluation of VA's housing program was completed in 2004. A key conclusion of the study was that the Department successfully and efficiently operates the program to meet legislative requirements for eligibility determination, lender monitoring, and loss mitigation. Over the past decade, significant consolidation of field operations and technology advances have decreased full-time equivalent VA administrative staff from about 1,800 to 900. The consolidation has resulted in greater consistency and accuracy. Dramatic increases in speed of service have complemented the increases in

administrative efficiency. Key recommendations from the final report include the suggestion that VA retain the program's multiple use feature; consider indexing the maximum loan amount based upon the conventional loan limit; and more vigorously use current data systems to routinely report on multiple use, default/foreclosure rates, and cost-efficiency.

New Policies and Procedures

Several procedures have been implemented in the recent past that support the achievement of Objective 2.3. For example, VA has:

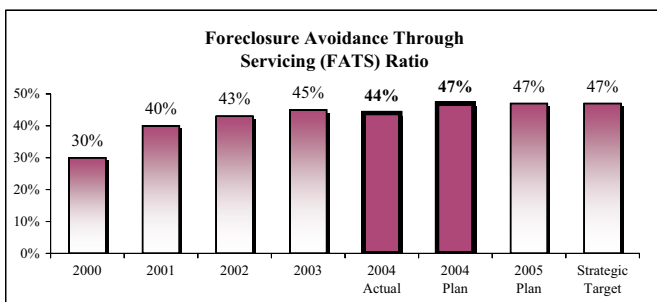
- Consolidated most of its supplemental servicing activities in loan administration sections at nine regional

- loan centers in order to improve the ability to effectively assist veterans who are delinquent on their mortgages.
- Improved customer service by providing veterans with toll-free telephone access and increased hours of operation.
- Implemented several applications to support electronic submission of appraisals, and is now using a new automated application that permits lenders to request a certificate of eligibility online in a matter of seconds.

In FY 2005 and beyond, VA will work to implement many of the policy and technical program recommendations presented in the independent program evaluation completed last year.

Objective 2.3 — Key Performance Goal

Improve the Foreclosure Avoidance through Servicing (FATS) ratio to 47 percent.



Description, Importance, and Results

The Foreclosure Avoidance through Servicing (FATS) ratio represents the extent to which foreclosures would have been greater had VA not pursued alternatives to foreclosure. By lowering the level of foreclosures, the costs to the government are reduced.

The Loan Guaranty Service did not meet its goal for FY 2004. Economic factors such as interest rates, real estate appreciation, and employment levels have impacted on the ability of veterans to purchase a home and avoid foreclosure in the event of default.

Management and Policy Issues

In FY 2003 VBA conducted an internal quality review of the FATS ratio. There are five components of this measure. Four of these are financial transactions that can easily be audited for accuracy. The fifth component is successful interventions, whereby VA staff actively intercedes with lenders to help veterans cure the delinquency on their guaranteed loans. The most common successful intervention is a repayment plan agreed to by all parties involved. VBA quality findings indicated that field offices were misinterpreting the requirements of what is considered a successful intervention. As a result of the review, VBA made a downward adjustment to the final (actual) FATS ratio in FY 2003. VBA issued revised ratios to field offices as well as new instructions on the criteria for successful interventions. The lower figure for FY 2004 reflects the more consistent and stringent requirements established in FY 2003.

At the management and operational levels, we will continue to emphasize the importance of delinquent loan servicing.

Achievement of this performance goal is not directly dependent on other agencies; however, there is close interaction with the real estate industry.

Data Quality

Please refer to the Key Measures Data Table on page 132.

Objective 3.1

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Strategic Goal 3			
Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation.		\$23,293	33.3%
Objective	Performance Results		
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%

Performance

In FY 2004 the Department made good progress toward meeting Objective 3.1 by improving the quality of VA health care and making this high-quality care more easily accessible to veterans. Our two most important measures (Clinical Practice Guidelines Index and Prevention Index II) of health care quality focus on the degree to which we follow nationally recognized guidelines and standards of care that the medical literature has proven to be directly linked to improved health outcomes for patients. Both the Clinical Practice Guidelines Index score of 77 percent and the Prevention Index II score of 88 percent represent performance levels in excess of our performance goals. At the same time that the quality of VA health care continued to reach new heights, the Department made excellent progress in making this care more readily accessible to veterans. For both primary care (94 percent of appointments scheduled within 30 days of the desired date) and specialty care appointments (93 percent of appointments scheduled within 30 days of the desired date), we exceeded our performance goals and moved closer to our ultimate performance level of an average waiting time of 30 days for appointments. Our improvements in quality and timeliness of health care delivery contributed to high percentages of the share of patients who rated VA health care as very good or excellent. In the face of a declining, but aging veteran population, VA is expanding access to non-institutional forms of long-term care with an emphasis on community-based and in-home care. During FY 2004, the Department increased access to non-institutional long-term care (as expressed by the average daily census). All of these performance achievements were accomplished while treating 2.4 percent more patients (5.1 million) in FY 2004 than in FY 2003.

Program Assessment Rating Tool (PART) Evaluation

During the development of the FY 2005 budget, the Administration conducted a PART evaluation of the medical care program that relates to the

accomplishment of Objective 3.1. This assessment reviewed the combined effectiveness of the legislative and executive branches in designing and implementing the many aspects of the medical care program. The PART evaluation for the medical care program resulted in a rating of “Adequate,” an improvement from the FY 2004 budget year PART rating of “Results Not Demonstrated.” The improvement in the PART evaluation of the medical care program resulted from several factors, including VA’s sharpening its focus on providing timely, high-quality health care to our highest priority veterans—those with service-connected disabled conditions, veterans with lower incomes, and those with special health care needs.

Major Management Challenges

The major management challenges related to this objective are the same as those for Objective 1.1. Please refer to page 58 for more information.

Program Evaluations

An independent evaluation of VA’s cardiac care program was completed in 2003. The study found that heart patients treated at VA hospitals have consistently higher mortality rates than patients of similar age and in roughly similar health who are treated at non-VA institutions. A larger proportion of the veterans die in the first month after suffering a heart attack, and a larger proportion of the survivors die over the next 3 years. The program evaluation also found that VA patients undergo cardiac catheterization—a key step in assessing the seriousness of a person’s heart disease—less often than patients treated in non-VA hospitals. In addition, VA patients have only about one-half the likelihood of undergoing angioplasty or bypass surgery, two procedures that can often extend life.

A blue ribbon panel of national experts was commissioned to oversee the quality improvements for VA’s cardiac care program. Among the expected changes are the following: stricter adherence to national clinical guidelines, hiring more cardiologists, upgrading

catheterization lab equipment, reconfiguring access to cardiac care (including expansion of community services), providing reimbursements for emergency care provided in non-VA settings, and conducting additional clinical research to discover the causal effects of VA's higher mortality statistics. All VA hospitals were required to provide detailed plans on how they intended to improve the quality of care at their facility.

The Department has started an independent evaluation of VA's oncology program, and a contract has been awarded. The program evaluation will focus on lung, colorectal, prostate, hematologic, and breast cancers. The results of the program evaluation will help VA determine how well it is meeting the oncology program goals and objectives and will provide a comparison of how VA is performing compared to the private sector. Patient-centered outcomes have been developed for each of the patient populations along a continuum of care from prevention — through screening, diagnosis, treatment, and palliative care. Additional research questions will focus on utilization, availability of services, access, pain management, quality of contracted care, costs, and enrollment in clinical trials. This evaluation is expected to be contracted to a firm in partnership with a university school of public health or medicine. The study will take approximately 2 years to complete.

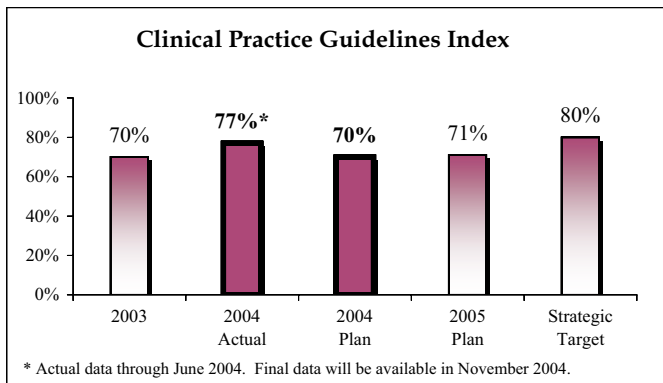
New Policies and Procedures

Several new policies and procedures have been recently implemented that are related to Objective 3.1. Many others are either currently ongoing or are planned for the near future. For example, VA is:

- Continuing to lead the practice of patient safety initiatives through the establishment of an environment of non-punitive reporting and by aggregating and disseminating information for improved safety performance.
- Implementing technology strategies to provide care in the least restrictive environments in order to allow patients and families maximum participation in disease management and health maintenance.
- Applying information technology and other technologies such as telehealth to streamline administrative, business, and care delivery processes in order to improve care provider and patient interface, minimize wait times, and reduce the incidence of errors.
- Implementing pay policies and human resource management practices to facilitate hiring and retaining sufficient health care workers to meet capacity demands across the full continuum of care.
- Creating the appropriate balance between demand and capacity through health care enrollment policies.
- Improving and enhancing home care services and developing an assisted living strategy, including partnering with community organizations.
- Continuing to work closely with DoD and other Federal agencies in such areas as interoperable computerized patient health data, improved data on insurance coverage, and enrollment and eligibility information in order to further the use of resources.

Objective 3.1 — Key Performance Goal

Achieve 70 percent on the Clinical Practice Guidelines Index



Description, Importance, and Results

One of VHA's primary quality measures is the Clinical Practice Guidelines Index, a composite measure comprised of the evidence and outcomes-based measures for high-prevalence and high-risk diseases that have significant impact on overall health status. The index is comprised of various indicators from several clinical practice guidelines including: ischemic heart disease, pneumonia, hypertension, heart failure, diabetes mellitus, major depressive disorder, substance abuse, and tobacco use cessation. The percent compliance is an average of the separate indicators. To ensure the highest quality of care possible, VHA systematically measures and communicates the outcomes and quality of care. This index reflects a change from those individual indicators that have shown sustained improvement over time and adds new indicators that allow VHA to be transformative in its drive to

continuously improve care. We have achieved a score of 77 percent on the index as of June 2004. VA has continued to improve compliance on the index each year.

Management and Policy Issues

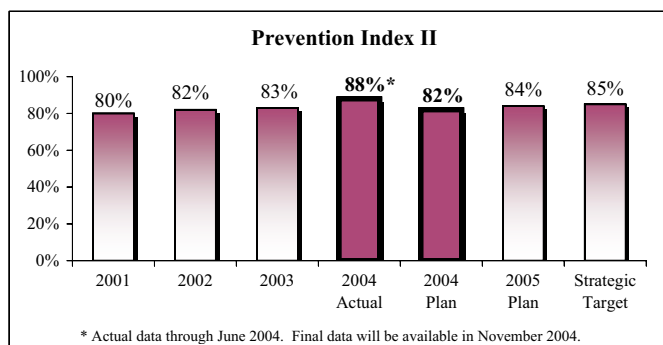
VA's primary strategies to achieve this performance goal include promoting timely and equitable access to health care; continuously improving the quality and safety of health care; emphasizing patient-centered care, especially for our most vulnerable patients; proactively inviting and acting on complaints and suggestions; and equipping patients and staff with practical health information. We will identify high-quality evidence-based medical care and will use interactive technology strategies to provide care in the least restrictive environments to allow patients and families maximum participation in disease management and health maintenance. VA will continue to implement the Health_eVet initiative with automated practice guidelines, clinical reminders, and care management tools to support shared decision-making and patient empowerment. Finally, VA will continue working with DoD to implement and refine clinical practice guidelines.

Data Quality

Please refer to the Key Measures Data Table on page 134.

Objective 3.1 — Key Performance Goal

Achieve 82 percent on the Prevention Index II.



Description, Importance, and Results

One of VHA's primary quality measures is the Prevention Index (PI) II, a composite measure comprised of the interventions that help to improve the overall health status of veterans through early detection of certain common diseases or health factors. The PI II Index includes nationally recognized primary prevention and early detection recommendations for nine diseases or health factors that significantly determine health outcomes including: rate of immunizations for influenza and pneumococcal pneumonia and screening for tobacco consumption, alcohol abuse, breast cancer, cervical cancer, colorectal cancer, prostate cancer education, and cholesterol levels. To ensure the highest quality of care possible, VHA systematically measures and communicates the outcomes and quality of care. This index reflects a change from those individual indicators that have shown sustained improvement over time and adds new indicators that allow VHA to be transformative in its drive to continuously improve care.

We have achieved a score of 88 percent on the Prevention Index II as of June 2004. VA has continued to improve compliance on the index each year.

Management and Policy Issues

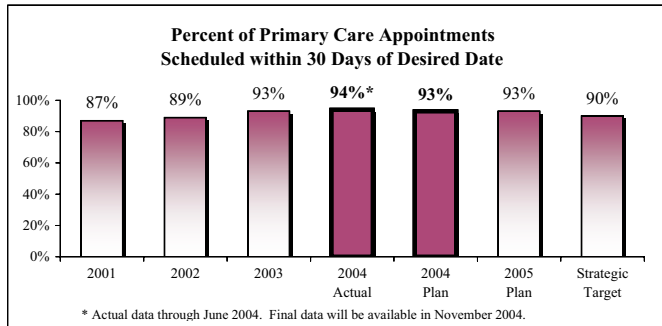
VA's primary strategies to achieve this performance goal include promoting timely and equitable access to health care; continuously improving the quality and safety of health care; emphasizing patient-centered care, especially for our most vulnerable patients; proactively inviting and acting on complaints and suggestions; and equipping patients and staff with practical health information. We will identify high-quality evidence-based medical care. We will lead the advancement of knowledge and the practice of patient safety initiatives through the establishment of an environment of non-punitive reporting and through aggregating and disseminating information for improved safety performance. VA ensures the consistent delivery of health care by implementing standard measures for the provision of preventive care. The prevention measure includes several indicators that allow comparison of VA and private health care outcomes.

Data Quality

Please refer to the Key Measures Data Table on page 134.

Objective 3.1 — Key Performance Goal

Achieve 93 percent of primary care appointments scheduled within 30 days of desired date.



Description, Importance, and Results

VHA is working to improve access to clinic appointments and timeliness of service. Through the Advanced Clinic Access initiative, we continue efforts to develop ways to reduce waiting times for appointments in primary care and key specialty clinics nationwide. Past experience in measuring access has led to the development of a number of new access measures including this one that will provide even more detail regarding waiting times for new patients and for specialty clinic appointments. This measure tracks the time between when the primary care appointment request is made (entered into the computer) and the date for which the appointment is actually scheduled. The percent is calculated using the numerator — appointments scheduled within 30 days of desired date (includes both new and established patient experiences) — and the denominator — all appointments in primary care clinics posted in the scheduling software during the review period. We have achieved a score of 94 percent of primary care appointments scheduled within 30 days of desired date

as of June 2004. VA has continued to improve access to primary care each year.

Management and Policy Issues

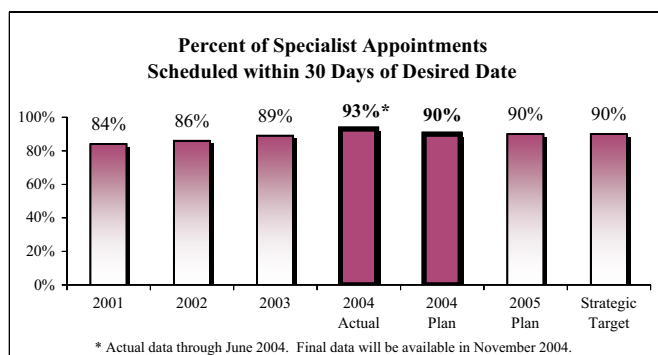
VA's primary strategies to achieve this performance goal include promoting timely and equitable access to health care; continuously improving the quality and safety of health care; emphasizing patient-centered care, especially for our most vulnerable patients; proactively inviting and acting on complaints and suggestions; and equipping patients and staff with practical health information. VHA will continue to redesign health care systems to streamline work and promulgate improved health care practices. Strategies similar to those developed by the Institute for Health Care Improvement, such as open access and group visits, with workload management in all specialties will be implemented. VA will implement pay policies and HR practices to facilitate hiring and retaining a sufficient number of health care workers to meet capacity demands across the full continuum of care. Balance between demand and capacity will be achieved through enrollment policies. VA will work with state agencies, especially in long-term care services, to reduce the redundancies and gaps in veterans' services.

Data Quality

Please refer to the Key Measures Data Table on page 132.

Objective 3.1 — Key Performance Goal

Achieve 90 percent of specialty care appointments scheduled within 30 days of desired date.



Description, Importance, and Results

VHA is working to improve access to clinic appointments and timeliness of service. Through the Advanced Clinic Access initiative, we continue efforts to develop ways to reduce waiting times for appointments in primary care and key specialty clinics nationwide. Past experience in measuring access has led to the development of a number of new access measures including this one that will provide even more detail regarding waiting times for new and established patients for specialty clinic appointments. This measure tracks the number of days between when the specialty appointment request is made (entered into the computer) and the date for which the appointment is actually scheduled. This includes both new and established specialty care patients. The percent is calculated using the numerator — all appointments scheduled within 30 days of desired date — and the denominator — all appointments posted in the scheduling software during the review period in selected high volume/key specialty clinics. We have achieved a score of 93 percent of selected specialty care appointments scheduled within 30 days of desired

date as of June 2004. VA has continued to improve access to specialty care each year.

Management and Policy Issues

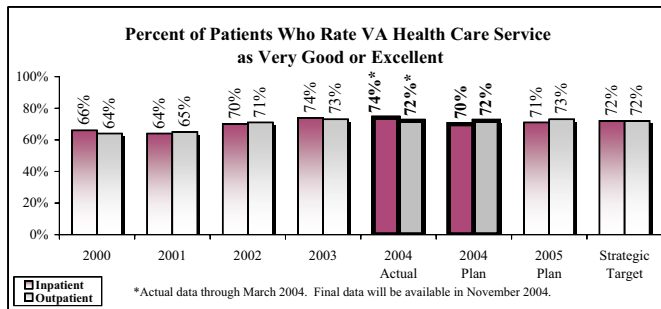
VA's primary strategies to achieve this performance goal include promoting timely and equitable access to health care; continuously improving the quality and safety of health care; emphasizing patient-centered care, especially for our most vulnerable patients; proactively inviting and acting on complaints and suggestions; and equipping patients and staff with practical health information. VHA will continue to redesign health care systems to streamline work and promulgate improved health care practices. Strategies similar to those developed by the Institute for Health Care Improvement, such as open access and group visits, with workload management in all specialties will be implemented. VA will implement pay policies and HR practices to facilitate hiring and retaining a sufficient number of health care workers to meet capacity demands across the full continuum of care. Balance between demand and capacity will be achieved through enrollment policies. VA will work with state agencies, especially in long-term care services, to reduce the redundancies and gaps in veterans' services.

Data Quality

Please refer to the Key Measures Data Table on page 132.

Objective 3.1 — Key Performance Goal

Achieve patient satisfaction rating of 70 percent for inpatient and 72 percent for outpatient



Description, Importance, and Results

VA relies on periodic feedback obtained through surveys as to the level of veterans' satisfaction with service. VHA's Office of Quality and Performance, Performance Analysis Center for Excellence, conducts national satisfaction surveys that allow VHA to better understand and meet patient expectations. The monthly surveys target the dimensions of care that concern veterans the most. The survey consists of a sample of inpatients and outpatients who respond to the question, "Overall, how would you rate your quality of care?" The satisfaction rating includes those patients who respond "very good" or "excellent." We have achieved a score of 74 percent for inpatient satisfaction and 72 percent for outpatient satisfaction through March.

Management and Policy Issues

VA's primary strategies to achieve this performance goal include promoting timely and equitable access to health

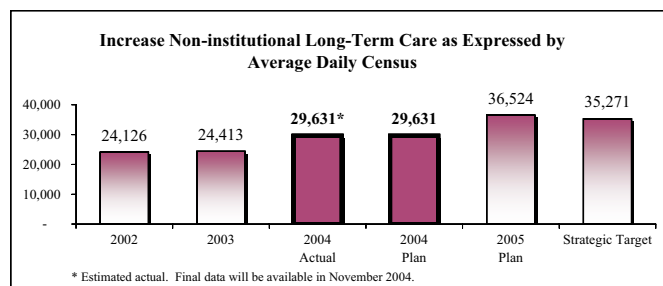
care; continuously improving the quality and safety of health care; emphasizing patient-centered care, especially for our most vulnerable patients; proactively inviting and acting on complaints and suggestions; and equipping patients and staff with practical health information. VA has implemented "service-recovery" with standardized patient satisfaction surveys with real-time results and data aggregation and reporting. VHA will continue to strive to improve patient satisfaction in all areas of service. Surveys are sent to patients who have received care in both inpatient and outpatient settings. Veteran satisfaction will continue to be benchmarked to other large organizations. The inpatient and outpatient survey, the Survey of Health Expectations of Patients, incorporates a sample methodology that allows for monthly data collection with quarterly (outpatient) and semi-annually (inpatient) reporting functions. The VA health care environment will be characterized by courteous and coordinated patient-focused services. VHA will continually assess and improve patients' perceptions of their health care.

Data Quality

Please refer to the Key Measures Data Table on page 132.

Objective 3.1 — Key Performance Goal

Increase to 29,631 the average daily census in long-term care in non-institutional settings.



Description, Importance, and Results

This measure concerns the average daily census (ADC) of veterans enrolled in home and community-based care programs (Home-Based Primary Care, Contract Home Health Care, Adult Day Health Care (VA and Contract), Care Coordination and Homemaker/Home Health Aide Services). In June 2002, VHA published a comprehensive policy document on oversight of Community Nursing Homes (CNHs) that established a national standard for annual reviews of CNHs and monthly visits by VA staff to patients in these homes. This is being certified at a national level. VHA implemented a 25-point plan to further refine its oversight efforts of the community nursing home programs in FY 2004. VA has continued to increase the number of long-term care patients in non-institutional settings each year.

Management and Policy Issues

VA's primary strategies to achieve this performance goal include promoting timely and equitable access to health

care; continuously improving the quality and safety of health care; emphasizing patient-centered care, especially for our most vulnerable patients; proactively inviting and acting on complaints and suggestions; and equipping patients and staff with practical health information. VHA will improve and enhance home care services and continue to refine an assisted living strategy including partnering with community organizations. We will promote the use of care management to facilitate care in the least restrictive and most efficient setting possible. In the face of a declining, but aging veteran population, VA will expand access to long-term care alternatives to institutional care with an emphasis on community-based and in-home care. VA is in the process of establishing a Care Coordination program in every VISN that will allow many veterans to be monitored in their home. The success of achieving this performance goal will partially depend on the availability of community resources that can provide long-term care.

Data Quality

Please refer to the Key Measures Data Table on page 134.

Objective 3.2

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Strategic Goal 3 Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation.		\$23,293	33.3%
Objective	Performance Results		
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%

Performance

VA's top priority related to the many benefits programs the Department administers is to process claims in a timely and accurate manner. There are many measures that indicate how well we are doing in meeting Objective 3.2, but the three most important indicators of success are the average number of days to process rating-related compensation and pension (C&P) claims, the average number of days pending for rating-related C&P claims, and the national accuracy rate for C&P claims. While the Department did not meet the FY 2004 performance goal for any of these three measures, we 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. Entering FY 2004, VA was well positioned to meet our performance goals pertaining to the timeliness of processing claims. However, a September 2003 decision by the Federal

Circuit Court in the case of the *Paralyzed Veterans of America et al. v. the Secretary of Veterans Affairs* required VA to keep veterans' claims open for 1 year before making a decision. As a result, decisions on over 62,000 claims were deferred, many for as much as 90 days or longer. While the President signed correcting legislation in December 2003, the impact of the court decision in the early portion of FY 2004 was substantial. The number of claims pending grew dramatically and the timeliness of claims processing deteriorated rapidly. VA made significant progress during the last half of the year, but we were not able to fully overcome the negative effects from this court decision on our claims processing timeliness.

The Survey of Veterans Satisfaction with the VA Compensation and Pension Claims Process is administered on an annual basis in order to measure veteran satisfaction at the national and regional office levels. In FY 2003 (the most recent annual data

available), 39 percent of all survey respondents receiving pension benefits felt they were informed of the full range of their available benefits. This figure is 1 percentage point higher than the previous year's value. When looking at compensation and pension recipients together, the survey revealed that 59 percent were very or somewhat satisfied with the way their claims were handled. This was 3 percentage points higher than the satisfaction level 2 years earlier. The contract for the next survey was signed in September 2004. Data for FY 2004 will be available in January 2005.

Program Assessment Rating Tool (PART) Evaluation

The PART review of the pension program that relates to the accomplishment of Objective 3.2 is scheduled to be conducted during FY 2005 as part of the formulation of the FY 2007 budget. The results of this upcoming PART review will be presented in future reports.

Major Management Challenges

The major management challenges related to this objective are the same as those for Objective 1.2. Please refer to page 61 for more information.

Program Evaluations

There have not been any recent independent evaluations of VA's pension program that are related to Objective 3.2.

New Policies and Procedures

New policies and procedures have been implemented recently in support of Objective 3.2. For example, VA has:

- Expanded the use of the Benefits Delivery at Discharge (BDD) program at military installations around the country. Conducted in close collaboration with the Department of Defense, 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 these claims.
- Identified service center teams within distinct functional areas to allow for greater workload control, development of expertise by the staff, higher quality decisions, and more efficient and timely processing of claims.

Beginning in FY 2005, VA will track a variety of performance measures relating to the timeliness, accuracy, and quality of pension claims processing. This will be the first year the Department will collect and report on claims processing data separately for the pension program. Prior to this, data on the pension program were combined with claims processing information on the disability compensation program.

Objective 3.3

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Strategic Goal 3 Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation.		\$23,293	33.3%
Objective	Performance Results		
3.3 Maintain a high level of service to insurance policy holders and their beneficiaries to enhance the financial security for veterans' families.	Reduced to 1.8 days the average days to process insurance disbursements (goal was 2.7 days)	\$1,912	2.7%

Performance

VA made excellent progress during FY 2004 in meeting Objective 3.3 by continuing to improve upon the already high level of service provided to insurance policy holders. The insurance programs administered and supervised by the Department offer benefits to veterans and servicemembers who may not be able to obtain insurance coverage from the commercial insurance industry due to lost or impaired insurability resulting from military service. The most important measure of success is the timeliness of processing insurance disbursements. Last year the Department processed these payments in an average of 2.4 days, a figure much better than the performance goal for the year. The timeliness with which insurance disbursements were processed was 25 percent better in FY 2004 than it was during the previous year. In addition, VA paid 100 percent of claims arising from Operation Enduring Freedom and Operation Iraqi Freedom within 2 days of receipt of the necessary documents. Using several other measures of the efficiency and effectiveness of the Department's insurance program, VA continued to sustain its long-standing record of providing high-quality service to policy holders and their beneficiaries. In response to the Department's ongoing survey concerning policy holders'

and beneficiaries' satisfaction with service delivery, 96 percent gave the program high customer ratings while only 2 percent gave low ratings.

Program Assessment Rating Tool (PART) Evaluation

The PART review of the insurance program that relates to the accomplishment of Objective 3.3 is scheduled to be conducted during FY 2005 as part of the formulation of the FY 2007 budget. The results of this upcoming PART review will be presented in future reports.

Major Management Challenges

Neither VA's Office of Inspector General nor the Government Accountability Office identified any major management challenges related to Objective 3.3.

Program Evaluations

In support of Objective 3.3, VA contracted to have an independent evaluation of four of the insurance programs administered by the Department; the final report was issued in 2001. This evaluation focused on the extent to which the insurance programs were available and affordable to servicemembers and

veterans, regardless of health or disability status. Much of the analysis was based on comparisons to insurance in the private sector. This program evaluation found that VA insurance is generally available when compared to the non-VA sector, regardless of the hazardous nature of certain work in the military or disability status. The VA-administered programs offer coverage that exceeds that typically provided by employers in the private sector. However, the program evaluation concluded that the insurance program for service-disabled veterans is too expensive, that it needs to use a more modern mortality table, and that the maximum basic amount of insurance should be raised substantially. This program evaluation included a variety of other recommendations concerning program and technical changes that the contractors felt VA should consider. The Department has thoroughly evaluated each of these recommendations and continues to work on implementing those that would best improve the effectiveness of this program.

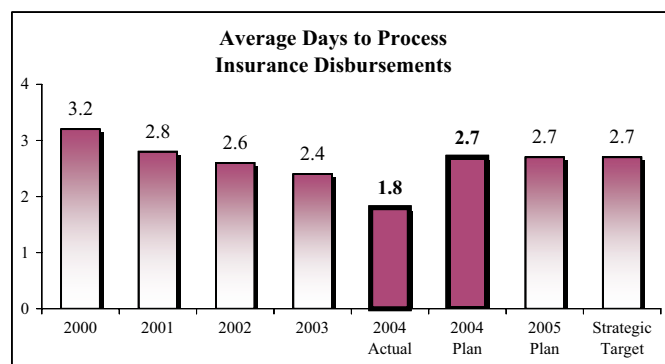
New Policies and Procedures

Several new procedures have been implemented that are improving the efficiency and effectiveness of the insurance program in support of Objective 3.3. For example, VA has:

- Installed a paperless processing system that provides employees with online access to policyholder information; the imaging capabilities of this system have reduced the time required for processing death claims.
- Enhanced access to insurance services through use of an interactive voice response system and a self-service insurance Web site.
- Conducted a special program of telephone and mail outreach to recently separated, severely disabled veterans resulting in about \$84 million in life insurance coverage that would not otherwise have been granted.

Objective 3.3 — Key Performance Goal

Maintain average processing time for insurance disbursements at 2.7 days.



Description, Importance, and Results

A disbursement is an electronic funds transfer (EFT) to veterans or their beneficiaries arising from a death payment, policy loan, or cash surrender of the policy's value. The importance in meeting this goal extends from

the import of providing financial security to a veteran seeking quick access to funds, or to a beneficiary dealing with expenses associated with the loss of a family member, the policy holder.

The insurance program met its performance goal by maintaining an average processing time of 1.8 days for disbursements.

Management and Policy Issues

The single most significant factor impacting this strategic target is the Electronic Workflow (previously called Paperless Processing) initiative. The imaging and workflow capabilities of this initiative reduce the time required for processing disbursements and other services. This workflow automatically routes work to

appropriate staff, thus decreasing processing time. Electronic Workflow for processing death claims is fully operational. In FY 2005, we will add the remaining categories of disbursements, policy loans, and cash surrenders to the system. This should further improve our average processing time.

In addition to the above, we continue to enhance our paperless workflow procedures. Modifications made in FY 2004 included:

- Instantaneous screening of disbursement inputs for adherence to programming specifications.
- The matching of Social Security Administration and Westlaw pro records to obtain current addresses on returned mail.

The achievement of the key measure is not dependent upon any major external factors or major crosscutting activities.

Data Quality

Please refer to the Key Measures Data Table on page 134.

Objective 3.4

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Strategic Goal 4 Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation.		\$23,293	33.3%
Objective	Performance Results		
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%

Performance

The percent of the veteran population served by a burial option and the quality of service provided by the national cemeteries are the primary performance measures relating to Objective 3.4. In FY 2004 VA met its goal to increase to 75.3 percent the proportion of veterans served by a burial option in a national or state veterans cemetery within a reasonable distance of their residence. Ninety-four percent of survey respondents rated the quality of service provided by the national cemeteries as excellent in FY 2004, the same high level as in FY 2003, but falling short of VA's goal by 1 percent.

By the end of FY 2004, 66.6 percent of veterans were served by a burial option in a national cemetery within a reasonable distance (75 miles) of their residence. In FY 2004, VA worked on establishing 11 new national cemeteries to provide service to veterans in the areas of greatest need. VA monitors gravesite usage and projects gravesite depletion dates at open national cemeteries that have land for future development, and ensures that construction to make additional gravesites or columbaria available for burial is completed. Last year, VA completed construction projects to extend burial operations at six national cemeteries. Appropriate land acquisition is also a key component to providing continued accessibility to burial options. For example, as part of the Capital Asset Realignment for Enhanced Services process, approximately 50 acres of land were transferred from the Mountain Home VA Medical Center to the National Cemetery Administration (NCA) for the expansion of Mountain Home National Cemetery. VA will continue to identify national cemeteries that are expected to close due to depletion of grave space and determine the feasibility of extending the service life of those cemeteries by acquiring adjacent or contiguous land or by constructing columbaria. These actions, which depend on such factors as the availability of suitable land and the cost of construction, are not possible in every case.

To complement our system of national cemeteries, VA administers the State Cemetery Grants Program, which

provides grants to states of up to 100 percent of the cost of establishing, expanding, or improving state veterans cemeteries. In FY 2004, 56 operating state veterans cemeteries performed more than 19,000 interments, and grants were obligated to establish, expand, or improve state veterans cemeteries in 8 states. By the end of FY 2004, 8.7 percent of veterans were served by a burial option only in a state veterans cemetery within a reasonable distance (75 miles) of their residence.

In some cases, veterans may be eligible for reimbursement of burial expenses through programs administered by the Veterans Benefits Administration. In FY 2004, the national accuracy rate for burial claims processed was 94 percent, exceeding our goal of 90 percent. The average number of days to process a claim for reimbursement of burial expenses was 48, which did not meet the goal of 40 days.

Veterans and their families have indicated that they need to know the interment schedule as soon as possible in order to finalize necessary arrangements. To meet this expectation, VA strives to schedule committal services at national cemeteries within 2 hours of the request. Seventy-three percent of funeral directors surveyed responded that national cemeteries confirm the scheduling of the committal service within 2 hours.

To further enhance service to veterans and their families, VA will continue to install kiosk information centers at national and state veterans cemeteries to assist visitors in finding the exact gravesite locations of individuals buried there and provide general information. By the end of FY 2004, 60 kiosk information centers had been installed at national and state veterans cemeteries.

The Survey of Satisfaction with National Cemeteries measures our success in delivering service with courtesy, compassion, and respect. We will continue to conduct focus groups to collect data on stakeholder expectations and their perceptions related to the quality of service provided by national cemeteries. The information obtained is analyzed to ensure that VA

addresses those issues most important to its customers. This approach provides data from the customer's perspective, which are critical to developing our objectives and associated measures.

Veterans and their families may experience feelings of dissatisfaction when their expectations concerning the committal service, including military funeral honors, are not met. Dissatisfaction with services provided by DoD (military funeral honors) or the funeral home can adversely affect the public's perceptions regarding the quality of service provided by the national cemetery. VA will continue to work with funeral homes and veterans service organizations to find new ways to increase awareness of benefits and services. Funeral directors and members of veterans service organizations participate in regularly conducted focus groups to identify what information they need and the best way to ensure that they receive it.

Program Assessment Rating Tool (PART) Evaluation

During the development of the FY 2004 budget, the Administration conducted a PART evaluation of VA's burial program that relates to the accomplishment of Objective 3.4. Due to its clear mission and outcome goals, this program received a "Moderately Effective" rating.

The evaluation included findings that VA needed to adopt more performance measures to address all burial benefits and the National Shrine Commitment, and to strengthen methods to link performance, budget, and accountability. VA has addressed these findings by introducing two new burial claims measures and two new measures for the National Shrine Commitment in the President's FY 2005 budget. VA may add additional measures for the National Shrine Commitment in future budgets. During FY 2004, VA collected baseline data for the new measures. In addition, VA has established the Organizational Assessment and Improvement Program for the national cemeteries. The program will strengthen accountability at the national cemeteries by assessing cemetery performance against

operational standards and measures. This program will strengthen the link between budget and performance by identifying improvement opportunities for prioritizing resources and by providing a scorecard for performance reporting at each of the national cemeteries.

Major Management Challenges

Neither VA's Office of Inspector General nor the Government Accountability Office identified any major management challenges related to Objective 3.4.

Program Evaluations

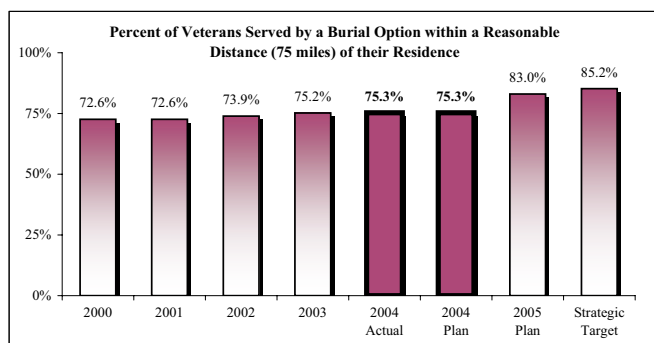
The Veterans Millennium Health Care and Benefits Act, Public Law 106-117, directed VA to contract for an independent demographic study to identify those areas of the country where veterans will not have reasonable access to a burial option in a national or state veterans cemetery, and the number of additional cemeteries required through 2020. Volume 1: Future Burial Needs, published in May 2002, identified those areas having the greatest need for burial space for veterans. VA continues to use this report as a valuable tool for planning new national cemeteries.

New Policies and Procedures

By the end of FY 2006, VA will establish five new national cemeteries in the areas of Atlanta, Georgia; Detroit, Michigan; Pittsburgh, Pennsylvania; South Florida; and Sacramento, California. In addition, the National Cemetery Expansion Act of 2003, Public Law 108-109, directed VA to establish six new national cemeteries in the areas of Bakersfield, California; Birmingham, Alabama; Columbia/Greenville, South Carolina; Jacksonville, Florida; Sarasota, Florida; and Southeastern Pennsylvania.

Objective 3.4 — Key Performance Goal

Increase the percent of veterans served by a burial option in a national or state veterans cemetery within a reasonable distance (75 miles) of their residence to 75.3 percent in 2004.



Description, Importance, and Results

One of VA's primary objectives is to ensure that the burial needs of veterans and eligible family members are met. For the key measure to increase the percent of veterans served by a burial option in a national or state veterans cemetery within a reasonable distance of their residence, VA met its goal of 75.3 percent.

Management and Policy Issues

VA continued the development of five new national cemeteries to provide service to veterans in the areas of Atlanta, Detroit, Pittsburgh, Sacramento, and South Florida. By the end of the year, VA had acquired property, and the development process was underway. As directed by the National Cemetery Expansion Act of 2003, Public Law 108-109, action is underway to establish six new national cemeteries in the areas of Bakersfield, California; Birmingham, Alabama; Columbia/Greenville, South Carolina; Jacksonville, Florida; Sarasota, Florida; and Southeastern Pennsylvania.

VA monitors gravesite usage and projects gravesite depletion dates at open national cemeteries that have land for future development. As cemeteries approach gravesite depletion dates, VA ensures that construction to make additional gravesites or columbaria available for burials is completed. In FY 2004, VA completed construction projects to maintain burial operations at six national cemeteries. VA will continue to identify national cemeteries that are expected to close because of depletion of grave space and determine the feasibility of extending the service life of those cemeteries by acquiring adjacent or contiguous land.

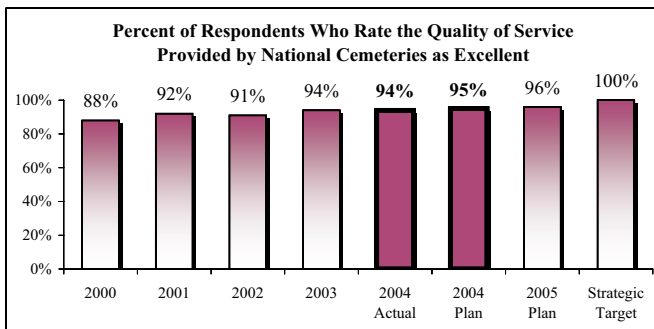
To complement our system of national cemeteries, VA administers the State Cemetery Grants Program, which provides grants to states of up to 100 percent of the cost of establishing, expanding, or improving veterans cemeteries that are owned and operated by the states. In FY 2004, new state veterans cemeteries at Hopkinsville, Kentucky, and WaKeeney, Kansas, began operations, which allowed VA to meet its performance goal. A total of 56 operating state veterans cemeteries performed more than 19,000 interments, and VA obligated grants to establish, expand, or improve state veterans cemeteries in 8 states.

Date Quality

Please refer to the Key Measures Data Table on page 136.

Objective 3.4 — Key Performance Goal

Increase the percent of respondents who rate the quality of service provided by national cemeteries as excellent to 95 percent in 2004.



Description, Importance, and Results

One of VA's primary objectives is to ensure that the burial needs of veterans and eligible family members are met. Cemetery service goals are set high in keeping with the expectations of all visitors. VA strives to provide high-quality, courteous, and responsive service in all of its contacts with veterans and their families. For this key measure, 94 percent of respondents rated the quality of service provided by the national cemeteries as excellent in FY 2004, falling short of VA's goal by 1 percent. NCA is reviewing information provided by survey respondents to identify opportunities for improvement.

Management and Policy Issues

VA will continue to obtain feedback from veterans, their families, and other cemetery visitors to ascertain how they perceive the quality of service provided by national cemeteries. The Survey of Satisfaction with National Cemeteries measures our success in delivering service with courtesy, compassion, and respect. VA will also continue to conduct focus groups to collect data on

stakeholder expectations and their perceptions related to the quality of service provided by national cemeteries. The information obtained is analyzed to ensure that VA addresses those issues most important to its customers. This approach provides data from the customer's perspective, which are critical to developing our objectives and associated measures.

Dissatisfaction with services provided by DoD (military funeral honors) or the funeral home is an external factor that can adversely affect the public's perceptions regarding the quality of service provided by the national cemetery. Veterans and their families have indicated that the provision of military funeral honors for the deceased veteran is important to them. While VA does not provide military funeral honors, VA works closely with components of DoD and veterans service organizations to provide such honors at national cemeteries. Veterans and their families may experience feelings of dissatisfaction when their expectations concerning the committal service, including military funeral honors, are not met.

VA continues to work with funeral homes and veterans service organizations to find new ways to increase awareness and improve delivery of benefits and services.

Data Quality

Please refer to the Key Measures Data Table on page 136.

Objective 3.5

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Strategic Goal 3 Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation.		\$23,293	33.3%
Objective	Performance Results		
3.5: Provide veterans and their families with timely and accurate symbolic expressions of remembrance.	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

The amount of time it takes to mark the grave after an interment is extremely important to veterans and their families. This is the Department's primary measure used to gauge progress toward achievement of Objective 3.5. The headstone or marker is a lasting memorial that serves as a focal point not only for present-day survivors, but also for future generations. In addition, it may bring a sense of closure to the grieving process to see the grave marked. In FY 2004 VA marked 87 percent of the graves in national cemeteries within 60 days of the interment, a proportion well above both the performance goal as well as the FY 2003 performance level of 72 percent.

VA provides headstones and markers for the graves of eligible persons in national, state, other public, and private cemeteries. VA also provides memorial headstones and markers bearing the inscription "In Memory of" to memorialize eligible veterans whose remains were not recovered or identified, were buried at sea, donated to science, or cremated and scattered. In FY 2004, VA processed nearly 351,000 applications for headstones and markers for placement in national, state, other public, or private cemeteries.

Headstones and markers must be replaced when either the government or the contractor makes errors in the inscription, or if the headstone or marker is damaged during delivery or installation. When headstones and markers must be replaced, it further delays the final portion of the interment process, the placing of the headstone or marker at the gravesite. In FY 2004, 97 percent of headstones and markers were delivered undamaged and correctly inscribed. VA will continue to improve accuracy and operational processes in order to reduce the number of inaccurate or damaged headstones and markers delivered to the gravesite. VA also uses, to the maximum extent possible, automated operational processes to increase the efficiency of the headstone and marker ordering process. Other Federal and state veterans cemeteries ordered 91 percent of their headstones and markers online, and all individual headstone and marker orders are transmitted electronically to contractors.

In FY 2004 VA issued more than 435,000 Presidential Memorial Certificates (PMCs), bearing the President's signature, to convey to the family of the veteran the gratitude of the Nation for the veteran's service. To convey this gratitude, it is essential that the certificate

be accurately inscribed. The accuracy rate for PMCs provided by VA is consistently 98 percent or better.

VA furnishes headstones and markers for national cemeteries administered by the Department of the Army, the Department of the Interior, and the American Battle Monuments Commission; contracts for all columbaria niche inscriptions at Arlington National Cemetery; and furnishes headstones and markers to state veterans cemeteries.

Program Assessment Rating Tool (PART) Evaluation

During the development of the FY 2004 budget, the Administration conducted a PART evaluation of VA's burial program that relates to the accomplishment of Objective 3.5. Due to its clear mission and outcome goals, this program received a "Moderately Effective" rating.

The evaluation included findings that VA needed to adopt more performance measures to address all burial benefits and the National Shrine Commitment, and to strengthen methods to link performance, budget, and accountability. VA has addressed these findings by introducing two new burial claims measures and two new measures for the National Shrine Commitment in the President's FY 2005 budget. VA may add additional measures for the National Shrine Commitment in future budgets. During FY 2004, VA collected baseline data for the new measures. In addition, VA has established the Organizational Assessment and Improvement Program for the national cemeteries. The program will strengthen accountability at the national cemeteries by assessing cemetery performance against operational standards and measures. This program will strengthen the link between budget and performance by identifying improvement opportunities for prioritizing resources and by providing a scorecard for performance reporting at each of the national cemeteries.

Major Management Challenges

Neither VA's Office of Inspector General nor the Government Accountability Office identified any major management challenges related to Objective 3.5.

Program Evaluations

The Veterans Millennium Health Care and Benefits Act, Public Law 106-117, mandated that VA obtain an independent contractor to conduct a comprehensive study of veterans' burial benefits. [An Assessment of Burial Benefits Administered by the Department of Veterans Affairs](#), published in December 2000, assessed the adequacy and effectiveness of burial benefits administered under chapter 23 of title 38, United States Code, and evaluated options to better serve the burial needs of veterans and their families. VA and the Congress have used the information in this study to develop legislative initiatives to enhance services to veterans.

New Policies and Procedures

A new performance measure will help VA ensure timely and accurate symbolic expressions of remembrance are provided to veterans and their families. In FY 2004 (the baseline year), inscription data for 98 percent of headstones and markers ordered by national cemeteries were accurate and complete.

In FY 2004, VA contracted its headstone and marker application mail processing and document imaging functions. Anticipated benefits include improved customer service and timeliness, improved capability to track and measure performance, and improved operational efficiency.

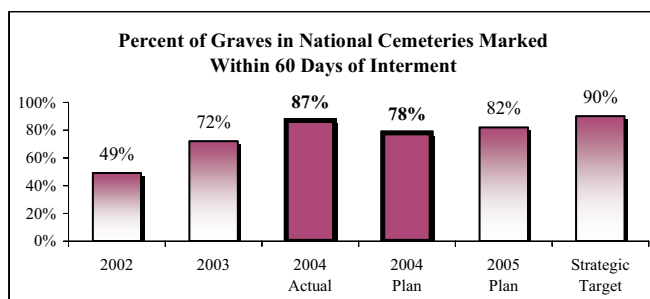
The Veterans Education and Benefits Expansion Act of 2001, Public Law 107-103, as amended by the Veterans Benefits Improvement Act of 2002, Public Law 107-330, allows VA to furnish an appropriate marker for the graves of eligible veterans buried in private cemeteries, whose deaths occur on or after September 11, 2001,

regardless of whether the grave is already marked with a non-government marker. This authority expires on December 31, 2006. However, not later than February 1, 2006, VA shall report to Congress the rate of use of this benefit, assess the extent to which these markers are being delivered to cemeteries and placed on gravesites

consistent with the provisions of law, and recommend an extension or repeal of the expiration date. Information contained in the study, [An Assessment of Burial Benefits Administered by the Department of Veterans Affairs](#), led to this change in the law.

Objective 3.5 — Key Performance Goal

Increase the percent of graves in national cemeteries marked within 60 days of interment to 78 percent in 2004.



Description, Importance, and Results

The amount of time it takes to mark the grave after an interment is extremely important to veterans and their families. The headstone or marker is a lasting memorial that serves as a focal point not only for present-day survivors but also for future generations. In addition, it may bring a sense of closure to the grieving process to see the grave marked. For FY 2004, VA exceeded by 9 percentage points the planned goal of marking 78 percent of graves in national cemeteries within 60 days of the interment.

Management and Policy Issues

To achieve this high level of performance, VA focused on reengineering business processes, such as ordering and setting headstones and markers, and provided monthly and fiscal year-to-date tracking reports on timeliness of marking graves that were accessible online by NCA

employees. NCA also expanded a program for locally inscribing headstones and markers at national cemeteries in order to decrease the time it takes to mark graves after an interment. By performing inscriptions locally using blank headstones and markers stored at the cemetery, VA decreased the number of days between an interment and the subsequent marking of a grave by reducing headstone and marker manufacturing and shipping times. VA will continue to focus on business process reengineering, including improving accuracy and operational processes, in order to reduce delays in marking graves caused by inaccurate or damaged headstones and markers.

Two major external factors influence the timeliness of marking graves in national cemeteries. First, the national cemeteries are dependent upon contractors throughout the country for the manufacturing and shipping of headstones and markers. The performance of these contractors greatly affects the quality of service to veterans and their families. Second, extremes in weather, such as periods of excessive rain or snow, or extended periods of freezing temperatures that impact ground conditions, can cause delays in both the delivery and installation of headstones and markers.

Data Quality

Please refer to the Key Measures Data Table on page 136.

Objective 4.1

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Strategic Goal 4 Contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation.		\$1,039	1.5%
Objective	Performance Results		
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%

Performance

The Secretary of Veterans Affairs consolidated the Department's emergency preparedness and security and law enforcement oversight within the Office of the Assistant Secretary for Policy, Planning, and Preparedness. Organizationally, the emergency preparedness functions fall under the Director of Operations and Readiness and the Deputy Assistant Secretary for Security and Law Enforcement. The office ensures that VA has effective emergency preparedness programs and policies in place across the Nation and oversees the development of effective Continuity of Government and Continuity of Operations (COOP) plans for VA. The office acts as the VA liaison on preparedness with other Federal agencies such as the Department of Homeland Security, Federal Emergency Management Agency, Department of Health and Human Services, and the Department of Defense. The office develops, implements, and evaluates preparedness training and exercises. It also assesses the interaction

between VA's preparedness plans and those of other Federal, state, and local governments and relief organizations. In addition, the office manages, directs, and ensures readiness and staffing of VA's operations centers, coordinates VA's staffing at other agencies' operations centers, and supports VA's Crisis Response Team. The office maintains the VA-wide police and security program; trains all newly hired VA police officers; protects veterans, visitors, and employees at VA headquarters; provides personal security for the Secretary and Deputy Secretary of Veterans Affairs commensurate with the threat level; and coordinates security background investigations and determines access eligibility to classified information.

During FY 2004 the following emergency management activities were completed:

- Developed individual contingency plans in case of terrorist attack or other disruption for the Super Bowl,

State of the Union Address, opening of the World War II Memorial, 4th of July, Democratic National Convention, and Republican National Convention.

- Conducted an internal exercise, called COOPx, as an orientation for senior VA leadership.
- Conducted an internal tabletop COOP exercise for staff at the Department's mirror site.
- Participated in Exercise Forward Challenge, a national exercise designed to test continuity of operations plans. The Department deployed almost 100% of its Continuity of Operations team.
- Participated in Exercise Determined Promise and TOPOFF 3 tabletop exercise.
- Completed procurement of 143 pharmaceutical caches located in medical centers.
- Completed decontamination/hazmat training and equipping of the 78 medical centers determined to be the highest priority. Initiated training and equipping for a second group of approximately 50 facilities – expected to be completed by the end of calendar year 2004.

The Department was on track to achieve its goal of training for 75 percent of Group 2 (field) emergency preparedness officials, but the premature departure of senior leaders who had received the training derailed that progress. Permanent replacements are expected to receive the required training in late calendar year 2004.

Program Assessment Rating Tool (PART) Evaluation

There are no PART evaluations that have been completed, nor are there any planned, that specifically address Objective 4.1.

Major Management Challenges

VA's Office of Inspector General has identified the following issue as a major management challenge related to Objective 4.1 (the program's response to the challenge may be found on the pages referenced below):

- Security and safety – research and hospital facilities need to be diligent in maintaining security and physical

access controls for areas storing high risk or sensitive materials (refer to pages 234-235 for more information).

The Government Accountability Office has identified the following issue as a major management challenge related to Objective 4.1 (the program's response to the challenge may be found on the pages referenced below):

- Prepare for biological and chemical acts of terrorism – VA determined that it needs to stockpile pharmaceuticals and improve its decontamination and security capabilities (refer to pages 258-259 for more information).

Program Evaluations

An independent contractor conducted assessments at more than 100 "most critical infrastructure" sites crucial to continuity of Departmental operations or of national importance. These assessments evaluated facility vulnerabilities relating to disaster threats and other major emergencies. Facilities are now addressing some of the vulnerabilities that were identified, and longer term capital improvement projects will help resolve many of the other vulnerabilities.

Another study is underway that will assess the emergency preparedness of VA medical facilities in case of an all-hazards or weapons of mass destruction event. This study is being conducted to provide a comprehensive, independent, and current assessment of our hospital system's capabilities. The study is examining medical center preparation in areas such as pharmaceutical caches, patient capacity, isolation and decontamination, and staffing. The results, expected in 2005, will assist VA in focusing its efforts to improve related policies, programming, and training efforts in our medical centers.

New Policies and Procedures

The Department has re-written its Comprehensive Emergency Management Program to adhere to requirements established in Federal Preparedness Circular 65. This program provides policy and

procedures for developing internal continuity of operations plans. It also governs the headquarters test, training, and exercise program, and sets out responsibilities of the Crisis Response Team, a group of representatives within the Department that meets twice weekly, or more often if the need arises, e.g., during hurricane season.

Policies governing the Department's Line of Succession are in place, as are procedures for the Department's participation in its classified Continuity of Government role. The Department has helped draft the forthcoming National Response Plan, which will govern the Department's role as a support agency in times of emergency.

Objective 4.2

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Strategic Goal 4 Contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation.		\$1,039	1.5%
Objective	Performance Results		
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.	Increased to 229 the number of Career Development Awardees (goal was 237)	\$452	0.6%

Performance

The mission of the VA Research and Development Program (R&D), which supports Objective 4.2, is to discover knowledge and create innovations that advance the health and care of veterans and the Nation. Today, as in the past, VA is sharing research discoveries with health care providers throughout the Nation. VA R&D pursues collaborative opportunities to be cost efficient and effective in addressing veteran health care needs, and carefully coordinates its research activities with other Federal agencies and non-governmental organizations to ensure the benefits of its research

activities to veterans. In FY 2004, VA designed and implemented a total of 229 career development programs for all four services: Bio-medical Laboratory Science, Health Services Research, Rehabilitation Research, and Clinical Service. The career development program specifically supports clinicians for a period of concentrated research training with limited non-research responsibilities. VA's research program made many discoveries that moved the Department closer to achieving the ultimate aim of Objective 4.2. For example, VA researchers:

- Identified a link between service in the Gulf War and amyotrophic lateral sclerosis.

- Determined that using the anti-convulsive drug, divalproex, in combination with either of two commonly used anti-psychotic drugs, results in decreased suffering and shorter hospital stays for schizophrenia patients.
- Developed a DNA vaccine technology and successfully demonstrated the efficacy of such vaccines against the intracellular bacterial pathogen, *Listeria monocytogenes*.
- Identified a synthetic compound that reverses bone loss in mice without affecting the reproductive system, which may lead to new treatments to prevent osteoporosis for millions of people and lead to safer alternatives than current hormone treatment protocols.

Program Assessment Rating Tool (PART) Evaluation

During the development of the FY 2005 budget, the Administration conducted a PART review of the R&D program, which is essential to the accomplishment of Objective 4.2. The assessment demonstrated that the VA R&D program has a clearly defined purpose and is well managed. In addition, the Administration reiterated the importance of the VA R&D program as the only medical research program focused on veterans' health issues. However, this program received a rating of "Results Not Demonstrated," due mainly to a lack of documented ambitious goals and performance measures that accurately assess the strengths and weaknesses of the program. To address this concern, VA has developed several new performance measures that will be included in future budgets and reports.

Major Management Challenges

Neither VA's Office of Inspector General nor the Government Accountability Office identified any major management challenges related to Objective 4.2.

Program Evaluations

There have not been any independent program evaluations conducted recently that specifically address Objective 4.2.

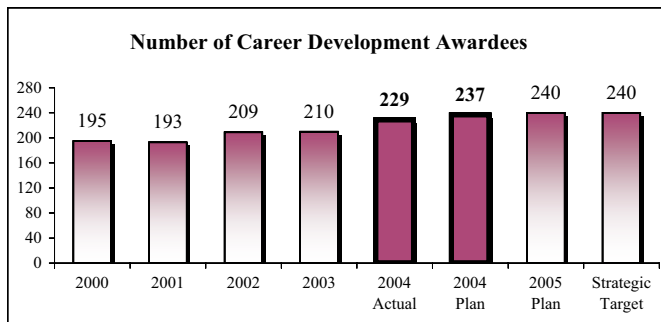
New Policies and Procedures

Several new policies and procedures have been implemented in the recent past that highlight our focus on medical research in support of Objective 4.2. For example, VA:

- Implemented a new technology transfer program that allows the Department to take the lead in disseminating new discoveries and inventions made by VA researchers.
- Developed an inter-institutional agreement giving universities unimpeded access and authority to patent and market intellectual property on VA's behalf as well as theirs.
- Strengthened oversight of human research protocols.
- Completed training for compliance officers in human subjects protection and for administrative officers in finance and administration to ensure that all responsible R&D staff are aware of, and adhere to, VA and other Federal regulations.
- Established a forum with DoD to share best practices in health research and development methods.

Objective 4.2 — Key Performance Goal

Achieve 237 Career Development Awardees.



Description, Importance, and Results

VHA supports the public health of the Nation as a whole through medical research. The objective of the career development program is to build and maintain the number of VA clinicians who can conduct research in areas of high relevance to the health care of veterans. Focusing on career development awardees improves the overall caliber and number of researchers and ensures the continuation of this high-caliber program. The performance measure target is an annual count of all the career development awardees in each of the four services of the VA research and development program: Bio-medical Laboratory Science, Health Services Research, Rehabilitation Research, and Clinical Science. We have achieved 229 career development awardees. VA has continued to increase the number of awardees since 2001.

Management and Policy Issues

VHA's primary strategy to implement this strategic objective will be to focus research efforts on veterans' special health care needs. VA will maintain the

proportion of research funding directed to projects addressing veteran-related issues. VA will conduct medical research that leads to demonstrable improvements in the lives of veterans, their families, and the general public. The established designated research areas on which VA-sponsored research will be conducted include Aging, Chronic Disease, Mental Illness, Substance Abuse, Sensory Loss, Trauma-Related Illness, Health Systems, Special Populations, and Military Occupations and Environmental Exposure. We will incorporate veterans' military history and potential consequences of service into the Clinical Patient Record System (CPRS). VA will develop, distribute, and promote orientation videos for incoming medical house staff and other health care trainees. Much of the research conducted in VA facilities is subject to the regulations of other Federal agencies as well as VA's own regulations. VA works closely with the National Institutes of Health (NIH) and the Department of Health and Human Services on joint studies funded by NIH. Similarly, VA works closely with the Food and Drug Administration on human studies funded by pharmaceutical companies in support of a new drug or device application. Achievement of this performance goal is partly contingent on the cooperation of other government and non-government agencies VA partners with on some research projects.

Data Quality

Please refer to the Key Measures Data Table on page 136.

Objective 4.3

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Strategic Goal 4 Contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation.		\$1,039	1.5%
Objective	Performance Results		
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.	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%

Performance

VA is the largest provider of health care training in the United States. The Department 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 training 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. In FY 2004, physician residents and other clinical trainees gave a score of 83 (on a scale of 0-100) to their VA clinical training experience, which is a good indicator that the Department is moving closer to achieving the primary aim of Objective 4.3.

Program Assessment Rating Tool (PART) Evaluation

The PART evaluation conducted by the Administration during the development of the FY 2005 budget reviewed the medical care program. Medical education is part of the medical care program; however, the PART evaluation did not specifically cover any aspects of medical education as it relates to the accomplishment of Objective 4.3.

Major Management Challenges

Neither VA's Office of Inspector General nor the Government Accountability Office identified any major management challenges related to Objective 4.3.

Program Evaluations

There have not been any independent program evaluations conducted recently that address Objective 4.3.

New Policies and Procedures

VA has conducted a Learners' Perceptions (LP) Survey of physician residents and clinical trainees every year since 2001. New policies and procedures have been established to enhance the process of conducting the survey and disseminating the results to assist in improving the clinical training experience. For example:

- VHA Directive 2003-032, Clinical Trainee Registration, was published on June 17, 2003, which mandated every clinical trainee to be registered via *VistA*, New Person File. This allows VA to contact trainees to complete the LP Survey and improve response rate.

- In FY 2004, the LP Survey questionnaire was changed from a paper to a Web-based questionnaire. This new process reduced survey administration costs and improved the feedback process to VA facilities.
- The results of the survey are e-mailed to each VISN along with facility-specific reports, which include comparative results of the past two surveys by type of trainee. The reports include information about the purpose, background, methodology used, and major learning domains. In addition, facility highlights are provided to assist management in identifying areas for improvements. The reports are also made available on the Web.

Objective 4.4

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Strategic Goal 4 Contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation.		\$1,039	1.5%
Objective	Performance Results		
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.	Statutory Goal: 23 percent of total procurement dollars to be spent on small business* *Data unavailable due to migration to new reporting system (Federal Procurement Data System—Next Generation)	<\$1M	<0.1%

Performance

The purpose of Objective 4.4 is to fully utilize veterans' benefits and other business assistance programs to enhance the socioeconomic well-being of the Nation and its veterans. The array of benefits and services provided by VA has a direct impact on the lives of veterans and beneficiaries. Each benefit program has

specific outcomes used to assess program results. For example, the housing program assists veterans with purchasing homes and this has a positive impact on the national economy. The delivery of health care benefits and services has a positive effect on the overall well-being of the Nation and can facilitate longer, more productive lives for veterans.

VA's Office of Small and Disadvantaged Business Utilization (OSDBU) administers the Department's small business program and serves as the Secretary's representative on small business issues, ensuring compliance with the Small Business Act, which requires all departments and agencies to establish with the Small Business Administration annual procurement goals for prime contract and subcontract awards to small businesses, small disadvantaged businesses, small women-owned businesses, Section 8(a) small business concerns, HUBZone small businesses, and especially service-disabled veteran-owned small businesses. Although actual data for FY 2004 were unavailable at the time this report was prepared, every indicator suggests VA exceeded the statutory small business goal of 23 percent. OSDBU has responded to many changes in public laws affecting small business programs. Through reorganization, business process reengineering, utilization of information technology resources, and electronic commerce, OSDBU continues to provide high-quality support to the small business community ensuring equitable opportunities. In FY 2004, OSDBU extended its outreach and training programs with the use of video teleconferencing capabilities.

Program Assessment Rating Tool (PART) Evaluation

There are no PART evaluations that have been completed, nor are there any planned, that specifically address Objective 4.4.

Major Management Challenges

Neither VA's Office of Inspector General nor the Government Accountability Office identified any major management challenges related to Objective 4.4.

Program Evaluations

In 2000 the Department published the results of an independent program evaluation of VA's education programs. The principal finding of this evaluation was that the Department's primary education programs for

veterans and reservists showed some success in meeting the intended purposes of the legislation establishing these programs, and that they returned over \$2 to the economy for every \$1 in taxpayer money funding the 2-year and 4-year degree programs. Compared to those who have not taken advantage of the education program, the men and women who furthered their education with government support have lower unemployment, have increased career and education goals, and enjoy an earnings advantage. In addition, one-half of the users of the education program believe they could not have pursued their education without the education benefits provided by the Department's program. This independent evaluation also recommended that the level of VA education program benefits be raised, which the Department has successfully achieved through close collaboration with the Administration and Congress.

New Policies and Procedures

In support of Objective 4.4, VA continues to provide accurate and timely information to the small business community on how, what, when, and where VA purchases goods and services. This is done through print and electronic formats. The Department also participates in procurement conferences and sessions to train small businesses on VA's acquisition process and systems. VA continues to make personnel aware of the Department's responsibilities to support small business through VA's acquisition program.

In an effort to improve accomplishments in the important Service-Disabled Veteran-Owned Small Business socioeconomic category, VA became the first Federal organization to implement provisions of Public Law 108-183, the Veterans Benefits Act of 2003. This law, signed by the President on December 16, 2003, authorizes government contracting officers to limit competition on Federal acquisition to Service-Disabled Veteran-Owned Small Businesses, and in certain situations, to award contracts to Service-Disabled Veteran-Owned Small Businesses on a sole source basis. Contracting officers

now have a set-aside mechanism to aid in achieving the statutory 3 percent goal contained in Public Law 106-50, the Veterans Entrepreneurship and Small Business Development Act of 1999. On May 5, 2004, the provisions of the Veterans Benefits Act of 2003 were implemented as an Interim Rule in the Federal Acquisition Regulation.

In March 2004, VA implemented an important initiative from the President's Small Business Agenda concerning contract bundling. Contract bundling is the combining of multiple contracts normally awarded to small businesses into larger single contracts that are frequently unsuitable for award to small businesses, thus reducing the number of contract dollars awarded to small businesses. Implementing regulations for this change required executive civilian departments and agencies to conduct contract bundling reviews for all acquisitions of \$2 million or greater to ensure acquisitions are not bundled, and where contract bundling occurs, that it is necessary and justified in terms of measurably substantial benefits. VA set a lower threshold for contract reviews of \$1 million in order to achieve maximum efficacy.

In June 2002, the VA Procurement Executive and the Director of the Office of Small and Disadvantaged Business Utilization established the Veteran-Owned (VO) and Service-Disabled Veteran-Owned (SDVO) Small Business Task Force to develop strategies to help VA attain procurement goals in these two important socioeconomic categories. The task force ultimately identified 5 goals and made 16 recommendations with action steps to improve VA's VO and SDVO small business accomplishments. The Secretary of Veterans Affairs approved the task force's report in March 2003. A number of recommendations were implemented in FY 2004. Chief among them were incorporating VA's goals for VO and SDVO small businesses into the performance plans of executives, managers, and staff who have contracting authority, take part in procurement actions, or oversee employees engaged in these activities, and issuing policy guidance on preference and special procedures to enhance VO and SDVO small business participation in VA acquisitions. (The report may be viewed and downloaded at: <http://www.vetbiz.gov/library/report.pdf>.)

Objective 4.5

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
Strategic Goal 4 Contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation.		\$1,039	1.5%
Objective	Performance Results		
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.	Increased the percent of respondents who rated national cemetery appearance as excellent to 98 percent (goal was 98 percent)	\$94	0.1%

Performance

Our Nation is committed to create and 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. Each national cemetery exists as a national shrine and as such provides an enduring memorial to their service, as well as a dignified and respectful setting for their final rest. In FY 2004, VA met its primary performance goal related to Objective 4.5 as 98 percent of survey respondents rated national cemetery appearance as excellent. Cemetery appearance goals are set high in keeping with the expectations of all visitors.

VA will continue to maintain the appearance of national cemeteries as 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). Our Nation's veterans have earned the appreciation and respect not only of their friends and families, but also of the entire country and our allies. National cemeteries are enduring testimonials to that appreciation and should be places to which veterans and their families are drawn for dignified burials and lasting memorials. The willingness to recommend the national cemetery to veteran families during their time of need is an expression of loyalty toward that national cemetery. In FY 2004, 97 percent of survey respondents indicated they would recommend the national cemetery to veteran families during their time of need.

To ensure the appearance of national cemeteries meets the standards our Nation expects of its national shrines, VA performed a wide variety of grounds management functions, which included raising, realigning, and cleaning headstones to ensure uniform height and spacing and to improve appearance. The appearance of headstones, markers, and niche covers is of paramount importance to the appearance of national cemeteries as national shrines. The rows of pristine, white headstones that are set at the proper height and correct alignment provide the vista that is the hallmark

of many VA national cemeteries. In FY 2004, VA collected baseline data that showed that 64 percent of headstones and/or markers in national cemeteries are at the proper height and alignment, and that 76 percent of headstones, markers, and niche covers are clean and free of debris or objectionable accumulations. National Shrine Commitment projects were initiated at 15 national cemeteries, including 8 that are listed on the National Register of Historic Places. These projects will raise, realign, and clean over 186,000 headstones and markers and renovate gravesites in more than 176 acres. While attending to these highly visible aspects of our national shrines, VA also maintained roads, drives, parking lots, and walks; painted buildings, fences, and gates; and repaired roofs, walls, and irrigation and electrical systems.

VA continued its partnerships with various VA and civic organizations that provide volunteers and other participants to assist in maintaining the appearance of national cemeteries. For example, an interagency agreement with the Bureau of Prisons provides for the use of selected prisoners to perform work at national cemeteries. Under a joint venture with VHA, national cemeteries provide therapeutic work opportunities to veterans receiving treatment in the Compensated Work Therapy/Veterans Industries program. The national cemeteries are provided a supplemental workforce while giving veterans the opportunity to work for pay, regain lost work habits, and learn new work skills.

Program Assessment Rating Tool (PART) Evaluation

During the development of the FY 2004 budget, the Administration conducted a PART evaluation of VA's burial program that relates to the accomplishment of Objective 4.5. Due to its clear mission and outcome goals, this program received a "Moderately Effective" rating.

The evaluation included findings that VA needed to adopt more performance measures to address all burial

benefits and the National Shrine Commitment, and to strengthen methods to link performance, budget, and accountability. VA has addressed these findings by introducing two new burial claims measures and two new measures for the National Shrine Commitment in the President's FY 2005 budget. VA may add additional measures for the National Shrine Commitment in future budgets. During FY 2004, VA collected baseline data for the new measures. In addition, VA has established the Organizational Assessment and Improvement Program for the national cemeteries. The program will strengthen accountability at the national cemeteries by assessing cemetery performance against operational standards and measures. The program will also strengthen the link between budget and performance by identifying improvement opportunities for prioritizing resources and by providing a scorecard for performance reporting at each of the national cemeteries.

Major Management Challenges

Neither VA's Office of Inspector General nor the Government Accountability Office identified any major management challenges related to Objective 4.5.

Program Evaluations

The Veterans Millennium Health Care and Benefits Act, Public Law 106-117, directed VA to contract for an independent study to look at various issues related to the National Shrine Commitment and its focus on cemetery appearance. Volume 3: Cemetery Standards of Appearance was published in March 2002. This report served as a planning tool and reference guide in the task of reviewing and refining VA's operational standards and measures.

In August 2002, Volume 2: National Shrine Commitment was completed. This report identified the one-time repairs needed to ensure a dignified and respectful setting appropriate for each national cemetery. VA is using the information in this report to address repair and maintenance needs at national cemeteries.

New Policies and Procedures

Using the recommendations in Volume 3: Cemetery Standards of Appearance and building on previous efforts, VA has established standards and measures to determine the effectiveness and efficiency of operations at its national cemeteries. These standards and measures identify performance expectations in key operational processes including interments, grounds maintenance, and headstones and markers. VA has established the Organizational Assessment and Improvement Program to identify and prioritize continuous improvement opportunities, and to enhance program accountability by providing managers and staff at all levels with one "scorecard" related to the burial program. As part of the program, assessment teams drawn from national cemeteries, Memorial Service Networks, and VA Central Office staff in Washington, DC, will conduct site visits to all national cemeteries on a rotating basis to validate performance reporting. In FY 2004, the team conducted six site visits.

VA opened the National Cemetery Administration Training Center, establishing the first formal training program for the development of employees who manage and operate VA national cemeteries. The center will provide employees with the training necessary to continue to provide high-quality service to veterans and their families and to maintain our national cemeteries as national shrines. Initially focused on training cemetery directors and assistant directors, the new facility will eventually expand its classes to train foremen, equipment operators, grounds keepers, cemetery representatives, and other employees. As 11 new national cemeteries become operational, the center will ensure consistency in operations throughout the national cemetery system as well as a high-performing workforce and well-trained staff for key positions.

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

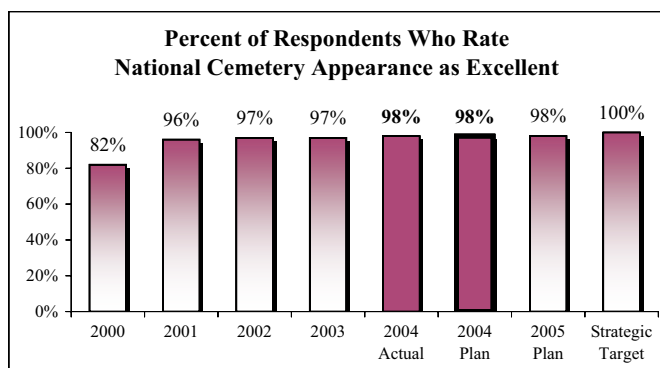
markers. After VA, NPS has the largest number of national cemeteries, including Gettysburg National Cemetery, under its jurisdiction. Under a 2-year interagency agreement, NCPTT will identify alternatives for cleaning historic headstones and markers.

In FY 2004, VA launched a Web-based (Internet) Nationwide Gravesite Locator (NGL) 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 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.

Objective 4.5 — Key Performance Goal

Increase the percent of respondents who rate national cemetery appearance as excellent to 98 percent in 2004.



Description, Importance, and Results

Our Nation is committed to create and 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. Each national cemetery exists as a national shrine and as such provides an enduring memorial to their service as well as a dignified and respectful setting for their final rest. VA met its goal as 98 percent of survey respondents rated cemetery appearance as excellent.

Management and Policy Issues

To ensure the appearance of national cemeteries meets the standards our Nation expects of its national shrines,

VA performed a wide variety of grounds management functions, which included raising, realigning, and cleaning headstones and renovating turf. VA initiated National Shrine Commitment projects at 15 national cemeteries. These projects will raise, realign, and clean over 186,000 headstones and markers and renovate gravesites in more than 176 acres. VA also maintained roads, parking lots, and walks; painted buildings, fences, and gates; and repaired roofs, walls, and irrigation and electrical systems.

The appearance of national cemeteries is influenced by many different external factors. Over time, cemeteries experience a variety of environmental changes that may require extensive maintenance. Extremes in weather, such as excessive rain or drought, can result in or exacerbate sunken graves, sunken markers, soiled markers, inferior turf cover, and weathering of columbaria.

To ascertain how our customers and stakeholders perceive the appearance of national cemeteries, VA will continue to seek feedback through annual surveys and focus groups. This information is used to determine

expectations for cemetery appearance as well as specific improvement opportunities and training needs.

VA continued its partnerships with various civic organizations that provide volunteers and other participants to assist in maintaining the appearance of national cemeteries. An agreement with the Bureau of

Prisons provided for the use of selected prisoners as a supplemental source of labor to assist in maintaining the national cemeteries.

Data Quality

Please refer to the Key Measures Data Table on page 136.

Objective E-1

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
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.		\$898	1.3%
Objective	Performance Results		
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%

Performance

Employees are VA's foundation and are the key to our ability to deliver timely and high-quality benefits and services. In support of Objective E-1, the Department has placed a high priority on implementing strategies to ensure VA recruits, retains, and develops a quality and diverse workforce to serve veterans and their families. Our primary roadmap for achieving this objective is the Department's Strategic Human Capital Management Plan, which presents an overview of past and projected workforce trends and summaries of workforce plans

developed by VA's program and staff offices. VA has moved closer to the ultimate aim of Objective E-1 by implementing initiatives covering a multitude of topics outlined in these plans. One indicator of our success is measured by the fact that in FY 2004, 73 percent of employees responded favorably when surveyed about their job satisfaction, a share up markedly from the 57 percent recorded 3 years earlier. VA has hired hundreds of new decision-makers to help reduce the claims backlog and trained these and other employees in proper claims processing procedures. We also developed a legislative proposal, signed into law in

December 2003, to improve our ability to recruit and retain a number of mission-critical health care occupations. The Department created a voluntary VA-wide, online entrance and exit survey with Web-based data access. This valuable information helps guide the Department in improving recruitment and retention activities throughout all organizational levels.

VA recently developed a Web-based tracking system to collect data on ADR that will be analyzed yearly so that benchmarks can be identified and accomplishments measured. In addition, VA will conduct ADR and mediation awareness training sessions for all employees to ensure that employees are aware of the ADR and mediation tools that can be used to effectively resolve workplace conflicts and disputes. From these efforts, VA expects to derive benefits such as improved morale and productivity, reduction in future disputes, repaired relationships, improved customer service, and increased employee trust.

Program Assessment Rating Tool (PART) Evaluation

There are no PART evaluations that have been completed, nor are there any planned, that specifically address Objective E-1.

Major Management Challenges

The Government Accountability Office has identified strategic human capital management as a governmentwide high-risk area, which is related to

Objective E-1. It was also placed at the top of the President's Management Agenda (PMA). Please refer to pages 50-51 in the PMA section regarding VA's progress on strategic human capital management.

Program Evaluations

There have not been any independent evaluations of programs or activities related to Objective E-1.

New Policies and Procedures

VA established several new procedures and initiatives in support of Objective E-1. For example, the Department has:

- Increased internal and external recruitment and retention programs, developed and enhanced education and training programs, and fostered a corporate culture that proactively integrates women, minorities, and people with disabilities into management positions.
- Continued its *One VA* Senior Executive Service Candidate Development Program to develop future candidates for the Senior Executive Service within VA.
- Redesigned the VA Job Opportunities Web site; site visits more than doubled in the last 2 years.
- Devoted increasing attention to implementing employee performance standards that truly measure performance.
- Required all VA organizations to conduct an annual self-assessment of HRM programs to identify best practices and systemic deficiencies.

Objective E-2

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
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.		\$898	1.3%
Objective	Performance Results		
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%

Performance

VA took several important steps during FY 2004 to improve communication among employees and with veterans and their families concerning the Department's mission, goals, and current performance. In particular, VA released two key publications that helped move the organization closer to achievement of Objective E-2. First, the Department published the "Strategic Plan for Employees" in December 2003. This document was specifically designed for VA employees to help them better understand the current and future priorities for the Department and to see how employees directly contribute to VA's mission. This plan discusses VA's strategic goals and objectives and identifies the organization's major accomplishments associated with each goal and objective. In addition, the plan presents performance targets for FY 2008 so that employees will have a more complete understanding of what the organization will be striving to accomplish in the next

few years. The second major publication VA published was the "Results Report," which was released in August 2004. Designed primarily for VA employees, but also serving to improve communication with veterans and their families, veterans service organizations, Congress, and other stakeholders, this document highlights the significant accomplishments VA has made over the last 3 years in each of our program areas as well as the improvements the Department has made in results-based management.

During FY 2004 the Department increased its emphasis on reengineering the minority veterans' program coordinators efforts. Streamlining of the Advisory Committee on Minority Veterans and a refocusing of the committee towards more tangible recommendations with renewed emphasis on data gathering will enhance VA's Center for Minority Veterans' ability to identify issues and concerns for minority veterans and provide a better foundation for resolving the issues and concerns. The

center will continue its participation in forums, conferences, and meetings that address minority veterans' issues.

VA implemented a number of faith-based and community initiatives in FY 2004. Notices of Funding Availability published this year clearly identified faith-based organizations as being eligible entities to apply for funding under the VA homeless service providers grant and per diem program. New VA regulations were published in the Federal Register, designed to reduce barriers identified by faith-based representatives as potential impediments to providing services under VA's only grant program to non-profit organizations. VA participated in the White House Faith-Based and Community Initiatives Regional Conferences during FY 2004, distributing fact sheets and benefit information and responding to hundreds of requests for assistance. The aggressive outreach efforts of the Department helped VA maintain at 30 percent the proportion of funded grants providing services to homeless veterans that are faith-based.

Also, VA was successful in developing communication, collaboration, and coordination of Departmentwide programs and activities to address the needs of homeless veterans. The Homeless Veterans Program Office continued to develop and enhance collaborative programs with faith-based and community-based non-profit organizations, veterans service organizations, and state and local governments to serve homeless veterans through national "Stand-Downs" and the establishment of housing and employment services.

Program Assessment Rating Tool (PART) Evaluation

There are no PART evaluations that have been completed, nor are there any planned, that specifically address Objective E-2.

Major Management Challenges

Neither VA's Office of Inspector General nor the Government Accountability Office identified any major management challenges related to Objective E-2.

Program Evaluations

The Department has established 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. The results of the center's efforts will be presented in future reports.

New Policies and Procedures

VA established several new procedures and initiatives in support of Objective E-2. For example, the Department has:

- Instituted 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.
- Launched a Web site to provide Gulf-War related medical research information to veterans and their families.
- Continued to expand, update, and improve the Web site that disseminates information about VA programs, benefits, and services for women veterans.

Objective E-3

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
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.		\$898	1.3%
Objective	Performance Results		
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.	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%

Performance

Enterprise Architecture

Enterprise Architecture (EA) is the practice of advancing and modernizing VA's information technology operations and investments while also pairing those efforts with business process reengineering and innovation. The "enterprise" is VA and the "architecture" is the complex framework of processes, systems, and programs by which VA provides health care, benefits, and memorial services to veterans and their families. In FY 2004 the Office of the Chief Information Officer (CIO) accomplished the following:

- Restructured the Office of Enterprise Architecture to focus on advancement of the developed and stated architecture as well as the tools and methodologies to integrate all aspects and inputs. A Data Architecture Service is being established, which is fundamental to effective baselining and reference modeling for technology, systems, and business processes. Additionally, a Systems and Integration Service is being implemented to provide for a program management

office in direct support of commitments made to lead the development of Registration and Eligibility and Contact Management (RE/CM) systems development initiatives.

- Initiated and managed several IT initiatives including: Operation Seamless Transition at Walter Reed Hospital in direct support of servicemembers returning from Operation Iraqi Freedom and Operation Enduring Freedom; RE/CM business functions; DoD/VA data sharing and integration; and executive correspondence tracking in the Office of the Secretary.

Telecommunications

VA initiated the Telecommunications Modernization Project (TMP), which implements an enterprise-standard architecture for its wide area network. TMP will provide VA with a centrally managed, secured, and funded national resource that will transport the data communications requirements for all VA business functions.

Information Security Program

The Office of the CIO is responsible for providing services to veterans that protect the confidentiality, integrity, and availability of their private information; for

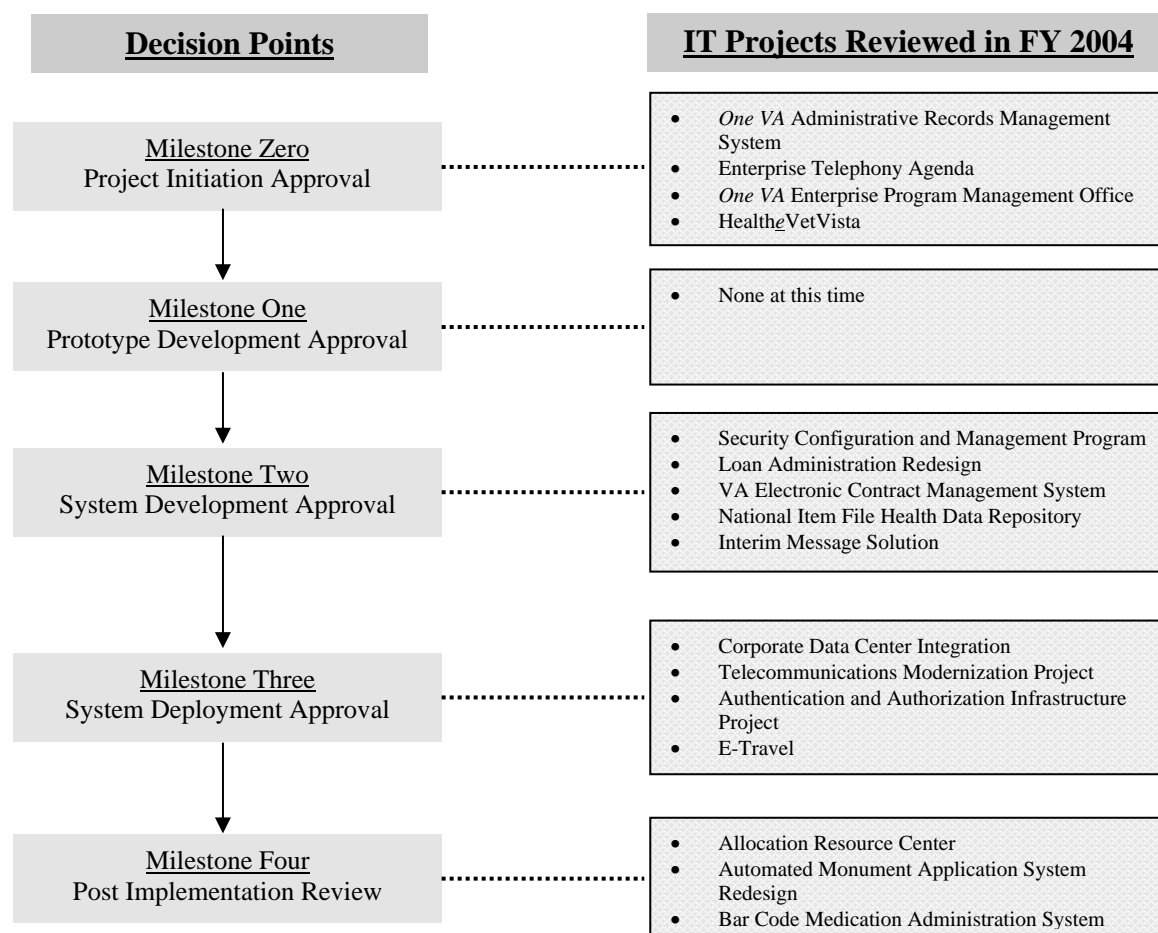
enabling the timely, uninterrupted, and trusted nature of services provided; and for providing assurance that cost-effective cyber security controls are in place to protect automated information systems from financial fraud, waste, and abuse. The Office of the CIO accomplished the following activities during FY 2004:

- Initiated deployment of a security configuration and management program to provide patch management and remediation services on a centralized basis.
- Managed all VA intrusion detection systems and provided real-time analytical incident support, event correlation and analysis, and audit log analyses through a fully functional Network and Security Operations Center (NSOC) that operates 24/7. The NSOC was a significant factor in successfully mitigating the impact of several major computer viruses and worms infecting VA systems and networks in FY 2004.

- Partnered with VA's Employee Education Service to develop and implement a cyber security awareness course for over 250,000 employees, contractors, and volunteers.
- Rolled out an Information Security Officer (ISO) cyber security professionalization program, which included training, certification, and credentialing for 442 of VA's 444 full-time ISOs and Office of Cyber and Information Security staff.

Integrated IT Project Management Process

To properly manage high priority IT projects in terms of budget, schedule, and scope, VA employs an integrated IT project management process that is delineated by five major decision points called milestones. Project managers are required to brief the Department's Enterprise Information Board, which includes the CIO, in order to gain approval to proceed to the next step in the process. Listed below are milestone reviews that were conducted in FY 2004.



Program Assessment Rating Tool (PART) Evaluation

There are no PART evaluations that have been completed, nor are there any planned, that specifically address Objective E-3.

Major Management Challenges

VA's Office of Inspector General has identified the following information technology issue as a major management challenge related to Objective E-3 (the program's response to the challenge may be found on the pages referenced below):

- Information security – information security vulnerabilities still exist, and corrective action needs to be taken to resolve them (refer to pages 248-250 for more information).

The Government Accountability Office has designated protecting information systems supporting the Federal government and the Nation's critical infrastructures as a governmentwide high-risk area, which is related to Objective E-3 (the program's response to the challenge may be found on the pages referenced below):

- Information technology challenges – the computer security management program requires further actions to ensure that the Department can protect its computer systems, networks, and sensitive health and benefits data from vulnerabilities and risks (refer to pages 264-265 for more information).

Program Evaluations

There have not been any independent program evaluations conducted recently that specifically address Objective E-3.

New Policies and Procedures

The *One VA* IT Enterprise Program Management Office (EPMO) initiative is designed to improve and standardize the management and reporting of VA's IT portfolios and projects, as required by the Clinger-Cohen Act. The EPMO is charged with developing a standard set of portfolio and project management policies, processes, procedures, tools, training, and certification across all VA entities to ensure a greater probability of achieving consistent, repeatable project successes in support of VA's mission and goals. The EPMO's mission has three main goal categories: people, processes, and tools.

The goal of the "people" category is to develop and certify qualified, competent project managers, project team members, and portfolio and project oversight staff members to successfully manage VA's IT projects. Through VA's Project Management Training and Certification Program, VA identifies, trains, and certifies project managers with significant project manager responsibilities. Over 850 project managers, team members, and stakeholders have participated in the program. Over 160 employees have been certified at the highest level and have earned a Master's Certificate in project management awarded by a major university. VA currently has 100 percent of its IT project managers for OMB Exhibit 300 initiatives trained and certified.

The "processes" goal is to define and implement repeatable strategic planning, portfolio management, and project management best practices and standardized processes that senior officers, project managers, and oversight staff members can employ to successfully select, manage, control, and evaluate VA's IT projects. In FY 2004, VA developed key documents to enable the improved management and oversight of VA's major IT projects and portfolios. The documents include: *Project Management Guide*, *Revised Milestone Briefing Templates and Instructions*, and *Portfolio Management Guide*.

The “tools” goal is to implement best-of-breed project management tools that project managers, project team members, and oversight staff members will use to facilitate the successful management, reporting, and oversight of VA’s IT projects. VA selected TeamPlay project management software to manage VA projects.

VA uses the Capital Asset Management System (CAMS) to manage VA’s IT portfolio. The system captures, tracks, and evaluates all VA capital asset initiatives within VA. OMB reviewed the Exhibit 300s for our FY 2005 IT portfolio and accepted all 59 of them on the first round, the first 100 percent success level for a Cabinet Department.

Objective E-4

		FY 2004 Obligations (\$ in Millions)	% of Total VA Resources
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.		\$898	1.3%
Objective	Performance Results		
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

VA recorded a broad array of accomplishments during FY 2004 that demonstrated significant movement toward the ultimate aim of Objective E-4. These achievements covered a wide range of operational processes and management improvement initiatives that will continue to lead to greater efficiency. Many of these efforts are being accomplished largely through centralization of several of our major business processes.

During FY 2004, we moved closer to a realignment of our finance, acquisition, and capital asset management

functions into business offices across the Department. This realignment of business functions is leading to reduction and standardization of field business activities into a more manageable size, provides for more consistent interpretation of policies and procedures, and promotes implementation of performance metrics and data collection related to these business functions. We are significantly strengthening compliance and consistency with finance, acquisition, and capital asset policies procedures.

The Department implemented 19 recommendations of the proposals put forth by the Secretary's Procurement Reform Task Force. Those recommendations promote leveraging our size and purchasing power by establishing more national contracts, standardizing procurement requests, creating a procurement database, and improving organizational effectiveness. These reforms have led to cost avoidances of hundreds of millions of dollars.

VA helps ensure accountability for performance through monthly performance reviews involving senior leadership. These reviews provide the forum for the Department's top leaders to continually review financial and program performance, workload, major construction, and information technology projects. As required, corrective actions are identified and implemented quickly in order to help ensure performance goals are achieved.

With the release of the President's FY 2005 budget and the Department's Congressional budget justifications in February 2004, VA integrated performance information with its request for resources. This was the first time the Department used this approach rather than prepare a separate performance plan. This was a major step toward better integration of strategic planning, budgeting, and performance planning.

VA worked to achieve the goal of collecting 41 percent of all medical care billings to veterans and health insurance companies, thus helping to maximize health care resources to our core service population—service-connected disabled veterans, those with lower incomes, and veterans with special health care needs. In addition, we achieved a dollar value of sharing agreements with DoD of \$120 million. These collaborative efforts between VA and DoD lead to greater efficiency in both departments.

Program Assessment Rating Tool (PART) Evaluation

During the development of the FY 2005 budget, the Administration conducted a PART evaluation of the medical care program that relates to the accomplishment of Objective E-4. This assessment reviewed the combined effectiveness of the legislative and executive branches in designing and implementing the many aspects of the medical care program. The PART evaluation for the medical care program resulted in a rating of "Adequate," an improvement from the FY 2004 budget year PART rating of "Results Not Demonstrated." The improvement in the PART evaluation of the medical care program resulted from several factors, including VA's sharpening its focus on providing timely, high-quality health care to our highest priority veterans—those with service-connected disabled conditions, veterans with lower incomes, and those with special health care needs.

Major Management Challenges

VA's Office of Inspector General identified the following issues as major management challenges related to Objective E-4 (the program's response to each challenge may be found on the pages referenced below):

- Federal Supply Schedule contracts – VA medical centers need to make more effective use of the best purchasing sources (refer to pages 240-241 for more information).
- Contracting for health care services – conflicts of interest exist in the request for approval of contracts, preparation of solicitations, contract negotiations, and contract administration (refer to pages 241-242 for more information).
- Government purchase card activities – systemic management weaknesses exist in the oversight and use of government purchase cards (refer to pages 242-244 for more information).
- Inventory management – systemic problems exist with inventory management caused by inaccurate information, lack of expertise needed to use the electronic inventory management system, and non-use

of the system at some supply points in medical centers (refer to pages 244-245 for more information).

- Financial management and reporting – manual compilations and processes should be automated (refer to pages 245-246 for more information).
- Data validity – data on performance should be thoroughly reviewed to ensure that data validity problems do not exist (refer to pages 246-247 for more information).
- Workers' compensation program – problems exist with inadequate case management and fraud detection (refer to pages 247-248 for more information).

The Government Accountability Office has identified the following issues as major management challenges related to Objective E-4 (the program's response to each challenge may be found on the pages referenced below):

- VA/DoD Sharing – VA needs to continue to work with DoD to address remaining barriers (refer to pages 255-257 for more information).
- Third-party collections – continuing work needs to be done to ensure that VA maximizes its third-party collections and to correct persistent collections process weaknesses (refer to pages 257-258 for more information).
- Financial management material weakness – problems still exist with the ability to produce auditable information after year end (refer to pages 265-266 for more information).
- Federal real property – this is designated as a governmentwide high-risk area (refer to pages 266-269 for more information).

Program Evaluations

There have not been any independent program evaluations conducted that specifically address Objective E-4.

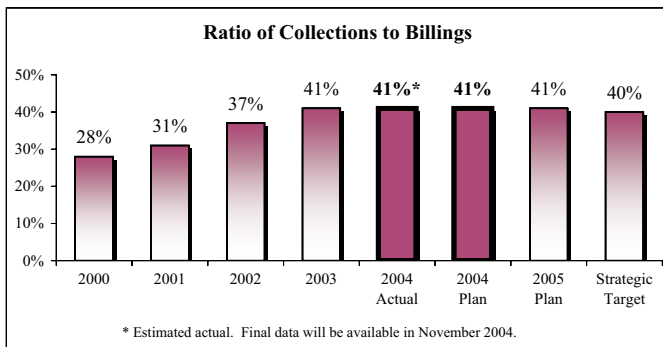
New Policies and Procedures

During FY 2004 VA was involved in a multitude of new efforts that helped bring the Department closer to the ultimate aim of Objective E-4. Some of these included:

- VA began using a new capital asset management system (CAMS), an integrated Departmentwide system that enables VA to establish, analyze, monitor, and manage its portfolio of capital assets.
- Through the Health Executive Council, VA and DoD have adopted a schedule to develop interoperable electronic medical records by FY 2005. This agreement, the VA/DoD Joint Electronic Health Record Plan – HealthPeople (Federal) strategy, calls for joint development of a virtual health record that will be accessible by authorized users throughout both departments.
- Through the Benefits Executive Council, the transition from active military to veteran status has been simplified by the development of a single examination that meets both military services' separation requirements and VA's disability compensation examination criteria. A national memorandum of agreement to codify this policy is scheduled for implementation shortly.
- VA is in the process of developing a baseline for erroneous payments in all programs – data that will assist the Department in reducing the volume of such payments in the future.
- The Department implemented and exceeded aggressive goals for reducing interest penalty payments and increasing discounts earned VA-wide in order to provide additional funds for veterans' programs.
- VA improved its financial processes by centralizing payment of certified invoices at a single center in Austin, Texas.
- VA improved its delivery of financial government services through expanded use of electronic commerce/electronic data interchange transactions.

Objective E-4 — Key Performance Goal

Achieve 41 percent ratio of collections to billings.



Description, Importance, and Results

VHA has developed a number of performance measures relating to space, costs, revenue, and value provided. The collections to billings ratio is a calculation based on the total cumulative fiscal year collections divided by the total cumulative billings. VA cannot collect from Medicare, but must include 100 percent of charges to assert claims to Medicare supplemental carriers. Because of this inability to collect from Medicare, the resulting ratio appears comparatively lower than the private sector standard.

Management and Policy Issues

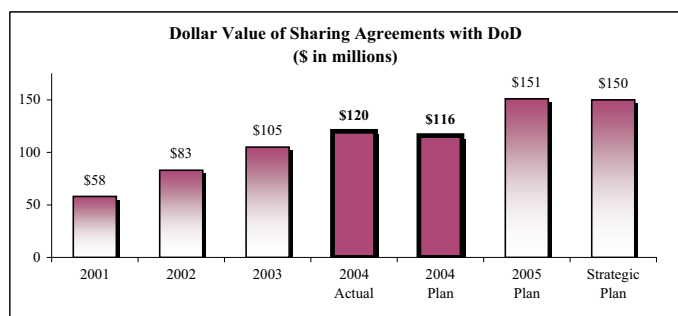
VA's primary strategies to achieve this performance goal include raising awareness of the services VA provides, and increasing revenue and efficiency through sound business practices. VA will assess and align the health care system to enhance cost-effective care for veterans. We will focus on increasing revenue and efficiency through better collections and improved business practices. We will hold managers accountable for performance through performance agreements. Achievement of this performance goal is largely contingent on the willingness of first and third parties to pay their bills.

Data Quality

Please refer to the Key Measures Data Table on page 136.

Objective E-4 — Key Performance Goal

Achieve \$116 million in the value of sharing agreements with DoD.



Description, Importance, and Results

VA has entered into a number of sharing agreements and memoranda of understanding with DoD to share direct medical care and other services, such as laundry and fire protection. VA and DoD also use other contracting authority to jointly procure pharmaceuticals, medical/surgical supplies, and equipment in order to combine purchasing power and eliminate redundancies. This measure is based on the total dollar value of sharing agreements VA has entered into with DoD. We achieved a \$120 million value of sharing agreements with DoD in FY 2004. VA has continued to increase the dollar value of sharing agreements with DoD each year.

Management and Policy Issues

VA's primary strategies to achieve this performance goal include raising awareness of the services VA provides, and increasing revenue and efficiency through sound

business practices. VA and DoD will work collaboratively through the VA/DoD Health Executive Council to drive the sharing process. VA and DoD will work to increase use of the same pharmaceutical and medical products resulting in increased leverage in Federal Supply Schedule or other joint contracting negotiations. VA partners with DoD's Pacific e-Health Center in Honolulu to provide peer consultation and patient care to participants separated by distance. VA and DoD participate in the Alaska Federal Health Care Partnership, with the goal of providing specialized care to isolated or remote patient populations in Alaska. VA's Cooperative Studies Program collaborates with DoD on a number of studies, including an antibiotic treatment trial and an exercise/behavioral medicine treatment trial for Gulf War Syndrome. While efforts are underway to document the value of sharing that is not tabulated in VA's or DoD's accounting systems, the new reimbursement rate—90% of CHAMPUS Maximum Allowable Charges for all clinical services—may actually lead to decreased sharing.

Data Quality

Please refer to the Key Measures Data Table on page 136.

Assessment of Data Quality

The quality of VA data has continued to improve; it supports business planning and day-to-day decision-making activities. Each program office has initiated specific improvement actions. In addition, the Office of the Inspector General (OIG) has conducted audits to determine the accuracy of our data. We consider OIG reviews to be independent and objective. The following discussion describes in detail the actions each VA administration has taken to improve its data quality.

Veterans Health Administration

VHA has focused on data reliability, accuracy, and consistency for the past several years. The principles of data quality are integral to VHA's efforts to provide excellence in health care. In 2001, the Under Secretary for Health commissioned a high-level, cross-cutting task force on data quality and standardization whose membership includes the chief officer from VHA's Office of Quality and Performance, the Assistant Deputy Under Secretary for Health, and officials from the Chief Network Office and the Office of Information. This task force has focused on strategic planning to provide consistent definitions of clinical and business data for more effective clinical and organizational decision support. The members seek collaboration with other parties including DoD, Indian Health Service, private sector health care providers, and standards organizations.

VHA's commitment to quality data was confirmed by the results of an OIG audit of the validity of data collection of the quality measures that VHA tracks – Clinical Practice Guidelines Index and Prevention Index II. The report acknowledged a high degree of accuracy. The OIG made no recommendations. VHA continuously monitors data accuracy to ensure these high standards are maintained.

VHA has long been recognized as a leader in documenting credentials and privileges of VA health care professionals. In 2001, VHA implemented a new electronic data bank, VetPro. This database dramatically improved VHA's ability to ensure timely and appropriate credentialing of health care professionals. VetPro promotes and demonstrates to other Federal and private agencies the value of a secure, easily accessible, valid data bank of health professionals' credentials. In 2004, VHA and DoD launched a study into the merits of integrating DoD's system for credentialing and privileging, Centralized Credentials and Quality Assurance System, with VHA VetPro. The study resulted in recommendations favoring continued collaboration with a goal of accomplishing future integration.

VetPro improves the process of credentialing and privileging by:

- Establishing a secure, accessible, valid electronic database.
- Ensuring appropriate credentials for clinical roles of practitioners.
- Allowing verification of practitioners' track records.

The VHA Data Consortium addresses organizational issues and basic data quality assumptions. The consortium works collaboratively to improve information

reliability and customer access for the purposes of quality measurement, planning, policy analyses, and financial management. The ongoing initiatives and strategies address data quality infrastructure, training and education, personnel, policy guidance, and data systems. The VHA data quality coordinator and data quality workgroups provide guidance on data quality policies and practices. Several initiatives support the integrity and data quality of coding including:

- Development of strategies and standard approaches to help field staff understand the data content and meaning of specific data elements in VHA databases.
- Development of coding resources for field facilities, to include negotiating the purchase of knowledge-based files/edits from Ingenix™ for use within the Veterans Health Information Systems and Technology Architecture (*VistA*).
- Complete revision of *VistA* software to accommodate the requirements of the Health Insurance Portability and Accountability Act for use of those code sets involving health care claims.

To support the need for guidance in medical coding, VHA established the Health Information Management (HIM) Coding Council, comprised of credentialed expert coders with support from VHA HIM Central Office staff to provide research and response to coding questions within 24 hours. The council has completed an update to the national coding handbook, which provides expert guidance to field facilities. Additional initiatives include:

- “*Close Encounters*” and “*Data Quality Highlights*” newsletters for field staff guidance.
- Ongoing, periodic training programs on such topics as national standard code set updates.
- Standardization of electronic encounter forms including documentation templates.

The Patient Financial Service System (PFSS) project is the pilot implementation of a commercial billing and accounts receivable system in VHA. This project is designed to incorporate business process improvements

and commercial information systems that are proven in the private sector. The project will introduce commercial business practices and technology into VA through a VISN pilot project comprised of VA best practices and commercial best practices. The objectives of the pilot are to implement a commercial product and study the effects on collections, improvements to the business process, and information systems in a single test environment. Ultimately, the long-term strategy is to develop a scalable solution, which includes both a commercial solution and VA applications that can be implemented in all networks.

VHA completed the implementation of a national Master Patient Index (MPI). The MPI provides the ability to view clinical data from various VA medical facilities via the remote data view functionality within the Computerized Patient Record System. The MPI provides the mechanism for linking patient information from multiple clinical, administrative, and financial records across VHA health care facilities, enabling an enterprise-wide view of individual and aggregate patient information.

VHA is examining its current health information processing environment to plan how to best implement improvements over the next 5 years. As part of this process, VHA is assessing:

- What a high-performance automated health system needs to provide.
- What the ideal health and information system would look like.
- What the advantages and disadvantages of our current system are.
- How best to use a phased approach for moving from the current to the ideal environment.

Currently VHA is enhancing the *VistA* platform by completing the Decision Support System and implementing *VistA* Imaging. Given funding availability, mid/long-term efforts will include development of a comprehensive health database that will be timely and universally accessible across the full continuum of care

settings. This platform will provide the basis for enhancements to eligibility/enrollment processing packages leading to attainment of *One VA* goals, the reengineering of the *VistA* Scheduling Package, and enhancements/improvements to the billing and fee basis systems.

VHA's Health_eVet-*VistA* project is focused on the replacement of the existing *VistA* legacy health care information system by rehosting, enhancing, and/or reengineering current health information applications on a modern robust technology platform. This effort will enrich the functionality currently available, benefiting veterans, clinical care providers, and the general public by expanding the availability and use of health care information. Health_eVet-*VistA* will provide veterans access to their personal health record through the MyHealth_eVet component and make these data available to the veterans' health care providers, enabling the veterans and health care providers to access and share the health record, access trusted health information, and access key supportive services including prescription drugs and appointments. Health_eVet-*VistA* will provide the transition to a veteran-centered health care system that will establish longitudinal electronic health records and track veteran visit history including their problems, orders, results, and treatments, and documentation across all visits. VA clinical care providers will have immediate access to critical information regardless of which facility the veteran visited.

Veterans Benefits Administration

VBA continues to focus on data reliability, accuracy, and consistency in all facets of its operations from claims processing to FTE hiring patterns. Whether these data are in legacy systems or a data warehouse environment, the output must be accurate and consistent in order to be effective. Managing the accuracy of these data necessitates an ongoing commitment. In 2004, VBA again invested resources in support of this commitment. By using data quality methods and strategies across all

its business lines, VBA continues to show improvements in the quality of its data.

The Office of Performance Analysis and Integrity (PA&I) reports directly to the Under Secretary for Benefits and now performs many of the data quality functions formerly carried out by other VBA components. PA&I assesses data for completeness, validity, consistency, timeliness, accuracy, and appropriateness of use as indicators. These data are extracted from VBA's systems of record (for example, Benefits Delivery Network) and are imported into an enterprise data warehouse. All front-end systems and reports are developed using business rules provided by the respective VBA business lines.

Prior to release, each report is subject to a process to ensure accuracy and adherence to business rules. Specific data validation reviews are conducted throughout the year and data anomalies are routinely investigated and corrected as necessary. Below are several of the projects and approaches used as part of our data quality practices.

- VBA continues to use a "push of a button" application which allows all field offices to download timely and consistent information useful to the operations of that office. The data warehouse integrates the ability to convert large quantities of select information into a spreadsheet format for further analyses.
- The Gulf War Veteran Information System allows for analysis using trend data on population growth for policy and legislation purposes including those dealing with Post Traumatic Stress Disorder and Amyotrophic Lateral Sclerosis. VBA's ongoing efforts to maintain data accuracy include reviews of data definitions and the associated data related to those definitions.
- The Inventory Management System allows Veterans Service Representatives, teams, coaches, and Veterans Services Center managers to plan proactive and systematic, workload or inventory management through timely and accurate access to integrated information. After a review of data reported by this system ascertained that one specific data element

(authorizations) was being omitted, VBA made a modification to ensure the correct level of authorizations was being reported.

- The Fiduciary Beneficiary System automatically generates monthly random samples of claims for national review. This random sample approach allows managers and field staff to review claims systematically, saving both time and resources. A review of the methodology used in calculating the completed and pending cases in this system determined that all data and reports were complete and valid.
- VBA field personnel incorporate data from other systems outside of the administration as part of its workload management practices. One such system, Veterans Appeals' Control and Locator System (VACOLS), is maintained by the VA Board of Veterans' Appeals (BVA). BVA and VBA periodically review the data in this system for consistency. In FY 2004, an in-depth review of various detail and summary reports was undertaken. As a result, modifications will be made to VACOLS reports, which will provide greater detail of individual appellate cases to VBA. This will improve the accuracy of case counts shown in VACOLS and those physically at field offices.
- Corporate WINRS is a comprehensive case management system used to maintain complete case histories, generate forms and letters, control authorizations and payments on behalf of the participants, and assist in scheduling and tracking appointments. Reports are generated regularly to identify invalid and inaccurate data. Business lines use these reports to correct discrepant data.
- Since the mid 1990's, VBA has developed a comprehensive program of customer satisfaction surveys for all of its major business lines. Surveys provide feedback on all aspects of the compensation and pension claims process, education benefits, VA home loans, transactions related to insurance policy holders, and the vocational rehabilitation and employment program. These surveys produce statistically valid performance data at the national and local regional office levels. The surveys are

professionally designed to measure all aspects of the business process as experienced by the veteran or family member. Through extensive use of focus groups, cognitive labs, piloting and pre-testing, the surveys are thoroughly tested and modified, and continue to be improved. These annual mail surveys follow the industry standard for pre-notification and follow-up reminders, resulting in high response rates. Capturing these comparable data within each business line facilitates trend analyses. PA&I conducts special analyses showing key drivers of customer satisfaction and comparisons of performance among regional offices to continue the focus on service improvements.

PA&I also gathers and reviews performance data on a monthly basis. This information is presented in report format as part of the Deputy Secretary's monthly performance review where data generated within VBA as well as provided to VBA are discussed for accuracy and consistency. Decisions for subsequent corrections of problem areas are addressed at the highest managerial levels.

National Cemetery Administration

Experience and recent historical data show that about 80 percent of those interred in national cemeteries resided within 75 miles of the cemetery at the time of death. From this experience, NCA considers eligible veterans to have reasonable access if a burial option (whether for casketed or cremated remains) is available within 75 miles of the veteran's place of residence. NCA determines the percent of veterans served by existing national and state veterans cemeteries within a reasonable distance of their residence by analyzing census data on the veteran population. Arlington National Cemetery, operated by the Department of the Army, and Andrew Johnson National Cemetery and Andersonville National Cemetery, operated by the Department of the Interior, are included in this analysis. In 2000, VA's Office of the Actuary released VetPop2000, the authoritative VA estimate and projection of the number and characteristics of veterans. From 2000

through 2002, actual performance was based on the VetPop2000 model using updated 1990 census data. Since 2003, actual performance and the target levels of performance have been based on a revised VetPop2000 model using 2000 census data. Projected openings of new national or state veterans cemeteries and changes in the service delivery status of existing cemeteries are also considered in determining the veteran population served. (Multiple counts of the same veteran population are avoided in cases of service-area overlap.)

NCA collects data monthly on the timeliness of marking graves through field station input to the Burial Operations Support System. After reviewing the data for general conformance with previous report periods, headquarters staff validates any irregularities through contact with the reporting station.

Since 2001, NCA has used an annual nationwide mail survey to measure the quality of service provided by national cemeteries as well as their appearance. The survey provides statistically valid performance information at the national and regional (Memorial Service Network (MSN)) levels and at the cemetery level for cemeteries having at least 400 interments per year. The survey collects data annually from family members and funeral directors who recently received services from a national cemetery. To ensure sensitivity to the

grieving process, NCA allows a minimum of 3 months after an interment before including a respondent in the sample population. VA headquarters staff oversees the data collection process and provides an annual report at the national level.

In FY 2003, NCA established standards and measures for key operational processes including interments, grounds maintenance, and headstones and markers. NCA established the Organizational Assessment and Improvement (OAI) Program to identify and prioritize continuous improvement opportunities, and to enhance program accountability by providing managers and staff at all levels with one NCA “scorecard.” In FY 2004, as part of the OAI Program, assessment teams drawn from national cemeteries, MSNs, and NCA Central Office began to conduct site visits to all national cemeteries, which will be visited on a rotating basis to validate performance reporting.

Office of Inspector General (OIG) Performance Audits

The OIG made an assessment of the Department’s data quality in the Major Management Challenges section of this report. This information is shown on pages 246-247.

Veterans Benefits Administration Quality Assurance Program (Millennium Act)

VBA maintains a quality assurance program independent of the field stations responsible for processing claims and delivering benefits. The following information about our programs including compensation and pension, education, vocational rehabilitation and employment, housing, and insurance is provided in accordance with title 38, section 7734.

Cases Reviewed and Employees Assigned by Program		
	Cases Reviewed	Employees Assigned
Compensation and Pension	17,110	18.0
Education	1,578	4.0
Vocational Rehabilitation and Employment	3,972	7.0
Housing	7,760	3.0
Insurance	11,640	4.0

Summary of Findings and Trends – Compensation and Pension

Accuracy reviews are accomplished through an outcome-based system, Statistical Technical Accuracy Review (STAR). STAR reports are based on the month that a case was completed, not when it was reviewed. Cases are requested to be submitted for review no later than the end of the following month.

Reviews of rating-related work and authorization-related products have a specific focus:

- **The benefit entitlement review** ensures all issues were addressed, Veterans Claims Assistance Act-compliant claim assistance was provided, and the resulting decision was correct, including effective dates.

- **The decision documentation/notification review** ensures adequate and correct decision documentation and proper decision notification.

The following are results for rating and authorization reviews for the 12-month period ending July 31, 2004:

	Rating		Authorization	
	Reviewed	Accuracy	Reviewed	Accuracy
Benefit Entitlement	6,797	87%	6,200	91%
Decision Documentation & Notification	6,797	90%	6,200	88%

The third type of review pertains to fiduciary work. The fiduciary review in FY 2004 was based on 4,113 cases through July 2004, with an accuracy rate of 81 percent. Most of the errors were found in the area of protection. "Protection" includes oversight of the fiduciary/beneficiary arrangement, analysis of accounting, adequacy of protective measures for the residual estate, and any measures taken to ensure that VA funds are used for the welfare and needs of the beneficiary and recognized dependents. If any of the individual components are in error, the entire case is in error.

Actions Taken to Improve Quality – Compensation and Pension

Regional offices are required to certify, on a quarterly basis, the corrective actions taken for errors documented by STAR. Reports on the corrective actions are submitted to VBA Headquarters, where they are reviewed to determine the adequacy of the corrective actions. Reliability of the reports is monitored during cyclical management site visits. Beginning in FY 2004, formal quality improvement plans were required from all regional offices with rating benefit entitlement accuracy below 80 percent.

Feedback on quality is provided to the field offices for training purposes. The STAR team uses a philosophy of consistency in review and a policy of assigning a dedicated STAR reviewer to specific field stations. Common STAR error findings are used for discussions and training during scheduled site visits and as agenda items for quarterly fiduciary program teleconference calls.

Training remains a priority and is conducted using a variety of mediums including satellite broadcasts, training letters, and computer-assisted training. Particular effort is made to ensure high-quality centralized training for new Veterans Service Representatives (VSRs) and Rating Veterans Service Representatives (RVSRs).

VBA implemented a national individual performance review plan with standardized review categories, sample size, and performance standards for all VSRs and RVSRs.

VBA is continuing to work closely with VHA to improve the quality of examination requests and reports. Efforts include measuring request and report accuracy, developing training materials such as videotapes and satellite broadcasts, and sponsoring quality improvement training sessions for key medical center and regional office staff.

VBA has also initiated a program for out-basing RVSRs to selected VA medical centers to facilitate the examination process. Currently, there are 20

participating locations. These RVSRs are spending a part of their workday reviewing the examinations for quality as a part of a national review, which is the official performance measure for quality in this area. The STAR staff continues to conduct the majority of examination report quality reviews, but the out-based RVSRs' participation has significantly expanded review capacity.

Summary of Findings and Trends – Education

Education Service reviewed 1,578 cases this year. Of these cases, there were 66 decisions with payment errors and 256 with service errors (note: some cases had more than 1 service error). Eligibility and entitlement determinations constituted approximately 0.9 percent of the service errors, while development and due process notification errors were 2.3 and 4.6 percent, respectively. From 2003 to 2004, payment accuracy improved slightly from 93.5 percent to 93.6 percent.

Actions Taken to Improve Quality – Education

As in previous years, the FY 2004 quarterly quality results identified error trends and causes which became topics for refresher training in regional processing offices. In addition, annual appraisal and assistance visits provide recommendations for improving specific quality areas.

Education Service is continuing its project to develop standardized training and certification for employees. The project is expected to have a significant impact in raising quality scores and maintaining them at high levels as the project is fully implemented over the next few years.

Summary of Findings and Trends – Vocational Rehabilitation and Employment (VR&E)

In FY 2004, VR&E conducted quality reviews on 3,972 cases. The reviews were conducted over a 12-month period, with each station reviewed twice during the fiscal year. The goal was to review at least 64 cases from each station.

Accuracy Elements	September 2004
Accuracy of Entitlement Determinations	96%
Accuracy of Evaluation, Planning, and Service Delivery	86%
Accuracy of Fiscal Decisions	89%
Accuracy of Outcome Decisions	95%

Actions Taken to Improve Quality – Vocational Rehabilitation and Employment

There was significant improvement from FY 2003 in the VR&E accuracy scores. These changes are attributed to the following initiatives implemented over the last 2 years:

- The Quality Assurance (QA) Reconsideration Review Board continued to provide resolutions on stations' requests for reconsideration of decisions made during the QA reviews, and provided clarification on VR&E policies and guidelines on cases.
- Local QA reviews were implemented in all regional offices. Each regional office conducts a review of 10 percent of their caseload each year. QA reports for the national and local reviews were made available through an Intranet Web site that provided each regional office an account for their individual quality assessment and training needs.
- QA bulletins were published containing guidelines and clarifications on existing policies.

Summary of Findings and Trends – Housing

The housing program reviewed 7,760 cases under its statistical quality control program in FY 2004. The defect rate equaled 1.89 percent, with the current national accuracy index being 98.11 percent. This is an improvement of a .49 percentage point above 2003.

The housing quality assurance program includes elements beyond the review of cases. The Lender Monitoring Unit

performed 39 on-site audits and 34 in-house audits of lenders participating in VA's home loan program.

The Portfolio Loan Oversight Unit (PLOU) conducts two types of reviews: in-house and on-site. In-house reviews are conducted on a continuous basis; approximately 55,000 reviews were completed in FY 2004. PLOU reviewed billing invoices and completed performance reviews from the portfolio services contractor, Countrywide Home Loans (CHL), in addition to solving problems associated with portfolio loans and properties. Detailed analyses on over 5,700 portfolio loans (regarding loan amortization) were conducted during FY 2004.

Loan Guaranty staff conducted 9 on-site reviews of regional loan centers and eligibility centers identifying 129 strengths, 137 weaknesses, and 35 best practices, and mandating 35 corrective actions. On-site reviews were conducted in January 2004 at the CHL offices in Plano, Texas, covering foreclosure, bankruptcy, and loss mitigation issues. Off-site reviews of other CHL facilities were conducted in August and September 2004, covering customer service, delinquent loan servicing, taxes, insurance, etc., as well as updated reviews of some foreclosure elements.

On-site performance reviews are generally conducted in cooperation with VA's oversight review team, whose members include: Loan Guaranty Service (Loan Management); the Indianapolis RO-based branch of Loan Management (PLOU); the Office of Inspector General (Financial Audit Division); the Office of Financial Policy (Financial & Systems Quality Assurance Service); and the Office of Resource Management (Finance and Administrative Services).

In FY 2004, the reviews by Loan Management/PLOU recovered excessive contractor charges by an estimated \$58,500. Additional amounts identified by PLOU relating to real estate tax penalties on GI loan property conveyances exceeded \$224,000 as of the end of FY 2004. PLOU also discovered 356 real estate owned

(REO) records in CHL's system for properties VA had previously sold or returned to the custody of the loan-servicing provider. This will avoid future annual tax payments of approximately \$178,000. PLOU has identified over \$2.5 million in unwarranted costs resulting from delays or errors by the prior servicing contractor. Actions will be initiated to recover these monies.

VA audits of lenders during FY 2004 amounted to approximately \$1,310,927 in liability avoidance. The Lender Monitoring Unit also recovered approximately \$71,000 in overcharges. These overcharges were refunded directly to veterans.

Actions Taken to Improve Quality – Housing

The Loan Guaranty Service disseminates the results of statistical quality control (SQC) reviews to field loan guaranty divisions on a monthly basis. Loan Guaranty prepares and releases a trend report to field personnel that identifies negative trends and action items found during FY 2004 surveys. The report is published to assist field personnel in identifying frequent problems facing loan guaranty management. Additionally, summaries of best practices employed by individual field stations are distributed quarterly to all field stations with loan guaranty activity.

National training is provided to enhance the quality of service provided to veterans and to increase lender compliance with VA policies. Lenders who significantly failed to comply with policies were either required to enter into indemnification agreements with VA or immediately repay the agency for its losses.

VA awarded the Property Management Service Contract to Ocwen Federal Bank FSB (Ocwen) of West Palm Beach, Florida, on August 27, 2003. Under this contract, Ocwen manages and sells all VA-acquired properties as a result of foreclosure or termination of GI and portfolio loans. These assets are currently worth over a billion dollars. VA began transitioning properties

to Ocwen in early December 2003. Loan Guaranty established the Property Management Oversight Unit (PMOU) in 2004 to monitor the management and marketing of the properties by Ocwen. The PMOU monitors Ocwen's performance by inspecting properties nationwide to ensure compliance with the contract requirements and performs on-site case reviews at Ocwen's Orlando, Florida, operations center on a quarterly basis. The PMOU is also responsible for reviewing and certifying all payments made to Ocwen including reimbursement of out-of-pocket expenses on VA properties as well as the service provider fee due when the property is sold. This requires quality assurance checks to ensure that Ocwen is entitled to the reimbursement being claimed.

Summary of Findings and Trends – Insurance

The insurance program's principal quality assurance tool is the statistical quality control (SQC) review. It assesses the ongoing quality and timeliness of work products by reviewing a random sample of completed or pending work products. These work products are generally grouped into two broad categories based on the operating divisions in which they are performed – Policyholders Services or Insurance Claims Divisions.

Policyholders Services, whose work products deal with the maintenance of active insurance policies, had an overall accuracy rate of 97 percent for FY 2004. Work products included correspondence, applications, disbursements, record maintenance, refunds, and telephone inquiries. Insurance Claims is responsible for the payment of death and disability awards, the issuance of new coverage, and the processing of beneficiary designations. The accuracy rate for insurance claims work products was 98.5 percent. Work products included death claims, awards maintenance, beneficiary and option changes, disability claims, and medical applications. In total, 97.6 percent of all FY 2004 insurance work products were accurate.

Regarding timeliness, 97 percent of the work measured in Policyholders Services and 95 percent of the work measured in Insurance Claims were within accepted timeliness standards. In all, 96 percent of FY 2004 insurance work products were timely.

The insurance quality assurance program also includes internal control reviews and individual employee performance reviews. The internal control staff reviews 100 percent of all employee-prepared disbursements and also reviews insurance operations for fraud through a variety of reports. Reports are generated daily and identify death claims based on specific criteria that indicate possible fraud. Primary end products processed by employees in the operating divisions are evaluated based on the elements identified in the Individual Employee Performance Requirements. As a result of these controls, insurance disbursements have been 99.8 percent accurate.

Actions Taken to Improve Quality – Insurance

The Insurance Service uses SQC and employee performance review programs to measure quality and timeliness on an overall and individual basis. Both programs are valuable as training tools because they identify trends and problem areas. When a reviewer finds an error or discrepancy during a review, he or she prepares an exception sheet that clearly describes how the item was processed incorrectly. The noted item is then reviewed with the person who incorrectly processed the form.

SQC reviews are based on random samples of key work products and evaluate how well these work products are processed in terms of both quality and timeliness.

Exceptions are brought to the attention of the insurance operations division chiefs, unit supervisors, and employees who worked the case.

VBA's Insurance Service evaluates the SQC programs periodically to determine if they are functioning as intended. Currently the Insurance Service is examining error and discrepancy classifications and sample sizes.

Individual performance reviews are conducted monthly. The performance levels – critical and non-critical elements – are identified in the Individual Employee Performance Requirements. These reviews are based on a random sampling of the primary end products turned out by employees in the operating divisions. Those items found to have errors are returned to the employee for correction. At the end of the month, supervisors inform employees of their error rates and timeliness percentages as compared to acceptable standards.

The insurance program implemented a dozen job aids under the initiative called Skills, Knowledge and Insurance Practices and Procedures Embedded in Systems (SKIPPES). This program captures “best practices” for processing various work items and makes them available on each employee’s desktop. It is expected that the SKIPPES job aids will further reduce error rates and improve timeliness.

In addition to the above, the Internal Control Staff records and returns work with any errors they detect while conducting reviews. The records are continuously analyzed, and corrective training and other steps are taken to reduce/eliminate such errors.

Key Measures Data Table

Key Performance Measure	Definition	Data Source	
<p>Objective 1.2 Compensation and Pension: National accuracy rate (core rating work)</p>	<p>Processing accuracy for claims that normally require a disability or death determination. Review criteria include: addressing all issues, Veterans Claims Assistance Act (VCAA)-compliant development, correct decision, correct effective date, and correct payment date if applicable. Accuracy rate is determined by dividing the total number of cases with no errors in any of these categories by the number of cases reviewed.</p>	<p>Findings are entered in an Intranet database maintained by the Philadelphia LAN Integration Team and downloaded monthly to the PA&I information storage database. C&P Service owns the data.</p>	
<p>Objective 1.2 Compensation and Pension: Rating-related actions - average days to process</p>	<p>The average elapsed time (in days) it takes to complete claims that require a disability decision is measured from the date the claim is received by VA to the date the decision is made including the following types of claims: Original Compensation, with 1-7 issues (End Product (EP) 110), Original Compensation, 8 or more issues (EP 010), Original Service Connected Death Claim (EP 140), Reopened Compensation Claims (EP 020), Review Examination (EP 310), Hospitalization Adjustment (EP 320). For Pension cases, the category includes original pension claims (EP 180) and reopened pension claims (EP 120). The measure is calculated by dividing the total number of days recorded from receipt to completion by the total number of cases completed.</p>	<p>The source of data for this measure is the Benefits Delivery Network (BDN). The data are manually input by employees during the claims process. Results are also extracted from BDN by VA managers. C&P Service owns the data.</p>	
<p>Objective 1.2 Compensation and Pension: Rating-related actions - average days pending</p>	<p>The measure is calculated by dividing the total number of days recorded, from receipt to the last day of the current month, for all the cases yet to be completed in the specified end product categories, by the total number of cases yet to be completed in the specified categories.</p>	<p>The source of data for this measure is the Benefits Delivery Network (BDN).</p>	
<p>Objective 1.3 Vocational Rehabilitation and Employment Rehabilitation rate</p>	<p>The number of veterans who acquire and maintain suitable employment and leave the program, divided by the total number leaving the program. For those veterans with disabilities that make employment unfeasible, Vocational Rehabilitation and Employment (VR&E) seeks to assist them on becoming independent in their daily living.</p>	<p>VBA balanced scorecard and VR&E management reports</p>	

	Frequency	Data Limitations	Verification and Validation
	Case reviews are conducted daily. The review results are tabulated monthly and annually.	None	GAO has reviewed the process and reliability in detail. Two individuals from the Systematic Technical Staff examine each case reviewed. Any inconsistencies are addressed with training.
	Data are collected daily as awards are processed by employees. Results are tabulated at the end of the month and annually.	None	Data are analyzed weekly and results are recorded quarterly. Compensation and Pension Service calls the cases in for review from the Regional Offices with the highest rates of questionable practices.
	The element is a snapshot of the age of the inventory at the end of each processing month as well as annually.	None	Data are analyzed weekly and results are recorded quarterly by Compensation and Pension Service. Cases are called in for review from the Regional Offices with the highest rates of questionable practices.
	Quality Assurance Reviews evaluate the validity and reliability of data and are conducted twice a month. A review of balanced scorecard data is completed monthly.	None	Quality assurance (QA) reviews are completed by each station and VR&E Service. The QA program was set up to review samples of cases for accuracy and to provide scoring at the RO level. In response to a FY 2000 IG Audit, the following items were undertaken to address the IG recommendations for improving accuracy of data: 1) Quality Assurance Satellite Broadcast was held on May 7, 2003. 2) VR&E Letter 28-03-03, Policies to Improve Accuracy of Data Used to Compute Rehabilitation Rate, was sent out to the field on April 30, 2003. 3) VR&E Letter 28-03-12, Recent Changes to VR&E Quality Assurance Program, confirms that VR&E service reviews 64 cases per station each year and all field stations are conducting local QA Reviews on 10% of their caseload effective November 2002. 4) VR&E Outcome Accuracy measure has been added to the VARO Directors' performance standards. 5) Letter was sent requiring all field VR&E Officers' signature on all outcome cases.

Key Performance Measure	Definition	Data Source	
<p>Objective 2.2 Average days to complete original and supplemental education claims</p>	<p>Elapsed time, in days, from receipt of a claim in the regional processing office to closure of the case by issuing a decision. Original claims are for first-time use of this benefit. Any subsequent school enrollment is considered a supplemental claim.</p>	<p>Education claims processing timeliness is measured by using data captured automatically through VBA's Benefits Delivery Network. This information is generated through the VBA data warehouse generated reports. (Coin-Door 1016).</p>	
<p>Objective 2.3 Foreclosure avoidance through servicing (FATS) ratio</p>	<p>The FATS ratio measures the effectiveness of VA supplemental servicing of defaulted guaranteed loans. The ratio measures the extent to which foreclosures would have been greater had VA not pursued alternatives to foreclosure.</p>	<p>Data are extracted from the Loan Service and Claims (LS&C) System. This system is used to manage defaults and foreclosures of VA-guaranteed loans.</p>	
<p>Objective 3.1 Percent of patients rating VA health care service as very good or excellent: Inpatient and Outpatient</p>	<p>This measure uses a survey that consists of a sample of inpatients and a sample of outpatients who respond to a question on the semi-annual inpatient and the quarterly outpatient surveys. The denominator is the total number of patients sampled who answered the question, "Overall, how would you rate your quality of care?" The numerator is the number of patients who respond 'very good' or 'excellent.'</p>	<p>Survey of Health Experiences of Patients</p>	
<p>Objective 3.1 Percent of primary care appointments scheduled within 30 days of desired date.</p>	<p>This measure tracks the time between when the primary care appointment request is made (entered into the computer) and the date for which the appointment is actually scheduled. The percent is calculated using the numerator, which is those scheduled within 30 days of desired date (includes both new and established patient experiences), and the denominator, which is all appointments in primary care clinics posted in the scheduling software during the review period.</p>	<p>Vista scheduling software</p>	
<p>Objective 3.1 Percent of specialist appointments scheduled within 30 days of desired date.</p>	<p>This measure tracks the number of days between when the specialty appointment request is made (entered into the computer) and the date for which the appointment is actually scheduled. This includes both new and established specialty care patients. The percent is calculated using the numerator, which is all appointments scheduled within 30 days of desired date and the denominator, which is all appointments posted in the scheduling software during the review period in selected high volume/key specialty clinics.</p>	<p>Vista scheduling software</p>	

	Frequency	Data Limitations	Verification and Validation
	Monthly	None	The Education Service staff in VA Central Office confirms reported data through ongoing quality assurance reviews conducted on a statistically valid sample of cases. Dates of claims are reviewed in the sample cases to ensure they are reported accurately. Each year, Central Office staff reviews a sample of cases from each of the four RPOs. Samples are selected randomly from a database of all quarterly end products. The results are valid at the 95 percent confidence level. Reviewers validate dates of claims for all cases reviewed.
	Data are collected on a monthly basis.	There are five components that make up the FATS ratio. The four involving financial transactions are auditable. The fifth component, successful interventions, is based on employee interpretation of established criteria.	Data for the FATS ratio are validated by a review of a sample of case files during survey visits by the Loan Guaranty Quality Control staff to its Regional Loan Centers.
	Surveys are conducted: Inpatient - Semi-annually Outpatient - Quarterly.	None	Routine statistical analysis is performed to evaluate the data quality, survey methodology, and sampling processes. Questions are routinely analyzed to determine the areas where change would have the biggest impact in overall quality perception.
	Monthly	None	The <i>Vista</i> scheduling software requires minimal interpretation from an employee to ensure accuracy of data collection.
	Monthly	None	The <i>Vista</i> scheduling software requires minimal interpretation from an employee to ensure accuracy of data collection.

Key Performance Measure	Definition	Data Source	
Objective 3.1 Clinical Practice Guidelines Index	The Clinical Practice Guidelines Index is a composite measure comprised of the evidence and outcomes-based measures for high-prevalence and high-risk diseases that have significant impact on overall health status. The indicators within the Index are comprised of several clinical practice guidelines in the areas of ischemic heart disease, hypertension, diabetes mellitus, major depressive disorder, schizophrenia, and tobacco use cessation. The percent compliance is an average of the separate indicators.	External contractor reviews statistically valid random sample of medical records.	
Objective 3.1 Prevention Index II	The Prevention Index is an average of nationally recognized primary prevention and early detection recommendations for nine diseases or health factors that significantly determine health outcomes. It consists of 9 separate indicators that include: rate of immunizations for influenza and Pneumococcal pneumonia and screening for tobacco consumption, alcohol abuse, breast cancer, cervical cancer, colorectal cancer, prostate cancer education, and cholesterol levels. Each indicator's numerator is the number of patients in the random sample who actually received the intervention they were eligible to receive. The denominator is the number of patients in the random sample who were eligible to receive the intervention.	External contractor reviews statistically valid random sample of medical records.	
Objective 3.1 Increase non-institutional long-term care as expressed by average daily census	The number is the Average Daily Census of veterans enrolled in Home and Community-Based Care programs (Home-Based Primary Care, Contract Home Health Care, Adult Day Health Care (VA and Contract), and Homemaker/Home Health Aide Services).	This measure is the average daily census of the non-institutional home and community home-based non-institutional care available for eligible veterans.	
Objective 3.3 Average days to process insurance disbursements	Insurance disbursements are death claims paid to beneficiaries, policy loans, and cash surrenders requested by policyholders. Average processing days are a weighted composite for all three types of disbursements based on the number of end products and timeliness for each category. Processing time begins when the veteran's application or beneficiary's fully completed claim is received and ends when the internal controls staff approves the disbursement. The average processing days for death claims is multiplied by the number of death claims processed. The same calculation is done for loans and cash surrenders. The sum of these calculations is divided by the sum of death claims, loans, and cash surrenders processed to arrive at the weighted average processing days for disbursements.	Data on processing time are collected and stored through the Statistical Quality Control (SQC) Program and the Distribution of Operational Resources (DOOR) system.	

	Frequency	Data Limitations	Verification and Validation
	Data are reported quarterly with a cumulative average determined annually.	None	Review is performed by an external contractor to ensure accuracy of findings. In addition, validity and reliability of the collected data are evaluated using accepted statistical methods along with inter-rater reliability assessments that are performed each quarter.
	Data are reported quarterly with a cumulative average determined annually	None	Review is performed by an external contractor to ensure accuracy of findings. In addition, validity and reliability of the collected data are evaluated using accepted statistical methods along with inter-rater reliability assessments that are performed each quarter.
	Quarterly	None	The data are collected and tracked by VHA's Office of Geriatrics and Extended Care (G&EC) Strategic Healthcare Group.
	Monthly	None	The Insurance Service periodically evaluates the SQC Program to determine if it is being properly implemented. The composite weighted average processing days measure is calculated by the Insurance Service and is subject to periodic reviews. Timeliness information is considered to be valid for management of operations.

Key Performance Measure	Definition	Data Source	
<p>Objective 3.4 Percent of veterans served by a burial option within a reasonable distance (75 miles) of their residence</p>	<p>The measure is the number of veterans served by a burial option divided by the total number of veterans, expressed as a percentage. A burial option is defined as a first family member interment option (whether for casketed remains or cremated remains, either in-ground or in columbaria) in a national or state veterans cemetery that is available within 75 miles of the veteran's place of residence.</p>	<p>From 2000 through 2002, the number of veterans and the number of veterans served were extracted from the VetPop2000 model using updated 1990 census data. Beginning in 2003, the number of veterans and the number of veterans served were extracted from a revised VetPop2000 model using 2000 census data.</p>	
<p>Objective 3.4 Percent of respondents who rate the quality of service provided by the national cemeteries as excellent</p>	<p>The number of survey respondents who agree or strongly agree that the quality of service received from national cemetery staff is excellent divided by the total number of survey respondents, expressed as a percentage. The survey collects data from family members and funeral directors who have recently received services from a national cemetery.</p>	<p>NCA's Survey of Satisfaction with National Cemeteries</p>	
<p>Objective 3.5 Percent of graves in national cemeteries marked within 60 days of interment</p>	<p>The number of graves in national cemeteries for which a marker has been set at the grave or the reverse inscription completed within 60 days of the interment divided by the number of interments, expressed as a percentage.</p>	<p>NCA'S Burial Operations Support System (BOSS) as input by field stations.</p>	
<p>Objective 4.2 Number of Career Development Awardees</p>	<p>The objective of the Career Development program is to build and maintain the number of VA clinicians who can conduct research in areas of high relevance to the health care of veterans. The performance measure target is an annual count of all the career development awardees in each of the four services of the VA Research and Development Program: Laboratory Science, Health Services Research, Rehabilitation Research, and Clinical Science.</p>	<p>Annual survey of all facilities by the Research Office</p>	
<p>Objective 4.5 Percent of respondents who rate national cemetery appearance as excellent</p>	<p>The number of survey respondents who agree or strongly agree that the overall appearance of the national cemetery is excellent divided by the total number of survey respondents, expressed as a percentage. The survey collects data from family members and funeral directors who have recently received services from a national cemetery.</p>	<p>NCA's Survey of Satisfaction with National Cemeteries</p>	
<p>Objective E-4 Ratio of collections to billings</p>	<p>The collections to billings ratio is a calculation based on the total cumulative fiscal year collections divided by the total cumulative billings. VA cannot collect from Medicare; however, 100 percent of the charges must be included to assert claims to Medicare supplemental carriers. The resulting ratio is comparatively lower than the private sector standard.</p>	<p>The collections and billed data are extracted from the National Data Base in the Allocation Resource Center (ARC).</p>	
<p>Objective E-4 Dollar value of sharing agreements with DoD (Joint Measure with VBA) (\$ in millions)</p>	<p>This measure is based on the total dollar value of sharing agreements VA has entered into with DoD.</p>	<p>Data are collected and reported by the VHA Medical Sharing Office based on information reported by VISNs through the VISN Support Services Center.</p>	

	Frequency	Data Limitations	Verification and Validation
	Recalculated annually or as required by the availability of updated veteran population census data. Projected openings of new national or state veterans cemeteries and changes in the service delivery status of existing cemeteries also determine the veteran population served.	Provides performance data at specific points in time as veteran demographics change.	In 1999, the OIG performed an audit assessing the accuracy of the data used for this measure. Data were revalidated in the 2002 report entitled Volume 1: Future Burial Needs, prepared by an independent contractor as required by the Veterans Millennium Health Care and Benefits Act, P.L. 106-117.
	Annually	None	VA Headquarters staff oversees the data collection process and provides an annual report at the national level. MSN and cemetery level reports are provided to NCA management. The mail-out survey provides statistically valid performance information at the national and MSN levels and at the cemetery level for cemeteries having at least 400 interments per year.
	Monthly	None	VA Headquarters staff oversees the data collection process to validate its accuracy and integrity. Monthly and fiscal-year-to-date reports are provided at the national, MSN, and cemetery levels.
	Annually	None	Program managers track the number of career development applicants as well as new and current awardees and report that information to the VA Research & Development Computing Center where it is compiled.
	Annually	None	VA Headquarters staff oversees the data collection process and provides an annual report at the national level. MSN and cemetery level reports are provided to NCA management. The mail-out survey provides statistically valid performance information at the national and MSN levels and at the cemetery level for cemeteries having at least 400 interments per year.
	Quarterly	None	The data are routinely validated and verified by program personnel and ARC for accuracy.
	Quarterly	Data are self-reported by the VISNs, but felt to be accurate.	The data are validated by the VISNs through their normal accounting system.

Performance Measures Tables

The following tables display our key and supporting measures both by strategic goal and objective, and by organization and program.

For each measure, we show available trend data for 5 years. The actual result is designated as follows:

- Target was met or exceeded (green or G).
- Target was not met, but the deviation did not significantly affect goal achievement (yellow or Y).
- Target was not met, and the difference significantly affected goal achievement (red or R).

For each "red" measure (in the table of measures by program), we provide a brief explanation of why there was a significant deviation between the actual and planned performance level, and we briefly identify the steps being taken to ensure goal achievement in the future. We will publish final data in the FY 2006 Congressional budget and/or the FY 2005 Performance and Accountability Report.

The table showing measures by organization and program includes the total amount of resources (FTE and obligations) for each program. The GPRA program activity structure is somewhat different from the program activity structure shown in the program and financing (P&F) schedules of the President's budget. However, all of the P&F schedules have been aligned with one or more of our programs to ensure all VA program activities are covered. The program costs (obligations) represent the estimated total resources available for each of the

programs, regardless of which organizational element has operational control of the resources. The performance measures and associated data for each major program apply to the entire group of schedules listed for that program.

VA uses the balanced measures concept to monitor program and organizational performance. We examine and regularly monitor several different types of measures to provide a more comprehensive and balanced view of how well we are performing. Taken together, the measures demonstrate the balanced view of performance we use to assess how well we are doing in meeting our strategic goals, objectives, and performance targets.

VA continues working to ensure the quality and integrity of our data. The Key Measures Data Table starting on page 130 provides the definition, data source, frequency of collection, any data limitations, and the method of verification and validation for each key measure. The Assessment of Data Quality beginning on page 120 provides an overall view of how our programs verify and validate data for all of the measures. Definitions for the supporting measures are located in Part IV beginning on page 284.

Strategic Goals, Objectives, and Performance Measures
 (Explanations of performance are found in the Performance Measures by Program table)
 (Key Measures are in bold)
 (G = Green; Y = Yellow; R = Red)

Performance Measures	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
----------------------	---------	---------	---------	---------	-------------------	-----------------

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.

Objective 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.

Prevention Index II (Special Populations) (through June)	N/A	N/A	N/A	80%	* 86% G	80%
Percent of veterans who were discharged from a Domiciliary Care for Homeless Veterans (DCHV) Program, or HCHV Community-based Contract Residential Care Program to an independent or a secured institutional living arrangement (through June)	N/A	N/A	65%	72%	* 79% G	67%

Objective 1.2: Provide timely and accurate decisions on disability compensation claims to improve the economic status and quality of life of service-disabled veterans.

Average number of days to obtain service medical records (Comp)	N/A	N/A	N/A	N/A	N/A	TBD
Percent of compensation recipients who were kept informed of the full range of available benefits (Comp) (a) Results will not be available until 2005	37%	39%	40%	42%	(a)	40%
Percent of compensation recipients who perceive that VA compensation redresses the effect of service-connected disability in diminishing the quality of life (Comp)	N/A	N/A	N/A	N/A	** TBD	50%
Percent of veterans in receipt of compensation whose total income exceeds that of like circumstanced veterans (Comp)	N/A	N/A	N/A	N/A	** TBD	TBD
National accuracy rate (core rating work) (Compensation & Pension) (through July)	N/A	89%	81%	86%	* 87% Y	90%
Overall satisfaction (Compensation & Pension) (a) Results will not be available until 2005	56%	56%	58%	59%	(a)	70%
Rating-related actions - average days to process (Compensation & Pension)	173	181	223	182	166 R	145
Rating-related actions - average days pending (Compensation & Pension)	138	182	174	111	118 R	80
Non-rating actions - average days to process (Compensation & Pension)	50	55	60	59	58 R	40
Non-rating actions - average days pending (Compensation & Pension)	84	117	96	108	102 R	62
National accuracy rate (authorization work) (Compensation & Pension) (through July)	51%	65%	80%	88%	* 91% G	87%

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

Strategic Goals, Objectives, and Performance Measures
 (Explanations of performance are found in the Performance Measures by Program table)
 (Key Measures are in bold)
 (G = Green; Y = Yellow; R = Red)

Performance Measures	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
National accuracy rate (fiduciary work) (Compensation & Pension) (through July) (1) Correction	(1) 59%	(1) 68%	(1) 84%	77%	* 81% Y	88%
Telephone activities - abandoned call rate (Compensation & Pension) (through August)	6%	6%	9%	9%	* 7% Y	3%
Telephone activities - blocked call rate (Compensation & Pension)	3%	3%	7%	3%	2% G	3%
Fiduciary Activities - Initial Appt. & Fiduciary - Beneficiary Exams (completed) (%) (Compensation & Pension) (1) Correction	(1) 6%	(1) 13%	(1) 9%	11%	12% Y	8%
Fiduciary Activities - Initial Appt. & Fiduciary - Beneficiary Exams (pending) (%) (Compensation & Pension)	N/A	N/A	16%	20%	14% Y	12%
Appeals resolution time (Days) (Joint measure with C&P) (BVA)	682	595	731	633	529 Y	520
Deficiency-free decision rate (BVA)	86%	87%	88%	89%	93% G	91%
BVA Cycle Time (Days)	172	182	86	135	98 G	155
Appeals decided per Veterans Law Judge (BVA)	594	561	321	604	691 G	619
Cost per case (BVA)	\$1,219	\$1,401	\$2,702	\$1,493	\$1,302 G	\$1,444
** Pending Program Outcome Study. Study was cancelled in 2004 because of the new Disability Compensation Commission. Study will be conducted in CY 2005. The Commission first met in August 2004 and the results are tentatively expected 15 months thereafter.						

Objective 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.

Speed of entitlement decisions in average days (VR&E)	75	62	65	63	57 G	60
Accuracy of decisions (Services) (VR&E) (1) Correction	85%	79%	81%	(1) 82%	86% Y	90%
Accuracy of program outcome (VR&E)	N/A	N/A	81%	81%	94% G	92%
Rehabilitation rate (VR&E)	65%	65%	62%	59%	62% Y	67%
Customer satisfaction (Survey) (VR&E) (a) Results will not be available until 2005	74%	76%	77%	N/A	(a)	82%

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

Strategic Goals, Objectives, and Performance Measures
 (Explanations of performance are found in the Performance Measures by Program table)
 (Key Measures are in bold)
 (G = Green; Y = Yellow; R = Red)

Performance Measures	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
Common Measures						
Percent of participants employed first quarter after program exit (VR&E)	N/A	N/A	N/A	N/A	N/A	TBD
Percent of participants still employed three quarters after program exit (VR&E)	N/A	N/A	N/A	N/A	N/A	TBD
Percent change in earnings from pre-application to post-program employment (VR&E)	N/A	N/A	N/A	N/A	N/A	TBD
Average cost of placing participant in employment (VR&E)	N/A	N/A	N/A	N/A	N/A	TBD

Objective 1.4: Improve the standard of living and income status of eligible survivors of service-disabled veterans through compensation, education, and insurance benefits.

Average days to process - DIC actions (Comp) (1) Correction	122	133	172	(1) 153	125 G	126
Percent of DIC recipients above the poverty level (Comp)	N/A	N/A	N/A	N/A	99% G	75%
Percent of DIC recipients who are satisfied that the VA recognized their sacrifice (Comp)	N/A	N/A	N/A	N/A	80% G	50%

Strategic Goal 2: Ensure a smooth transition for veterans from active military service to civilian life.

Objective 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.

Percent of claimants who are Benefits Delivery at Discharge (BDD) participants (Comp)	N/A	N/A	N/A	22%	20% Y	25%
Percent of VA medical centers that provide electronic access to health information provided by DoD on separated service persons (estimated actual)	N/A	N/A	0%	100%	* 100% G	100%

Objective 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.

Montgomery GI Bill usage rate: All program participants (Education)	57%	58%	56%	58%	59% Y	60%
Montgomery GI Bill usage rate: Veterans who have passed their 10-year eligibility period (Education)	N/A	N/A	N/A	66%	66% G	66%

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

Strategic Goals, Objectives, and Performance Measures
 (Explanations of performance are found in the Performance Measures by Program table)
 (Key Measures are in bold)
 (G = Green; Y = Yellow; R = Red)

Performance Measures	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
Compliance survey completion rate (Education) (1) Correction	94%	92%	93%	(1) 93%	94% G	90%
Customer satisfaction-high ratings (Education) (a) Results will not be available until 2005	82%	86%	87%	89%	(a)	87%
Telephone Activities - Blocked call rate (Education)	39%	45%	26%	13%	20% Y	18%
Telephone Activities - Abandoned call rate (Education)	17%	13%	11%	7%	10% Y	8%
Payment accuracy rate (Education)	96%	92%	93%	94%	94% G	94%
Average days to complete original education claims	36	50	34	23	26 Y	24
Average days to complete supplemental education claims	22	24	16	12	13 Y	12

Objective 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.

Veterans satisfaction (Housing) (1) Correction (a) Results will not be available until 2005	(1) 94%	(1) 94%	(1) 94%	(1) 95%	(a)	96%
Statistical quality index (Housing) (through August) (1) Correction	94%	96%	97%	(1) 98%	* 98% G	97%
Foreclosure avoidance through servicing (FATS) ratio (Housing) (1) Correction	30%	40%	43%	(1) 45%	44% Y	47%
Home Purchase - Percent of active duty personnel and veterans that could not have purchased a home without VA assistance (Housing)	N/A	N/A	N/A	N/A	N/A	N/A

Strategic Goal 3: Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation.

Objective 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.

Percent of patients rating VA health care service as very good or excellent:						
Inpatient (through March)	66%	64%	70%	(1) 74%	* 74% G	70%
Outpatient (through March) (1) Correction	64%	65%	71%	(1) 73%	* 72% G	72%
Average waiting time for new patients seeking primary care clinic appointments (in days) (through June)	N/A	N/A	N/A	42	* 37 Y	30
Average waiting time for patients seeking a new specialty clinic appointment (in days) (through June)	N/A	N/A	N/A	45	* 41 Y	30

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

Strategic Goals, Objectives, and Performance Measures
 (Explanations of performance are found in the Performance Measures by Program table)
 (Key Measures are in bold)
 (G = Green; Y = Yellow; R = Red)

Performance Measures	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
Percent of primary care appointments scheduled within 30 days of desired date (through June)	N/A	87%	89%	93%	* 94% G	93%
Percent of specialist appointments scheduled within 30 days of desired date (1) results as of 9/30, (2) reflects cum. for year, (3) 8 clinical areas now included instead of 5 (through June)	N/A	(1) 84%	(1) 86%	(2) 89%	* (3) 93% G	(3) 90%
Percent of patients who report being seen within 20 minutes of scheduled appointments at VA health care facilities (through March)	N/A	63%	65%	67%	* 69% G	65%
Average waiting time for next available appointment in primary care clinics (in days) (through June)	N/A	37.5	37	25	* 18 G	34
Average waiting time for next available appointment in specialty clinics (in days) (through June)	N/A	N/A	N/A	45	* 27 G	30
Percent of all patients evaluated for the risk factors for hepatitis C (through June)	N/A	51%	85%	95%	* 98% G	90%
Percent of all patients tested for hepatitis C subsequent to a positive hepatitis C risk factor screening (through June)	N/A	48%	62%	84%	* 97% G	85%
Clinical Practice Guidelines Index (through June)	N/A	N/A	Baseline	70%	* 77% G	70%
Prevention Index II (through June)	N/A	80%	82%	83%	* 88% G	82%
Percent of clinical software patches installed on time:						
CPRS (through June)	N/A	67%	70%	96%	* 98% G	72%
BCMA (through June)	N/A	82%	85%	94%	* 96% G	87%
Imaging (through June)	N/A	57%	60%	88%	* 89% G	62%
Increase non-institutional long-term care as expressed by average daily census (estimated actual)	N/A	N/A	24,126	24,413	* 29,631 G	29,631
Percent of outpatient encounters that have electronic progress notes signed within 2 days (through June)	N/A	N/A	N/A	N/A	* 84%	Baseline
Quality - The percentage of diabetic patients taking the HbA1c blood test in the past year (through June)	N/A	N/A	93%	94%	* 95% G	93%

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

Strategic Goals, Objectives, and Performance Measures
 (Explanations of performance are found in the Performance Measures by Program table)
 (Key Measures are in bold)
 (G = Green; Y = Yellow; R = Red)

Performance Measures	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
----------------------	---------	---------	---------	---------	-------------------	-----------------

Objective 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.

Percent of pension recipients who were informed of the full range of available benefits (Pension) (a) Results will not be available until 2005	39%	40%	38%	39%	(a)	40%
Percent of pension recipients who said their claim was very or somewhat fair (Pension) (a) Results will not be available until 2005	64%	63%	65%	62%	(a)	53%
National accuracy rate (core rating work) (Compensation & Pension) (through July)	N/A	89%	81%	86%	* 87% Y	90%
Overall satisfaction (Compensation & Pension) (a) Results will not be available until 2005	56%	56%	58%	59%	(a)	70%
Rating-related actions - average days to process (Compensation & Pension)	173	181	223	182	166 R	145
Rating-related actions - average days pending (Compensation & Pension)	138	182	174	111	118 R	80
Non-rating actions - average days to process (Compensation & Pension)	50	55	60	59	58 R	40
Non-rating actions - average days pending (Compensation & Pension)	84	117	96	108	102 R	62
National accuracy rate (authorization work) (Compensation & Pension) (through July)	51%	65%	80%	88%	* 91% G	87%
National accuracy rate (fiduciary work) (Compensation & Pension) (through July) (1) Correction	(1) 59%	(1) 68%	(1) 84%	77%	* 81% Y	88%
Telephone activities - abandoned call rate (Compensation & Pension) (through August)	6%	6%	9%	9%	* 7% Y	3%
Telephone activities - blocked call rate (Compensation & Pension)	3%	3%	7%	3%	2% G	3%
Fiduciary Activities - Initial Appt. & Fiduciary - Beneficiary Exams (completed) (%) (Compensation & Pension) (1) Correction	(1) 6%	(1) 13%	(1) 9%	11%	12% Y	8%
Fiduciary Activities - Initial Appt. & Fiduciary - Beneficiary Exams (pending) (%) (Compensation & Pension)	N/A	N/A	16%	20%	14% Y	12%

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

Strategic Goals, Objectives, and Performance Measures
 (Explanations of performance are found in the Performance Measures by Program table)
 (Key Measures are in bold)
 (G = Green; Y = Yellow; R = Red)

Performance Measures	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
----------------------	---------	---------	---------	---------	-------------------	-----------------

Objective 3.3: Maintain a high level of service to insurance policy holders and their beneficiaries to enhance the financial security for veterans' families.

High customer ratings (Insurance)	96%	96%	95%	95%	96% G	95%
Low customer ratings (Insurance)	2%	2%	3%	3%	2% G	2%
Percentage of blocked calls (Insurance)	4%	3%	1%	0%	1% G	2%
Average hold time in seconds (Insurance)	20	17	18	17	17 G	20
Average days to process insurance disbursements	3.2	2.8	2.6	2.4	1.8 G	2.7

Objective 3.4: Ensure that the burial needs of veterans and eligible family members are met.

Percent of veterans served by a burial option within a reasonable distance (75 miles) of their residence (NCA)	72.6%	72.6%	73.9%	75.2%	75.3% G	75.3%
Percent of veterans served by a burial option in a national cemetery within a reasonable distance (75 miles) of their residence (NCA)	67.5%	66.0%	66.6%	66.6%	66.6% G	66.6%
Percent of veterans served by a burial option only in a state veterans cemetery within a reasonable distance (75 miles) of their residence (NCA)	5.1%	6.6%	7.3%	8.6%	8.7% G	8.7%
National Accuracy Rate for burial claims processed (Data tracked by VBA) (through July)	62%	72%	85%	92%	* 94% G	90%
Percent of respondents who rate the quality of service provided by the national cemeteries as excellent (NCA)	88%	92%	91%	94%	94% Y	95%
Percent of funeral directors who respond that national cemeteries confirm the scheduling of the committal service within 2 hours (NCA)	N/A	75%	73%	73%	73% Y	75%

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

Strategic Goals, Objectives, and Performance Measures
 (Explanations of performance are found in the Performance Measures by Program table)
 (Key Measures are in bold)
 (G = Green; Y = Yellow; R = Red)

Performance Measures	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
Cumulative number of kiosks installed at national and state veterans cemeteries (NCA)	24	33	42	50	60 G	60
Average number of days to process a claim for reimbursement of burial expenses (Data tracked by VBA)	35	40	48	42	48 Y	40

Objective 3.5: Provide veterans and their families with timely and accurate symbolic expressions of remembrance.

Percent of graves in national cemeteries marked within 60 days of interment (NCA)	N/A	N/A	49%	72%	87% G	78%
Percent of headstones and markers ordered by national cemeteries for which inscription data are accurate and complete (NCA)	N/A	N/A	N/A	N/A	98%	Baseline
Percent of headstones and markers that are undamaged and correctly inscribed (NCA)	97%	97%	96%	97%	97% Y	98%
Percent of headstones and markers ordered online by other federal and state veterans cemeteries using BOSS (NCA)	87%	89%	89%	90%	91% G	90% G
Percent of individual headstone and marker orders transmitted electronically to contractors (NCA)	89%	92%	92%	95%	100% G	97%
Percent of Presidential Memorial Certificates that are accurately inscribed (NCA)	98%	98%	98%	99%	99% G	99%

Strategic Goal 4: Contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation.

Objective 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.

Percent of Group 1 emergency preparedness officials who receive training or, as applicable, who participate in exercises relevant to VA's COOP plan on the National level (OPP&P)	30%	60%	60%	75%	100% G	85%
Percent of Group 2 emergency preparedness officials who receive training or, as applicable, who participate in exercises relevant to VA's COOP plan on the National level (OPP&P)	N/A	N/A	60%	65%	42% R	75%

Strategic Goals, Objectives, and Performance Measures
 (Explanations of performance are found in the Performance Measures by Program table)
 (Key Measures are in bold)
 (G = Green; Y = Yellow; R = Red)

Performance Measures	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
Objective 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.						
Number of Career Development Awardees	195	193	209	210	229 Y	237
Sustain 2002 level of partnering opportunities with: Veterans Service Organizations; other Federal Agencies; non-profit foundations, e.g., American Heart Association, American Cancer Society; and private industry, e.g., pharmaceutical companies (estimated actual)	137	139	139	139	* 139 G	139
Objective 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.						
Medical residents' and other trainees' scores on a VHA Survey assessing their clinical training experience (through June)	N/A	84	83	83	* 83 G	82
Objective 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.						
Attainment of statutory minimum goals for small business concerns as a percent of total procurement (OSDBU) (1) Correction	33%	(1) 32.6%	(1) 31.2%	31.8%	N/A	23%
Objective 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.						
Percent of respondents who rate national cemetery appearance as excellent (NCA)	82%	96%	97%	97%	98% G	98%
Percent of respondents who would recommend the national cemetery to veteran families during their time of need (NCA)	N/A	97%	98%	97%	97% Y	98%
Percent of headstones and/or markers in national cemeteries that are at the proper height and alignment (NCA)	N/A	N/A	N/A	N/A	64%	Baseline
Percent of headstones, markers, and niche covers that are clean and free of debris or objectionable accumulations (NCA)	N/A	N/A	N/A	N/A	76%	Baseline

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

Strategic Goals, Objectives, and Performance Measures
 (Explanations of performance are found in the Performance Measures by Program table)
 (Key Measures are in bold)
 (G = Green; Y = Yellow; R = Red)

Performance Measures	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
----------------------	---------	---------	---------	---------	-------------------	-----------------

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.

Objective E-1: Recruit, develop, and retain a competent, committed, and diverse workforce that provides high-quality service to veterans and their families.

Percent of cases using alternate dispute resolution (ADR) techniques (BCA)	13%	29%	54%	58%	60% Y	70%
Percent of employees who are aware that ADR is an option for addressing workplace disputes (BCA)	70%	75%	80%	85%	90% G	80%

Objective 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.

Participation rate in the monthly Minority Veterans Program Coordinators (MVPC) conference call (Center for Minority Veterans) (1) Correction	27%	20%	30%	(1) 60%	70% Y	75%
Increase the percent of funded grants providing services to homeless veterans that are faith-based (OPIA)	N/A	N/A	N/A	30%	30% Y	33%

Objective E-3: Implement a *One VA* 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.

Number of business lines transformed to achieve a secure veteran-centric delivery process that would enable veterans and their families to register and update information, submit claims or inquiries, and obtain status (IT)	N/A	N/A	N/A	N/A	0 R	2
Percent increase in the annual IT budget above the previous year's budget (excluding pay raise and inflation increases) (IT)	N/A	N/A	N/A	0%	3.1% Y	0%

Strategic Goals, Objectives, and Performance Measures
 (Explanations of performance are found in the Performance Measures by Program table)
 (Key Measures are in bold)
 (G = Green; Y = Yellow; R = Red)

Performance Measures	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
Percent decrease of annual IT budget spent on sustainment, shifting corresponding savings to modernization (zero sum gain) (IT)	N/A	N/A	N/A	5%	1.5% Y	5%

Objective 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.

Dollar value of 1st party and 3rd party collections:						
1st Party (\$ in millions)	\$176	\$231	\$486	\$685	\$742 Y	\$792
Dollar value of 1st party and 3rd party collections:						
3rd Party (\$ in millions) (1) (Correction)	\$397	\$540	(1) \$690	\$804	\$960 G	\$917
Acute Bed Days of Care (BDOC)/1000 (estimated actual)	1,002	895	900	1,000	* 1,000 G	1,000
Outpatient visits/1000:						
Med/Surg (estimated actual)	2.7	2.4	2.4	2.4	* 2.4 G	2.4
Mental Health (estimated actual)	8.4	8.1	8.1	8.1	* 8.1 G	8.1
Ratio of collections to billings (expressed as a percentage) (estimated actual)	28%	31%	37%	41%	* 41% G	41%
Cost - Obligations per unique patient user	N/A	N/A	\$4,928	\$5,202	\$5,562 Y	\$5,536
Efficiency - Average number of appointments per year per FTE	N/A	N/A	2,719	2,856	2,868 G	2,700
Dollar value of sharing agreements with DoD (Joint Measure with VBA) (\$ in millions)	N/A	\$58	\$83	\$105	\$120 G	\$116
Percent increase of EDI usage over base year of 1997 (OM)	86%	178%	235%	320%	884% G	245%
Number of audit qualifications identified in the auditor's opinion on VA's Consolidated Financial Statements (OM)	0	0	0	0	0 G	0
Number of material weaknesses identified during the Annual Financial Statement Audit or Identified by Management (OM)	11	12	6	5	4 G	4
Cumulative % of commercially eligible FTE on which competitive sourcing studies are completed (OPP&P)	N/A	N/A	5%	12%	0% R	53%

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

Strategic Goals, Objectives, and Performance Measures
(Explanations of performance are found in the Performance Measures by Program table)
(Key Measures are in bold)
(G = Green; Y = Yellow; R = Red)

Performance Measures	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
Decrease underutilized space from FY 03 baseline of 19,930,244 sq ft (OAEM)	N/A	N/A	N/A	Baseline	28,994,639	TBD
Decrease vacant space from FY 03 baseline of 8,874,544 sq ft (OAEM)	N/A	N/A	N/A	Baseline	8,536,758	TBD
Reduce facility energy consumption relative to a 1985 baseline (OAEM)	N/A	N/A	N/A	N/A	TBD	TBD
(1) Number of indictments, arrests, convictions, administrative sanctions, and pretrial diversions:	1,361	1,655	1,621	1,894	2,016 G	1,950
Number of Arrests	338	401	452	624	741	493
Number of Indictments	280	376	357	349	397	460
Number of Convictions	247	337	331	417	332	422
Number of Administrative Sanctions	496	541	481	484	522	575
Number of Pretrial Diversions	N/A	N/A	N/A	20	24	Baseline
Number of Reports issued:	124	136	169	(2) 182	(3) 223 G	208
Combined Assessment Reviews (CAPs) - -Total	18	26	33	42	52	60
VHA CAPs	18	22	21	34	40	48
VBA CAPs	0	4	12	8	12	12
Audit Reports	35	26	26	24	24	29
Pre-and Post-Award Contract Reviews	40	48	60	65	105	62
Healthcare Inspection Reports	15	22	37	24	26	42
Administrative Investigations	16	14	12	21	11	15
Value of monetary benefits (\$ in millions) from:					(4) \$3,121 G	\$884
IG Investigations	\$28	\$52	\$85	\$64	\$301	\$45
IG audits	\$264	\$4,095	\$730	\$8	\$2,104	\$775
IG contract reviews	\$35	\$42	\$62	\$82	\$661	\$64
Customer Satisfaction:					4.6 Y	4.8
Combined Assessment Program Reviews	N/A	N/A	4.4	4.1	4.5	4.7
Investigations	4.6	4.8	4.8	4.9	4.9	5.0
Audit	4.4	4.2	4.3	4.2	4.6	4.5
Contract Reviews	4.9	4.7	4.9	4.5	4.6	4.9
Healthcare Inspections	4.4	4.2	4.7	4.4	4.4	4.9
<p>(1) In FY 2000, the cumulative figure for this category included the 85 administrative sanctions obtained by the OIG Hotline Division, while the individual figure for administrative sanctions showed only those obtained by the Office of Investigations. (Since FY 2001, the Hotline Division administrative sanctions have been included in both figures.)</p> <p>(2) Includes 5 CAP summary reports that are not counted in the CAP total and 1 joint review with DoD.</p> <p>(3) Includes 3 CAP summary reports that are not counted in the CAP total and 2 joint reviews completed by OIG Offices of Investigation, Audit, and Healthcare Inspections.</p> <p>(4) This figure includes monetary benefits produced by the OIG Office of Healthcare Inspections and OIG Hotline Division. The nature of the activity of these offices does not generally result in monetary benefits significant for separate performance reporting.</p>						

FY 2004 Performance Measures by Program

(Key Measures are in bold)

(G = Green; Y = Yellow; R = Red)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
--	---------	---------	---------	---------	-------------------	-----------------

Veterans Health Administration

Medical Care

P&F ID Codes: 36-0160-0-1-703; 36-0152-0-1-703;
36-0162-0-1-703; 36-4537-0-4-705 36-8180-0-7-705;
36-4014-0-3-705

Resources	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
FTE	183,396	183,602	184,209	187,049	194,039	193,593
Medical care costs (\$ in millions)	\$20,318	\$22,553	\$24,368	\$27,654	\$30,773	\$30,841

Performance Measures

	Goal Achieved					
Percent of patients rating VA health care service as very good or excellent:						
Inpatient (through March)	66%	64%	70%	(1) 74%	* 74% G	70%
Outpatient (through March)	64%	65%	71%	(1) 73%	* 72% G	72%
(1) Correction						
Percent of primary care appointments scheduled within 30 days of desired date (through June)	N/A	87%	89%	93%	* 94% G	93%
Percent of specialist appointments scheduled within 30 days of desired date (1) results as of 9/30, (2) reflects cum. for year, (3) 8 clinical areas now included instead of 5 (through June)	N/A	(1) 84%	(1) 86%	(2) 89%	* (3) 93% G	(3) 90%
Percent of patients who report being seen within 20 minutes of scheduled appointments at VA health care facilities (through March)	N/A	63%	65%	67%	* 69% G	65%
Average waiting time for next available appointment in primary care clinics (in days) (through June)	N/A	37.5	37	25	* 18 G	34
Average waiting time for next available appointment in specialty clinics (in days) (through June)	N/A	N/A	N/A	45	* 27 G	30
Percent of all patients evaluated for the risk factors for hepatitis C (through June)	N/A	51%	85%	95%	* 98% G	90%
Percent of all patients tested for hepatitis C subsequent to a positive hepatitis C risk factor screening (through June)	N/A	48%	62%	84%	* 97% G	85%
Clinical Practice Guidelines Index (through June)	N/A	N/A	Baseline	70%	* 77% G	70%
Prevention Index II (through June)	N/A	80%	82%	83%	* 88% G	82%
Percent of clinical software patches installed on time:						
CPRS (through June)	N/A	67%	70%	96%	* 98% G	72%
BCMA (through June)	N/A	82%	85%	94%	* 96% G	87%
Imaging (through June)	N/A	57%	60%	88%	* 89% G	62%
Ratio of collections to billings (expressed as a percentage) (estimated actual)	28%	31%	37%	41%	* 41% G	41%
Acute Bed Days of Care (BDOC)/1000 (estimated actual)	1,002	895	900	1,000	* 1,000 G	1,000

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

FY 2004 Performance Measures by Program

(Key Measures are in bold)
(G = Green; Y = Yellow; R = Red)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
Outpatient visits/1000:						
Med/Surg (estimated actual)	2.7	2.4	2.4	2.4	* 2.4 G	2.4
Mental Health (estimated actual)	8.4	8.1	8.1	8.1	* 8.1 G	8.1
Percent of VA medical centers that provide electronic access to health information provided by DoD on separated service persons (estimated actual)	N/A	N/A	0%	100%	* 100% G	100%
Efficiency - Average number of appointments per year per FTE	N/A	N/A	2,719	2,856	2,868 G	2,700
Quality - The percentage of diabetic patients taking the HbA1c blood test in the past year (through June)	N/A	N/A	93%	94%	* 95% G	93%
Dollar value of sharing agreements with DoD (Joint Measure with VBA) (\$ in millions)	N/A	\$58	\$83	\$105	\$120 G	\$116
Dollar value of 1st party and 3rd party collections:						
3rd Party (\$ in millions)	\$397	\$540	(1) \$690	\$804	\$960 G	\$917
(1) Correction						
Percent of outpatient encounters that have electronic progress notes signed within 2 days (through June)	N/A	N/A	N/A	N/A	* 84%	Baseline

	Goal Not Achieved - - Minimal Difference					
Average waiting time for new patients seeking primary care clinic appointments (in days) (through June)	N/A	N/A	N/A	42	* 37 Y	30
Average waiting time for patients seeking a new specialty clinic appointment (in days) (through June)	N/A	N/A	N/A	45	* 41 Y	30
Dollar value of 1st party and 3rd party collections:						
1st Party (\$ in millions)	\$176	\$231	\$486	\$685	\$742 Y	\$792
Cost - Obligations per unique patient user	N/A	N/A	\$4,928	\$5,202	\$5,562 Y	\$5,536

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

FY 2004 Performance Measures by Program

(Key Measures are in bold)

(G = Green; Y = Yellow; R = Red)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
<i>Special Emphasis Programs</i>	Goal Achieved					
Increase non-institutional long-term care as expressed by average daily census (estimated actual)	N/A	N/A	24,126	24,413	* 29,631 G	29,631
Percent of veterans who were discharged from a Domiciliary Care for Homeless Veterans (DCHV) Program, or HCHV Community-based Contract Residential Care Program to an independent or a secured institutional living arrangement (through June)	N/A	N/A	65%	72%	* 79% G	67%
Medical residents' and other trainees' scores on a VHA Survey assessing their clinical training experience (through June)	N/A	84	83	83	* 83 G	82
Prevention Index II (Special Populations) (through June)	N/A	N/A	N/A	80%	* 86% G	80%

P&F ID Codes: 36-0161-0-1-703; 36-0160-0-1-703;
36-4026-0-3-703 36-0152-0-1-703; 36-0162-0-1-703

<i>Medical Research</i>						
Resources						
FTE	3,014	3,019	6,470	6,575	6,814	6,499
Research cost (\$ in millions)	\$830	\$877	\$964	\$1,022	\$1,067	\$1,068
Performance Measure						
	Goal Achieved					
Sustain 2002 level of partnering opportunities with: Veterans Service Organizations; other Federal Agencies; non-profit foundations, e.g., American Heart Association, American Cancer Society; and private industry, e.g., pharmaceutical companies (estimated actual)	137	139	139	139	* 139 G	139

Goal Not Achieved - - Minimal Difference						
Number of Career Development Awardees	195	193	209	210	229 Y	237

The performance goal for this measure was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

FY 2004 Performance Measures by Program

(Key Measures are in bold)
(G = Green; Y = Yellow; R = Red)

Veterans Health Administration
Medical Care

Dropped Performance Measures ***

	FY 2000	FY 2001	FY 2002	FY 2003 Preliminary	FY 2003 Final	FY 2003 Plan
Chronic Disease Care Index	N/A	77%	80%	80%	81%	78%
Increase the aggregate of VA, state, and community nursing home and institutional LTC as expressed by ADC	N/A	N/A	31,636	33,031	33,408	32,429
Percent of patients with hepatitis C who have annual assessment of liver function	N/A	N/A	95%	96%	97%	92%
Percent of pharmacy orders entered into CPRS by the prescribing clinician	N/A	74%	91%	92%	92%	86%
Cost/patient	\$4,571	\$4,336	\$4,095	\$4,139	\$5,502	\$4,190
Waiting times for new primary care appointments, percent within 30 days	N/A	N/A	Baseline	76%	74%	23%
Waiting times for new specialty care appointments, percent within 30 days	N/A	N/A	Baseline	67%	71%	44%

*** Several of these measures had achieved a high level of success which was sustained for several years, indicating ongoing fulfillment of these requirements. Other measures were replaced with measures that more accurately targeted areas VA identified as needing improvement.

Veterans Benefits Administration

Compensation

P&F ID Codes:

36-0102-0-1-701

36-0134-0-1-701

Resources						
FTE	7,123	8,035	6,985	7,346	7,568	7,092
Benefits cost (\$ in millions)	\$22,035	\$20,255	\$22,453	\$24,822	\$26,472	\$27,205
Administrative cost (\$ in millions)	\$586	\$564	\$603	\$728	\$777	\$770

Performance Measures

	Goal Achieved					
Average days to process - DIC actions (1) Correction	122	133	172	(1) 153	125 G	126
Percent of DIC recipients above the poverty level	N/A	N/A	N/A	N/A	99% G	75%
Percent of DIC recipients who are satisfied that the VA recognized their sacrifice	N/A	N/A	N/A	N/A	80% G	50%
Average number of days to obtain service medical records	N/A	N/A	N/A	N/A	N/A	TBD
Percent of compensation recipients who were kept informed of the full range of available benefits (a) Results will not be available until 2005	37%	39%	40%	42%	(a)	40%

FY 2004 Performance Measures by Program

(Key Measures are in bold)
(G = Green; Y = Yellow; R = Red)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
Percent of compensation recipients who perceive that VA compensation redresses the effect of service-connected disability in diminishing the quality of life	N/A	N/A	N/A	N/A	** TBD	50%
Percent of veterans in receipt of compensation whose total income exceeds that of like circumstanced veterans	N/A	N/A	N/A	N/A	** TBD	TBD
** Pending Program Outcome Study. Study was cancelled in 2004 because of the new Disability Compensation Commission. Study will be conducted in CY 2005. The Commission first met in August 2004 and the results are tentatively expected 15 months thereafter.						

Goal Not Achieved - - Minimal Difference

Percent of claimants who are Benefits Delivery at Discharge (BDD) participants	N/A	N/A	N/A	22%	20% Y	25%
--	-----	-----	-----	-----	-------	-----

The performance goal for this measure was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

Pension

P&F ID Codes: 36-0154-0-1-701; 36-0143-0-1-701

Resources						
FTE	N/A	N/A	1,791	1,827	1,535	1,699
Benefits cost (\$ in millions)	N/A	\$3,018	\$3,168	\$3,226	\$3,342	\$3,284
Administrative cost (\$ in millions)	N/A	\$142	\$155	\$152	\$153	\$163

Performance Measures

Percent of pension recipients who were informed of the full range of available benefits (a) Results will not be available until 2005	39%	40%	38%	39%	(a)	40%
Percent of pension recipients who said their claim was very or somewhat fair (a) Results will not be available until 2005	64%	63%	65%	62%	(a)	53%

Combined Compensation and Pension measures (These measures will be reported on separately in the 2005 PAR)

National accuracy rate (authorization work) (Compensation & Pension) (through July)	51%	65%	80%	88%	* 91% G	87%
Telephone activities - blocked call rate (Compensation & Pension)	3%	3%	7%	3%	2% G	3%
Overall satisfaction (Compensation & Pension) (a) Results will not be available until 2005	56%	56%	58%	59%	(a)	70%

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

FY 2004 Performance Measures by Program

(Key Measures are in bold)
(G = Green; Y = Yellow; R = Red)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
Goal Not Achieved - - Minimal Difference						
National accuracy rate (core rating work) (Compensation & Pension) (through July)	N/A	89%	81%	86%	* 87% Y	90%
National accuracy rate (fiduciary work) (Compensation & Pension) (through July) (1) Correction	(1) 59%	(1) 68%	(1) 84%	77%	* 81% Y	88%
Telephone activities - abandoned call rate (Compensation & Pension) (through August)	6%	6%	9%	9%	* 7% Y	3%
Fiduciary Activities - Initial Appt. & Fiduciary - Beneficiary Exams (completed) (%) (Compensation & Pension) (1) Correction	(1) 6%	(1) 13%	(1) 9%	11%	12% Y	8%
Fiduciary Activities - Initial Appt. & Fiduciary - Beneficiary Exams (pending) (%) (Compensation & Pension)	N/A	N/A	16%	20%	14% Y	12%

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

	Goal Not Achieved - - Significant Difference					
Rating-related actions - average days to process (Compensation & Pension)	173	181	223	182	166 R	145
PVA v. Principi has had a dramatic impact on our ability to achieve this goal. However, since the final court decision, VBA has improved on its processing performance. From the monthly perspective, we have reduced the number of days by approximately 15% from the peak of 189 days in January 2004.						
Rating-related actions - average days pending (Compensation & Pension)	138	182	174	111	118 R	80
PVA v. Principi impacted our ability to achieve this goal. Since the final court decision, VBA improved on its processing performance. From the monthly perspective, we reduced the number of days by approximately 10% from the peak of 134 days in December 2003.						
Non-rating actions - average days to process (Compensation & Pension)	50	55	60	59	58 R	40
PVA v. Principi impacted our ability to achieve this goal. Since the final court decision, VBA improved on its processing performance. From the monthly perspective, we reduced the number of days by approximately 13% from the peak of 66 days in October 2003.						
Non-rating actions - average days pending (Compensation & Pension)	84	117	96	108	102 R	62
PVA v. Principi impacted our ability to achieve this goal. Since the final court decision, VBA improved on its processing performance. From the monthly perspective, we reduced the number of days by approximately 12% from the peak of 112 days in December 2003.						

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

FY 2004 Performance Measures by Program

(Key Measures are in bold)
(G = Green; Y = Yellow; R = Red)

FY 2000 FY 2001 FY 2002 FY 2003 FY 2004 Actual FY 2004 Plan

The indicators below are the component end-products for the measure on average days to complete rating-related actions. We do not establish separate performance goals for these indicators. For a detailed discussion of rating-related actions timeliness see the narrative on pages 62-63.

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	Claims Completed in FY 2004
Average days to process rating - related actions	173	181	223	182	166	703,254
Initial disability compensation	212	219	256	207	186	169,804
Initial death compensation/DIC	122	133	172	153	125	27,191
Reopened compensation	189	197	242	193	178	401,489
Initial disability pension	115	130	123	93	94	32,851
Reopened pension	111	126	128	101	101	51,446
Reviews, future exams	108	119	127	95	87	13,533
Reviews, hospital	78	91	74	54	54	6,940

P&F ID Codes: 36-0137-0-1-702; 36-8133-0-7-702;
36-0133-0-1-702

Education

Resources	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	Claims Completed in FY 2004
FTE	781	852	864	866	841	926
Benefits cost (\$ in millions)	\$1,238	\$1,425	\$1,756	\$2,120	\$2,417	\$2,391
Administrative costs (\$ in millions)	\$66	\$64	\$75	\$69	\$78	\$91

Performance Measures

	Goal Achieved					
Montgomery GI Bill usage rate: Veterans who have passed their 10-year eligibility period	N/A	N/A	N/A	66%	66% G	66%
Compliance survey completion rate (1) Correction	94%	92%	93%	(1) 93%	94% G	90%
Payment accuracy rate	96%	92%	93%	94%	94% G	94%
Customer satisfaction-high ratings (a) Results will not be available until 2005	82%	86%	87%	89%	(a)	87%

FY 2004 Performance Measures by Program

(Key Measures are in bold)
(G = Green; Y = Yellow; R = Red)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
	Goal Not Achieved - - Minimal Difference					
Telephone Activities - Blocked call rate	39%	45%	26%	13%	20% Y	18%
Telephone Activities - Abandoned call rate	17%	13%	11%	7%	10% Y	8%
Average days to complete original education claims	36	50	34	23	26 Y	24
Average days to complete supplemental education claims	22	24	16	12	13 Y	12
Montgomery GI Bill usage rate: All program participants	57%	58%	56%	58%	59% Y	60%

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

Vocational Rehabilitation and Employment

P&F ID Codes:

36-0135-0-1-702;

36-0132-0-1-702

Resources						
FTE	940	1,061	1,057	1,091	1,105	1,118
Benefits cost (\$ in millions)	\$439	\$427	\$487	\$515	\$552	\$550
Administrative costs (\$ in millions)	\$81	\$109	\$119	\$116	\$123	\$137

Performance Measures

	Goal Achieved					
Speed of entitlement decisions in average days	75	62	65	63	57 G	60
Accuracy of program outcome	N/A	N/A	81%	81%	94% G	92%
Customer satisfaction (Survey) (a) Results will not be available until 2005	74%	76%	77%	N/A	(a)	82%

	Goal Not Achieved - - Minimal Difference					
Accuracy of decisions (Services) (1) Correction	85%	79%	81%	(1) 82%	86% Y	90%
Rehabilitation rate	65%	65%	62%	59%	62% Y	67%

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

Measures Under Development

Common Measures						
Percent of participants employed first quarter after program exit	N/A	N/A	N/A	N/A	N/A	TBD
Percent of participants still employed three quarters after program exit	N/A	N/A	N/A	N/A	N/A	TBD
Percent change in earnings from pre-application to post-program employment	N/A	N/A	N/A	N/A	N/A	TBD
Average cost of placing participant in employment	N/A	N/A	N/A	N/A	N/A	TBD

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

FY 2004 Performance Measures by Program

(Key Measures are in bold)

(G = Green; Y = Yellow; R = Red)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
<i>Housing</i>		P&F ID Codes:		36-1119-0-1-704;	36-4025-0-3-704	
Resources						
FTE	2,057	1,759	1,718	1,404	1,256	1,390
Benefits cost (\$ in millions)	\$1,844	\$520	\$849	\$1,351	\$235	\$341
Administrative costs (\$ in millions)	\$157	\$162	\$168	\$169	\$158	\$157

Performance Measures

	Goal Achieved					
Statistical quality index (through August) (1) Correction	94%	96%	97%	(1) 98%	* 98% G	97%
Veterans satisfaction (1) Correction (a) Results will not be available until 2005	(1) 94%	(1) 94%	(1) 94%	(1) 95%	(a)	96%
Home Purchase - Percent of active duty personnel and veterans that could not have purchased a home without VA assistance	N/A	N/A	N/A	N/A	N/A	N/A

	Goal Not Achieved - - Minimal Difference					
Foreclosure avoidance through servicing (FATS) ratio (1) Correction	30%	40%	43%	(1) 45%	44% Y	47%

The performance goal for this measure was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

	P&F ID Codes:		36-0120-0-1-701;		36-4012-0-3-701;		
<i>Insurance</i>		36-4010-0-3-701;		36-4009-0-3-701;		36-8132-0-7-701;	
		36-8150-0-7-701;		36-8455-0-8-701;		36-0141-0-1-701	
Resources							
FTE	525	507	479	493	490	513	
Benefits cost (\$ in millions)	\$2,458	\$2,534	\$2,709	\$2,655	\$2,539	\$2,552	
Administrative costs (\$ in millions)	\$40	\$41	\$40	\$40	\$42	\$46	

Performance Measures

	Goal Achieved					
High customer ratings	96%	96%	95%	95%	96% G	95%
Low customer ratings	2%	2%	3%	3%	2% G	2%
Percentage of blocked calls	4%	3%	1%	0%	1% G	2%
Average hold time in seconds	20	17	18	17	17 G	20
Average days to process insurance disbursements	3.2	2.8	2.6	2.4	1.8 G	2.7

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

FY 2004 Performance Measures by Program

(Key Measures are in bold)
(G = Green; Y = Yellow; R = Red)

FY 2000 FY 2001 FY 2002 FY 2003 FY 2004 Actual FY 2004 Plan

National Cemetery Administration

P&F ID Codes: 36-0129-0-1-705; 36-0139-0-1-701

Resources	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
FTE	1,399	1,385	1,633	1,655	1,492	1,762
Benefits cost (\$ in millions)	\$109	\$111	\$135	\$143	\$153	\$166
Administrative cost (\$ in millions):						
Operating costs	\$103	\$116	\$137	\$143	\$156	\$157
State cemetery grants	\$19	\$24	\$41	\$26	\$34	\$33
Capital construction	\$30	\$33	\$61	\$36	\$63	\$117

Performance Measures

	Goal Achieved					
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
Percent of veterans served by a burial option within a reasonable distance (75 miles) of their residence	72.6%	72.6%	73.9%	75.2%	75.3% G	75.3%
Percent of veterans served by a burial option in a national cemetery within a reasonable distance (75 miles) of their residence	67.5%	66.0%	66.6%	66.6%	66.6% G	66.6%
Percent of veterans served by a burial option only in a state veterans cemetery within a reasonable distance (75 miles) of their residence	5.1%	6.6%	7.3%	8.6%	8.7% G	8.7%
National Accuracy Rate for burial claims processed (Data tracked by VBA) (through July)	62%	72%	85%	92%	* 94% G	90%
Cumulative number of kiosks installed at national and state veterans cemeteries	24	33	42	50	60 G	60
Percent of graves in national cemeteries marked within 60 days of interment	N/A	N/A	49%	72%	87% G	78%
Percent of headstones and markers ordered online by other federal and state veterans cemeteries using BOSS	87%	89%	89%	90%	91% G	90% G
Percent of individual headstone and marker orders transmitted electronically to contractors	89%	92%	92%	95%	100% G	97%
Percent of Presidential Memorial Certificates that are accurately inscribed	98%	98%	98%	99%	99% G	99%
Percent of respondents who rate national cemetery appearance as excellent	82%	96%	97%	97%	98% G	98%
Percent of headstones and markers ordered by national cemeteries for which inscription data are accurate and complete	N/A	N/A	N/A	N/A	98%	Baseline

* These are preliminary or estimated actual data; final data will be published in the FY 2006 Congressional Budget and/or the FY 2005 Performance and Accountability Report.

FY 2004 Performance Measures by Program

(Key Measures are in bold)
(G = Green; Y = Yellow; R = Red)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
Percent of headstones and/or markers in national cemeteries that are at the proper height and alignment	N/A	N/A	N/A	N/A	64%	Baseline
Percent of headstones, markers, and niche covers that are clean and free of debris or objectionable accumulations	N/A	N/A	N/A	N/A	76%	Baseline

	Goal Not Achieved - - Minimal Difference					
Percent of respondents who rate the quality of service provided by the national cemeteries as excellent	88%	92%	91%	94%	94% Y	95%
Percent of funeral directors who respond that national cemeteries confirm the scheduling of the committal service within 2 hours	N/A	75%	73%	73%	73% Y	75%
Percent of headstones and markers that are undamaged and correctly inscribed	97%	97%	96%	97%	97% Y	98%
Percent of respondents who would recommend the national cemetery to veteran families during their time of need	N/A	97%	98%	97%	97% Y	98%
Average number of days to process a claim for reimbursement of burial expenses (Data tracked by VBA)	35	40	48	42	48 Y	40

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

Board of Veterans' Appeals

P&F ID Code: 36-0151-0-1-705

Resources						
FTE	468	455	448	451	440	448
Administrative cost (\$ in millions)	\$41	\$44	\$47	\$47	\$50	\$50

Performance Measures

	Goal Achieved					
Deficiency-free decision rate	86%	87%	88%	89%	93% G	91%
BVA Cycle Time (Days)	172	182	86	135	98 G	155
Appeals decided per Veterans Law Judge	594	561	321	604	691 G	619
Cost per case	\$1,219	\$1,401	\$2,702	\$1,493	\$1,302 G	\$1,444

	Goal Not Achieved - - Minimal Difference					
Appeals resolution time (Days) (Joint measure with C&P)	682	595	731	633	529 Y	520

The performance goal for this measure was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

FY 2004 Performance Measures by Program

(Key Measures are in bold)
(G = Green; Y = Yellow; R = Red)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
--	---------	---------	---------	---------	-------------------	-----------------

Departmental Management

P&F ID Codes: 36-0151-0-1-705; 36-4539-0-4-705

Resources						
FTE	2,564	2,674	2,825	2,597	2,697	2,841
Administrative costs (\$ in millions)	\$416	\$449	\$515	\$617	\$717	\$747

Performance Measures

	Goal Achieved					
Percent of employees who are aware that ADR is an option for addressing workplace disputes (BCA)	70%	75%	80%	85%	90% G	80%
Percent increase of EDI usage over base year of 1997 (OM)	86%	178%	235%	320%	884% G	245%
Number of audit qualifications identified in the auditor's opinion on VA's Consolidated Financial Statements (OM)	0	0	0	0	0 G	0
Number of material weaknesses identified during the Annual Financial Statement Audit or Identified by Management (OM)	11	12	6	5	4 G	4
Percent of Group 1 emergency preparedness officials who receive training or, as applicable, who participate in exercises relevant to VA's COOP plan on the National level (OPP&P)	30%	60%	60%	75%	100% G	85%
Attainment of statutory minimum goals for small business concerns as a percent of total procurement (OSDBU) (1) Correction	33%	(1) 32.6%	(1) 31.2%	31.8%	N/A	23%
Decrease underutilized space from FY 03 baseline of 19,930,244 sq ft (OAEM)	N/A	N/A	N/A	Baseline	28,994,639	TBD
Decrease vacant space from FY 03 baseline of 8,874,544 sq ft (OAEM)	N/A	N/A	N/A	Baseline	8,536,758	TBD
Reduce facility energy consumption relative to a 1985 baseline (OAEM)	N/A	N/A	N/A	N/A	TBD	TBD

	Goal Not Achieved -- Minimal Difference					
Participation rate in the monthly Minority Veterans Program Coordinators (MVPC) conference call (Center for Minority Veterans) (1) Correction	27%	20%	30%	(1) 60%	70% Y	75%
Increase the percent of funded grants providing services to homeless veterans that are faith-based (OPIA)	N/A	N/A	N/A	30%	30% Y	33%

FY 2004 Performance Measures by Program

(Key Measures are in bold)

(G = Green; Y = Yellow; R = Red)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
Percent increase in the annual IT budget above the previous year's budget (excluding pay raise and inflation increases) (IT)	N/A	N/A	N/A	0%	3.1% Y	0%
Percent decrease of annual IT budget spent on sustainment, shifting corresponding savings to modernization (zero sum gain) (IT)	N/A	N/A	N/A	5%	1.5% Y	5%
Percent of cases using alternate dispute resolution (ADR) techniques (BCA)	13%	29%	54%	58%	60% Y	70%

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

	Goal Not Achieved -- Significant Difference					
Cumulative % of commercially eligible FTE on which competitive sourcing studies are completed (OPP&P)	N/A	N/A	5%	12%	0% R	53%
VA's entire OMB-approved Competitive Sourcing plan has been put on hold due to statutory prohibitions in Section 8110 (a) (5) of Title 38 U.S.C. VA senior management is currently discussing legislative strategies, but no imminent relief from the prohibition is anticipated.						
Percent of Group 2 emergency preparedness officials who receive training or, as applicable, who participate in exercises relevant to VA's COOP plan on the National level (OPP&P)	N/A	N/A	60%	65%	42% R	75%
A 42% training rate was achieved for Group 2 officials. An unusual turnover rate among senior officials responsible for emergency preparedness kept the Department from achieving its goal. Permanent replacements for these officials should be in place later in calendar year 2004. Certification and exercises are planned throughout calendar year 2004.						
Number of business lines transformed to achieve a secure veteran-centric delivery process that would enable veterans and their families to register and update information, submit claims or inquiries, and obtain status (IT)	N/A	N/A	N/A	N/A	0 R	2
VA re-baselined the Registration and Eligibility program. The rebaselined initiative seeks to develop a single authoritative source for veteran identification data which would then be used by all business lines. Once completely implemented, the need for a veteran to register in more than one place or for more than one business line will be eliminated. It will also ensure that identical values of the same data are in use across all VA business lines, eliminating considerable costs incurred in reconciling data differences. A one-year requirements determination, data analysis, and design specification phase began in September 2004 and is scheduled to conclude September 2005. The nature of the resulting business transformation is considerably different than the transformation contemplated in the original objective; the current transformation leaves the eligibility determination decision within the business lines. The need to include a requirements determination phase also causes this new transformation to occur in FY 2006 instead of FY 2004.						

FY 2004 Performance Measures by Program

(Key Measures are in bold)
(G = Green; Y = Yellow; R = Red)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
--	---------	---------	---------	---------	-------------------	-----------------

Office of Inspector General

P&F ID Code: 36-0170-0-1-705

Resources	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Actual	FY 2004 Plan
FTE	354	370	393	399	434	442
Administrative cost (\$ in millions)	\$45	\$49	\$56	\$58	\$66	\$69

Performance Measures

	Goal Achieved					
(1) Number of indictments, arrests, convictions, administrative sanctions, and pretrial diversions:	1,361	1,655	1,621	1,894	2,016 G	1,950
Number of Arrests	338	401	452	624	741	493
Number of Indictments	280	376	357	349	397	460
Number of Convictions	247	337	331	417	332	422
Number of Administrative Sanctions	496	541	481	484	522	575
Number of Pretrial Diversions	N/A	N/A	N/A	20	24	Baseline
Number of Reports issued:	124	136	169	(2) 182	(3) 223 G	208
Combined Assessment Reviews (CAPs) -- Total	18	26	33	42	52	60
VHA CAPs	18	22	21	34	40	48
VBA CAPs	0	4	12	8	12	12
Audit Reports	35	26	26	24	24	29
Pre-and Post-Award Contract Reviews	40	48	60	65	105	62
Healthcare Inspection Reports	15	22	37	24	26	42
Administrative Investigations	16	14	12	21	11	15
Value of monetary benefits (\$ in millions) from:					(4) \$3,121 G	\$884
IG Investigations	\$28	\$52	\$85	\$64	\$301	\$45
IG audits	\$264	\$4,095	\$730	\$8	\$2,104	\$775
IG contract reviews	\$35	\$42	\$62	\$82	\$661	\$64

	Goal Not Achieved - - Minimal Difference					
Customer Satisfaction:					4.6 Y	4.8
Combined Assessment Program Reviews	N/A	N/A	4.4	4.1	4.5	4.7
Investigations	4.6	4.8	4.8	4.9	4.9	5.0
Audit	4.4	4.2	4.3	4.2	4.6	4.5
Contract Reviews	4.9	4.7	4.9	4.5	4.6	4.9
Healthcare Inspections	4.4	4.2	4.7	4.4	4.4	4.9

The performance goal for this group of measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

(1) In FY 2000, the cumulative figure for this category included the 85 administrative sanctions obtained by the OIG Hotline Division, while the individual figure for administrative sanctions showed only those obtained by the Office of Investigations. (Since FY 2001, the Hotline Division administrative sanctions have been included in both figures.)

(2) Includes 5 CAP summary reports that are not counted in the CAP total and 1 joint review with DoD.

(3) Includes 3 CAP summary reports that are not counted in the CAP total and 2 joint reviews completed by OIG Offices of Investigation, Audit, and Healthcare Inspections.

(4) This figure includes monetary benefits produced by the OIG Office of Healthcare Inspections and OIG Hotline Division. The nature of the activity of these offices does not generally result in monetary benefits significant for separate performance reporting.

A Letter from the Acting Chief Financial Officer

I am pleased to report that the Department of Veterans Affairs continued its tradition of financial excellence in FY 2004. For the sixth straight year, VA received an unqualified audit opinion on its financial statements from the external auditors, Deloitte & Touche.



We continue to strengthen our fiscal management and accountability by enhancing internal controls, complying with financial management laws and regulations, and taking timely corrective actions on the auditors' recommendations concerning reportable conditions, material weaknesses, and non-conformances.

In FY 2004, we continued our efforts to assess and correct the two outstanding audit material weaknesses reported by Deloitte & Touche — *Information Technology Security Controls* and *Lack of Integrated Financial Management System*. We have implemented an information technology security training and awareness program and established a VA centralized clearinghouse for computer-related security incidents, as well as made substantial progress in completing corrective actions within our application systems. In FY 2004, the Department deployed the CoreFLS pilot program at the Bay Pines VA Medical Center and two additional pilot sites. This pilot program was designed to test a new computerized financial management and logistics system and to demonstrate the ability of commercial off-the-shelf finance/logistics software to operate effectively in a complex VA environment. However, due to technology and other issues, management decided to discontinue the pilot and return the pilot sites to VA's existing financial management system by the beginning of FY 2005. An executive project committee, chaired by VA's Assistant Secretary for Information and Technology (VA CIO) and comprised of other senior leaders, is examining the results of the CoreFLS pilot program at the Bay Pines VA Medical Center, as well as the other two pilot sites, and will make recommendations to the VA Secretary concerning the future of the program.

Under FMFIA, VA corrected one material weakness, *Compensation and Pension System — Lack of Adaptability and Documentation*. We are currently working on the closure of the remaining two material weaknesses, *Personnel Accounting Integrated Data (PAID) System — Mission Performance* and *Internal Control Weaknesses in the Compensation and Pension Payment Process*, which are expected to be closed in early FY 2005 and FY 2006, respectively. We continued efforts to implement the requirements of the Improper Payments Information Act (IPIA). VA successfully completed a statistical sampling of 17 of the 19 programs in VA's IPIA inventory. The remaining two programs will be sampled in FY 2005.

The Department also continues to make progress in implementing the Government Performance and Results Act. We are continuously assessing and refining our performance measures, the quality of data used to compute those measures, and procedures for compiling performance data. Procedures are being developed to enhance data validation to ensure that our stakeholders have useful and accurate performance data.

While we are proud of our accomplishments in FY 2004, we will continue to strengthen and improve all aspects of our performance. Our goal is to maintain and/or exceed VA's high financial management standards in FY 2005. We will continue to promote effective management controls and focus on further actions associated with the President's Management Agenda initiatives.

A handwritten signature in black ink, appearing to read "William A. Moorman".

William A. Moorman

Consolidated Financial Statements

DEPARTMENT OF VETERANS AFFAIRS

CONSOLIDATED BALANCE SHEETS (DOLLARS IN MILLIONS)

AS OF SEPTEMBER 30,

	2004	2003
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 3)	\$ 16,741	\$ 17,795
Investments (Note 5)	13,643	13,941
Accounts Receivable, Net (Note 6)	132	196
Other Assets	122	96
TOTAL INTRAGOVERNMENTAL ASSETS	30,638	32,028
PUBLIC		
Investments (Note 5)	184	201
Accounts Receivable, Net (Note 6)	887	859
Loans Receivable, Net (Note 7)	2,954	4,655
Cash (Note 4)	68	41
Inventories (Note 8)	69	73
General Property, Plant and Equipment, Net (Note 9)	11,215	10,949
Other Assets	56	29
TOTAL PUBLIC ASSETS	15,433	16,807
TOTAL ASSETS	\$ 46,071	\$ 48,835
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable	\$ 72	\$ 61
Debt	2,618	2,854
Other Liabilities (Note 13)	2,134	3,506
TOTAL INTRAGOVERNMENTAL LIABILITIES	4,824	6,421
PUBLIC		
Accounts Payable	3,003	2,907
Liabilities for Loan Guarantees (Note 7)	4,740	4,756
Federal Employee and Veterans Benefits Liability (Note 11)	926,553	956,688
Environmental and Disposal Liabilities (Note 12)	339	375
Insurance Liabilities (Note 15)	12,291	12,640
Other Liabilities (Note 13)	7,047	6,309
TOTAL PUBLIC LIABILITIES	953,973	983,675
TOTAL LIABILITIES	958,797	990,096
NET POSITION		
Unexpended Appropriations	2,642	4,233
Cumulative Results of Operations	(915,368)	(945,494)
TOTAL NET POSITION	(912,726)	(941,261)
TOTAL LIABILITIES AND NET POSITION	\$ 46,071	\$ 48,835

The accompanying Notes are an integral part of these financial statements.

DEPARTMENT OF VETERANS AFFAIRS

CONSOLIDATED STATEMENTS OF NET COST (DOLLARS IN MILLIONS)

FOR THE YEARS ENDED SEPTEMBER 30,

	2004	2003
NET PROGRAM COSTS (NOTE 18)		
Medical Care	\$ 25,396	\$ 23,576
Medical Education	1,111	1,036
Medical Research	898	826
Compensation	27,306	25,546
Pension	3,526	3,491
Education	2,037	1,740
Vocational Rehabilitation and Employment	676	649
Loan Guaranty	1,141	(988)
Insurance	63	91
Burial	332	325
NET PROGRAM COSTS BEFORE CHANGES IN VETERANS BENEFITS ACTUARIAL LIABILITIES	62,486	56,292
Compensation	(30,100)	105,800
Burial	100	(200)
SUBTOTAL	(30,000)	105,600
NET NON-PROGRAM COSTS	781	582
NET COST OF OPERATIONS (NOTE 18)	\$ 33,267	\$ 162,474

The accompanying Notes are an integral part of these financial statements.

DEPARTMENT OF VETERANS AFFAIRS
 CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2004
 (DOLLARS IN MILLIONS)

	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	\$ (945,494)	\$ 4,233
Budgetary Financing Sources		
Appropriations Received	-	62,179
Other Adjustments	-	(460)
Appropriations Used	63,325	(63,325)
Transfers-in	-	15
Nonexchange Revenue	5	-
Donations	28	-
Other Financing Sources		
Donations of Property	14	-
Transfers-out	(880)	-
Imputed Financing	1,252	-
Other	(351)	-
Total Financing Sources	63,393	(1,591)
Net Cost of Operations	(33,267)	-
Ending Balances	\$ (915,368)	\$ 2,642

DEPARTMENT OF VETERANS AFFAIRS
 CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2003
 (DOLLARS IN MILLIONS)

	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	\$ (840,350)	\$ 3,366
Budgetary Financing Sources		
Appropriations Received	-	59,060
Other Adjustments	(1,113)	1,092
Appropriations Used	59,285	(59,285)
Nonexchange Revenue	1	-
Donations	27	-
Other Financing Sources		
Donations of Property	15	-
Transfers-out	(1,925)	-
Imputed Financing	1,082	-
Other	(42)	-
Total Financing Sources	57,330	867
Net Cost of Operations	(162,474)	-
Ending Balances	\$ (945,494)	\$ 4,233

The accompanying Notes are an integral part of these financial statements.

DEPARTMENT OF VETERANS AFFAIRS

COMBINED STATEMENT OF BUDGETARY RESOURCES (NOTE 19) (DOLLARS IN MILLIONS)

FOR THE YEAR ENDED SEPTEMBER 30, 2004

Budgetary Resources

	Budgetary	Credit Financing
Budget Authority	\$ 64,987	\$ 1,169
Unobligated Balance at the Beginning of the Period	16,208	6,150
Net Transfers-Prior Year Balance	(116)	-
Spending Authority from Offsetting Collections	4,955	2,944
Adjustments	(386)	(1,347)
Total Budgetary Resources	\$ 85,648	\$ 8,916

Status of Budgetary Resources

Obligations Incurred	\$ 69,981	\$ 4,440
Unobligated Balance Available	13,232	1
Unobligated Balance Not Yet Available	2,435	4,475
Total Status of Budgetary Resources	\$ 85,648	\$ 8,916

Outlays

Obligations Incurred	\$ 69,981	\$ 4,440
Less Spending Authority from Offsetting Collections and Adjustments	(4,955)	(2,944)
Obligated Balance, Net Beginning of Period	8,945	76
Less Obligated Balance, Net End of Period	(10,034)	(93)

Outlays

	63,937	1,479
--	--------	-------

Less Offsetting Receipts

(2,668) -

Net Outlays**\$ 61,269 \$ 1,479**

DEPARTMENT OF VETERANS AFFAIRS

COMBINED STATEMENT OF BUDGETARY RESOURCES (NOTE 19) (DOLLARS IN MILLIONS)

FOR THE YEAR ENDED SEPTEMBER 30, 2003

Budgetary Resources

	Budgetary	Credit Financing
Budget Authority	\$ 61,723	\$ 1,334
Unobligated Balance at the Beginning of the Period	15,579	5,316
Net Transfers-Prior Year Balance	(105)	-
Spending Authority from Offsetting Collections	4,906	4,666
Adjustments	(206)	(1,506)
Total Budgetary Resources	\$ 81,897	\$ 9,810

Status of Budgetary Resources

Obligations Incurred	\$ 65,689	\$ 3,660
Unobligated Balance Available	13,708	218
Unobligated Balance Not Yet Available	2,500	5,932
Total Status of Budgetary Resources	\$ 81,897	\$ 9,810

Outlays

Obligations Incurred	\$ 65,689	\$ 3,660
Less Spending Authority from Offsetting Collections and Adjustments	(4,906)	(4,666)
Obligated Balance, Net Beginning of Period	7,819	103
Less Obligated Balance, Net End of Period	(8,945)	(76)

Outlays

59,657 (979)

Less Offsetting Receipts

(2,174) -

Net Outlays**\$ 57,483 \$ (979)**

The accompanying Notes are an integral part of these financial statements.

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENTS OF FINANCING (NOTE 20)
FOR THE YEARS ENDED SEPTEMBER 30,
(DOLLARS IN MILLIONS)

	2004	2003
Resources Used to Finance Activities		
Obligations Incurred	\$ 74,421	\$ 69,349
Less Spending Authority from Offsetting Collections and Adjustments	(7,899)	(9,572)
Obligations Net of Offsetting Collections and Adjustments	66,522	59,777
Less Offsetting Receipts	(2,668)	(2,174)
Net Obligations	63,854	57,603
Donations of Property	14	15
Transfers-out	(1,227)	(1,925)
Imputed Financing	1,252	1,082
Other Financing Sources	3	(42)
Total Resources Used to Finance Activities	63,896	56,733
Resources That Do Not Fund Net Cost of Operations		
Change in Amount of Goods, Services and Benefits Ordered But Not Yet Provided	(452)	(357)
Resources that Finance the Acquisition of Assets	(5,398)	(4,428)
Resources that Fund Expenses Recognized in Prior Periods	(441)	(1,105)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations	3,065	4,812
Other	(3)	2
Total Resources That Do Not Fund Net Costs of Operations	(3,229)	(1,076)
Total Resources Used to Finance the Net Cost of Operations	60,667	55,657
Costs That Do Not Require Resources in the Current Period		
Increase in Annual Leave Liability	75	55
Increase in Environmental and Disposal Liability	(37)	104
Reestimates of Credit Subsidy Expense	2,148	(565)
Increase in Exchange Revenue Receivable from the Public	952	157
Increase in Veterans Benefits Actuarial Liability	(30,000)	105,600
Depreciation and Amortization	465	1,345
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	328	194
Loss on Disposition of Assets	99	109
Other	(1,430)	(182)
Total Costs That Do Not Require Resources in the Current Period	(27,400)	106,817
Net Cost of Operations	\$ 33,267	\$ 162,474

The accompanying Notes are an integral part of these financial statements.

Notes

Notes to Consolidated Financial Statements

For the Years Ended September 30, 2004 and 2003 (dollars in millions, unless otherwise noted).

1. Summary of Significant Accounting Policies

Basis of Presentation

The Department of Veterans Affairs' (VA) consolidated financial statements report all activities of VA components, including the Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), National Cemetery Administration (NCA), and staff organizations. The consolidated financial statements meet the requirements of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act (GMRA) of 1994. The consolidated financial statements differ from the financial reports used to monitor and control budgetary resources, but are prepared from the same books and records. The statements should be read with the understanding that VA is a component unit of the U.S. Government. VA fiscal year (FY) 2004 and (FY) 2003 financial statements are presented in conformity with the Office of Management and Budget's (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements," as amended.

Reporting Entity

The mission of VA is to provide medical care, benefits, social support, and lasting memorials to veterans, their dependents, and beneficiaries [(38 U.S.C. Section 301(b) 1997)].

The Department is organized under the Secretary of VA. The Secretary's office includes a Deputy Secretary and has direct lines of authority over the Under Secretary for Health, the Under Secretary for Benefits, and the Under Secretary for Memorial Affairs. Additionally, six Assistant Secretaries, an Inspector General, a General Counsel,

and the chairmen of the Board of Contract Appeals and the Board of Veterans' Appeals support the Secretary.

Budgets and Budgetary Accounting

Budgetary accounting measures appropriation and consumption of budget/spending authority or other budgetary resources, and facilitates compliance with legal constraints and controls over the use of Federal funds. Under budgetary reporting principles, budgetary resources are consumed at the time of the purchase. Assets and liabilities that do not consume budgetary resources are not reported, and only those liabilities for which valid obligations have been established are considered to consume budgetary resources.

Basis of Accounting

The accompanying consolidated financial statements have been prepared in accordance with Federal Accounting Standards Advisory Board (FASAB) standards. The Comptroller General, the Secretary of the Treasury, and the Director of the OMB sponsor FASAB, which determines Federal accounting concepts and standards.

Revenues and Other Financing Sources

Exchange revenues are recognized when earned to the extent the revenue is payable to VA from other Federal agencies or the public as a result of costs incurred or services performed on its behalf. Revenue is recognized at the point the service is rendered. Imputed financing sources consist of imputed revenue for expenses relating to legal claims paid by Treasury's Judgment Fund and post-retirement benefits for VA employees. Non-exchange revenue, e.g., donations, is

recognized when received, and related receivables are recognized when measurable and legally collectible, as are refunds and related offsets.

Accounting for Intragovernmental Activities

VA, as a department of the Federal Government, interacts with and is dependent upon the financial activities of the Federal Government as a whole. Therefore, these consolidated financial statements do not reflect the results of all financial decisions applicable to VA as though the department were a stand-alone entity.

In order to prepare reliable financial statements, transactions occurring among VA components must be eliminated. All significant intra-entity transactions were eliminated from VA's consolidated financial statements.

Fund Balance with Treasury

The Department of the Treasury (Treasury) performs cash management activities for all Federal Government agencies. The Fund Balance with Treasury represents the right of VA to draw on the Treasury for allowable expenditures. Trust fund balances consist primarily of amounts related to the Post-Vietnam Educational Assistance Trust Fund, the National Service Life Insurance (NSLI) Fund, the United States Government Life Insurance (USGLI) Fund, the Veterans Special Life Insurance (VSLI) Fund, General Post Fund, and the National Cemetery Gift Fund. The use of these funds is restricted.

Cash

Cash consists of Canteen Service and Loan Guaranty Program amounts held in commercial banks, cash held by non-federal trusts, as well as Agent Cashier advances at VA field stations. Treasury processes all other cash receipts and disbursements. Amounts relating to the Loan Guaranty Program represent deposits with trustees for offsets against loan loss claims related to sold loan portfolios.

Investments

Investments are reported at cost and are redeemable at any time for their original purchase price. Insurance program investments, which comprise most of VA's investments, are in non-marketable Treasury special bonds and certificates. Interest rates for Treasury special securities are based on average market yields for comparable Treasury issues. Special bonds, which mature during various years through the year 2019, are generally held to maturity unless needed to finance insurance claims and dividends. Other program investments are in securities issued by Treasury, with the exception of Insurance Program holdings in stock received from Prudential as a result of its demutualization and the Loan Guaranty Program investments in trust certificates issued by the American Housing Trusts.

Allowances are recorded to reflect estimated losses of principal as a result of the subordinated position in American Housing Trust certificates I through V. The estimated allowance computations are based upon discounted cash flow analysis. Although VA continues to use the income from these subordinated certificates to cover the immediate cash requirements of the Federal guarantee on loans sold under American Housing Trust certificates VI through XI and the Veterans Mortgage Trust program, the income is reimbursed to VA and is not used to pay the amount of the realized losses on guaranteed loan sales.

Accounts Receivable

Intragovernmental accounts receivable consists of amounts due from other Federal Government agencies. No allowances for losses are required.

Public accounts receivable consists mainly of amounts due for veterans' health care and amounts due for compensation, pension, and readjustment benefit overpayments. Allowances are based on prior experience. For FY 2004, contractual

adjustments were 52 percent and bad debt allowances for medical-related receivables were 9 percent. For FY 2003, contractual adjustments were 52 percent and bad debt allowances for medical-related receivables were 9 percent. Educational-related receivables bad debt allowances were 44 percent for FY 2004 and 37 percent for FY 2003. Compensation and pension benefits overpayment-related bad debt receivables were 72 percent for FY 2004 and 74 percent for FY 2003.

VA is required by Public Law 96-466 to charge interest and administrative costs on benefits debts similar to charges levied on other debts owed the Federal Government. In a July 1992 decision, the former VA Deputy Secretary decided that VA would not charge interest on compensation and pension debts. This decision continues to be VA policy.

Loans Receivable

Loans Receivable are recorded as funds are disbursed. For loans obligated prior to October 1, 1991, loan principal and interest receivable amounts are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience and an analysis of outstanding balances. For loans obligated after September 30, 1991, an allowance equal to the subsidy costs associated with these loans reduces the loans receivable. This reduction is due to the interest rate differential between the loans and borrowing from Treasury, the estimated delinquencies and defaults, net of recoveries, offsets from fees, and other estimated cash flows.

Inventories

Inventories consist of items such as precious metals held for sale and Canteen Service retail store stock and are valued at cost. VA follows the purchase method of accounting for operating supplies, medical supplies, and pharmaceutical supplies in the hands of end users. The purchase method provides that these items be expensed when purchased. VA defines an end user as a VA medical center, regional office, or cemetery.

Property, Plant, and Equipment

The majority of the general property, plant, and equipment is used to provide medical care to veterans and is valued at cost, including transfers from other Federal agencies. Major additions, replacements, and alterations are capitalized, whereas routine maintenance is expensed when incurred. Construction costs are capitalized as Construction in Progress until completion, and then transferred to the appropriate property account. Individual items are capitalized if the useful life is 2 years or more and the unit price is \$100,000 or greater. Buildings are depreciated on a straight-line basis over estimated useful lives of 25 to 40 years. Equipment is also depreciated on a straight-line basis over its useful life, usually 5 to 20 years. There are no restrictions on the use or convertibility of general property, plant, and equipment. All VA heritage assets are multi-use facilities and are classified as general property, plant, and equipment.

Other Assets

Other assets consist of advance payments. Public advance payments are primarily to hospitals and medical schools under house staff contracts, grantees, beneficiaries, and employees on official travel. Intragovernmental advance payments are primarily to the General Services Administration (GSA) for rent and Government Printing Office (GPO) for supplies, printing, and equipment.

Accounts Payable

Intragovernmental accounts payable consists of amounts owed to other Federal Government agencies. The remaining accounts payable consist of amounts due to the public.

Loan Guarantees

For direct loan obligations and loan guaranty commitments made after 1991, the resulting direct loans are reported net of an allowance for subsidy costs at present value, and loan guarantee liabilities are reported at present value. The present value of the subsidy costs

associated with direct loans and loan guarantees is recognized as a cost in the year the direct or guaranteed loan is disbursed. Pre-1992 direct loans and loan guarantees are reported under the allowance for loss method. The nominal amount of the direct loan is reduced by an allowance for uncollectible amounts, and the liability for loan guarantees is the amount VA estimated will most likely require a future cash outflow to pay defaulted claims. Interest is accrued on VA-owned loans by computing interest on a loan-by-loan basis at the end of the month and recording the amount owed as an accrual.

The guaranteed loan sales liability represents the present value of the estimated cash flows to be paid by VA as a result of the guarantee. VA guarantees that the principal and interest payment due on a loan will be paid by the 15th of each month. If the payment is not made, VA allows the loan servicer to receive funds from a cash reserve account for the amount of the deficiency. VA guarantees the loans against losses at foreclosure. Although VA will not buy back the loan, VA will pay the loan loss and foreclosure expenses.

Debt

All intragovernmental debt is due to Treasury and is primarily related to borrowing by the Loan Guaranty Program. The interest rates ranged from 1.29 to 5.24 percent in FY 2004 and from 1.20 to 5.03 percent in FY 2003. VA's financial activities interact with and are dependent upon those of the Federal Government as a whole.

Insurance Liabilities

Actuarial reserve liabilities for VA's insurance programs are based on mortality and interest rate assumptions at the time of issue. These assumptions vary by fund, type of policy, and type of benefit. The interest rate assumptions range from 2.25 to 5.0 percent for both the FY 2004 and FY 2003 calculations.

Annual Leave

The accrued annual leave balance is adjusted at the end of the fiscal year to reflect current pay rates for leave that has been earned but not taken. Sick and other types of non-vested leave are expensed as taken. To the extent appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

Workers' Compensation Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. Claims incurred for benefits for VA employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by VA.

Workers' compensation is comprised of two components: (1) the accrued liability which represents money owed by VA to DOL for claims paid by DOL on behalf of VA through the current fiscal year, and (2) the actuarial liability for compensation cases to be paid beyond the current year.

Future workers' compensation estimates are generated from an application of actuarial procedures developed by DOL to estimate the liability for FECA benefits. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases and for potential cases related to injuries incurred but not reported. The liability is determined by utilizing historical benefit payment patterns related to a particular period to estimate the ultimate payments related to that period.

Pension, Other Retirement Benefits, and Other Post-Employment Benefits

Each employing Federal agency is required to recognize its share of the cost and imputed financing of providing

pension and post-retirement health benefits and life insurance to its employees. Factors used in the calculation of these pensions and post-retirement health and life insurance benefit expenses are provided by the Office of Personnel Management (OPM) to each agency.

VA's employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which VA makes contributions according to plan requirements. CSRS and FERS are multi-employer plans. VA does not maintain or report information about the assets of the plans, nor does it report actuarial data for the accumulated plan benefits. That reporting is the responsibility of OPM.

Veterans Benefits Liability

VA provides compensation benefits to veterans who are disabled by military service-related causes. Benefits are also provided to deceased veterans' beneficiaries. These benefits are provided in recognition of a veteran's military service. The liability for future compensation payments is reported on VA's balance sheet at the present value of expected future payments, and is developed on an actuarial basis. Various assumptions in the actuarial model, such as the number of veterans and dependents receiving payments, discount rates, cost of living adjustments and life expectancy, impact the amount of the liability.

Litigation

VA is a party in various administrative proceedings, legal actions, and claims brought against it. In the opinion of VA management and legal counsel, the ultimate resolutions of these proceedings, actions, and claims will not materially affect the financial position or results of VA operations.

Non-Federal Trusts

VA has entered into enhanced-use leases to maximize use of underutilized VA property. In seven of these enhanced-use leases, the assets and liabilities were transferred to a non-Federal trust. In FY 2004, the assets, liabilities, and results of operations of these seven trusts are consolidated in VA's consolidated financial statements.

Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein. In FY 2004, VA changed its estimate of medical malpractice and other tort liabilities to discount the liability and changed the method used to estimate credit subsidy amounts to the balances approach method. See Notes 16 and 7, respectively.

2. Non-Entity Assets

Entity and Non-Entity assets have been combined on the face of the balance sheet. Non-Entity assets relate primarily to patient funds.

Non-Entity Assets as of September 30,

	2004	2003
Fund Balance with Treasury	\$ 47	\$ 56
Intragovernmental Accounts Receivable	1	1
Public Accounts Receivable	11	14
Total Non-Entity Assets	\$ 59	\$ 71

3. Fund Balance With Treasury

Fund Balance with Treasury as of September 30,	2004	2003
Entity Assets		
Trust Funds	\$ 86	\$ 89
Revolving Funds	5,661	7,190
Appropriated Funds	10,917	10,427
Special Funds	156	116
Other Fund Types	(126)	(83)
Total Entity Assets	<u>\$ 16,694</u>	<u>\$ 17,739</u>
Non-Entity Assets		
Other Fund Types	47	56
Total Non-Entity Assets	<u>47</u>	<u>56</u>
Total Entity and Non-Entity Assets	<u>\$ 16,741</u>	<u>\$ 17,795</u>
Reconciliation of VA General Ledger Balances with Treasury		
Entity VA General Ledger	\$ 17,159	\$ 17,867
Reconciled Differences	(433)	(75)
Unreconciled Differences	15	3
Fund Balance with Treasury	<u>\$ 16,741</u>	<u>\$ 17,795</u>
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	\$ 3,558	\$ 2,153
Unavailable	4,943	6,554
Obligated Balance not yet Disbursed	8,319	9,114
Deposit/Clearing Account Balances	(79)	(26)
Fund Balance with Treasury	<u>\$ 16,741</u>	<u>\$ 17,795</u>

4. Cash

Cash as of September 30,	2004	2003
Canteen Service	\$ 3	\$ 1
Agent Cashier Advance	19	4
Loan Guaranty Program	4	36
Funds held by non-federal trusts	42	-
Total Cash	<u>\$ 68</u>	<u>\$ 41</u>

5. Investments

Investment Securities as of September 30,		2004	2003
Intragovernmental Securities	Interest Range		
Special Bonds	3.25-9.5%	\$ 13,329	\$ 13,618
Treasury Notes *	1.62-4.25%	67	92
Treasury Bills	0.91-1.95%	30	2
Subtotal		13,426	13,712
Accrued Interest		217	229
Total Intragovernmental Securities		\$ 13,643	\$ 13,941
Other Securities			
Prudential Stock (Insurance)		\$ 6	\$ 9
Trust Certificates (Loan Guaranty)		178	192
Total Other Securities		\$ 184	\$ 201

*The investment in Treasury Notes includes unamortized premiums of \$0.1 million as of September 30, 2004 and \$0.7 million as of September 30, 2003. Premiums and discounts are amortized on a straight-line basis over the life of the investments.

Offset for Losses on Investments as of September 30,		2004	2003
Investment in Subordinate Certificates at Time of Sale		\$ 424	\$ 425
Cumulative Reductions		(238)	(224)
Subtotal		186	201
Allocation of Loss Provision		(8)	(9)
Trust Certificates (Loan Guaranty)		\$ 178	\$ 192

6. Accounts Receivable, Net

Accounts Receivable, Net as of September 30,		2004	2003
Intragovernmental Accounts Receivable		\$ 132	\$ 196
Public Accounts Receivable, Gross		\$ 2,088	\$ 2,029
Allowance for Loss Provision		(1,201)	(1,170)
Net Public Accounts Receivable		\$ 887	\$ 859

7. Direct Loans and Loan Guarantees

Direct loan obligations and loan guarantee commitments made after 1991, and the resulting direct loans or loan guarantees, are governed by the Federal Credit Reform Act of 1990. The Act provides that the present value of the subsidy costs associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. Direct loans are reported net of an allowance for subsidy costs at present value, and loan guarantee liabilities are reported at present value. Pre-1992 direct loans and loan guarantees are reported under the allowance for loss method. The nominal amount of the direct loan is reduced by an allowance for uncollectible amounts, and the liability for loan guarantees is the amount VA estimates will most likely require a future cash outflow to pay defaulted claims.

Interest is accrued on VA-owned loans by computing interest on a loan-by-loan basis at the end of the month and recording the amount owed as an accrual.

The recorded value of loans receivable, net, and the value of assets related to direct loans are not the same as the proceeds that VA would expect to receive from selling its loans. VA operates the following direct loan and loan guaranty programs:

- Vocational Rehabilitation and Employment.
- Education.
- Insurance.
- Loan Guaranty.

Under the Loan Guaranty Program, a loan may be made to an eligible veteran by an approved private sector mortgage lender. VA guarantees payment of a fixed percentage of the loan indebtedness to the holder of such a loan, up to a maximum dollar amount, in the event of default by the veteran borrower. Occasionally, a delinquency is reported to VA and neither a realistic alternative to foreclosure is offered by the loan holder nor is VA in a position to supplementally service the loan. In such cases, VA determines, through an economic analysis, whether VA will authorize the holder to convey the property securing the loan (foreclosure) or pay the loan guarantee amount to the holder.

Direct Loans

Loans receivable related to direct loans represent the net value of assets related to acquired pre-1992 and post-1991 direct loans. For pre-1992 loans, VA employs the allowance for loss method in which the assets are offset by an allowance for loan losses (estimated uncollectible loans). For post-1991 loans, the assets are offset by an allowance for subsidy costs. An analysis of loans receivable and the nature and amounts of the subsidy costs associated with the direct loans are provided in the tables that follow:

Loans Receivable and Related Foreclosed Property From Direct Loans

as of September 30, 2004	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)	\$ 82	\$ 7	\$ -	\$ -	\$ 89
Direct Loans Obligated after 1991	1,051	29	(166)	93	1,007
Insurance Policy Loans	716	17	-	-	733
Total Loans Receivable and Related Foreclosed Property from Direct Loans, Net					\$ 1,829

Loans Receivable and Related Foreclosed Property From Direct Loans

as of September 30, 2003	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)	\$ 114	\$ 15	\$ -	\$ -	\$ 129
Direct Loans Obligated after 1991	1,585	29	1,136	87	2,837
Insurance Policy Loans	770	19	-	-	789
Total Loans Receivable and Related Foreclosed Property from Direct Loans, Net					\$ 3,755

Direct Loans Disbursed

The total amount of direct loans disbursed for the years ended September 30, 2004 and 2003, was \$123 and \$563 million, respectively.

Provision for Losses on Pre-1992 Loans

The present value of the cost VA will bear as loans already guaranteed default is an element of the mortgage loan benefit that VA provides to veterans. This cost is reflected in the financial statements as an offset to the value of certain related assets.

The provision for losses on vendee loans is based upon historical loan foreclosure results applied to the average loss on defaulted loans. The calculation is also based on the use of the average interest rate of U.S. interest-bearing debt as a discount rate on the assumption that VA's outstanding guaranteed loans will default over a 12-year period. For FY 2004, VA determined that these vendee loans have sufficient equity due to real estate appreciation and buy-down of principal, to minimize or eliminate any potential loss to VA. The components of the provision are as follows:

Provision for Loss as of September 30,	2004	2003
Offsets Against Foreclosed Property Held for Sale	10	8
Total Provision for Loss	<u>\$ 10</u>	<u>\$ 8</u>

Subsidy Expense for Post-1991 Direct Loans

Pursuant to the Credit Reform Act, all direct loans established after September 30, 1991, will be subsidized. The subsidy expense for direct loans is as shown:

Direct Loan Subsidy Expense for the years ended September 30,	2004	2003
Interest Differential	\$ (6)	\$ (55)
Defaults*	3	12
Fees**	0	(9)
Other***	4	44
Subtotal	<u>1</u>	<u>(8)</u>
Interest Rate Reestimates	473	(178)
Technical Reestimates	922	(44)
Total Direct Loans	<u>\$ 1,396</u>	<u>\$ (230)</u>

* Includes approximately \$50,000 and \$42,000 in defaults and other expenses for the Vocational Rehabilitation Program for FY 2004 and 2003, respectively.

** "Fees" expense for direct loans includes estimated down payments and other fees collected when homes are sold with vendee financing.

*** The "Other" expense for direct loans includes the estimated loss of scheduled principal and interest when vendee loans are sold.

Subsidy Rates for Direct Loans by Component

The subsidy rates disclosed below pertain only to the current year cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes reestimates.

Subsidy rates for direct loans	
Interest Differential	(17.19%)
Defaults	12.8%
Fees	(0.44%)
Other	7.28%

Allowance for Subsidy for Direct Loans (Post-1991)

VA reports the allowance for subsidy for direct loans, subject to Credit Reform requirements. For these loans, the allowance for subsidy represents the present value of the estimated net cash flows to be paid by VA as a result of a disbursed direct loan. VA disburses a direct loan and receives an allowance for subsidy along with borrowing from Treasury. For FY 2004, the subsidy rate for October through December is (11.16) and the subsidy rate for January through September is (2.48). In FY 2003 the rate was 0.86 percent. The allowance for subsidy as of September 30, 2004 and 2003 is \$166 and (\$974) million, respectively.

Schedule for Reconciling Subsidy Cost Allowance Balances

Beginning Balance, Changes and Ending Balance	FY 2004	FY 2003
Beginning balance of the allowance	\$ (1,136)	\$ (853)
Subsidy expense for direct loans disbursed during the reporting years by component:		
Interest subsidy costs	(6)	(55)
Default costs (net of recoveries)	3	12
Fees and other collections	0	(9)
Other subsidy costs	4	44
Total of the above subsidy expense components	<u>1</u>	<u>(8)</u>
Adjustments:		
Loan modification	0	0
Fees received	1	11
Foreclosed property acquired	(21)	(5)
Loans written off	(9)	(6)
Subsidy allowance amortization	(65)	(53)
Other	0	0
Ending balance of the allowance before reestimates	<u>(1,229)</u>	<u>(914)</u>
Subsidy reestimates by component		
Interest rate reestimate	473	(44)
Technical/default reestimate	922	(178)
Total of the above reestimate components	<u>1,395</u>	<u>(222)</u>
Ending balance of the allowance	<u>\$ 166</u>	<u>\$ (1,136)</u>

Loan Guarantees

Loans receivable related to loan guarantees represent the net value of assets related to pre-1992 and post-1991 defaulted guaranteed loans and non-defaulted guaranteed loans. For pre-1992 loans, VA employs the allowance for loss method in which the assets are offset by an allowance for loan losses (estimated uncollectible loans). An analysis of loans receivable, loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy costs associated with loan guarantees are provided in the tables that follow:

Loans Receivable and Related Foreclosed Property from Loan Guarantees as of September 30,

2004	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Defaulted Guaranteed Loans Pre-1992 Guarantees	129	1	(121)	45	54
Defaulted Guaranteed Loans Post-1991	-	-	-	1,071	1,071
Total Loans Receivable and Related Foreclosed Property from Loan Guarantees					<u>\$ 1,125</u>

Loans Receivable and Related Foreclosed Property from Loan Guarantees as of September 30,

2003	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Defaulted Guaranteed Loans Pre-1992 Guarantees	147	4	(138)	46	59
Defaulted Guaranteed Loans Post-1991	-	-	-	841	841
Total Loans Receivable and Related Foreclosed Property from Loan Guarantees					<u>\$ 900</u>

Total Loans Receivable and Related Foreclosed Property, Net for the years ended September 30,

	2004	2003
Total Direct Loans	\$ 1,829	\$ 3,755
Total Guaranteed Loans	1,125	900
Total Loans Receivable and Related Foreclosed Property, Net	<u>\$ 2,954</u>	<u>\$ 4,655</u>

Foreclosed Property

Prior to the foreclosure of property secured by a VA loan, VA obtains an independent appraisal of the property. This appraisal is reviewed by VA staff who make a determination of the fair market value. To determine the net value of the property, VA expenses such as costs for acquisition, management, and disposition of the property, as well as estimated losses on property resale, are subtracted from the estimated fair market value. As of September 30, 2004 and 2003, the estimated number of residential properties in VA's inventory was 15,539 and 11,872, respectively. For FY 2004 and FY 2003, the average holding period from the date properties were conveyed to VA until the properties were sold was estimated to be 10.1 months and 8.9 months, respectively. The number of properties for which foreclosure proceedings are in process is estimated to be 10,355 and 10,513 as of September 30, 2004 and 2003, respectively.

Guaranteed Loans as of September 30,		2004		2003
<u>Guaranteed Loans Outstanding:</u>				
Outstanding Principal Guaranteed Loans, Face Value	\$	207,374	\$	213,248
Amount of Outstanding Guarantee		64,683		67,654
<u>New Guaranteed Loans Disbursed:</u>				
Outstanding Principal Guaranteed Loans, Face Value	\$	44,130	\$	63,255
Amount of Outstanding Guarantee		12,643		18,245
Liabilities for Loan Guarantees Post 1991 (Present Value)	\$	4,740	\$	4,756

Guaranty Commitments

As of September 30, 2004, VA had outstanding commitments to guarantee loans that will originate in FY 2005. The number and amount of commitments could not be determined, as VA has granted authority to various lenders to originate VA loans that meet established criteria without prior VA approval. Nearly 90 percent of VA's guaranteed loans originate under this authority.

Subsidy Expense for Post-1991 Loan Guarantees

Pursuant to the Credit Reform Act, guaranteed loans closed after September 30, 1991, will be subsidized. The subsidy expense for loan guarantees related to the Loan Guaranty Program is as shown:

Guaranteed Loan Subsidy Expenses for the years ended September 30,		2004		2003
Defaults	\$	652	\$	1,678
Fees*		(470)		(1,145)
Other**		0		0
Subtotal		182		533
Interest Rate Reestimates		(241)		(471)
Technical Reestimates		(542)		(1,407)
Total Guaranteed Loan Subsidy Expense	\$	(601)	\$	(1,345)

* The "Fees" expense includes estimated up-front fees collected when the loans are guaranteed and the present value of estimated annual fees from loan assumptions.

** The "Other" expense for guaranteed loans includes estimated recoveries on defaults through the sales of foreclosed properties.

Loan Sale-Guaranteed Loan Subsidy Expense for the years ended September 30,	2004	2003
Defaults	\$ 19	\$ 14
Other	(2)	0
Subtotal	17	14
Interest Rate Reestimates	102	(50)
Technical Reestimates	80	(109)
Total Loan Sale-Guaranteed Subsidy Expense	\$ 199	\$ (145)

Total Subsidy Expense for the years ended September 30,	2004	2003
Total Direct Loans	\$ 1,396	\$ (230)
Total Guaranteed Loans	(601)	(1,345)
Total Sale Loans	199	(145)
Total Subsidy Expense	\$ 994	\$ (1,720)

Subsidy Rates for Loan Guarantees by Component

The subsidy rates disclosed below pertain only to the current year cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes reestimates.

Subsidy Rates for Loan Guarantees

Defaults	1.85%
Fees	(1.33%)
Other	0

Loan Sales

VA continues to have vendee loan sales to reduce the administrative burden of servicing vendee loans. During the period FY 1992 through FY 2004, the total loans sold amounted to \$13.8 billion. Under the sale of vendee loans, certificates are issued pursuant to the Pooling and Servicing Agreement (the Agreement) among VA, the Master Servicer, and the Trustee. On the closing date of the certificates, VA transfers its entire interest in the related loans to the Trustee for the benefit of the related certificate holders pursuant to the Agreement. Under the Agreement, the Trust will issue certificates backed

by mortgage loans and installment contracts. The Trust owns the mortgage loans and other property described in the offering and the Trust makes elections to treat certain of its assets as one or more Real Estate Mortgage Investment Conduits (REMIC) for U.S. Federal income tax purposes. The certificates represent interests in the assets of the Trust and are paid from the Trust's assets. The certificates are issued as part of a designated series that may include one or more classes. VA guarantees that the investor will receive full and timely distributions of the principal and interest on the certificates and that guaranty is backed by the full faith and credit of the Federal Government.

VA may terminate the Trust, causing the early retirement of certificates, by purchasing all of the Trust's assets on any distribution date on or after the distribution date on which the current aggregate principal balance of all principal certificates is less than 1 percent of the original aggregate principal balance, or if VA determines that the Trust's REMIC status has been lost or a substantial risk exists that such status will be lost. In the event of termination, the certificate holder will be entitled to receive payment for the full principal balance of the certificates plus any accrued interest and unpaid interest through the related distribution date.

The Agreement requires the mortgage loans to be serviced generally in compliance with Fannie Mae and Freddie Mac standards and consistent with prudent residential mortgage loan servicing standards generally accepted in the servicing industry. For mortgage loans sold during FY 2004, servicing was performed by

Countrywide Home Loans, Inc. (Master Servicer). The Master Servicer is responsible for the performance of all of the servicing functions under the Agreement. The Master Servicer is entitled to be compensated by receiving (1) a service fee of 0.2075 percent per annum payable monthly and calculated by multiplying the interest payment received by a fraction, the numerator of which is 0.2075 percent and the denominator of which is the mortgage interest rate on such loan; (2) earnings on investment of funds in the certificate account; and (3) all incidental fees and other charges paid by the borrowers and a portion of the liquidation proceeds in connection with the liquidated loans.

VA completed one sale during FY 2004 and one sale during FY 2003 totaling approximately \$298 million and \$283 million of vendee loans, respectively. The components of the vendee sales are summarized in the tables below:

Loan Sales Years ended September 30,	2004	2003
Loans Receivable Sold	\$ 298	\$ 283
Net Proceeds From Sale	308	299
Loss (Gain) on Receivables Sold	\$ (10)	\$ (16)

Outstanding Balance of Loan Sale Guarantees

All loans sold under the American Housing Trust (AHT VI through AHT XI) and the Vendee Mortgage (VMT 92-1 through 03-1) programs carry a full government guarantee. The outstanding balance for guaranteed loans sold is summarized in the table below:

Guaranteed Loans Sold as of September 30,	2004	2003
Outstanding Balance Guaranteed Loans Sold, Start of Year	\$ 5,569	\$ 7,406
Sold to the Public	298	283
Payments, Repayments, and Terminations	(1,679)	(2,120)
Outstanding Balance Guaranteed Loans Sold, End of Year	\$ 4,188	\$ 5,569

Liability for Loan Sale Guarantees (Post-1991)

VA reports the liability on the guarantee of loans sold under the Vendee Mortgage Trust and American Housing Trust programs, subject to Credit Reform requirements. For these loans, the guaranteed loan sale liability represents the present value of the estimated net cash flows to be paid by VA as a result of the guarantee. These sales contain two types of guarantees for which VA pays net cash flow. VA guarantees that the principal

and interest payment due on a sold loan will be paid by the 15th of each month. If not paid by the borrower, VA allows the loan servicer to take funds from cash reserve accounts for the deficient amount. VA also guarantees the loan against loss at foreclosure. VA will not buy back the loans but will pay off the loan loss and foreclosure expenses. The subsidy rate for FY 2004 is 5.65 percent. For FY 2003 the subsidy rate was 5.06 percent. The liability for loan sale guarantees as of September 30, 2004 and 2003 is \$255 and \$77 million, respectively.

Schedule for Reconciling Loan Sale Guarantee Liability Balances

Beginning Balance, Changes and Ending Balance	FY 2004	FY 2003
Beginning balance of the liability	\$ 77	\$ 210
Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
Interest subsidy costs	-	-
Default costs (net of recoveries)	19	14
Fees and other collections	-	-
Other subsidy costs	(2)	-
Total of the above subsidy expense components	17	14
Adjustments:		
Loan guarantee modifications	-	-
Fees received	-	-
Interest supplements paid	-	-
Foreclosed property and loans acquired	-	-
Claim payments to lenders	(36)	(19)
Interest accumulation on the liability balance	6	15
Other	9	16
Ending balance of the liability before reestimates	73	236
Subsidy reestimates by component		
Interest rate reestimate	102	(50)
Technical/default reestimate	80	(109)
Total of the above reestimate components	182	(159)
Ending balance of the liability	\$ 255	\$ 77

Liability for Loan Guarantees (Post-1991)

VA reports the liability on the guarantee of loans, subject to Credit Reform requirements. For these loans, the guaranteed loan liability represents the present value of the estimated net cash flows to be paid by VA as a result of a defaulted loan guarantee. VA guarantees the loan against loss at foreclosure for which VA pays net cash flow up to

a legally specified maximum based on the value of individual loans. VA will pay the lender the guarantee and foreclosure expenses. If an agreement can be made with the veteran, VA may acquire the loan by refunding the lender for the loan. The FY 2004 and FY 2003 subsidy rate is 0.52 and 0.81 percent, respectively. The liability for loan guarantees as of September 30, 2004 and 2003 is \$4,485 and \$4,679 million, respectively.

Schedule for Reconciling Loan Guarantee Liability Balances

Beginning Balance, Changes and Ending Balance	<u>FY 2004</u>	<u>FY 2003</u>
Beginning balance of the liability	\$ 4,679	\$ 5,452
Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
Interest subsidy costs	-	-
Default costs (net of recoveries)	652	1,677
Fees and other collections	(469)	(1,145)
Other subsidy costs	-	-
Total of the above subsidy expense components	<u>183</u>	<u>532</u>
Adjustments:		
Loan guarantee modifications	-	-
Fees received	482	549
Interest supplements paid	-	-
Foreclosed property and loans acquired	67	189
Claim payments to lenders	(406)	(449)
Interest accumulation on the liability balance	263	284
Other	-	-
Ending balance of the liability before reestimates	<u>5,268</u>	<u>6,557</u>
Subsidy reestimates by component		
Interest rate reestimate	(241)	(471)
Technical/default reestimate	(542)	(1,407)
Total of the above reestimate components	<u>(783)</u>	<u>(1,878)</u>
Ending balance of the liability	<u>\$ 4,485</u>	<u>\$ 4,679</u>

Estimation Technique Change

VA used the balances approach method for the 2004 financial statement reestimates to replace the traditional approach method used in FY 2003 to more accurately project the remaining financial requirements for cohorts being reestimated in the Direct Loan Financing Account (DLFA, 36X4127) and the Loan Sales Securities Account (LSSA, 36X4124). By comparing with the traditional method, the use of the balances approach results in a net difference of \$343.6 million less for all reestimated cohorts for the DLFA. The net difference for the LSSA is \$100.1 million more for all reestimated cohorts. As a result of the change of the calculator, future reestimates will be significantly less.

Administrative Expense

Administrative expense on direct and guaranteed loans for the years ended September 30, 2004 and 2003, was \$154 and \$168 million, respectively.

8. Inventories

Inventories as of September 30,	2004	2003
Held for Current Sale	\$ 65	\$ 62
Other	<u>4</u>	<u>11</u>
Total Inventories	<u>\$ 69</u>	<u>\$ 73</u>

9. General Property, Plant and Equipment

Depreciation and amortization expense totaled \$805 and \$779 million in FY 2004 and FY 2003, respectively.

General Property, Plant and Equipment as of September 30, 2004

	Cost	Accumulated Depreciation	Net Book Value
Land and Improvements	\$ 303	\$ (13)	\$ 290
Buildings	14,915	(7,045)	7,870
Equipment	3,128	(1,884)	1,244
Other	1,974	(1,101)	873
Work in Progress	938	0	938
Total Property, Plant, and Equipment	\$ 21,258	\$ (10,043)	\$ 11,215

General Property, Plant and Equipment as of September 30, 2003

	Cost	Accumulated Depreciation	Net Book Value
Land and Improvements	\$ 285	\$ (10)	\$ 275
Buildings	14,507	(6,599)	7,908
Equipment	3,017	(1,789)	1,228
Other	1,797	(1,021)	776
Work in Progress	762	-	762
Total Property, Plant, and Equipment	\$ 20,368	\$ (9,419)	\$ 10,949

10. Liabilities Not Covered By Budgetary Resources

The total amount of VA liabilities not covered by budgetary resources was \$929.5 billion and \$959.6 billion as of September 30, 2004 and 2003, respectively, as shown in the following table.

Components of Unfunded Liabilities as of September 30,

	2004		2003
Workers' Compensation*	\$ 2,112	\$	2,239
Annual Leave	1,173		1,097
Judgment Fund	501		528
Environmental and Disposal	339		375
Accounts Payable – Canceled Appropriations	6		6
Veterans Compensation and Burial	924,800		954,800
Insurance	568		581
Total	<u>\$ 929,499</u>	<u>\$</u>	<u>959,626</u>

* The actuarial estimate for workers' compensation provided by DOL was computed using interest rates of 4.88 percent for FY 2004 and 3.84 percent for FY 2003.

11. Federal Employee and Veterans Benefits

Federal Employee Benefits

Imputed Expenses-Employee Benefits years ended September 30,

	2004		2003
Civil Service Retirement System	\$ 366	\$	351
Federal Employees Health Benefits	788		641
Federal Employees Group Life Insurance	2		2
Total Imputed Expenses-Employee Benefits	<u>\$ 1,156</u>	<u>\$</u>	<u>994</u>

Veterans Benefits

Certain veterans who die or are disabled from military service-related causes, as well as their dependents, receive compensation benefits. Also, veterans are provided with burial flags, headstones/markers, and grave liners for burial in a VA national cemetery or are provided a plot allowance for burial in a private cemetery. These benefits are provided in recognition of a veteran's military service and are recorded as a liability on the balance sheet.

Federal Employee and Veterans Benefits Liabilities as of September 30,

	2004		2003
FECA	\$ 1,753	\$	1,888
Compensation	921,500		951,600
Burial	3,300		3,200
Total Federal Employee and Veterans Benefits Liabilities	<u>\$ 926,553</u>	<u>\$</u>	<u>956,688</u>

VA provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled from non-service-related causes. The actuarial present value of the future liability for pension benefits is a non-exchange transaction and is not required to be recorded on the balance sheet. The projected amount of future payments for pension benefits (presented for informational purposes only) as of September 30, 2004 and 2003 was \$102.2 and \$102.7 billion, respectively.

Assumptions Used to Calculate the Veterans Benefits Liability

Several significant actuarial assumptions were used in the valuation of compensation, pension, and burial benefits to calculate the present value of the liability. A liability was recognized for the projected benefit payments to: (1) those beneficiaries, including veterans and survivors, currently receiving benefit payments; (2) current veterans who will in the future become beneficiaries of the compensation and pension programs; and (3) a proportional share of those in active military service as of the valuation date who will become veterans in the future. Future benefits payments to survivors of those veterans in classes (1), (2), and (3) are also incorporated into the projection.

All future benefits were discounted. Discount rates were based on rates for securities issued by Treasury on September 30, 2004, ranging from 2 to 5.23 percent, and on September 30, 2003, ranging from 1.15 to 4.91 percent. Beginning in FY 2004, the discount rates used were based on U.S. Treasury's spot rates rather than corresponding constant maturity rates, which were used in previous years. Benefit payments were assumed to occur at the midpoint of the fiscal year.

All calculations were performed separately by attained age for the Compensation and Pension programs, while the Burial liability was calculated on an aggregate basis.

Life expectancies of beneficiaries collecting benefits from the Compensation and Pension programs were based upon studies of mortality experience of those beneficiaries between 1995 and 2003. Life expectancies of veterans not yet collecting these benefits used in the calculation of the liability for future beneficiaries are based on mortality derived from the 1990 U.S. decennial census and beneficiary mortality experience. Applying mortality improvements at a rate of 1 percent per annum brought both sets of mortality rates forward. In addition, rates of benefit termination of beneficiaries due to reasons other than mortality are also reflected.

The amount of benefits by category and age were based on current amounts being paid and future cost of living adjustments (COLAs) to determine the average benefits per veteran for each future time period. A COLA of 2.7 percent was assumed for FY 2005. For fiscal years after 2005, COLAs have been determined from OMB's estimates prepared in conjunction with the Administration's annual budget. Expected changes in benefits due to other reasons were also reflected.

Expected benefit payments have been explicitly modeled for the next 75 years. This period is the same as that used by the Office of the Actuary of the Social Security Administration. However, unlike Social Security, (1) estimates of expected benefit payments after this 75-year period were incorporated in the liability based on extrapolations reflecting expected aggregate experience by beneficiary category between the years 70 and 75 and (2) SSA uses an open population model, while the C&P projections only reflect benefits associated with military service through September 30, 2003.

12. Environmental and Disposal

VA had unfunded environmental and disposal liabilities in the amount of \$339 million and \$375 million as of September 30, 2004 and 2003, respectively. The majority of the unfunded liabilities involve asbestos removal, lead abatement, replacement of underground oil and gasoline tanks, decommissioning of waste incinerators, and decontamination of equipment prior to disposal.

While some facilities have applied prevailing state regulations that are more stringent than Federal guidelines, the Occupational Safety and Health Administration and Environmental Protection Agency regulations provide the legal base behind the majority of VA's environmental and disposal liabilities. Estimated liabilities for these projects are based on known contamination that exists today and have been computed by the facility engineering staff based on similar projects already completed, or by independent contractors providing work estimates.

13. Other Liabilities

Funded liabilities are generally considered to be current liabilities. Unfunded liabilities are generally considered to be non-current liabilities.

Other Intragovernmental Funded Liabilities as of September 30,	2004	2003
Deposit and Clearing Account Liabilities	\$ (61)	\$ (73)
Accrued Expenses - Federal	149	99
Deferred Revenue	283	446
Resources Payable to Treasury	350	404
Custodial Liabilities*	1,022	2,260
General Fund Receipts Liability	29	12
Accrued VA Contributions for Employee Benefits	3	2
Total Other Intragovernmental Funded Liabilities	<u>\$ 1,775</u>	<u>\$ 3,150</u>

* The Custodial Liabilities Accounts include subsidy reestimates for loans made after September 30, 1991, which are subject to the provisions of the Credit Reform Act of 1990. The liability provision for future losses on credit reform guaranteed loans is comprised of a funded subsidy for each loan guaranteed at the rate equal to the amount of the present value of estimated loss to the Government for the cohorts of loans. The subsidy amount for each cohort is reestimated annually to ensure amounts reflect the actual losses on guaranteed loans. Based on the reestimated amounts, additional subsidy funds are provided for or excess funds are returned.

Other Intragovernmental Unfunded Liabilities
as of September 30,

	2004	2003
Accrued FECA Liability	\$ 359	\$ 356
Total Other Intragovernmental Unfunded Liabilities	\$ 359	\$ 356

Other Public Funded Liabilities
as of September 30,

	2004	2003
Accrued Funded Annual Leave	\$ 11	\$ 10
Accrued Expenses	2,482	2,135
Accrued Salaries and Benefits	583	420
Contract Holdbacks	12	16
Deferred Revenue	1	1
Unredeemed Coupons	1	1
Deposit and Clearing Account Liability	46	17
Unearned Premiums	111	118
Insurance Dividends Left on Deposit and Related Interest Payable*	1,677	1,673
Dividend Payable to Policyholders	225	254
Amounts due to non-federal trusts	1	0
Capital Lease Liability	30	33
Total Other Public Funded Liabilities	\$ 5,180	\$ 4,678

* Interest earned on dividends left on deposit is paid annually to insurance policyholders on the policy anniversary dates.

Other Public Unfunded Liabilities
as of September 30,

	2004	2003
Annual Leave*	\$ 1,172	\$ 1,097
Accounts Payable from Cancelled Appropriation	6	6
Amounts due to non-federal trust	188	0
Judgment Fund-Unfunded**	501	528
Total Other Public Unfunded Liabilities	\$ 1,867	\$ 1,631

* Annual leave is accrued when earned and is adjusted at the end of the fiscal year to reflect current pay rates of cumulative leave earned but not taken. Sick and other types of leave are expensed as taken.

** The Judgment Fund liability amount represents the estimate for future payments on legal cases that will be paid by the Treasury Judgment Fund on behalf of VA.

14. Leases

VA has both capital and operating leases. The capital lease liability is \$30 and \$33 million as of September 30, 2004 and 2003, respectively. Real property leases reflect those that VA has committed to as of September 30, 2004. Due to the number of equipment operating leases and the decentralization of records, the future commitment for equipment operating leases is not known. VA's FY 2004 operating lease costs were \$243 million for real property rentals and \$79 million for equipment rentals. The FY 2003 operating lease costs consisted of \$236 million for real property rentals and \$67 million for equipment rental. The following chart represents VA's operating lease commitments or costs for the next 5 years. Equipment amounts assume a range of 3.1 to 3.5 percent yearly increase in cost.

Leases:

YEAR	REAL PROPERTY	PERCENTAGE	EQUIPMENT
2005	\$ 237	3.1	\$ 82
2006	227	3.5	85
2007	212	3.4	88
2008	205	3.4	91
2009	188	3.4	94

15. Insurance Programs

Through VA, the United States Government administers five life insurance programs and the Veterans' Mortgage Life Insurance program for certain totally disabled veterans. VA supervises the Servicemembers' Group Life Insurance (SGLI) and the Veterans' Group Life Insurance (VGLI) programs, which provide life insurance coverage to members of the uniformed armed services, reservists, and post-Vietnam veterans. United States Code, Title 38, requires that the Life Insurance programs invest in Treasury securities.

Administered Programs

The United States Government Life Insurance (USGLI) program was the Government's first venture into life insurance. During World War I, the U.S. provided Marine Insurance to protect the interests of ship owners and merchants who were providing supplies to the allies in Europe. USGLI was the natural outgrowth of this Marine Insurance. The program was established to meet the needs of World War I veterans, but remained open to servicemembers and veterans with service before October 8, 1940. The Government became a self-insurer because private insurance companies were unwilling to assume

the unpredictable risks associated with war. By establishing this program, Congress intended to avoid the financial burden imposed on the Government by the pension programs that were established after previous wars. The Government became the largest life insurer in the United States with the coverage provided by this program.

The National Service Life Insurance (NSLI) program covers policyholders who served during World War II. The program opened October 8, 1940, when it became clear that large-scale military inductions were imminent. Over 22 million policies were issued under the NSLI program. The majority of policies VA administers directly are NSLI policies. This program remained open until April 25, 1951, when two new programs were established for Korean War servicemembers and veterans.

The Veterans' Special Life Insurance (VSLI) program was established in 1951 to meet the insurance needs of veterans who served during the Korean Conflict, and the post-Korean period through January 1, 1957. During this period, all servicemembers on active duty were covered for \$10,000, at no cost, under a program known as Servicemen's Indemnity. They remained covered for 120

days after their discharge. The VSLI program allowed these newly discharged servicemembers to apply for \$10,000 of contract term insurance. Application had to be made during the 120-day period during which they remained covered by Servicemen's Indemnity. It was during this period that representatives of the commercial insurance industry began a major lobbying effort to get the Government out of the insurance business because the programs were viewed as competition. As a result, the VSLI program was closed to new issues at the end of 1956, and coverage for individuals in the uniformed services was terminated. Approximately 800,000 VSLI policies were issued between 1951 and 1957.

In addition to VSLI coverage, which was provided to healthy veterans, the Insurance Act of 1951 also established the Service-Disabled Veterans Insurance (S-DVI) program for veterans with service-connected disabilities. S-DVI is open to veterans separated from the service on or after April 25, 1951, who receive a service-connected disability rating. New policies are still being issued under this program.

In 1964, Congress enacted legislation providing for a limited reopening of NSLI and VSLI, and the Veterans' Reopened Insurance (VRI) program was established. Beginning May 1, 1965, veterans who had been eligible to obtain insurance between October 8, 1940, and January 1, 1957, could once again apply for government life insurance. They had one year to apply for this "reopened" insurance, which was available only to disabled veterans. Approximately 228,000 VRI policies were issued. No term insurance policies were issued in this program.

The Veterans' Mortgage Life Insurance (VMLI) program began in 1971, and is designed to provide financial protection to cover eligible veterans' home mortgages in the event of death. VMLI is issued to those severely disabled veterans who have received grants for specially adapted housing from VA. These grants are issued to veterans whose movement is substantially impaired because of their disability. The maximum amount of VMLI allowed an eligible veteran is \$90,000. The insur-

ance is payable if the veteran dies before the mortgage is paid off and is payable only to the mortgage lender.

Supervised Insurance Programs

The Servicemembers' Group Life Insurance (SGLI) program was established in 1965 for Vietnam-era servicemembers. SGLI is supervised by VA and is administered by the Office of Servicemembers' Group Life Insurance (OSGLI) under terms of a group insurance contract. This program provides low-cost term insurance protection to servicemembers.

In 1974, the Veterans' Group Life Insurance (VGLI) program became available. VGLI, like SGLI, is supervised by VA, but is administered by the OSGLI. VGLI provides for the conversion of SGLI coverage to lifetime term insurance protection after a servicemember's separation from service.

Public Insurance Carriers

VA supervises the administration of the SGLI and VGLI programs. Prudential Insurance Company of America (Prudential) provides insurance coverage directly for the SGLI and VGLI programs. VA has entered into a group policy with Prudential whereby Prudential and its reinsurers provide servicemembers and veterans coverage in multiples of \$10,000 up to a maximum of \$250,000. The basic SGLI coverage is provided to those members on active duty in the Army, Navy, Air Force, Marine Corps, Coast Guard, commissioned members of the Public Health Service and the National Oceanic and Atmospheric Administration. The Ready Reserve is also insured by SGLI, and includes reservists and members of the National Guard who are assigned to a unit or position in which they may be required to perform active duty or active duty for training. The VGLI coverage is comprised of separated and retired active duty members and reservists covered under Basic SGLI.

The Veterans' Opportunities Act of 2001 extended life insurance coverage to spouses and children of members insured under the SGLI program, effective November 1, 2001. For a spouse, up to \$100,000 of coverage can be purchased in increments of \$10,000, not to exceed the

amount of the servicemember's coverage. Each dependent child of every active duty servicemember or reservist insured under SGLI is automatically insured for \$10,000 free of charge.

Premiums for the SGLI and VGLI programs are set by mutual agreement between VA and Prudential. SGLI premiums for active duty personnel and their spouses are deducted from the servicemember's pay by the Armed Services components through the Department of Defense (DoD). DoD, through the Defense Finance and Accounting Service (DFAS), remits collected premiums to VA, which are then transmitted to Prudential. Prudential records the premiums and maintains investments in their accounting records separate and independent from the VA reporting entity. VA monitors Prudential's insurance reserve balances to determine their adequacy and may increase or decrease the amounts retained by Prudential for contingency purposes. The reserves for the contingent liabilities are recorded in Prudential's accounting records and are not reflected in the VA reporting entity, because the risk of loss on these programs is assumed by Prudential and its reinsurers through the terms and conditions of the group policy.

Effective January 1, 1970, the Secretary of Veterans Affairs determined the costs that are traceable to the

extra hazards of duty in the uniformed services, on the basis of the excess mortality incurred by members and former members of the uniformed armed services insured under SGLI, above what their mortality would have been under peacetime conditions. The Secretary is authorized to make adjustments regarding contributions from pay appropriations as may be indicated from actual experience.

Reserve Liabilities

The insurance reserves for administered programs are reported as liabilities covered by budgetary resources, while part of the S-DVI and Veterans Insurance and Indemnities (VI&I) reserves are reported as liabilities not covered by budgetary resources. Reserves for SGLI and VGLI are maintained in Prudential's financial records since the risk of loss is assumed by Prudential. Actuarial reserve liabilities for the administered life insurance programs are based on the mortality and interest assumptions at time of issue. These assumptions vary by fund, type of policy, and type of benefit. The interest assumptions range from 2.25 to 5.0 percent. The mortality assumptions include the American Experience Table, the 1941 Commissioners Standard Ordinary (CSO) Table, the 1958 CSO Basic Table, and the 1980 CSO Basic Table.

Insurance Liability (Reserve) Balances

Insurance Liability
(Reserve) Balances
As of September 30,
2004

Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	\$9,372	\$170	\$145	\$9,687
USGLI	30	5	-	35
VSLI	1,512	11	31	1,554
S-DVI	305	2	237	544
VRI	379	2	5	386
VI&I	85	-	-	85
Subtotal	\$11,683	\$190	\$418	\$12,291
Less Liability not Covered by Budgetary Resources				(568)
Liability Covered by Budgetary Resources				\$11,723

Insurance Liability
(Reserve) Balances
As of September 30,
2003

Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	\$9,660	\$185	\$167	\$10,012
USGLI	34	5	-	39
VSLI	1,493	11	33	1,537
S-DVI	404	2	156	562
VRI	396	2	6	404
VI&I	86	-	-	86
Subtotal	\$12,073	\$205	\$362	\$12,640
Less Liability not Covered by Budgetary Resources				(581)
Liability Covered by Budgetary Resources				\$12,059

Insurance In-Force

The amount of insurance in-force is the total face amount of life insurance coverage provided by each administered and supervised program as of the end of the fiscal year. It includes any paid-up additional coverage provided under these policies. Prudential and its reinsurers provided coverage to 5,946,231 and 5,901,345 insured for a face value of \$737.9 billion and \$725.8 billion as of September 30, 2004 and 2003, respectively. The face value of the insurance provided by Prudential and its reinsurers represents 97.5 and 97.4 percent of the total insurance in-force as of September 30, 2004 and 2003, respectively. The number of policies represents the number of active policies remaining in the program as of the end of each fiscal year.

	2004 Policies	2003 Policies	2004 Face Value	2003 Face Value
Supervised Programs				
SGLI Active Duty	1,545,000	1,548,000	\$371,135	\$372,659
SGLI Ready Reservists	783,500	775,500	176,493	174,171
SGLI Post Separation	120,000	87,000	28,351	20,512
SGLI Family - Spouse	990,000	990,000	97,198	96,215
SGLI Family - Children	2,100,000	2,100,000	21,000	21,000
VGLI	407,731	400,845	43,767	41,275
Total Supervised	5,946,231	5,901,345	\$737,944	\$725,832
Administered Programs				
NSLI	1,300,404	1,401,357	\$14,013	\$14,802
VSLI	213,545	220,719	2,525	2,566
S-DVI	165,651	154,537	1,614	1,484
VRI	57,757	62,696	523	556
USGLI	10,390	11,770	33	37
VMLI	2,625	2,793	170	176
Total Administered	1,750,372	1,853,872	\$18,878	\$19,621
Total Supervised and Administered Programs	7,696,603	7,755,217	\$756,822	\$745,453

Policy Dividends

The Secretary of VA determines annually the excess funds available for dividend payment. Dividends are based on an actuarial analysis of the individual programs at the end of the preceding calendar year. Dividends are declared on a calendar year basis and paid on policy anniversary dates. Policyholders can elect to: (1) receive a cash payment; (2) prepay premiums; (3) repay loans; (4) purchase paid-up insurance; or (5) deposit the amount in an interest-bearing account. A provision for dividends is charged to operations, and an insurance dividend is established when gains to operations are realized in excess of those essential to maintain solvency of the insurance programs. Policy dividends for fiscal years 2004 and 2003 were \$497 and \$551 million, respectively.

Sale of Prudential Stock

On December 18, 2001, Prudential completed its conversion from a mutual company to a stock company. As policyholder of the SGLI and VGLI programs, VA received 369,177 shares of Prudential stock. VA is liquidating these shares in six sales over a three-year period, which started in 2003. As of fiscal year end, VA has liquidated 246,000 shares of stock in four sales. Proceeds of \$9,824,505 from the sales have been deposited into the SGLI Contingency Reserve, which is held for VA by Prudential in an interest-bearing account. This guarantees that the monies will be used for the benefit of the servicemembers and veterans who are the intended recipients of these life insurance programs.

16. Contingencies

VA is a party in various administrative proceedings, legal actions, and tort claims arising from various sources including: disputes with contractors, challenges to compensation and education award decisions, loan guaranty indemnity debt cases, and allegations of medical malpractice. Certain legal matters to which VA may be a named party are administered and, in some instances, litigated by the Department of Justice. Generally, amounts (more than \$2,500 for Federal Tort Claims Act cases) to be paid under any decision, settlement, or award are funded from the Judgment Fund, which is maintained by Treasury. Of the amounts paid from the Judgment Fund, malpractice cases claimed 85 percent in FY 2004 and 84 percent in FY 2003. Contract dispute payments for FY 2004 and FY 2003 were \$9.4 and \$5.9 million, respectively.

VA uses accepted actuarial methods to estimate the liability resulting from medical malpractice and other tort claim

exposure. In FY 2004, VA discounted future estimated payments using U.S. Treasury spot rates as of September 30, 2004. Had these payments not been discounted, the associated liability would have been \$41 million more.

VA has recorded a liability for pending legal claims that are estimated to be paid by the Judgment Fund. This liability is established for all pending claims whether reimbursement is required or not. This liability was \$501 million for FY 2004 and \$528 million for FY 2003. There were 16 contract and personnel law cases with claimed amounts totaling \$117.8 million where there was at least a reasonable possibility that a loss may occur. VA is also required to record an operating expense and imputed financing source for the Judgment Fund's pending claims and settlements. Judgment Fund accounting is shown on the following page:

Judgment Fund

For the Years Ended September 30,

Fiscal Year Settlement Payments
 Less Contract Dispute Payments
 Imputed Financing-Paid by Other Entities
 Increase (Decrease) in Liability for Claims

	2004	2003
	\$ 108	\$ 92
	(11)	(6)
	97	86
	27	(97)
Operating Expense (Revenue)	\$ 70	\$ (11)

It is the opinion of VA's management that resolution of pending legal actions as of September 30, 2004 will not materially affect VA's operations or financial position when consideration is given to the availability of the Judgment Fund appropriation to pay some court-settled legal cases. Fiscal year 2004 settlement payments were \$97 million.

The amount of unobligated and obligated authority relating to appropriations cancelled on September 30, 2004 and 2003 was \$16.9 million and \$20.5 million, respectively. Any payments due that may arise relating to cancelled appropriations will be paid out of the current year's appropriations in accordance with the provisions of the Expired Funds Control Act of 1990.

VA provides medical care to veterans on an "as available" basis, subject to the limits of the annual appropriations. In accordance with 38 CFR 17.36 (c), VA's Secretary makes an annual enrollment decision that defines the veterans, by priority, who will be treated for that fiscal year subject to change based on funds appropriated, estimated collections, usage, the severity index of enrolled veterans, and changes in cost. While VA expects to continue to provide medical care to veterans in future years, an estimate of this amount cannot be reasonably made. Accordingly, VA recognizes the medical care expenses in the period the medical care services are provided. For the fiscal years 2000-2004, the average medical care cost per year was \$22 billion.

17. Exchange Transactions

Exchange Revenues

Although VA recognizes full cost per SFFAS No. 4, VHA has legislated exceptions to the requirement to recover the full cost to the Federal Government of providing services, resources, or goods for sale. Under "enhanced sharing authority," VHA facilities may enter into arrangements that are in the best interest of the Federal Government. In FY 2004, randomly selected VA medical centers were reviewed by the Financial and Systems Quality Assurance Service to determine the facility's compliance with Statement of Federal Financial Accounting Standards No. 7 and the Chief Financial Officers Act of 1990.

VA's Loan Guaranty Program collects rental fees on a small number of properties during the period when the property is titled to VA.

NCA leases lodges at 11 cemeteries to not-for-profit groups for no fee. The not-for-profit groups are required to provide the upkeep on the lodges and pay the costs for utilities, insurance, minor repairs, and maintenance and any other costs associated with the lodges, and NCA pays for major repairs at these facilities. NCA also has four agricultural leases with private companies/individuals.

NCA leases land for growing crops and, on certain leases, receives various services in exchange from the lessee, such as brush cutting and removal services, backfilling and grading of roads, and welding services. In addition, NCA received fees for motion picture filming performed at three cemeteries.

Exchange Transactions with Public

Exchange transactions with the public occur when prices are set by law or executive order and are not based on full cost or on market price. VA's Medical Care Collections Fund, "Conforming Amendments," changed the language of specific sections of 38 USC Chapter 17 to substitute "reasonable charges" for "reasonable cost." The VHA Chief Financial Officer (CFO) is responsible for implementing and maintaining these reasonable charges for billing third-party payers for services provided to insured veterans for treatment of nonservice-connected conditions.

Reasonable charges are used to bill for reimbursable health insurance, non-Federal workers' compensation, and no-fault or uninsured motorists insurance cases.

Reasonable charges are based on provider charges in the market area of each VA facility. The lesser of VA-billed charges or their usual customary and reasonable payment to other providers will be paid.

Cost-based per diems are calculated annually to produce tort rates used to bill for tort fees or workers' compensation (other than Federal), humanitarian emergency, ineligible patient, VA employee, family member, allied beneficiary, no fault or uninsured motorist's insurance, or reimbursable insurance cases. These per diem costs are derived primarily from cost and workload data from a national cost allocation report (Cost Distribution Report).

VA is required to collect a co-payment of \$7 from veterans for treatment of a nonservice-related condition for each 30-day supply of medication furnished on an outpatient basis. This fee does not cover the cost of the medications in the vast majority of cases.

VA's Loan Guaranty Program collects certain fees that are set by law. The loan guarantee funding fees collected for FY 2004 were \$478.9 million and for FY 2003 were \$634 million. The loan guarantee lender participation fees collected for FY 2004 and FY 2003 were both \$1.9 million.

Intragovernmental Exchange Transactions

This section discloses intragovernmental exchange transactions in which VA provides goods or services at a price less than the full cost, or does not charge a price at all, with explanations for disparities between the billing and full cost.

VA and the Department of Defense (DoD) have authority to enter into agreements and contracts for the mutual use or exchange of use of hospital and domiciliary facilities and other resources. The providing agency shall be reimbursed for the cost of the health care resources based on the methodology agreed to by VA and DoD. Facility directors have the flexibility to consider local conditions and needs and the actual costs of providing the services. VA's General Counsel has determined that full cost recovery is not mandated. VHA captures the total amount of reimbursements received under DoD sharing agreements, but the total amount billed below full cost is not readily available. VHA is in the process of developing mechanisms to report this information in the future. VBA collects funding from DoD in order to administer certain education programs. DoD transferred \$280.1 million during FY 2004 for the Post-Vietnam Era Education Assistance Program, Reinstated Entitlements Program for Survivors, and the New GI Bill for Veterans.

When VA furnishes medical care or services for beneficiaries of other Federal agencies, and that care or service is not covered by an applicable local sharing agreement, the billing rates used are determined and published annually by the VHA CFO. Similar to the tort rates, interagency billing rates are determined from cost and workload data in the Cost Distribution Report.

18. Net Cost of Veterans Affairs Programs

All of VA's net program costs are part of the 700 budget functional classification (Veterans Benefits and Services).

Schedule of Net Program Cost

For the Year Ended September 30, 2004 (Dollars in Millions)	Medical Care	Medical Education	Medical Research	Compensation	Pension	Education	Vocational Rehab	Loan Guaranty	Insurance	Burial	Non-Program	Total
Production Costs												
Intragovernmental Costs	\$ 1,310	\$ 6	\$ 22	\$ 54	\$ 5	\$ 3	\$ 3	\$ 4	\$ 31	\$ 16	\$ 97	\$ 1,551
Less Earned Revenues	(73)	-	(25)	-	(7)	(272)	-	(1,047)	(893)	-	(1,363)	(3,680)
Net Intragovernmental Production Costs	1,237	6	(3)	54	(2)	(269)	3	(1,043)	(862)	16	(1,266)	(2,129)
Public Costs	26,460	1,105	912	(2,848)	3,528	2,518	673	2,263	1,529	416	2,086	38,642
Less Earned Revenues	(2,301)	-	(11)	-	-	(212)	-	(79)	(604)	-	(39)	(3,246)
Net Public Production Costs	24,159	1,105	901	(2,848)	3,528	2,306	673	2,184	925	416	2,047	35,396
Non-Production Costs	-	-	-	-	-	-	-	-	-	-	-	-
Hazardous Waste Clean-up	-	-	-	-	-	-	-	-	-	-	-	-
Total Net Cost of Operations	\$ 25,396	\$ 1,111	\$ 898	\$ (2,794)	\$ 3,526	\$ 2,037	\$ 676	\$ 1,141	\$ 63	\$ 432	\$ 781	\$ 33,267

Schedule of Net Program Cost

For the Year Ended September 30, 2003 (Dollars in Millions)	Medical Care	Medical Education	Medical Research	Compensation	Pension	Education	Vocational Rehab	Loan Guaranty	Insurance	Burial	Non-Program	Total
Production Costs												
Intragovernmental Costs	\$ 3,542	\$ 30	\$ 76	\$ 139	\$ 9	\$ 8	\$ 6	\$ 816	\$ 43	\$ 56	\$ 170	\$ 4,895
Less Earned Revenues Net	(61)		(35)		(7)	(256)		(706)	(949)		(1,029)	(3,043)
Intragovernmental Production Costs	3,481	30	41	139	2	(248)	6	110	(906)	56	(859)	1,852
Public Costs	21,583	1,006	795	131,207	3,489	2,209	643	(991)	1,642	69	1,488	163,140
Less Earned Revenues Net Public Production Costs	(1,592)		(10)			(221)		(107)	(645)		(47)	(2,622)
	19,991	1,006	785	131,207	3,489	1,988	643	(1098)	997	69	1,441	160,518
Non-Production Costs												
Hazardous Waste Clean-up	104											104
Total Net Cost of Operations	\$ 23,576	\$ 1,036	\$ 826	\$ 131,346	\$ 3,491	\$ 1,740	\$ 649	\$ (988)	\$ 91	\$ 125	\$ 582	\$ 162,474

19. Disclosures Related to the Statements of Budgetary Resources

Apportionment categories of obligations incurred

Obligations

Years Ended September 30,

Category A, Direct

Category B, Direct

Reimbursable

Exempt from Apportionment

Total Obligations

	2004	2003
	\$ 31,972	\$ 29,252
	37,398	34,432
	4,657	4,434
	394	1,231
	<u>\$ 74,421</u>	<u>\$ 69,349</u>

Borrowing Authority

Loan Guaranty had borrowing authority of \$1.1 billion and \$1.3 billion as of September 30, 2004 and 2003, respectively.

The Vocational Rehabilitation Program had borrowing authority of \$4.1 and \$3.5 million as of September 30, 2004 and 2003, for making direct loans. Loan Guaranty borrowing is repaid to Treasury through the proceeds of portfolio loan collections, funding fees, and the sale of loans to

Vinnie MAC trusts. The Vocational Rehabilitation loans generally had duration of 1 year, and repayment was made from offsetting collections.

Adjustments to Budgetary Resources

During the reporting period, adjustments to budgetary resources available at the beginning of the year included VA appropriations that were subjected to a rescission

that totaled \$443 million. Additionally, unobligated balances of prior year recoveries of \$270 million were rescinded. Various VA program accounts received a cut in discretionary budget authority.

Permanent Indefinite Appropriations

VA has three permanent and indefinite appropriations. The Veterans Housing Benefit Program Fund covers all estimated subsidy costs arising from post-1991 loan obligations for veterans housing benefits. The Fund's objective is to encourage and facilitate the extension of favorable credit terms by private lenders to veterans for the purchase, construction, or improvement of homes to be occupied by veterans and their families. The Loan Guarantee Revolving Fund is a liquidating account that contains all of VA's pre-credit reform direct and guaranteed loans. It also holds fund balances received from reimbursements from financing accounts for loan modifications and rentals of foreclosed properties not yet transferred to financing accounts. The Native American Direct Loan Account was established to cover all subsidy costs arising from direct loan obligations related to a veteran's purchase, construction, or renovation of a dwelling on trust land.

Use of Unobligated Balances of Budget Authority

Available unobligated balances on the Statement of Budgetary Resources are composed of current fiscal year apportioned funds for annual, multi-year, and no-year appropriations from Congress as well as revolving and trust funds. Other balances not available are composed of expired appropriation unobligated amounts, which generally are not available for new obligations,

but can be used to increase existing obligations under certain circumstances. This amount also includes unobligated funds that were not apportioned by OMB for FY 2004 use.

Unobligated VA funds are available for uses defined in VA's FY 2004 Appropriation Law (P.L. 108-199). These purposes include veterans medical care, research, education, construction and maintenance of VA buildings, veterans and dependents benefits, veterans life insurance, loan guaranty programs, veterans burial benefits, and administrative functions. Various obligation limitations are imposed on individual VA appropriations. Examples include travel obligation limitations and limitation of the use of medical care multi-year funds to object classes for equipment, structures, and land.

Explanation of Differences Between Statement of Budgetary Resources and the Budget

As a result of an analysis of aged obligations, obligations were reduced by \$90 million on the Statements of Budgetary Resources for both FY 2004 and FY 2003. These adjustments were not reflected in the FACTS II data used to prepare the President's Budget. No other differences were identified as of the preparation date of the financial statements.

Contributed Capital

The amount of contributed capital received during FY 2004 consisted of donations in the amount of \$40.5 million to the General Post Fund and \$0.1 million to the National Cemetery Gift Fund.

20. Disclosures Related to the Statements of Financing

The Statement of Financing section “Costs That Do Not Require Resources in the Current Period” includes only the fiscal year increases in liabilities not covered by budgetary resources. For existing liabilities, there will

always be a difference between this section and the value of liabilities not covered by budgetary resources disclosed in Note 10 and included in the liabilities section of the Balance Sheet.

21. Dedicated Collections

In the Federal Government, dedicated collections are accounted for in trust funds and special funds. The term “trust funds” as used in this report and in Federal budget accounting is frequently misunderstood. In the private sector, “trust” refers to funds of one party held by a second party (the trustee) in a fiduciary capacity. In the Federal budget, the term “trust fund” means only that the law requires that funds be accounted for separately and used only for specified purposes and that the account be designated as a “trust fund.”

A change in law may change the future receipts and the terms under which the fund’s resources are spent. The “trust fund assets” represent all sources of receipts and amounts due the trust fund regardless of source. This includes “related governmental transactions,” which are transactions between two different entities within the Federal Government. The “Investments with Treasury” assets are comprised of

investments in Federal debt securities and related accrued interest. These securities will require redemption if a fund’s disbursements exceed its receipts. Unless specifically provided for by law, trust funds may only place excess funds in Federally backed investments (e.g., Federal debt securities).

The table below summarizes the name, type, and purpose of the funds within VA that receive dedicated collections. All of the funds listed use the accrual basis of accounting. However, collections are reported as actually received in accordance with OMB Circular A-34. The insurance funds listed also adhere to the requirements of FASB No. 120, “Accounting and Reporting by Mutual Life Insurance Enterprise,” and issue a separate annual report. All of the funds generally receive authority to use current year contributions as well as a portion of previously contributed amounts.

Fund Name	Fund Type	Treasury Symbol	Authority	Purpose of Fund	Financing Sources
Medical Care Collections Fund	Special	36x5287	P.L. 105-33 111 Stat 665	Accumulates recoveries from third parties and patient co-payments.	Public, primarily insurance carriers.
Health Service Improvement Fund	Special	36x5358	P.L 106-117 113 Stat 1561	Accumulates recoveries from enhanced use leases and patient co-payments.	Public.
Escrowed Funds for Shared Medical Equipment Purchases	Deposit	36x6019	106 Stat 1974	Receives payments from public companies involved in joint purchases of medical equipment.	Public, universities, pharmaceuticals & other medical organizations.
Personal Funds of Patients	Deposit	36x6020	38 U.S.C. 3204	Temporarily holds funds.	Public, patients.
Employee Allotments for Savings Bonds	Deposit	36x6050	31 U.S.C. 3105	Temporarily holds funds.	Employees.
Cemetery Gift Fund	Trust	36x8129	38 U.S.C. 1007	Receives donations for veteran cemeteries.	Public donors.
National Service Life Insurance Fund	Trust	36x8132	38 U.S.C. 720	Accumulates premiums to insure veterans of WWII.	Public, veterans.
Post-Vietnam Era Education Assistance Program	Trust	36x8133	38 U.S.C. 1622	Subsidizes the cost of education to veterans.	Veterans, DoD.
U.S. Government Life Insurance	Trust	36x8150	38 U.S.C. 755	Premiums insure WWI veterans.	Public, veterans.
Veterans Special Life Insurance Fund	Trust	36x8455	38 U.S.C. 723 101-228	Premiums insure Korean conflict veterans without Service-related disabilities.	Public, veterans.
General Post Fund, National Homes	Trust	36x8180	38 U.S.C. 101-228	Receives restricted and unrestricted use donations	Public, mostly veterans.

The following tables provide condensed information on assets, liabilities, fund balances, net costs, and changes in fund balances:

For the year ended September 30, 2004									
Fund Symbol	5287	5358	6020	8132	8133	8150	8455	8180	Total
Assets:									
Fund balance with Treasury	\$ 155	\$ -	\$ 45	\$ 10	\$ 75	\$ -	\$ 1	\$ -	\$ 286
Investments with Treasury	-	-	-	11,121	-	51	1,923	68	13,163
Other Assets	555	5	-	545	1	2	109	18	1,235
Total Assets	710	5	45	11,676	76	53	2,033	86	14,684
Liabilities:									
Payables to Beneficiaries	-	-	-	142	1	1	10	-	154
Other Liabilities	-	-	45	11,251	-	50	1,955	2	13,303
Total Liabilities	-	-	45	11,393	1	51	1,965	2	13,457
Net Position:									
Cumulative Results	710	5	-	283	75	2	68	84	1,227
Total Liabilities & Net Position	\$ 710	\$ 5	\$ 45	\$ 11,676	\$ 76	\$ 53	\$ 2,033	\$ 86	\$ 14,684

For the year ended September 30, 2004

Fund Symbol	5287	5358	8132	8133	8150	8455	8180	Total
Revenues:								
Exchange - Federal	\$ (24)	\$ -	\$ 718	\$ -	\$ 3	\$ 141	\$ -	\$ 838
Exchange - Public	2,006	(114)	466	1	-	72	2	2,433
Non-Exchange - Federal	-	-	-	-	-	-	-	-
Non-Exchange - Public	-	-	-	-	-	-	-	-
Total Revenues	1,982	(114)	1,184	1	3	213	2	3,271
Expenses:								
Program Expenses	212	(19)	1,211	4	4	215	40	1,667
Total Expenses	212	(19)	1,211	4	4	215	40	1,667
Net Change from Operations								
Beginning Net Position	568	132	309	77	2	69	80	1,237
Total Financing Sources	(1,628)	(31)	1	-	-	-	42	(1,616)
Change in Accounting Policy	-	-	-	-	-	-	-	-
Net Cost of Operations	1,770	(96)	(27)	(2)	-	(1)	(38)	1,606
Ending Equity	\$ 710	\$ 5	\$ 283	\$ 75	\$ 2	\$ 68	\$ 84	\$ 1,227

Independent Auditor's Report



**Department of Veterans Affairs
Office of Inspector General**

REPORT OF THE AUDIT OF THE DEPARTMENT OF VETERANS AFFAIRS CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEARS 2004 AND 2003

Report No. 04-00986-14

VA Office of Inspector General
Washington, DC 20420

November 15, 2004



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

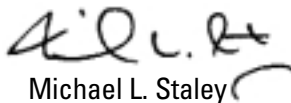
Memorandum to the Secretary

**Report of Audit of the Department of Veterans Affairs Consolidated
Financial Statements for Fiscal Years 2004 and 2003**

1. Attached is the Report of Audit of the Department of Veterans Affairs (VA) Consolidated Financial Statements (CFS) for Fiscal Years (FY) 2004 and 2003, as required by the Chief Financial Officers Act of 1990. The Office of Inspector General contracted with the independent public accounting firm, Deloitte & Touche LLP, to perform the audit of VA's FY 2004 CFS.
2. The independent auditors' report by Deloitte & Touche LLP provides an unqualified opinion on VA's FYs 2004 and 2003 CFS. The report on internal control identifies four reportable conditions, of which two are material weaknesses. The two material weaknesses are (i) information technology security controls and (ii) integrated financial management system. The two reportable conditions are (i) operational oversight and (ii) judgments and claims. During FY 2004, VA management took corrective action to eliminate the medical malpractice and claims data reportable condition reported in the FY 2003 audit report.
3. The report on compliance with laws and regulations continues to show that VA is not in substantial compliance with the financial management system requirements of the Federal Financial Management Improvement Act of 1996. The internal control issues concerning an integrated financial system and information technology security controls indicate noncompliance with the requirements of Office of Management and Budget (OMB) Circular A-127, "Financial Management Systems," which incorporates by reference OMB Circulars A-123, "Management Accountability and Control," and A-130, "Management of Federal Information Resources."

4. The auditors' unqualified opinion was achieved through the extensive efforts of program and financial management staff, as well as the auditors, to overcome material weaknesses in internal control to produce auditable information after the fiscal year-end. Although these efforts resulted in materially correct annual financial statements, reliable information was not readily available during the year. The risk of materially misstating financial information remains high using the existing financial management systems.

5. The independent auditors will follow up on these internal control findings and evaluate the adequacy of corrective actions taken during the audit of the VA's FY 2005 CFS.



Michael L. Staley
Assistant Inspector General for Auditing

Attachment



Deloitte & Touche LLP
555 12th Street, N.W.
Suite 500
Washington, DC 20004-1207

Tel: 202-879-5600
Fax: 202-879-5309
www.us.deloitte.com

INDEPENDENT AUDITORS' REPORT

Secretary
Department of Veterans Affairs

We have audited the accompanying consolidated balance sheets of the Department of Veterans Affairs (VA) as of September 30, 2004 and 2003, and the related consolidated statements of net cost, changes in net position, financing and the combined statements of budgetary resources for the years then ended which collectively comprise VA's basic financial statements. These financial statements are the responsibility of VA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the requirements of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and the OMB Bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of VA as of September 30, 2004 and 2003, and the respective net costs, changes in net position, financing and budgetary resources thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2004, on our consideration of VA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A stylized, handwritten signature of "Deloitte & Touche LLP" in black ink.

November 4, 2004

A member firm of
Deloitte Touche Tohmatsu



Deloitte & Touche LLP
555 12th Street, N.W.
Suite 500
Washington, DC 20004-1207

Tel: 202-879-5600
Fax: 202-879-5309
www.us.deloitte.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Secretary
Department of Veterans Affairs

We have audited the basic financial statements of the Department of Veterans Affairs (VA), as of and for the year ended September 30, 2004, and have issued our report thereon dated November 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as amended.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered VA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect VA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

We identified the following matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions that we identified in our prior year report dated November 11, 2003 are identified as repeat conditions.

Four reportable conditions are described in the following paragraphs and include significant departures from certain requirements of OMB Circular A-127, "Financial Management Systems," which incorporates by reference Circulars A-123, "Management Accountability and Control," and A-130, "Management of Federal Information Resources," among other requirements. We believe that the two reportable conditions identified

A member firm of
Deloitte Touche Tohmatsu

Secretary
 Department of Veterans Affairs
 Page 2

as "Information Technology (IT) Security Controls" and "Integrated Financial Management System" are also material weaknesses.

INFORMATION TECHNOLOGY

Information Technology (IT) Security Controls – Material Weakness (Repeat Condition)

VA continued to make organizational changes in the IT area during fiscal year (FY) 2004 that facilitated IT security controls improvements through centralization of certain information technology controls initiatives. Many application program offices have also taken corrective actions to remediate material weaknesses reported in our prior year report. However, VA's program and financial data continue to be at risk due to serious weaknesses related to: 1) inadequate implementation and enforcement of controls and oversight over access to information systems; 2) improper segregation of key duties and responsibilities of employees; and 3) underdeveloped contingency planning. These weaknesses placed sensitive information, including financial data and sensitive veteran medical and benefit information, at risk of inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, possibly occurring without detection.

Our testing of key controls over the general computer systems at the VA's primary data centers and 14 medical facilities, the Veterans Health Information Systems and Technology Architecture (VISTA) application, and our external and internal network vulnerability assessment of the VA's network infrastructure, identified the following control weaknesses:

Access Control

- For general computer systems including network and operating systems, the control weaknesses included inconsistent implementation of internal wide area network access authentication mechanisms and administration of user access, inappropriate access privileges due to non-restrictive system access profiles for internal operations and programming staff, and inconsistent monitoring and review of user access.
- The internal vulnerability assessment disclosed vulnerabilities related to weak operating systems configurations and passwords on administrative level accounts, a lack of robust intrusion detection alerts, and coordination and communication between security functions.

Segregation of Duties

- In the Integrated Funds Distribution, Control Point Activity, Accounting and Procurement (IFCAP) and Automated Engineering Management System/Medical Equipment Reporting System (AEMS/MERS) applications, we identified improper design of system controls to support segregation of duties and responsibilities of employees who had super user rights.

Service Continuity

- A business continuity plan at the VA level has not been fully developed to provide overall guidance, direction and coordination for IT service continuity. The "Bull" operating system, supporting VBA's applications such as compensation, pension and education programs and data, has not been tested for the service continuity purpose because the backup hardware does not have adequate memory and processing capacity. Certain legacy loan guaranty system components, such as the Property

Secretary
Department of Veterans Affairs
Page 3

Management System and Guaranteed and Insured Loan System, are not likely to be recovered within the specified timeframe due to inadequate technical documentation on these applications. In addition, testing of the Continuity of Operations Plan at certain medical facilities has not been consistently scheduled and performed.

VA's success in improving information security is dependent on VA's continued effort in comprehensively addressing these weaknesses at an enterprise level, including continuing its high level of coordination and obtaining adequate resources to implement the plan.

Recommendations:

The VA Chief Information Officer (CIO) should:

1. Apply appropriate resources and establish a clear chain of command and accountability structure in implementing and enforcing information technology internal controls in order to implement planned corrective actions and remediate identified deficiencies within a reasonable timeframe. Perform proactive oversight of compliance with established IT internal control policies and procedures.
2. Improve access control policies and procedures to provide actionable steps for configuring security settings on operating systems, improving administration of user access, and intrusion detection alerting.
3. Evaluate user functional access needs and privileges to ensure proper segregation of duties within financial applications such as the IFCAP and AEMS/MERS. Assign, communicate, and coordinate responsibility for enforcing and monitoring such controls in a consistent fashion throughout VA.
4. Develop a business continuity plan at the VA level that will facilitate effective communication and implementation of overall guidance and standards, and provide coordination of VA's business continuity effort. Schedule and test IT disaster recovery plans to ensure continuity of operations in the event of a disruption of service.

OPERATIONS

**Integrated Financial Management System – Material Weakness
(Repeat Condition)**

As defined in OMB Circular A–127, "a financial management system encompasses automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions." Such financial management systems shall be designed to provide for an effective and efficient interrelationship between software, hardware, personnel, procedures, controls, and data contained within the systems.

With respect to system requirements in the area of financial reporting, OMB Circular A–127 provides that an agency's financial management system should generate reliable, timely, and consistent information necessary for meeting management's responsibilities, including the preparation of financial statements. Within OMB Circular A–123, the management control processes necessary to ensure that "reliable and timely information is obtained, maintained, reported and used for decision making" are set forth, including prompt and appropriate recording and classification.

During our audit of VA's consolidated financial statements, we noted continuing difficulties related to the preparation, processing, and analysis of financial information to support the efficient and effective

Secretary
Department of Veterans Affairs
Page 4

preparation of VA's consolidated financial statements. While significant efforts are made at the component and consolidated levels to assemble, compile, and review the necessary financial information for annual financial reporting requirements, in many cases, components of certain feeder systems and financial applications are not fully integrated with the core Financial Management System. As a result, significant manual work-arounds and out-of-date systems impede the process. For example, we noted that:

- Reconciliations of property records in the loan guaranty programs continue to identify significant differences from non interfaced systems;
- Within the compensation, pension and education programs, there are a number of programs that do not directly interface with the general ledger or they interface at various intervals. As a result, numerous adjusting entries resulting from timing differences are necessary to reconcile balances with the general ledger to ensure the amounts are properly stated; and
- In the life insurance programs, the lack of system interface with the VA's general ledger creates the need for a significant amount of adjusting entries. We observed that some journal entries were not posted to the general ledger nor were reconciling items identified and posted timely.

Recommendation:

5. The VA CIO and Chief Financial Officer (CFO) should develop and implement a fully integrated financial management system. The VA CFO should implement and enforce supplemental manual processes to meet appropriate control objectives until a fully integrated financial management system is implemented.

**Operational Oversight
(Repeat Condition)**

With more than 150 medical centers nationwide, management oversight at the medical centers is essential to ensure compliance with Departmental established policies and procedures. To assess the effectiveness of internal controls at the medical center level, we conducted tests at 14 medical centers within 11 Veterans Integrated Service Networks (VISNs) to (1) determine whether staffs were aware of key internal controls, (2) review evidence to determine whether internal controls were functioning as intended and (3) assess the effectiveness of the internal controls.

During our testing, we continued to find a number of previously reported instances where key internal controls and reconciliation processes were not performed consistently or completely. The Veterans Health Administration (VHA), Office of the CFO, has implemented a monthly reconciliation monitoring process. VHA also conducted training designed specifically for medical center accountants and developed performance measures for the VISN's scorecard to monitor medical center progress in complying with certain Departmental policies and procedures. Although there has been improvement, our testing at the medical centers showed continued noncompliance with certain established policies and procedures. Among the control exceptions found at the medical centers were:

- Supervisory reviews of medical accounts receivable reconciliations were not completed in accordance with certain VA procedures;
- Completed construction or upgrade projects were not capitalized in a timely manner;

Secretary
Department of Veterans Affairs
Page 5

- Non-expendable equipment inventories were not completed or were not completed in accordance with certain VA policies and procedures;
- Accounts receivable collections were not properly completed or were not completed in a timely manner;
- Monitoring of accrued services payable transactions was not effectively performed;
- Estimated environmental clean-up costs were not reported in a timely manner; and
- Deferred maintenance costs were not recorded or were incorrectly recorded in the general ledger.

Recommendations:

6. The VHA CFO should continue monitoring monthly reconciliations at the medical centers, develop training programs in areas where noncompliance continues to exist, and use the VISN scorecards to measure compliance with VA policies and procedures to improve internal controls over financial reporting; and
7. Management at the medical centers should take action necessary to comply with VA policies and procedures.

Judgments and Claims

VA's Office of General Counsel (OGC) GCLAWS claims tracking system records medical malpractice claims and is used as an input to the model which estimates the value of future settlements pursuant to Statement of Federal Financial Accounting Standard Number 5, *Accounting for Liabilities of the Federal Government*. VA management was unable to explain differences between the amount of settled tort claims recorded in the GCLAWS system and the amount of paid claims recorded in the Judgment Fund maintained by the Department of the Treasury. The Judgment Fund is an appropriated government-wide fund from which settlement payments can be made for both tort and other claims and settlements against the VA based on the authorization of the OGC or the Department of Justice. As a result, the VA could not determine that it provided the appropriate information to the estimation model or that charges to the Judgment Fund were appropriate.

Recommendation:

8. The CFO should establish a process to regularly reconcile and investigate differences between the paid claim amounts recorded in GCLAWS and amounts paid from the Judgment Fund.

Follow-up on Previous Report

In our *Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance Based Upon the Audit Performed in Accordance with Government Auditing Standards* dated November 11, 2003, we reported four reportable conditions (with two material weaknesses) in the areas of (1) Information Technology (IT) Security Controls, (2) Integrated Financial Management System, (3) Operational Oversight and (4) Medical Malpractice Claims Data. In FY 2004, the material weaknesses repeated are items (1) and (2), and the repeat reportable condition is item (3). Item (4) has been corrected.

Secretary
Department of Veterans Affairs
Page 6

With respect to the internal control related to performance measures reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02, as amended. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion on such controls.

In addition, we considered VA's internal control over Supplementary Information by obtaining an understanding of VA's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02 as amended. Our procedures were not designed to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether VA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and are described below.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U. S. Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance and evaluative criteria issued by OMB in Circular A-127.

The material weaknesses in internal control over financial reporting discussed above and identified as "Information Technology (IT) Security Controls" and "Integrated Financial Management System" indicate that VA is not in full compliance with the requirements of OMB Circulars A-123, A-127, and A-130. As discussed above, we found material weaknesses in (1) the effectiveness of the information technology controls; and (2) the design and operation of internal controls over financial reporting, particularly with effectiveness of the control monitoring and reconciliation processes in support of the preparation of the Department's consolidated financial statements.

We believe these material weaknesses, in the aggregate, result in departures from certain of the requirements of OMB Circulars A-123, A-127 and A-130, and are, therefore, instances of substantial noncompliance with the Federal financial management systems requirements under FFMIA.

In addition, we noted other matters involving the internal control and compliance over financial reporting that we have reported to the VA, in a separate letter dated November 4, 2004.

Secretary
Department of Veterans Affairs
Page 7

DISTRIBUTION

This report is intended solely for the information and use of the VA Office of Inspector General, the management of the VA, the Office of Management and Budget, the U.S. Government Accountability Office, Office of the President and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

November 4, 2004

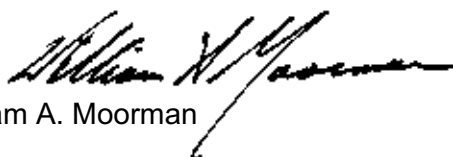
**Department of
Veterans Affairs****Memorandum**

Date: NOV 10 2004
From: Acting Assistant Secretary for Management (004)
Subj: Report of Audit of VA's Consolidated Financial Statements for FY 2004 and 2003
To: Assistant Inspector General for Auditing (52)

1. The Office of Management is pleased to receive an unqualified opinion in the Report of Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Years 2004 and 2003. We are especially proud in meeting the FY 2004 timeframe requirements established by the Office of Management and Budget. Please extend to your staff and the staff of Deloitte & Touche, LLP, my appreciation for their detailed planning, hard work and cooperation during this year's audit.

2. We will share the results of the audit, as well as the findings on internal controls over financial reporting and regulatory compliance, with senior officials in the Administrations and with other VA staff and program managers. We will continue to provide you with updates on our progress in implementing management plans to correct the two material weaknesses, Integrated Financial Management System and Information Technology Security Controls.

3. Thank you again for your efforts in bringing us to another successful conclusion of the audit cycle.



William A. Moorman

Required Supplementary Stewardship Information (Unaudited)

These materials are not audited.

1. Heritage Assets

Heritage assets are properties that possess one or more of the following characteristics: historical or natural significance; cultural; educational or aesthetic value; or significant architectural characteristics. The monetary value of heritage assets is often not estimable or relevant. By nature they are expected to be maintained in perpetuity. VA has properties at medical centers and national cemeteries that meet the criteria for a heritage asset. During the reporting period, all maintenance

expenses were recorded as incurred. Heritage assets are reported in terms of physical units. Generally, additions to VA's Heritage Asset inventory result from field station surveys, which identify items such as new collections or newly designated assets. Items are generally donated or existing VA assets are designated as heritage. Most are used for mission purpose and maintained in working order. Remaining items are mothballed.

Heritage Assets in Units

As of September 30,	2004	2003
Art Collections	33	30
Buildings and Structures	1,817	1,815
Monuments/Historic Flag Poles	724	969
Other Non-Structure Items	76	71
Archaeological	11	11
Cemeteries	157	157
Total Heritage Assets in Units	2,818	3,053

2. Non-Federal Physical Property

Annually, VA provides funding to state governments for the purchase, construction, or major renovation of physical property owned by the state. In most cases these grant programs involve matching funds from the states.

Grant Program Costs

Years Ended September 30,	2004	2003
State Extended Care Facilities	\$ 66	\$ 121
State Veterans Cemeteries	34	30
Total Grant Program Costs	\$ 100	\$ 151

The Extended Care Facilities Grant Program assists states in acquiring facilities to provide domiciliary, nursing home, and other day health care for veterans, and to expand, remodel, or alter existing buildings to provide domiciliary, nursing home, hospital, and day health care for veterans in state homes. VA participates in two grant-in-aid programs for states. VA may participate in up to 65 percent of the cost of construction or acquisition of state nursing homes or domiciliaries or in renovations of existing state homes. Over the last five fiscal years, the State Home Construction Grant Program

has awarded grants in excess of \$424 million. VA also provides per diem payment for the care of eligible veterans in state homes.

Since the cemetery program was established in 1980, VA has awarded grants totaling more than \$208.6 million to 33 states and the Commonwealths of Guam and the Northern Marianas. The program provides up to 100 percent of the cost to establish, expand, or improve state veterans' cemeteries. States provide the land and agree to operate the cemeteries.

3. Human Capital

Investment in human capital comprises those expenses for education and training programs for the general public that are intended to increase or maintain national economic productive capacity. It does not include expenses for internal Federal education and training of civilian employees.

Veterans and Dependents Education Years ended September 30,

Program Expenses

	2004	2003
Education and Training-Dependents of Veterans	\$ 320	\$ 266
Vocational Rehabilitation and Education Assistance	2,517	2,309
Administrative Program Costs	230	288
Total Program Expenses	\$ 3,067	\$ 2,863

Program Outputs (Participants)

Dependent Education	67,420	64,582
Veterans Rehabilitation	75,409	71,549
Veterans Education	409,695	400,289

Program Outcomes

VA's education and training programs are intended to provide higher education to dependents who might not be able to participate otherwise. Veterans rehabilitation and employment programs are provided to service-disabled veterans; they are designed to improve employability and promote independence for the disabled. Educational programs for active duty personnel, reservists, and veterans provide higher education assistance to those who are eligible under the MGIB and the Veterans Educational Assistance Program. Education and training assistance are

provided to dependents of veterans who died of service-connected disability or whose service-connected disability was rated permanent and total. The Vocational Rehabilitation and Employment program is open to veterans who have a 10 percent or greater service-connected disability rating and are found to have a serious employment handicap. The program provides evaluation services, counseling, and training necessary to assist them in becoming employable and maintaining employment to the extent possible. The Veterans Education program provides educational assistance to eligible servicemembers and veterans.

4. Health Professions Education

Health Professions Education

Years Ended September 30,	2004	2003
Program Expenses		
Physician Residents and Fellows	\$ 420	\$ 404
Associated Health Residents and Students	62	60
Instructional and Administrative Support	401	367
Total Program Expenses	\$ 883	\$ 831
Program Outputs		
Health Professions Rotating Through VA:		
Physician Residents and Fellows	29,179	28,000
Medical Students	16,740	16,000
Nursing Students	20,275	17,000
Associated Health Residents and Students	16,921	15,000
Total Program Outcomes	83,115	76,000

Program Outcomes

VA's education mission contributes to high-quality health care for veterans by providing a climate of scientific inquiry between trainees and teachers; application of medical advances more readily through an academic setting; supervised trainees who provide clinical care; and educational programs that enable VA to recruit highly qualified health care professionals.

The Veterans Health Administration (VHA) conducts education and training programs to enhance the quality of care provided to veterans within the VA health care system. Building on the long-standing, close relationships among VA and the Nation's academic institutions, VA plays a leadership role in defining the

education of future health care professionals that helps meet the changing needs of the Nation's health care delivery system. Title 38 U.S.C. mandates that VA assist in the training of health professionals for its own needs and those of the Nation. Through its partnerships with affiliated academic institutions, VA conducts the largest education and training effort for health professionals in the Nation. Each year, over 83,000 medical and other students receive some or all of their clinical training in VA facilities through affiliations with over 1,200 educational institutions including 107 medical schools. Many have their health profession degrees and contribute substantially to VA's ability to deliver cost-effective and high-quality patient care during their advanced clinical training at the VA.

5. Research and Development

Investments in research and development comprise those expenses for basic research, applied research, and development that are intended to increase or maintain national economic productive capacity or yield other benefits.

Program Expense Year ended September 30,					2004
	Basic	Applied	Development	Total	
Medical Research Service	\$ 172.9	\$ 81.8	\$ -	\$ -	254.7
Rehabilitative Research and Development	3.5	27.9	17.0		48.4
Health Services Research and Development	-	61.8	-		61.8
Cooperative Studies Research Service	-	27.7	-		27.7
Medical Research Support	-	452.0	-		452.0
Prosthetic Research Support	-	4.8	-		4.8
Total Program Expenses	\$ 176.4	\$ 656.0	\$ 17.0	\$ -	849.4

Program Expense Year ended September 30,					2003
	Basic	Applied	Development	Total	
Medical Research Service	\$ 141	\$ 80.7	\$ -	\$ -	221.7
Rehabilitative Research and Development	3.1	27.5	20.3		50.9
Health Services Research and Development	-	61.5	-		61.5
Cooperative Studies Research Service	-	27.0	-		27.0
Medical Research Support	-	402.9	-		402.9
Prosthetic Research Support	-	4.7	-		4.7
Total Program Expenses	\$ 144.1	\$ 604.3	\$ 20.3	\$ -	768.7

In addition, VHA researchers received \$459 million in grants from the National Institutes of Health and \$252 million in other grants during FY 2004. These grants went directly to researchers and are not considered part of the VA entity. They are being disclosed here but are not accounted for in the financial statements.

Program Outcomes

For FY 2004, VA's R&D general goal for stewardship was to ensure that VA medical research programs met the needs of the veteran population and contributed to the Nation's knowledge about disease and disability. Target levels were established for the: (1) percent of funded research projects relevant to VA's health-care mission in designated

research areas and (2) number of research and development projects. Strategies were developed in order to ensure that performance targets would be achieved.

VA's Medical Research Program goal is to be the premier research organization, leading our Nation's efforts to discover knowledge and create innovations that promote and advance the health and care of veterans and the Nation. To achieve this goal, VA targets research projects that address special needs of veteran patients and balance research resources among basic and applied research, in order to ensure a complementary role between the discovery of new knowledge and the application of these discoveries to medical practice.

Research and Development Measures-Actual Year ended September 30,	2004	2003
Percent of Funded Research Projects Relevant to VA's		
Health-Care Mission	97.1%	95.6%
Number of Research and Development Projects	2,165	2,075

Required Supplementary Information (Unaudited)

These materials are not audited.

1. Deferred Maintenance

Deferred maintenance is classified as not performed when it should have been or as scheduled but delayed to a future period. It is VA policy to ensure that medical equipment and critical facility equipment systems are maintained and managed in a safe and effective manner; therefore, deferred maintenance is not applicable to them.

VA facilities reported their cost estimates for deferred maintenance by utilizing either the Condition Assessment Survey or the Total Life-Cycle Cost Method.

Deferred Maintenance

as of September 30,

	2004	2003
General PP&E	\$ 1,649	\$ 1,433
Heritage Assets	34	30
Total Deferred Maintenance	\$ 1,683	\$ 1,463

Balances with Other Federal Entities

Intragovernmental Assets
as of September 30, 2004

Trading Partners	Fund Balance with Treasury	Investments	Accounts Receivable	Other Assets
Treasury	\$ 16,741	\$ 13,643	-	\$ 8
DoD - Defense Agencies			64	
All Other			68	114
Total Intragovernmental Assets	\$ 16,741	\$ 13,643	\$ 132	\$ 122

Intragovernmental Liabilities
as of September 30, 2004

Trading Partners	Accounts Payable	Debt	Other
Treasury	\$ 46	\$ 2,618	\$ 1,311
Other	26		823
Total Intragovernmental Liabilities	\$ 72	\$ 2,618	\$ 2,134

Intragovernmental Earned Revenue and Related Cost (trade activity)**Year Ended September 30, 2004**

Trading Partner	Earned Revenue
DoD - Defense Agencies	\$ 830
Health & Human Services	132
Justice	101
All Other	<u>676</u>
Total Earned Revenue	<u>\$ 1,739</u>
Related Cost	\$ 1,551

Intragovernmental Non-Exchange Revenue**Year Ended September 30, 2004**

Trading Partner	Transfers-Out
Treasury	\$ 1,941

**Schedule of Budgetary Activity
Year Ended September 30, 2004**

	Total Budgetary Resources	Obligations Incurred	Spending Authority from Offsetting Collections and Adjustments	Obligated Balance net, Oct 1	Obligated Balance net, Sept. 30	Total Outlays
VHA						
0152 Medical Admin	4,123	4,086	23	13	656	3,420
0160 Medical Care	22,855	21,112	282	3,351	2,311	21,870
0161 Medical & Prosthetic Research	501	434	41	119	123	389
0162 Medical Facilities	3,201	3,142	11	-	658	2,473
All Other	1,268	907	289	636	827	427
Total	31,948	29,681	646	4,119	4,575	28,579
VBA						
0102 Compensation, Pension, & Burial Benefits	31,020	29,959	-	2,267	2,441	29,785
0137 Readjustment Benefits	3,212	2,965	272	72	82	2,683
4025 Housing Credit Liquidating	60	32	100	(23)	2	(93)
4127 Direct Loan Financing	773	571	781	78	71	(203)
4129 Guaranteed Loan Financing	7,524	3,330	1,811	20	22	1,517
8132 National Service Life Insurance Fund	11,093	1,603	365	1,461	1,468	1,231
All Other	4,039	1,847	1,249	399	418	579
Total	57,721	40,307	4,578	4,274	4,504	35,499
NCA						
0129 National Cemetery Adm.	149	144	-	25	33	136
All Other	38	34	-	36	31	39
Total	187	178	-	61	64	175
ADM						
0151 General Operating Expenses	1,945	1,851	530	244	308	1,257
All Other	2,763	2,404	2,145	323	676	(94)
Total	4,708	4,255	2,675	567	984	1,163
Total of all Business Lines	94,564	74,421	7,899	9,021	10,127	65,416

Segment Information

Condensed Balance Sheet as of September 30	Supply Fund		Enterprise Fund	
	2004	2003	2004	2003
Assets				
Fund Balance with Treasury	\$ 921	\$ 775	\$ 96	\$ 90
Accounts Receivable, Net	133	220	28	28
General Property, Plant and Equipment	4	5	22	24
Other Assets Including Inventory	27	25	6	8
Total Assets	\$ 1,085	\$ 1,025	\$ 152	\$ 150
Liabilities and Net Position				
Accounts Payable	\$ 67	\$ 49	\$ 4	\$ 8
Deferred Revenues	338	438	-	-
Other Liabilities	524	380	57	34
Total Liabilities	929	867	61	42
Cumulative Results of Operations	156	158	91	108
Total Liabilities and Net Position	\$ 1,085	\$ 1,025	\$ 152	\$ 150
Condensed Net Cost Information				
Total Program Costs	\$ 1,829	\$ 1,375	\$ 230	\$ 188
Earned Revenues				
Intra-Departmental	(573)	(448)	(143)	(185)
Other Federal Entities	(1,225)	(911)	(66)	(29)
Non-Federal	(27)	(36)	-	-
Total Earned Revenues	\$ (1,825)	\$ (1,395)	\$ (209)	\$ (214)
Net Program Costs	\$ 4	\$ (20)	\$ 21	\$ (26)

2. Enterprise Fund Services

VA was approved by OMB in May 1996 as one of six pilot franchise fund agencies operating within the Executive Branch of Government. VA's Franchise Fund was established as a revolving fund and began operations in FY 1997. By law, the business lines within the Fund can only sell to Federal entities on a fee-for-service basis.

The VA Franchise Fund supports VA's mission by supplying common administrative services to both VA

and other Federal entities at competitive prices. Most of the Fund's customers are within VA; business from VA customers accounted for 68.55 percent of FY 2004 revenue. VHA is the largest customer for the following VA Enterprise Centers: Austin Automation Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center and VA Records Center and Vault. VBA is the largest customer for the Debt Management Center.

The Fund accounts for its funds in six lines of business (VA Enterprise Centers) and one administrative organization. A brief description of each center is listed below:

Austin Automation Center (AAC) - Located in Austin, Texas, the AAC provides comprehensive e-government solutions to match the critical needs of VA and other Federal agency customers, from managing data to automating business processes. The AAC supports over 100 customer applications that provide mission-critical data for financial management, payroll, human resources, logistics, medical records, eligibility benefits, and supply functions. In addition, the AAC offers a full complement of technical solutions (information technology system hosting, application management, information assurance, customer business continuity, configuration management, data conversion and data interfacing, and acquisition services) to best meet customers' varied project needs.

Debt Management Center (DMC) - Located in St. Paul, Minnesota, the DMC is a centralized facility that provides direct collection of delinquent consumer debt owed to VA. The DMC also provides administrative support for a local Cooperative Administrative Support Unit.

Financial Services Center (FSC) - Located in Austin, Texas, the FSC provides VA and other government agencies with a full range of financial services, which include financial reports, accounting, invoice payments, credit card payments, medical claims payments, vendor file maintenance, discount subsistence purchases, payroll processing, travel payment processing, electronic commerce/electronic data interchange, automated document management, audit recovery, data matching and reconciliation, and consulting.

Law Enforcement Training Center (LETC) - Located in Little Rock, Arkansas, the LETC provides special training for police officers working in a health care or service-oriented environment. Emphasizing training in medical center patient situations, the LETC is available to approximately 2,400 law enforcement personnel working

at VHA health care facilities and to Federal law enforcement professionals at other Federal agencies.

VA Records Center and Vault (VA RC&V) - Located in a subterranean, climate-controlled, secure facility in the Midwest, the VA RC&V provides records storage, protection, and retrieval services for official Federal records. The facility has been certified by the National Archives and Records Administration to operate as an agency records center. The VA RC&V can store records in any type of medium. This includes off-site storage of systems backups, as well as general, vital, and classified records on paper, film, and electronic media.

Security and Investigations Center (SIC) - Located in Washington, DC, the SIC provides quality and timely background investigations and adjudications for employees and contractors in sensitive positions for all VA entities nationwide. The SIC also issues and manages employee identification badges and provides fingerprint processing for VA employees and other Federal customers in the Washington, DC area.

Enterprise Fund Office (EFO) - The VA Enterprise Centers are supported by the EFO, which is responsible for overall fund operations including administering the financial resources of the Fund, coordinating all business activities, and serving as the liaison between the Enterprise Centers, their customers, and the Franchise Fund Board of Directors.

The Enterprise Fund allows VA and other government agency customers to conserve their budgetary resources through new innovative methods and/or efficiencies of scale with the same or lower unit costs, while improving the quality of services provided. As the Fund successfully expands its services to other Federal agencies, those agencies will derive similar benefits.

For more information, visit the VA Enterprise Centers online at www.va.gov/fund.

3. Supply Fund Services

Supply Fund functions include contracting for medical supplies, equipment, and services; stocking, repairing, and distributing supplies, medical equipment, and devices; providing forms, publications, and a full range of printing and reproduction services; training VA medical acquisition, supply, processing, and distribution

personnel; and increasing small and disadvantaged business participation in VA contracts. The two largest customers for the Supply Fund are VA and DoD, but the Fund also has significant sales to other Federal agencies including the Department of Health and Human Services.

Major Management Challenges

Identified by VA Office of Inspector General

OIG1. Health Care Delivery.....	230
1A. OIG Issue – Part-Time Physician Time and Attendance.....	230
1B. OIG Issue – Staffing Guidelines.....	231
1C. OIG Issue – Quality Management.....	232
1D. OIG Issue – Long-Term Health Care.....	232
1E. OIG Issue – Security and Safety.....	234
1F. OIG Issue – Management of Violent Patients.....	235
 OIG2. Benefits Processing.....	 235
2A. OIG Issue – Compensation and Pension Timeliness.....	236
2B. OIG Issue – Compensation and Pension Program’s Internal Controls.....	237
2C. OIG Issue – Fugitive Felon Program.....	238
2D. OIG Issue – Incarcerated Veterans.....	239
 OIG3. Procurement.....	 240
3A. OIG Issue – Federal Supply Schedule Contracts.....	240
3B. OIG Issue – Contracting for Health Care Services.....	241
3C. OIG Issue – Government Purchase Card Activities.....	242
3D. OIG Issue – Inventory Management.....	244
 OIG4. Financial Management.....	 245
4A. OIG Issue – Financial Management and Reporting.....	245
4B. OIG Issue – Data Validity.....	246
4C. OIG Issue – Workers’ Compensation Program.....	247
 OIG5. Information Management.....	 248
5A. OIG Issue – Information Security.....	248

Major Management Challenges

Identified by the Government Accountability Office

GA01. Ensure Access to Quality Health Care	250
1A. GAO Issue – Access.....	250
1B. GAO Issue – Long-Term Care	251
1C. GAO Issue – Hepatitis C.....	251
GA02. Manage Resources and Workload to Enhance Health Care Delivery	252
2A. GAO Issue – Veterans’ Equitable Resource Allocation.....	252
2B. GAO Issue – CARES.....	253
2C. GAO Issue – Alternative Methods for Patient Care Support Services	255
2D. GAO Issue – VA/DoD Sharing.....	255
2E. GAO Issue – Third-Party Collections	257
GA03. Prepare for Biological and Chemical Acts of Terrorism	258
GA04. Improve Veterans’ Disability Program: A High-Risk Area	259
4A. GAO Issue – Challenges to Improving Timeliness.....	259
4B. GAO Issue – Decision Accuracy and Consistency.....	260
4C. GAO Issue – Disability Criteria	261
GA05. Develop Sound Departmentwide Management Strategies to Build a High-Performing Organization	263
5A. GAO Issue – Link Health Care Budget Formulation and Planning Processes	263
5B. GAO Issue – Information Technology Challenges: A High-Risk Area	264
5C. GAO Issue – Financial Management Material Weakness	265
GA06. Federal Real Property: A High-Risk Area.....	266
GA07. Strategic Human Capital Management: A High-Risk Area	269

Major Management Challenges

As we strive to provide the highest quality benefits and services to our Nation's veterans, we realize we have many program and management challenges to overcome. Following are descriptions of our major challenges as identified by the VA Office of Inspector General (OIG) and the Government Accountability Office (GAO) along with the VA program's response. *(In this report, years are fiscal years unless stated otherwise.)*

Challenges Identified by VA Office of Inspector General

The VA OIG has implemented a strategic planning process designed to identify and address the key issues facing VA. These issues, which include health care delivery, benefits processing, procurement, financial management, and information management, are presented in the OIG Strategic Plan 2001-2006. The following summarizes the most serious management problems facing VA in each of these areas, and assesses the Department's progress in addressing them. While these issues guide our oversight efforts, we continually reassess our goals and objectives to ensure that our focus remains relevant, timely, and responsive to changing priorities. *(On these pages, the words "we" and "our" refer to the OIG.)*

OIG1. Health Care Delivery

VA reports that the number of veterans using the Department's health care system has risen dramatically, increasing from 2.9 million in 1995 to nearly 4.5 million in 2003. This increase has significantly challenged the Department's capacity to treat these veterans. In addition, the Veterans Health Administration (VHA) restructured health care delivery to emphasize managed care through an extended network of community-based outpatient clinics and ambulatory care settings. This

transition raised new issues concerning the utilization of facilities and the allocation of resources. Opening VA health care to nonservice-connected veterans created an unprecedented increase in demand for VHA, leading to inordinately high waiting times and insufficient resources. Providing safe, high-quality medical care, reasonable waiting times, and accessibility to care are just some of the fundamental delivery of service issues that present challenges on a continuous basis.

The political leadership in both the legislative and executive branches should confront this reality and codify the long-term health care benefits that will be provided to our Nation's veterans, and fund them accordingly. VHA needs to continue the trend of increasing revenue growth from non-appropriated sources and pursue every avenue possible to maximize the economy and efficiency of its programs and activities. The following issues present major challenges and opportunities to do just that.

1A. OIG Issue - Part-Time Physician Time and Attendance

Our April 2003 report, *Audit of VHA's Part-Time Physician Time and Attendance* (Report No. 02-01339-85), identified VA physicians who were not present during their scheduled tours of duty, were not providing VA the services obligated by their employment agreement, or were "moonlighting" on VA time. Currently 11 of 12 recommendations on management controls remain unimplemented. We concluded that VA medical center (VAMC) managers did not ensure that part-time physicians met employment obligations, and that VAMCs did not perform workload analyses to determine the number of full-time equivalent employees needed or evaluate hiring alternatives (such as part-time, full-time, intermittent, or fee-basis).

Additionally, our Combined Assessment Program (CAP)¹ reviews assessed physician time and attendance issues at 54 facilities and identified deficiencies at 28.

Our February 2004 report, *Follow-up of the VHA's Part-Time Physician Time and Attendance* (Report No. 03-02520-85), found that at 15 medical facilities where we conducted unannounced follow-ups 8 percent of the part-time physicians scheduled for duty were not on duty, approved leave, or authorized absence and were potentially not meeting their VA employment obligations. All six recommendations remain unimplemented. We concluded that VHA's implementation of management controls continues to need improvement to ensure that part-time physicians meet their employment obligations. OIG CAP reviews conducted at VHA facilities in FY 2004 also continue to identify systemic weaknesses associated with controls over part-time physicians' time and attendance and show that some part-time physicians are not fully meeting their employment obligations.

VA's Program Response: VHA now conducts a monthly survey of all sites to determine whether facilities are monitoring time and attendance of part-time physicians. VHA uses a statistically generated program to select a random sample of the part-time physicians at each facility. The facilities are asked to verify the presence of these physicians either through electronic means or by direct physical verification. If any discrepancies are identified, appropriate actions are taken locally. In addition, the issue of part-time physician time and attendance is discussed at the quarterly performance reviews with the network directors. VA has also developed revised policies and procedures that will enable it to more easily meet patient care requirements and schedule physicians in a manner that is more consistent with their practice patterns. The policies and procedures are being paired with modifications to VA's electronic time

and attendance (ETA) system. Anticipated completion date for the modifications to VA's ETA is May 2005.

1B. OIG Issue - Staffing Guidelines

The lack of staffing standards for physicians and nurses as required by Public Law 107-135 continues to impair VHA's ability to adequately manage personnel resources. Congress passed Public Law 107-135, *Department of Veterans Affairs Health Care Program Enhancement Act of 2001*, on January 23, 2002, which requires the Secretary, in consultation with the Under Secretary for Health, to establish a policy to ensure that staffing for physicians and nurses at VA medical facilities is adequate to provide veterans appropriate, high-quality care and services. VHA recently issued a policy that provides standards for physicians and support staff in primary care that is tied to the number of veterans receiving care. The OIG believes VHA needs to incorporate this requirement into performance plans and hold managers accountable for implementing the policy. VHA is further behind in its process of establishing staffing models for subspecialty medical physicians. Currently, all five recommendations relating to physician staffing remain unimplemented from our April 2003 report, *Audit of VHA's Part-Time Physician Time and Attendance* (Report No. 02-01339-85).

There is and will continue to be a national nursing shortage. The absence of nurse staffing guidelines impedes hospital management's ability to ensure that the nursing mix on a ward is adequate to meet the needs of the patient population. Recent legislative changes will help in recruitment and retainment of nursing staff, but staffing guidelines are still needed to ensure quality of patient care. In August 2004, we issued the report, *Healthcare Inspection, Evaluation of Nurse Staffing in VHA Facilities* (Report Number 03-00079-183) that addressed this subject.

¹ Through this program, auditors, investigators, and health care inspectors collaborate to assess key operations and programs at VA health care systems and VA regional offices on a cyclical basis.

VA's Program Response: A draft directive on staffing guidelines for VHA health care providers, including nurses, is targeted for completion by the end of December 2004. On July 6, 2004, VHA Directive 2004-031, "Guidance on Primary Care Panel Size," was issued and distributed to the field for implementation. It requires VHA primary care practices to establish maximum panel sizes for all primary care providers. VA continues to work on developing a productivity model for specialty care providers. It is expected to be completed by the end of 2005.

1C. OIG Issue - Quality Management (QM)

Although VHA managers are vigorously addressing the Department's QM procedures in an effort to strengthen patients' confidence, issues remain. OIG and GAO reviews in the 1990s found that managers needed to improve efforts for collecting, trending, and analyzing clinical data. During fiscal year 2003, we conducted QM reviews at 31 VA health care facilities during CAP reviews. All of the facilities we reviewed during 2003 had established comprehensive QM programs and performed ongoing reviews and analyses of mandatory areas. We noted improvements in several areas compared with our 2002 review. While we found improvements in QM programs, our July 2004 summary report, *Healthcare Inspection, Evaluation of Quality Management in VHA Facilities Fiscal Year 2003* (Report No. 03-00312-169), found that facility managers need to strengthen QM programs through increased attention to: the disclosure of adverse events, the utilization management program, the patient complaints program, and medical record documentation reviews. Senior managers need to strengthen designated employees' data analysis skills, benchmarking, and corrective action identification, implementation, and evaluation across all QM monitors.

Because of continued weaknesses in QM data management, particularly the implementation and evaluation of corrective actions, facility senior managers need to clearly state their expectations to all managers, program coordinators, and committee chairpersons who are

responsible for QM monitors that corrective actions must be evaluated until resolution is achieved. To provide reasonable assurance that its facilities are thoroughly addressing quality of care and patient safety issues, VHA needs a stronger system for corrective action implementation and evaluation.

VA's Program Response: VHA has convened a quality management workgroup, consisting of six subcommittees: 1) Disclosure of Adverse Events, 2) Utilization Management, 3) Patient Complaints, 4) Joint Commission on Accreditation of Healthcare Organizations Medical Record Review Requirements, 5) Data Management, and 6) Quality Improvement. The groups fielded a Web-based survey to assess current field activities in each of these areas on October 22, 2004. The survey will be used to conduct a gap analysis and prepare preliminary recommendations on gaps, addressing gaps, and monitoring implementation and progress in each of the subcommittee areas for the Deputy Undersecretaries. A report of preliminary recommendations in each of these areas will be delivered to the Deputy Undersecretaries for Health and of Operations and Management by the end of calendar year 2004. Further work of these groups will be dependent on these early findings and the recommendations of VHA leadership. Some will become ongoing committees while others may be time-limited once the recommendations are reviewed.

1D. OIG Issue - Long-Term Health Care

VHA established a number of programs to provide long-term health care to aging veterans, but the OIG found that serious challenges continue to exist. For example, in 2003 we completed reviews of VHA's Community Nursing Home (CNH) Program and Homemaker/Home Health Aide (H/HHA) Program, and in 2004 we completed a review of VHA's Community Residential Care (CRC) Program. We identified several issues warranting VHA's attention.

While VHA has contracted with CNHs to provide care for aging veterans, it has taken years to implement stan-

standardized monitoring/inspection procedures, as noted in our December 2002 report, *Healthcare Inspection - Evaluation of VHA's Contract Community Nursing Home Program* (Report No. 02-00972-44). This has caused VA facilities to be inconsistent in overseeing the care and service provided to veterans residing in community facilities. We made recommendations to further clarify and strengthen the VHA CNH oversight process and to reduce the risk of veterans in CNHs from adverse incidents. VHA issued a new CNH handbook; however, the following actions remain to be completed in order to close all the recommendations: finalize new performance indicators that show nurses and social workers are visiting veterans at the recommended frequency and gathering the recommended information, finalize the Web site and schedule audio training broadcasts, complete guidance on Web site links and special broadcasts related to new criteria to exclude CNH homes from the program when involved with neglect and abuse, and finalize efforts on how VHA and Veterans Benefits Administration (VBA) employees can complement each other and share information.

We found VHA's H/HHA program also needed improvements. We issued a summary evaluation in December 2003, *Healthcare Inspection - Evaluation of VHA Homemaker and Home Health Aide Program* (Report No. 02-00124-48). As part of the OIG's CAP reviews, we inspected the program at 17 VA medical facilities. We found that 14 percent of the patients receiving program services in our sample did not meet clinical eligibility requirements. Two OIG recommendations remain open.

We also found VHA's CRC program needed improvement. We issued a report in May 2004, *Healthcare Inspection - VHA's Community Residential Care (CRC) Program* (Report No. 03-00391-138). We found VAMC inspection teams did not consistently inspect their CRC homes; VAMC clinicians did not always conduct interdisciplinary assessments, advise CRC caregivers about patients' conditions or special needs, conduct monthly visits as required, and ensure caregivers received appropriate training. Also, VAMC clinicians and VA regional office

(VARO) fiduciary activity supervisors did not meet at least once a year to discuss services to incompetent veterans. We made 11 recommendations for improvement.

VA's Program Response: The VBA Fiduciary Program has had a long-standing requirement to establish annual visits with each VAMC in the Fiduciary Activity's jurisdiction for the purpose of discussing cross-cutting program issues and cases of mutual concern. The VA Central Office (VACO) Fiduciary Program staff reminded all Fiduciary Program managers nationwide of this requirement in an e-mail message on June 20, 2002. Additionally, this was extensively discussed in the quarterly Fiduciary Program Teleconference on July 18, 2002, and was an agenda item on the Veterans Service Center Manager call on July 19, 2002.

Beginning October 2002, compliance with this requirement has been monitored during routine site visits, and VBA is satisfied that such meetings are taking place. In December 2003, VACO Fiduciary Program staff met with VHA's Director of Long-Term Care Contracts to discuss the OIG findings and any cooperative actions necessary to fully implement the recommendations. As a result of that meeting, the director undertook a project to update the VHA handbook on VHA community nursing home oversight procedures.

The revised VHA Handbook 1143.2, "Community Nursing Home (CNH) Oversight," was published on June 4, 2004. This document implemented the majority of the OIG recommendations. Work on the education Web site and associated training material is ongoing, and the Web site is scheduled for release in December 2004. VHA established a monitor for tracking efforts by VAMCs and regional offices to identify cases of neglect and abuse. Both VBA and VHA handbooks now mandate annual meetings for regional office and medical center staff. VA is in the process of identifying points of contact in both administrations. VHA is planning to highlight some best practices this coming year on the CNH Web site and in a joint audio conference. VHA's efforts focus on the quality of care delivered by CNHs, as measured by Centers

for Medicaid and Medicare Service (CMS) quality profiles. VHA has clearly stated its intention to measure CNH quality in this manner.

VHA developed a Homemaker/Home Health Aide (H/HHA) program monitor to measure improvements in meeting the target population for this program, thus ensuring better utilization of resources for those veterans most in need of H/HHA services. VHA's handbook, "Home Health and Hospice Care Reimbursement Policy," which establishes benchmark rates, was published August 16, 2004.

VHA concurred with the 11 OIG recommendations on the Community Residential Care (CRC) Program. An action plan has been developed and a process to track the implementation of the recommendations has been established.

1E. OIG Issue - Security and Safety

On March 19, 2002, the OIG issued 16 recommendations to improve overall security, inventory, and internal controls over biological, chemical, or radioactive agents at VHA facilities. We performed this review at the request of the VA Secretary in October 2001 following the September 11, 2001, terrorist attacks and the anthrax infiltration in the U.S. Postal System.

In the report, *Review of Security and Inventory Controls over Selected Biological, Chemical and Radioactive Agents Owned by or Controlled at Department of Veterans Affairs Facilities* (Report No. 02-00266-76), we identified that security and physical access controls were needed in research and clinical laboratories and other areas in which high risk or sensitive materials may be used or stored, or where those materials were actually in use (e.g., biological agents [bioagents], chemicals, gases, and certain radioactive materials). We found inventories of these types of sensitive materials were often incomplete or inadequate. While most facilities we visited had complied with requirements for disaster planning and preparedness, many had not updated these plans to include considerations for terrorist threats or

actions. We also found inadequacies in background screening and assurance procedures for employees and contractors allowed to access sensitive areas.

Most of the report's recommendations were made to the Under Secretary for Health; however, several recommendations required joint efforts on the part of VHA and the Office of Security and Law Enforcement. Recently, the Office of Security and Law Enforcement completed its actions by revising two security publications cited in the OIG report. Although numerous VHA actions have been completed, such as the newly issued research handbook and clinical handbook, 15 of the 16 report recommendations remain open.

We will not close these recommendations until laboratory security upgrades have been made, training is developed and provided to all applicable employees, and VAMC directors certify implementation of directives and security requirements. The purpose of the certification requirement is to document compliance with the directives and provide assurance that the intent of our recommendations to address all the security and control vulnerabilities presented in our report have been addressed and corrected at each facility.

VA's Program Response: Significant progress has been made on all of the OIG recommendations identified in Report Number 02-00266-76. VHA Handbook 1106.2, "Pathology and Laboratory Medicine Service Bio-security and Bio-safety," was published in May 2004. This handbook provides general security and additional safety procedures for clinical laboratories in the possession, handling, and shipping of biological materials identified as potential agents of terrorism within VA facilities. The Office of Research and Development also issued VHA Handbook 1200.6, "Control of Hazardous Agents in Research Laboratories," in June 2004 that further addresses the OIG recommendations.

The OIG will not close the recommendation on laboratory security upgrades until all eligible VA facilities have received the equipment for which the Office of Research

and Development (ORD) grants funding. ORD initiated a program to spend more than \$2 million to upgrade laboratory security in February 2002. Of the 64 research sites identified as needing upgrades, 62 sites have been funded for a total of \$2.35 million. Funding for the remaining two sites is pending and will be distributed in the first quarter of FY 2005. In addition to the above initiative, ORD has conducted infrastructure site visits at 40 sites.

The OIG will not close the recommendation on training until ORD develops and implements a program of instruction for laboratory security. Each facility is currently developing training in all aspects of responding to intrusions and/or terrorist events. ORD is currently developing a Web-based educational program that outlines security training requirements that will be in operation by December 2004 and available through the Intranet in late January 2005. A VA-specific training program is being developed that will reflect requirements that are found in the new directive on control of hazardous agents in research laboratories. Since 2002, ORD has included sessions on research laboratory security in two national meetings and works with individual facilities as needed.

The OIG mandated that VAMC directors certify implementation of directives and security requirements before the OIG will close these recommendations. VHA will submit a consolidated certificate to the OIG by December 31, 2004.

1F. OIG Issue - Management of Violent Patients

While our May 2004 report, *Healthcare Inspection, Healthcare Program Evaluation VHA's Management of Violent Patients* (Report No. 02-01747-139), found opportunities for improvement in the management of violent patient events at the facilities visited, we also found that several components for successful violence prevention

programs were in place. Nevertheless, employees made suggestions that would enhance security in their work area, some of which VHA managers should consider. Several recommendations were made for improvement.

VA's Program Response: VHA has implemented a network director performance indicator regarding the implementation of interdisciplinary teams at each facility. The expected revisions to existing automated reporting systems are currently with the Office of Information and are expected to be implemented in FY 2005. The establishment of interdisciplinary Disruptive Behavior Committees (DBC) has been verified at all facilities. VHA's Employee Educational System (EES) hosted two system-wide series of conference calls on patient record flagging, one on the information technology/application implementation, and the other on threat assessment and management strategies. A Patient Record Flagging summit was held in early September 2004. A data call to collect information on DBC performance was issued at the end of FY 2004.

OIG2. BENEFITS PROCESSING

VBA has made progress in veterans benefits processing in recent years, but significant challenges remain in terms of timeliness and accuracy. Because of the total dollar value of claims, the volume of transactions, the complexity of the criteria used to compute benefits payments, and the number of erroneous and improper payments already identified, we consider these issues high risk areas and major management challenges for VBA. VA must report erroneous² and improper³ payments on four of its major programs⁴ in its annual budget submissions and the Performance and Accountability Report beginning in 2004. We believe VA needs to be more aggressive in identifying and eliminating erroneous and improper payments to comply with this reporting requirement.

² The Office of Management and Budget defines erroneous payments as payments made that should not have been made or were made for incorrect amounts (including payments that do not necessarily involve cash disbursements).

³ The Improper Payments Information Act of 2002 defines improper payments as payments made that should not have been made or that were made in incorrect amounts (including overpayments and underpayments).

⁴ The four programs are Compensation, Dependency and Indemnity Compensation, Pension, and Insurance.

2A. OIG Issue - Compensation and Pension (C&P) Timeliness

As of June 26, 2004, VBA reports about 469,000 total C&P claims are pending, including about 325,000 that require rating action. VA made progress in addressing its claims processing backlog that once peaked at about 601,000 outstanding claims. Although the number of claims pending rating decisions is continuing to increase, C&P rating actions that once averaged 195 days for completion are averaging 168 days as of June 2004. The backlog of claims pending increased primarily because VBA was unable to make decisions on cases as a result of a court decision invalidating a provision that permitted VA to decide a claim prior to the expiration of the 1-year notice in the Veterans Claims Assistance Act. However, correcting legislation was signed by the President in December 2003 that states that VA may make a decision on a claim before the expiration of the 1-year notice period. VBA remains challenged to reduce the outstanding backlog and to improve the timeliness in its claims processing activities.

VA credits many of its recent improvements to the reforms recommended by the Secretary's Claims Processing Task Force, which was charged with identifying ways to expedite claims and deliver more timely benefits to veterans. In October 2001, the Task Force recommended measures to increase the efficiency and productivity of VBA operations, shrink the backlog of claims, reduce the time it takes to decide a claim, and improve the accuracy of decisions. The Task Force made 34 recommendations (20 short-term and 14 medium-term), and VBA defined 70 actions to accomplish the 34 recommendations. VBA has implemented 55 of the 70 action items. The Task Force report has helped facilitate improvements in claims processing activities.

CAP reviews performed at VAROs since 2001 found that C&P claims processing failed to achieve prescribed timeliness goals at 15 of 18 facilities. VBA still needs to address recommendations made in the CAP reviews and fully implement the Task Force recommendations.

VA's Program Response: VBA has had marked success in reducing the number of pending rating claims and improving the timeliness of rating-related actions. The organization reduced the pending rating inventory from a high of 432,000 claims in January 2002 to 253,000 in September 2003. The timeliness of VBA's pending inventory improved from 203 days in January 2002 to 111 days in September 2003. The average length of time to provide veterans with a decision on their claims improved from a high of 233 days in March 2002 to 156 days in September 2003. However, as noted by the OIG, court decisions interpreting the Veterans Claims Assistance Act of 2000 (VCAA) significantly affected the gains made by VBA in claims processing.

Specifically, the September 2003 decision of the U.S. Federal Circuit Court of Appeals in *PVA v. Principi* caused VBA to stay the processing of over 62,000 claims. The *PVA* decision, issued in response to a challenge to VA's regulations implementing the VCAA, held that unless VA could grant a claim for benefits, VA was required to wait 1 year before it could deny a claim in order to afford the claimant time to submit information or evidence to substantiate the claim. This, in effect, resulted in a stay of any rating action that would, in whole or in part, contain a denial of a claimed benefit.

As a result, VBA lost nearly 3 months of full production, and the volume and age of the rating inventory continually increased until Congress clarified the language of the law in a December 16, 2003, amendment, expressly allowing VA to decide claims for benefits prior to the expiration of the 1-year time period in the law during which a claimant could submit evidence on a claim. Consequently, VBA produced 64 percent fewer rating decisions in the first 3 months of FY 2004 than in the first 3 months of FY 2003 (69,316 versus 192,669). Once VA could resume normal rating production, it was faced with the prospect of addressing the backlog of claims while keeping pace with processing incoming claims. The average processing time for claims completed in January 2004 reached 189 days as we began to process the deferred claims. Timeliness of completed actions is back down to 163 days

during the month of September 2004, and we continue to make progress toward the Secretary's goal. Two years ago, 35 percent of VBA's rating inventory was comprised of cases pending over 6 months. As of September 2004, that percentage has been reduced to 21 percent.

VBA has also experienced a significant increase in disability claim receipts. During FY 2004, VBA recorded a 5 percent increase in disability claims. The majority of the increased receipts were original disability claims. Specifically, our original claim receipts are up by 17 percent over last year, most likely attributable to the impact of claims filed by servicemembers returning from Operation Enduring Freedom and Operation Iraqi Freedom. Despite these challenges, VBA continues to make progress toward the high expectations set by the Secretary.

VBA continues to place an increasing emphasis on oversight and accountability through program reviews conducted by business lines, the Office of Resource Management, and the OIG. The results of these reviews are used to highlight best practices and address areas where an out-of-line situation may be occurring at more than one regional office. In addition, VBA's four area directors routinely review the results of OIG CAP reviews conducted for the regional offices in their jurisdiction and follow up to ensure corrective actions are implemented.

The Task Force made 34 recommendations (20 short-term and 14 medium-term), and VBA defined 70 action items to accomplish the 34 recommendations. To date, action has been taken on 65 of those 70 items. Fifty-five have been fully completed, and 10 are in various stages of implementation. The other five action items have been determined not to be feasible at this time.

2B. OIG Issue - Compensation and Pension Program's Internal Controls

In 1999, the former Under Secretary for Benefits asked the OIG for assistance to help identify internal control weaknesses that might facilitate or contribute to fraud in

VBA's C&P program. In June 1999, we issued a vulnerability assessment on the management implications of employee thefts from the C&P system. We identified 18 internal control vulnerabilities.

Our July 2000 report, *Audit of the C&P Program's Internal Controls at VARO St. Petersburg, FL* (Report No. 99-00169-97), confirmed that 16 of the 18 categories of vulnerability reported in our 1999 vulnerability assessment were present at VA's largest VARO. We made 26 recommendations for improvement. Currently, 5 of the 26 recommendations are unimplemented, including controlling adjudication of employee claims, use of a third-person authorization control in the Benefits Delivery Network, and verification of continued entitlement of certain beneficiaries. Our regional office CAP reviews have identified that vulnerabilities remain in 13 of the 18 categories in the 2000 report.

VA's Program Response: As of September 2004, five C&P action items remain open.

The following two action items are pending the completion of VBA's Modern Award Processing application, the testing of which began in March 2004 at the VA Regional Office in Lincoln, Nebraska: (1) establish a positive control system edit keyed to employees to ensure employee claims are adjudicated at the assigned regional office and to prevent employees from adjudicating matters involving fellow employees and veterans service organizations at their home office and (2) establish a Benefits Delivery Network (BDN) system field for third-person authorization with a control preventing release of payments greater than \$15,000 without the third-person authorization.

To address the action item on direct input and storage of rating decisions in the BDN, VBA released an updated version of Rating Board Automation (RBA 2000) in September 2004 containing fixes for defects impacting 100 percent utilization of RBA 2000. Upon conclusion of a 60-day validation period, VBA will determine the schedule for retirement of the old RBA application.

The last two action items related to use of employee social security numbers (SSN) as employee identification numbers in the BDN and the replacement VETSNET system. VBA is in the process of validating and documenting steps taken to use SSN as employee identification numbers and to tie VETSNET access to SSN. This will also ensure perpetual VETSNET transaction files are maintained and include a unique user identification number identifying employees associated with recorded transactions.

2C. OIG Issue - Fugitive Felon Program

The Veterans Education and Benefits Expansion Act of 2001 prohibits veterans who are fugitive felons, or their dependents, from receiving specified veterans benefits. The OIG has established a fugitive felon program to identify VA benefits recipients and employees who are fugitives from justice. This program is a collaborative effort involving the OIG, VBA, VHA, and VA Police Service. The program consists of conducting computerized matches between fugitive felon files of law enforcement organizations and VA benefit files. Location information is provided to the law enforcement organization responsible for serving the warrant for those veterans identified as fugitive felons. Fugitive information is subsequently provided to VA so that benefits may be suspended and recovery action for any overpayments can be initiated.

Memoranda of Understanding have been completed with the U.S. Marshals Service; Federal Bureau of Investigation National Crime Information Center (NCIC); and the States of California, New York, Tennessee, Washington, and Pennsylvania. Agreements are pending with those states that do not enter all felony warrants into the NCIC. In addition, the VA Secretary signed a directive establishing VA procedures for dealing with fugitive felons.

As of June 2004, more than 2.2 million warrant files received from law enforcement agencies have been matched to more than 11 million records contained in VA

benefit system files, resulting in the identification of 32,346 matched records. The records match has resulted in 11,153 referrals to various law enforcement agencies throughout the country and has led to the apprehension of 402 fugitive felons, including the arrest of 38 VA employees. In addition, 8,299 fugitive felons identified in these matches have been referred to the Department for benefit suspension resulting in the creation of \$54.5 million in overpayments and an estimated cost avoidance of over \$100 million. With an estimated 1.9 million felony warrants outstanding in the United States and an estimated 2 million new felony warrants added each year, should this program be fully funded, the estimated cost avoidance is projected to reach \$209.6 million per year.

Since the beginning of the program, VBA has received 3,839 referrals from the VA OIG and has used new policies and procedures to implement the benefit suspension requirements of the law. As of June 2004, VHA has received 4,465 referrals from the VA OIG. VHA used some of the initial referrals to implement a pilot program involving 10 VAMCs. VHA officials are using the results of the pilot program to help finalize a new handbook on fugitive felons. VHA plans to forward more referrals to additional VAMCs once the new handbook is finalized. Collaborative efforts must continue if we are to successfully achieve the full potential of this mandate.

VA's Program Response: VBA continues to work closely with the OIG in implementing the fugitive felon program. The Vocational Rehabilitation and Employment Service (VR&E) received a list of nine veteran fugitive felons and notified the appropriate regional offices with jurisdiction. VR&E is in the process of finalizing guidance to address handling of veteran fugitive felons participating in the VR&E program. During the past 2 years, the Education Service has processed a total of 97 fugitive felon referrals, creating slightly over \$420,000 in debts. Since the beginning of the program, the C&P Service has received 3,572 referrals from the OIG. As a result of the fugitive felon program, actual overpayments of \$20,426,509 have been identified. Loan Guaranty Service (LGY) staff

attended initial meetings with the OIG to discuss how to meet the requirements of the Fugitive Felon Act. Under the current arrangement, the OIG has agreed to provide LGY with the OIG's list of fugitive felons. LGY has agreed to work with the OIG to check LGY databases against the listings to determine whether any individual on the felons list has attempted to use his/her home loan benefit. Any matches will be forwarded to the OIG for action. The Insurance Service has participated in the fugitive felon process since March 2004. The OIG provided 161 referrals of fugitive names to the Insurance Service. As a result, the Insurance Service froze the insurance accounts. The Insurance Service continues to monitor fugitive lists for signs of activity and has implemented processes to alert both the veteran and the OIG of any changes affecting the fugitive felon status.

The Office of Security and Law Enforcement has been an active collaborator with the OIG since 2002 in implementing the fugitive felon program within VA. The office was a task force member charged with the development of a VHA directive on the fugitive felon program and provided guidance and coordination to the VA police units during the VHA pilot program. Cooperative efforts with the OIG continue, including a presentation by the OIG at the VA Police Chiefs' conference in August 2004.

The VHA fugitive felony program (FFP) handbook has been finalized and will be issued by the end of the first quarter of FY 2005. The handbook will address areas identified for improvement through the VHA pilot. To address the high number of warrants that have already been satisfied, VA police will be asked to validate warrants with the issuing agency prior to any veteran being notified of his/her fugitive felon status. In addition, once the warrant is validated, the veteran will have a 60-day time frame to clear or provide proof that the warrant is satisfied before his/her health care benefits are suspended. Additionally, any veteran requiring continued care will have a transition of care plan developed prior to dis-enrollment. Upon its publication, the roll-out of the FFP to all VHA facilities will begin. The roll-out is expected to be completed by January 2005.

2D. OIG Issue - Incarcerated Veterans

In February 1999, the OIG published the report, *Evaluation of Benefit Payments to Incarcerated Veterans* (Report No. 9R3-B01-031). The review found that VBA officials did not implement a systematic approach to identify incarcerated veterans and adjust their benefits as required by Public Law 96-385. The evaluation included a review of 527 veterans randomly sampled from the population of veterans incarcerated in six states. Projecting the sample results nationwide, we estimated that about 13,700 incarcerated veterans had been, or will be, overpaid a total of about \$100 million.

VBA has implemented the recommendations in the report. VBA reached an agreement with the Social Security Administration (SSA) to use the State Verification and Exchange System to identify claimants incarcerated in state and local facilities. VBA is now processing both a Bureau of Prisons match and SSA prison match on a monthly basis. By September 2002, over 18,500 veterans were identified who received VA benefits and were potentially incarcerated. Additional potentially incarcerated veterans are being identified at the rate of 600-700 monthly. VBA has indicated it is tracking the disposition of a 20 percent sample of the monthly SSA prison match cases. The OIG believes this case disposition sampling should continue, and we will monitor whether this sampling is adequate. VBA should set up a database for tracking the total dollar value of incarcerated overpayments, which VA is required to report annually with other erroneous payments.

VA's Program Response: During FY 2004, over 41,000 veterans were identified who received VA benefits and were potentially incarcerated. VBA is tracking the disposition of a 20 percent sample of the monthly SSA prison match cases. Actual FY 2003 overpayments identified from the 20 percent sample total \$5,721,640. The 20 percent sample is not a random sample. They are cases with the largest potential overpayments. It is VBA's opinion that tracking 100 percent of these cases would not be cost beneficial.

In regard to the reporting requirements for erroneous payments, VBA continues to work with OMB and the Department to comply with the Improper Payments Information Act of 2002. C&P currently uses the Statistical Technical Accuracy Review (STAR) database to identify and project erroneous payments for the compensation and pension programs.

OIG3. PROCUREMENT

VA faces major challenges in implementing a more efficient, effective, and coordinated acquisition program. The Department spends about \$6 billion annually for pharmaceuticals, medical and surgical supplies, prosthetic devices, information technology, construction, and services. High-level management support and oversight are needed to ensure VA leverages its full buying power, maximizes the benefits of competition, and improves contract administration.

In response to an IG report issued in May 2001, the VA Secretary established a Procurement Reform Task Force. In May 2002, the Task Force recommended improvements to better leverage VA's substantial purchasing power and to improve the overall effectiveness of procurement operations. By June 2002, VA began implementing Task Force recommendations. For example, to leverage its purchasing power, VA established a contract hierarchy which mandates use of VA Federal Supply Schedule (FSS)⁵ Groups 65 and 66 for procurement of health care supplies.

OIG reviews continue to identify problems with FSS contracts and blanket purchase agreements (BPAs)⁶, along with procurements for health care items, scarce medical services, and construction. We also continue to identify weaknesses in the management of purchase cards and problems with inventory management, as discussed below.

3A. OIG Issue - Federal Supply Schedule (FSS) Contracts

In March 2004, the OIG issued the report, *Audit of VAMC Procurement of Medical, Prosthetic, and Miscellaneous Operating Supplies* (Report No. 02-01481-118). The audit found that VAMCs needed to make more effective use of the best purchasing sources. Large proportions of VAMC supply purchases were not made from the best contract/BPA source, and VAMCs paid higher prices than necessary. In addition, some networks and VAMCs established contracts that were not beneficial because they covered supply products that were available from other sources (primarily FSS contracts) at equal or lower prices. To help ensure that VAMCs purchase supplies from the best sources, the audit recommended that VHA fully implement and monitor compliance with its purchasing hierarchy.

The audit also found that significant portions of the supplies purchased by VAMCs were not covered by VA national and FSS contracts and were only available on the open market. For these open market supply purchases, VAMCs paid a wide range of prices for the same products. The audit estimated that improving VAMC purchasing practices and increasing efforts to award more national contracts for supplies would result in cost reductions of about \$214 million a year. Over 5 years (the typical life of national contracts and BPAs), the potential savings would be about \$1.4 billion taking into account inflation and projected increases in supply usage.

To help minimize the amount of open market purchases and better leverage VA's purchasing power, the audit recommended that VHA and the Office of Acquisition and Materiel Management increase efforts to award new national contracts and BPAs for supply products.

⁵ The General Services Administration (GSA) provides Federal agencies with a simplified process for obtaining commonly used commercial supplies and services at prices associated with volume buying. GSA issues Federal Supply Schedules containing the information necessary for placing delivery orders with schedule contractors. GSA has delegated authority to VA to award and administer schedules for pharmaceuticals and medical/surgical supplies and equipment.

⁶ BPAs are a simplified method of filling anticipated repetitive needs for services and supplies. Contractual terms and conditions are contained in a GSA Schedule contract and do not need to be re-negotiated for each use.

VA's Program Response: Each VISN chief logistics officer conducted training of all VISN contracting officers and purchase card holders to ensure full understanding of the requirements of the purchasing hierarchy. The VISNs are providing advance notice of all BPAs to VA's National Acquisition Center (NAC) and the Clinical Logistics Office (CLO) for a review to determine if a multi-VISN or national BPA is available or should be awarded. This is in accordance with VHA Directive 2003-018, "Review of Blanket Purchase Agreements (BPAs) for Multi-VISN or VISN Groups." A CLO workgroup has been formed to develop a list of performance measures and best practices for field contracts and logistics personnel. The list was made available on October 30, 2004.

The Prosthetic and Sensory Aid Strategic Health Care Group (PSAS SHG) has been monitoring a total of 20 national Prosthetic Clinical Management Program (PCMP) contracts for network compliance since the end of the third quarter, FY 2004. The target is 95 percent compliance with the contracts. Of the 20 national contracts, the networks as a whole are achieving a 95 percent compliance rate on 9 of the 20 contracts. These nine national contracts were implemented in FY 2002 or FY 2003. The 11 remaining contracts where a 95 percent compliance rate was not met were implemented in the fourth quarter of FY 2003 and FY 2004. This trend indicates that facilities' transition to procuring devices off the new national PCMP contracts is a work in progress and improvement is noted quarterly. PSAS SHG continues to track and monitor network compliance with national PCMP contracts.

All VISNs have had their staff complete the Simplified Acquisition Procurement training. There is at least one individual within each VISN who has a high warrant level to procure high-ticket items such as the computerized leg.

In coordination with the VHA Chief Logistics Officer, the Office of Acquisition and Materiel Management (OA&MM) has issued a list of priorities for use of government supply sources. In light of this direction, VHA mandated purchasing hierarchy training for all field staff employees responsible for the purchase of supplies and

equipment. The field chief logistics officers certified this training in April 2004.

OA&MM sales generated from medical/surgical BPAs, basic order agreements, and other national contracts increased 336 percent for the third quarter of FY 2004, as compared with the third quarter of FY 2003, minimizing the amount of local purchases. OA&MM will continue to be proactive in supporting contract hierarchy as outlined in published guidance. OA&MM will continue to work with the VHA Chief Logistics Officer to increase the use of the mandatory sources of supply.

3B. OIG Issue - Contracting for Health Care Services

OIG reviews have identified conflicts of interest in the request for approval of contracts, preparation of solicitations, contract negotiations, and contract administration efforts. The most frequent violations are where VA physicians, who also receive compensation from the affiliate and/or the affiliate's practice group, are involved in the contracting process as VA employees, in violation of Federal ethics laws and regulations. Violations carry both civil and criminal penalties. In several cases, in addition to being involved in multiple aspects of the procurement process, the VA physician was expected to perform services at VA for compensation under the contract. We have received opinions from the VA Designated Agency Ethics Official (DAEO) in the Office of General Counsel, as well as from regional counsel, which have determined that certain participation in the contract process by such "affiliated" physicians violated Federal law. We believe VA needs to increase awareness among physician staff of, and enforce compliance with, the requirements of VHA Handbook 1660.3, *Conflict of Interest Aspects of Contracting for Scarce Medical Services, Enhanced Use Leases, Health Care Resource Sharing, Fee Basis and Intergovernmental Personnel Art Agreements (IPAs)*. Toward this end, the DAEO has added to its ethics training video a section on this issue.

Also, we continue to see that legal, technical, and pre-award price reasonableness reviews are not always

performed on non-competitive contract awards. Some contracts and solicitations do not contain terms and conditions that adequately protect the Department's interests. Lastly, we have found instances where VA has allowed the affiliated medical schools to dictate the terms and conditions of contracts, including the services to be provided. For example, the services of an individual in training do not qualify as a "commercial service" under the sole-source authority of title 38, United States Code, Section 8153. In another instance, because the physician expected to provide services to VA under the contract was not an employee of the affiliate, the affiliate could not meet certain contract requirements.

VA's Program Response: The Resources Sharing Office staff hosted 2 conferences for over 100 contracting officers and other VHA facility staff. Topics included contracting with affiliated institutions and conflict-of-interest issues. A draft directive on procuring services under sharing authority, including guidelines for price with affiliated institutions, is in the concurrence process with expected publication this fall.

The Deputy Under Secretary for Health for Operations and Management (O&M) notified network directors that O&M monitors are being modified to require certification that VHA facilities are in compliance with VHA Handbook 1660.3. This policy requires that facility directors ensure that each chief of staff and physician, clinician or allied health supervisor, or manager receive a copy of Handbook 1660.3 and the Acknowledgement Form (VA Form 10-21009 {NR}). A copy of the signed acknowledgement must be placed in the clinician's personnel folder. A workgroup has been formed to address "national clinical contract strategy" issues that have emerged from the VA Capital Asset Realignment for Enhanced Services (CARES) report. This workgroup will support the Secretary's national health care strategy. To promote the development of sound contracts, the Clinical Logistics Office is preparing guidance (to be issued in January 2005) for the field on the development of service contracts, with an emphasis on statements of work.

OA&MM has conducted acquisition business reviews and made recommendations for appropriate corrective actions, which are often the same as the OIG recommendations. OA&MM acquisition business reviews will continue to look for the problems identified by the OIG and make recommendations to correct deficiencies. In addition to the required ethics training offered by the Department, acquisition professionals have participated in OA&MM-sponsored training in conflict-of-interest issues.

The DAEO video is the principal training vehicle for the VHA managers and executives who are mandated by an ethics program regulation to have ethics training each year. These employees, including many physicians, viewed the video in calendar years 2003 and 2004. In late 2003, the Deputy Under Secretary for Health went beyond the ethics program mandate and required annual ethics training for all VHA physicians, including researchers. The video focuses on conflicts of interest affecting contracts for scarce medical services.

The DAEO has been featuring the subject matter of the handbook in each of the annual ethics videos since 2001. The DAEO staff has also emphasized the handbook guidance in training sessions at various national and regional conferences for VHA procurement and contracting officers, for staff of the sharing program, and for VHA executive candidates.

3C. OIG Issue - Government Purchase Card Activities

The OIG identified systemic management weaknesses in VA's oversight and use of government purchase cards. We found instances of wasteful spending (buying without regard to need or price), purchases that exceeded the cardholder's authority, and purchases that were inappropriately split to avoid competition requirements. Some cardholders did not use existing contracts, which has resulted in paying higher prices for the same items.

VA management controls over purchase card transactions need to be strengthened so that VA buying power

is leveraged to the maximum extent possible and discounts are not lost. Increased visibility and oversight over procurements are needed to ensure price reasonableness so that VA procurement needs are met effectively and economically. In our April 2004 report, *Evaluation of the Department of Veterans Affairs Purchase Card Program* (Report No. 02-01481-135), we identified additional opportunities for VBA, VHA, and the Office of Management to provide greater assurance that purchase cards are used properly.

VA's Program Response: To rectify the systemic management weaknesses in the oversight and use of government purchase cards, VBA has finalized a new handbook that sets forth sound policy, procedures, and guidance for all participants of the purchase card program. Major emphasis in the re-write of the handbook was placed on increased management oversight, internal controls, a procedural checklist, span of control, purchasing from GSA/VA-required vendors, best pricing, and commercial vendor rebates. Additionally, the Director, Vocational Rehabilitation & Employment Service (VR&E) is addressing the "buying power" issue. Contract options are being pursued, in particular, the use of the agency Procurement of Computer Hardware and Software (PCHS) contract, using VA-negotiated pricing. Currently, VR&E has an exemption from use of the PCHS contract.

During the past 12 months, VBA has administered three VBA-wide hands-on training courses to over 150 individuals. This training addressed some of the purchase weaknesses identified by the OIG in its April 2004 purchase card program evaluation report. Additionally, VBA's Office of Resource Management Financial Operations staff performs field station on-site financial surveys, which include review of the purchase card program. VBA will continue to provide the necessary resources and oversight to ensure efficient and effective use of purchasing authorities.

The documented occurrence of fraud and misuse in VHA's purchase card program is remarkably low. A recent GAO report summarized 83 OIG reports from

March 1999 through September 2003. GAO identified a total of \$435,900 in fraudulent activity in this period. This represents less than 0.01 percent of VA purchase card activity over this period. VHA will continue working toward eliminating vulnerabilities to fraud and misuse.

The VHA Clinical Logistics Office has required that VISN chief logistics officers conduct training of all VISN contracting officers and purchase card holders to ensure full understanding of the requirements of the purchasing hierarchy. Each VISN has certified the completion of this training. Given the issues currently surrounding the CoreFLS roll-out, VHA is in the process of hiring a contractor to work on development of programming changes to the Integrated Funds Distribution, Control Point Activity, Accounting & Procurement Package (IFCAP) program to allow VHA to pull compliance information from its current procurement history file. The anticipated date for the expected IFCAP program changes to be developed is December 31, 2004. In the meantime, interim measures for determining compliance rely on management reviews at the field level. VHA is updating its purchase card guidance, to be issued this coming year, to address internal control weaknesses.

Among the OIG recommendations were that VA management should strengthen internal controls and provide greater oversight to ensure that VA policies and the Federal Acquisition Regulation are effectively implemented in order to prevent and detect fraudulent, improper, and questionable uses of purchase cards. Based on the OIG recommendations, the Office of Management issued Office of Finance (OF) Bulletin 04GC1.03 to include span of control criteria for approving officials, limiting the number of cardholders for which an approving official can be responsible — from a minimum of 10 to a maximum of 20. Exceeding that limit would require approval from the facility director.

The GAO conducted an audit (report number GAO-04-737, dated May 2004) entitled, *Veterans Health Administration (VHA) Purchase Cards – Internal Controls over the Purchase Card Program Need Improvement*. In

response to the GAO recommendation to substitute convenience checks in lieu of the use of purchase cards, the Treasury Financial Manual reference on other small purchase methods was incorporated into OF Bulletin 04GC1.04.

3D. OIG Issue - Inventory Management

Since 1999, we have issued six national audits of inventory management practices for various supply categories, identifying potential cost savings of about \$388.5 million. We noted potential savings (\$ in millions) could be achieved in the management of the following:

• Medical Supply Inventories	\$ 75.6
• Prosthetic Supply Inventories	\$ 31.4
• Pharmaceutical Inventories	\$ 30.6
• Engineering Supply Inventories	\$168.4
• Miscellaneous Supply Inventories	\$ 53.7
• Consolidated Mail Outpatient Pharmacy Inventories	<u>\$ 28.8</u>
Total	\$388.5

In March 2004, we issued an *Interim Report on Patient Care and Administration Issues at VA Medical Center in Bay Pines, Florida* (Report No. 04-01371-108). Reported problems involving the unavailability of medical-surgical supplies was only one of a number of long-standing problems identified at the Medical Center that went uncorrected. Other deficiencies included inadequate inventory practices.

In August 2004, our report, *Issues at VA Medical Center Bay Pines, Florida and Procurement and Deployment of the Core Financial and Logistics System (CoreFLS)* (Report Number 04-01371-177), concluded that in spite of repeated notices by VHA of the need for an efficient inventory management program, the medical center did not fully or adequately implement VA's Generic Inventory Program (GIP) to manage inventories. Consequently, conversion of inventory data to CoreFLS failed. VA should ensure all facilities have certified the accuracy and reliability of GIP data so problems encountered at Bay Pines do not occur at other sites.

Further, CAP reviews continue to identify systemic problems with the Department's inventory management caused by inaccurate information, lack of expertise needed to use the electronic inventory management system, and non-use of the system at some supply points in medical centers. Since January 1999, we have examined supply inventory management practices during CAP reviews at 82 facilities and reported inventory management deficiencies to VHA management at 68 facilities. VA continues to face significant challenges in deploying an accurate inventory management information system, nationwide.

VA's Program Response: The VHA Clinical Logistics Office has created an inventory management workgroup with representatives from the field and VHA Central Office. This workgroup developed an action plan that is being used by VHA for improving inventory management practices throughout all medical centers. An initiative to fully implement VA's Generic Inventory Program (GIP) for all supply inventories excluding prosthetics, pharmaceuticals, and subsistence is nearing completion. At completion, a listing of all inventories found at VHA medical centers will be established. A monitoring system using the inventory listing will track key indices of medical center inventories. Improvements to the monitoring system are being planned to more effectively trend data, provide management reports, and provide accurate information. Implementing the GIP and monitoring key indices are two of the three factors to improve inventory management practices. The third is a renewal of a national training program. As of September 17, 2004, 78 percent of the facilities had GIP fully implemented. GIP is expected to be fully implemented VHA-wide by the end of the second quarter of FY 2005. VHA has implemented all the recommendations from the six national audits of inventory management.

Inventory management at medical centers is a local operation under the auspices of VHA management. OA&MM is responsible for overall Departmental guidance on the processes and procedures for managing inventories. The deficiencies continually cited by the OIG are largely a

result of local operations failing to follow prescribed policy and practices issued by both OA&MM and VHA. Use of IFCAP/GIP was mandated several years ago by VHA Directive and Handbook 1761.2, but many facilities did not comply. A memorandum was issued by the Deputy Under Secretary for Operations and Management over a year ago reaffirming this mandate.

OA&MM assists the field in better inventory management by conducting a business review program that performs site visits to medical center logistics activities, reviewing materiel management operations and providing findings to VHA and medical center management, and conducting on-site training when possible. OA&MM is also working with the VHA Clinical Logistics Office to implement improved reporting to follow up on previously described actions.

The Office of Management reorganization re-established the position of accountable officer at each medical center. The director delegates the responsibility of the accountable officer position to an appropriate person, who is responsible for inventory management compliance and performance. This is the first time in many years that one VA official is responsible for inventory management.

OIG4. FINANCIAL MANAGEMENT

Since 1999, VA has achieved unqualified audit opinions on its consolidated financial statements. Material weaknesses related to information technology security controls and implementing an integrated financial management system continue, and corrective actions to address these weaknesses are expected to take several years to complete.

Over the last few years, the OIG reported that VHA needs to: (i) strengthen procedures and controls for means testing, billings, and collections; (ii) reduce the rate of coding and billing errors; (iii) decrease the time it takes to bill for services; (iv) improve medical record documentation for billing purposes; and (v) perform reconciliations. In addition, VA reported in the past that

VHA's Revenue Office believes that significant amounts of revenue have yet to be collected. While VA has addressed many of the concerns we reported over the last few years, our most recent audits continue to identify major challenges where VHA could improve debt management, financial reporting, and data validity. In addition, VA needs to correct problems we have identified in the employees workers' compensation program.

4A. OIG Issue - Financial Management and Reporting

VA program, financial management, and audit staffs perform certain manual compilations and labor-intensive processes in order to attain auditable consolidated financial statements. These manual compilations and processes should be automated and performed by VA's financial management system. In the meantime, we consider the risk of materially misstating financial information as high.

For the past few years, VA has responded that its new integrated financial management systems under development, CoreFLS, would resolve many OIG concerns. VA implemented CoreFLS at three test sites in October 2003, with implementation at further sites to be phased in, and full implementation scheduled for March 2006. However, problems occurred with data conversion, training, testing, segregation of duties, and access controls at the VHA test site, causing further deployment to be delayed. These issues are included in our March 2004 interim report on patient care and administrative issues at VAMC Bay Pines, and in our August 2004 report on issues at VAMC Bay Pines and procurement and deployment of CoreFLS.

VA's Program Response: In 1997, the financial statement auditors identified the lack of integrated financial management systems as a noncompliance under the Federal Financial Management Improvement Act (FFMIA). In 2000, the auditors elevated this noncompliance to a material weakness. The Department continues to face challenges in building and maintaining financial manage-

ment systems that comply with Federal requirements. Until recently, the Department intended to replace the current financial system with CoreFLS. During the testing phase of the CoreFLS project, problems occurred with data conversion, training, testing, segregation of duties, and access controls. As a result, VA is reevaluating the current plans for CoreFLS. To address the material weakness, task groups will investigate the feasibility of developing tools to support the effective and efficient preparation of financial statements to eliminate significant manual workarounds, improve interfaces between legacy systems and VA's core accounting system (Financial Management System), enhance data consistency between the core accounting and subsidiary systems, and automate reconciliation processes.

VHA concurs with the finding that the Department lacks adequate automation in its financial reporting and that current processes require excessive manual intervention. This is labor intensive and therefore inefficient, and it increases the potential for error. Recognizing the unanticipated challenges in developing and implementing CoreFLS, VHA cannot confidently forecast when these reporting concerns will be effectively addressed.

4B. OIG Issue - Data Validity

The Government Performance and Results Act (GPRA) requires agencies to develop measurable performance goals and report results against those goals. Successful implementation requires that information be accurate and complete. VA has made progress in implementing GPRA, but additional improvement is needed to ensure that stakeholders have useful and accurate performance data. In 1997, we initiated a series of audits assessing the quality of data used to compute the Department's key performance measures. The eight audits completed to date validated the underlying data in only two of the nine key measures reviewed. While VA has corrected the deficiencies cited in our reports involving the 7 measures that had validity problems, we are concerned that the remaining 17 key performance measures identified in the 2003 Performance and Accountability Report that have not been reviewed may

have similar problems. Until the remaining 17 measures are reviewed, this issue will remain a major management challenge. VA staff should do a thorough review of the remaining measures and provide the OIG assurance that data validity problems do not exist or have been corrected.

VA's Program Response: Data validity can be viewed in a larger context than the reporting of performance goals. Valid data on the number of veterans and their characteristics are important for placing VA performance goals into a larger context. Such data are critical to making forecasts of future utilization of VA resources as well as evaluating the propriety of current resource allocations. The forecasts in turn are important for budgeting, decision-making, strategic planning, and liability calculations. Because of the nature of the veteran population, VA cannot ascertain exact historical values. Thus, historical data must be estimated.

The Office of the Actuary (OACT) is charged with making the official estimates and forecasts of the number of veterans and their characteristics. OACT regularly updates its estimate of the past and forecast of the future with new data and improved modeling, while providing expanded information. The latest revision, "VetPop2001Adj," was adjusted to match public summary data from Census 2000 and was distributed in the second quarter of FY 2003. OACT is currently finalizing a new revision, "Veterans Actuarial Model 3 (VAM3)." It should be available by the end of CY 2004. An independent validation of the OACT model is being initiated.

The Office of Policy, Planning, and Preparedness' Data Management and Analysis Service provides veteran data to members of the general public as well as various organizations within VA. These data are obtained through an array of both internal sources (Office of the Actuary, VHA, VBA, and NCA) and external sources, such as the U.S. Census Bureau and the Department of Defense. In order to ensure that the data are accurate and consistent with previously released figures, the Data Management and Analysis Service validates the data through various methods.

VHA recognizes that additional progress needs to be made in this area and continues to take steps to improve data quality. Regional “data management and analysis” training programs were completed in the fourth quarter of FY 2004. These programs focused on: data collection, data management, data analysis for decision-making, data display, benchmarking, and national VA data access. There were approximately two quality managers from each VA facility who participated in the 2-day program and who are now available to support data quality issues at their respective medical centers.

VBA’s Office of Performance Analysis and Integrity conducts data validation studies to ensure the integrity of VBA’s performance data and improve the value and quality of such data. This office also maintains a corporate Data Warehouse and an Operational Data Store that facilitate the ability to have reliable, timely, and accurate data.

During FY 2004, VBA conducted validation reviews on two of its nine key measures contained in the Performance and Accountability Report. These included the review of Loan Guaranty’s Foreclosure Avoidance Through Servicing ratio and VR&E’s Rehabilitation Rate measure. The Office of Performance Analysis and Integrity plans to continue validation reviews in 2005.

NCA continues efforts to ensure that stakeholders have useful and accurate performance data. NCA has initiated the Organizational Assessment and Improvement Program to identify and prioritize improvement opportunities and to enhance program accountability by providing managers and staff at all levels with one NCA “scorecard.” In 2004, assessment teams drawn from national cemeteries, Memorial Service Network offices, and NCA Central Office began conducting site visits to all national cemeteries on a rotating basis to validate performance reporting.

For further information on the Department’s efforts to improve its data quality, see the Assessment of Data Quality section on page 120.

4C. OIG Issue - Workers’ Compensation Program (WCP)

VA continues to be at risk for significant WCP abuse, fraud, and unnecessary costs because of inadequate case management and fraud detection. Prior OIG audit⁷ recommendations to enhance the Department’s case management and fraud detection efforts and to avoid inappropriate dual benefit payments have not been fully implemented.

Reducing the risk of abuse, fraud, and unnecessary costs is important due to the significance of the Department’s WCP costs. Since 1998, Department costs have totaled \$876 million. In 2003, costs totaled \$157 million. Our audit findings show that WCP costs could be significantly lower if prior OIG audit recommended case management improvements were fully implemented.

Our August 2004 report, *Follow-Up Audit of Department of Veterans Affairs Workers’ Compensation Program Cost* (Report No. 02-03056-182), found that ineffective case management and program fraud results in potential unnecessary/inappropriate costs to the Department totaling \$43 million annually. These costs represent significant potential lifetime⁸ compensation payments to claimants totaling \$696 million. Additionally, an estimated \$113 million in avoidable past compensation payments were made that are not recoverable.

Given the continued risk of program abuse, fraud, and unnecessary costs, we recommend that the Assistant Secretary for Management continue to designate the WCP as an internal high priority area with increased program monitoring and oversight. This should include

⁷ Report No. 8D2-G01-67, “Audit of VA’s Worker’s Compensation Program Costs,” dated 7/1/98 and Report No. 99-00046-16, “Audit of High Risk Areas in VHA Workers’ Compensation Program,” dated 12/21/98.

⁸ Lifetime estimates were calculated using the VBA life expectancy table for net worth determinations contained in VBA Manual M21-1, Part IV, Chapter 16, Addendum B. The annual dollar impact was multiplied by the number of years of life expectancy. The estimates did not include future increases in WCP benefits.

preparation of an action plan and timeline to correct this program weakness. The WCP requires priority attention to address significant case management deficiencies, program fraud, and future program costs. The Department faces a significant liability for future compensation payments that is estimated at \$1.9 billion. The Department's decentralized approach to administration is not effective. There is a lack of effective case management and fraud detection Department-wide and VA needs to establish a more coordinated approach to administration and implement necessary case management improvements. We recommend that this effort be directed by the Office of Human Resources and Administration, which has overall Department responsibility for the program.

VA's Program Response: VA generally concurs with the OIG findings and recommendations presented in the OIG report. In response to the report, VA workers' compensation management is now being monitored by the Deputy Secretary at his monthly performance review meetings. The Deputy Secretary has also directed the Acting Assistant Secretary for Human Resources and Administration and the Acting Under Secretary for Health to work together to develop a plan for addressing the OIG recommendations. The Office of Management (OM) will continue to designate WCP as an internal high priority area with increased program monitoring and oversight. OM will monitor the detailed corrective action plan addressing the 10 actions identified in recommendation 2 of the OIG audit report.

OIG5. INFORMATION MANAGEMENT

VA faces significant challenges addressing Federal information security program requirements and establishing a comprehensive, integrated VA security program. Information security is critical to the confidentiality, integrity, and availability of VA data, and to protect the assets required to support health care and benefits delivery. Lack of management oversight contributes to inefficient practices and weaknesses in electronic infor-

mation and physical security. We continue to identify serious Department-wide vulnerabilities.

5A. OIG Issue - Information Security

In our December 2003 report, *Audit of the Department of Veterans Affairs Information Security Program* (Report No. 02-03210-43), we concluded that VA has made insufficient progress in improving its information security posture. VA is not in compliance with the requirements of the Federal Information Security Management Act. VA's information security vulnerabilities have not been adequately addressed because the Department did not complete necessary corrective actions in response to our audit findings. Serious security vulnerabilities have continued to exist over a multi-year period that place VA systems, data, and delivery of services to the Nation's veterans at risk. In our 2004 work, we found that many information system security vulnerabilities reported in our 2001 through 2003 national audits are unresolved, and we have identified additional vulnerabilities. VA needs to devote sufficient resources to implement the 16 OIG recommendations. The OIG has reviewed the June 2004 status update from the Associate Deputy Assistant Secretary for Cyber and Information Security, and while VA has made progress in addressing the issues raised in our report, all recommendations remain open pending receipt of satisfactory implementation documentation.

In our January 2004 report, *Evaluation of the Department of Veterans Affairs' Installation of the Microsoft Blaster Worm Patch* (Report No. 03-02970-55), we found that the security patch was not effectively installed leaving VA systems vulnerable to a denial of service attack. Oversight of the installation of the patch was unsystematic and VA's Central Incident Response Capability Service (VA-CIRC) did not provide effective assistance to solve installation problems. VA systems were not protected because VA has not established a patch management program meeting guidance established by the National Institute of Standards and Technology (NIST), and the responsibility and accountability for VA-wide

patch management is not specifically assigned. The Associate Deputy Assistant Secretary for Cyber and Information Security is responsible for issuing guidance on installing security patches through VA-CIRC. However, VA-CIRC does not have direct line authority to ensure the implementation of patches by facility level information technology officials. All three recommendations remain open.

OIG CAP reviews for FY 2003 and the first 6 months of FY 2004 found security weaknesses at 32 of 34 VAMCs and 12 of 14 VAROs where we reviewed information security management. We made recommendations to improve contingency planning, background checks, systems certification, and other internal controls. VA has not implemented all planned security measures and has not ensured compliance with established security policies, procedures, and controls requirements.

VA's Program Response: VA is actively working to implement recommendations in the OIG report, *Audit of the Department of Veterans Affairs Information Security Program* (Report No. 02-03210-43), consistent with available funding and personnel. As of this date, the Office of Cyber and Information Security (OCIS) has completed actions on 6 of the 16 audit issues, with progress being made on all the remaining recommendations. VA recognizes that although it has provided its completed actions to the OIG, the OIG will determine whether those actions will close the recommendations. The planned completion date for the majority of the remaining recommendations is the end of calendar year 2004, and full implementation of all the recommendations is at the end of calendar year 2005. The need to devote resources to additional high-priority projects and the extensive periods for initiating, developing, and implementing some of the proposed solutions have resulted in remediation progress constituting a multi-year effort for many of the remaining issues.

Progress has been made in implementing the recommendations that a patch management program be established that (1) follows the guidance contained in NIST

Special Publication (SP) 800-40, *Procedures for Handling Security Patches*, (2) identifies authorities and responsibilities for implementation of the patch management program, and (3) establishes accountability for compliance.

In December 2003, through funding commitments from the Administrations and staff offices, the VA Enterprise Information Board approved implementation of the Security Configuration and Management Program (SCAMP). Over the past several months, SCAMP has established and implemented several components of a patch management program/security configuration management program in accordance with NIST (SP) 800-40. As of September 2004, 9 of the 16 milestones established for the SCAMP program have been achieved including development of patch management (still in draft) and cyber incident "rules of engagement" policies and implementation of several point patch systems, an enterprise Hercules/Stat solution, and an enhanced VA-CIRC reporting capability. Additional SCAMP activities will include creating an organizational hardware and software inventory, prioritizing patch applications, creating an organization-specific patch database, testing patches for functionality and security, and training system administrators in the use of vulnerability databases. Implementation of the remaining seven milestones is currently scheduled for December 2005; however, SCAMP is in the process of formally requesting an extension until December 2006 to allow for proper and effective implementation of an enterprise level, network structured, configuration management framework capability to centrally manage all desktops, servers, communications, and security devices in the VA environment. This additional time is being requested based on input received from private industry, lessons learned from the SCAMP pilot, and evaluations of several framework technologies. The additional time will allow for discovery, planning, and training to take place in FY 2005 with implementation in FY 2006.

The responsibility and accountability for the management of desktop functions has always resided at the facility level within the Administrations. The "Cyber

Incident Rules of Engagement” policy mentioned above defines organizational responsibilities for future incidents. The SCAMP program provides the opportunity for that responsibility and accountability to be centralized under the VA Chief Information Officer (CIO). When the SCAMP program becomes fully functional, the VA CIO will have the opportunity to assign accountability when functions are not carried out.

The OIG CAP reviews and the annual information technology (IT) security audit, independent reviews conducted by OCIS, and VA IT security self-assessments conducted by facility information security personnel for each VA system and major application have determined that VA has not implemented all planned security measures, nor are all facilities in compliance with established security policies, procedures, and control requirements. The Department has developed a centralized process to assist facilities in documenting these deficiencies and in managing associated remediation activities. To place emphasis on CAP issues, OCIS, in coordination with VHA, provides the Deputy Secretary with a quarterly report on progress to remediate identified deficiencies.

Although a significant number of deficiencies still exist, the Department is making measured progress to correct identified security weaknesses, with the average number being identified for each system/major application steadily decreasing each year. These deficiencies averaged approximately 23 per system/major application for FY 2001, 16 per system/major application for FY 2002, and 10 per system/major application for FY 2003. OCIS will continue to assist the Administrations and staff offices with their remediation planning and management activities in order to ensure that appropriate emphasis is placed on bringing VA into compliance with security legislation, executive branch guidance, and Department policies and procedures.

Major Management Challenges Identified by the Government Accountability Office (GAO)

In January 2003, GAO issued its special series of reports entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. One of the reports described major management challenges and high-risk areas facing the Department of Veterans Affairs (GAO-03-110). The following is excerpted from the report in which GAO discusses the actions VA has taken to address the challenges identified and major events that have significantly influenced the environment in which the Department carries out its mission. The report can be viewed in its entirety at the GAO Web site: <http://www.gao.gov/cgi-bin/getrpt?GAO-03-110>.

GAO1. Ensure Access to Quality Health Care

1A. Access

Although VA has opened hundreds of outpatient clinics, waiting times are still a significant problem. To help address this, VA has taken several actions including the introduction of an automated system to schedule appointments. Over the past several years, VA has done much to ensure that veterans have greater access to care and that the care they receive is appropriate and of high quality. Yet VA remains challenged to ensure that veterans receive the care they need, when they need it — a challenge that has become even greater with the recent expansion of benefits.

VA's Program Response: VHA has been working on an initiative called Advanced Clinic Access (ACA) since 1999. The ACA initiative provides principles for office practice efficiencies that are not resource intensive. Adoption of these key principles in VA clinics gives a better idea of the status of waiting times and the capacity and demand on the system. The goal is to meet the demand of the patient population for care at the time the demand occurs.

In addition to working on ACA, VHA has made a concerted effort to improve waiting times in a variety of ways. The measuring system has been enhanced so that waiting times for nearly every patient are being measured. In conjunction with the Office of the Chief Information Officer, we developed a National Waiting Times Web site that hosts a variety of documents and information on ACA. VA has developed a monitor for the Primary Care Management Module (PCMM) that will identify the percent of active patients assigned to an active primary care provider and the percent of primary care provider capacity utilized by active patients assigned in PCMM. VA has developed both a guide for schedulers in how to properly use the scheduling package and an electronic waiting list in *VistA* to obtain a better assessment of the demand on the system. We are revising the scheduling package so that it will provide flexibility to accurately schedule patients. This is expected to be completed in 2005. VHA has established a workgroup on Provider Productivity and Staffing Standards as well as a core group of national Access Coaches to promote the ACA initiative. VHA issued three directives that define the business processes for waiting times: Directive 2003-068, "Process for Managing Patients When Patient Demand Exceeds Current Clinical Capacity;" Directive 2003-062, "Priority Scheduling for Outpatient Medical Services and Inpatient Hospital Care for Service Connected Veterans;" and Directive 2002-059, "Priority for Outpatient Medical Services and Inpatient Hospital Care."

1B. Long-Term Care

VA must also better position itself to meet the changing needs of an aging veteran population by improving nursing home inspections and increasing access to non-institutional long-term care services. In FY 2001, VA spent 92 percent of its long-term care dollars in institutional settings, such as nursing homes — the costliest long-term care setting. However, VA's oversight of community nursing homes — where about 4,000 veterans received care each day in FY 2001 — has not been adequate to ensure acceptable quality of care. While VA has begun

to implement certain policies to improve oversight of these homes, as GAO recommended in July 2001, VA has yet to develop a uniform oversight policy for all community nursing homes under VA contract. Further, VA plans to rely increasingly on the results of state inspections of community nursing homes rather than conducting its own inspections, but VA has not developed plans for systematically reviewing the quality of state inspections.

VA's Program Response: VA has implemented this recommendation. The Department now has a single, structured, comprehensive oversight policy for community nursing homes, outlined in VHA Handbook 1143.2, "VA Community Nursing Home Oversight Procedures," dated June 4, 2004. Further, VA has a system for identifying states that may be unreliable in their surveys of nursing homes, also found in VHA Handbook 1143.2.

1C. Hepatitis C

Since 1999, VA's budgets submitted to the Congress have included a total of \$700 million to screen, test, and provide veterans who test positive for hepatitis C with a recommended course of treatment. In June 2001, GAO testified that VA missed opportunities to screen as many as 3 million veterans who visited medical facilities during FY 1999 and 2000, potentially leaving as many as 200,000 veterans unaware that they have hepatitis C. In response to GAO testimony, VA has begun to improve screening and testing procedures. In 2002, VA established a process to monitor screening and testing performance. In addition to monitoring VA's progress in screening and testing veterans for hepatitis C, GAO is assessing VA's efforts to notify veterans who test positive and to evaluate veterans' medical conditions regarding potential treatment options.

VA's Program Response: VA has instituted a number of steps to improve screening, testing, medical treatment, data-based quality improvement, communication, and education in the care of veterans at risk for and infected with hepatitis C. VA instituted network performance measures for universal hepatitis C risk assessment

(screening) and testing of those at risk in 2002. Performance is measured by independent chart reviews conducted through the External Peer Review Program (EPRP). In FY 2003, in a review of over 52,000 medical records, 95 percent contained evidence of risk factor screening and over 85 percent of those at risk had been tested for or diagnosed with hepatitis C. An enhanced electronic clinical reminder is being developed and piloted to prompt testing based not only on patient-reported risk behavior but also on information from the electronic medical record indicating increased risk. VA is monitoring timeliness of test notification and disease management decisions through the EPRP program. A telephone reminder system and other electronic means of ensuring notification of test results are being developed. Comprehensive recommendations regarding antiviral therapy and management of cirrhosis and portal hypertension have been published and are now available on VA's hepatitis C Web site (<http://www.hepatitis.va.gov>). The number of hepatitis C patients receiving antiviral therapy increased by over 30 percent from FY 2002 to FY 2003, with over 9,000 patients receiving treatment in FY 2003. VA has developed and implemented a system-wide electronic case registry of hepatitis C patients for administrative oversight, quality improvement, and patient safety monitoring. As of March 2004, over 250,000 patients had been added to the registry, and over 180,000 of those had at least one VA admission or outpatient encounter in FY 2003. VA has developed a broad-based approach to provider and patient education and communication. Lead clinicians have been identified at each VA facility, and regular contact is maintained through e-mail groups and an electronic news service. Patient education materials have been distributed to all VA facilities.

GAO2. Manage Resources and Workload to Enhance Health Care Delivery

2A. Veterans' Equitable Resource Allocation (VERA) System

In FY 1997, VA began allocating most of its medical care appropriations under the VERA system, which aims to provide VA networks comparable resources for comparable workloads. In response to recommendations GAO made in February 2002 regarding VERA's case-mix categories and Priority 7 workload, VA said that further study was needed to determine how and whether to change VERA. In November 2002, VA announced its intention to make changes to VERA for FY 2003 when VA's appropriation was finalized. Some of the planned changes, if implemented, could address recommendations GAO made. Delaying these improvements to VERA means that VA will continue to allocate funds in a manner that does not align workload and resources as well as it could.

VA's Program Response: In FY 2003, the Secretary approved expanding VERA from a 3-price case-mix to a 10-price case-mix model, including six (1 through 6) Basic Care price groups and four (7 through 10) Complex Care price groups. This change follows the recommendation provided in the GAO and RAND Corporation reports and recognizes a differentiation in VA's "core mission" patients (veterans with service-connected disabilities, those with incomes below the current threshold, or those with special needs, for example, the homeless) not present in the previous three VERA price groups. The change also improved allocation equity among the 21 health care networks and modified the funding allocation split between Basic Care and Complex Care to reflect the current cost experience between these groups rather than using a fixed ratio that reflects their FY 1995 relative costs.

For FY 2004, the Secretary approved including all Priority Group 7 Basic Care veterans in the VERA model.

Previously, only Priority Group 7 Complex Care veterans were included. Because FY 2002 is the base year for the FY 2004 VERA model, VERA includes only veterans in Priority Groups 1 through 7 (Priority Group 8 was established on October 1, 2002; it will not have an impact until the FY 2005 VERA model, which will use FY 2003 as the base year). This change is consistent with GAO's recommendation to include all Priority 7 veterans in VERA. Including all Priority Group 7 Basic Care patients in VERA is more consistent with VA's current enrollment policy and better aligns the VERA workload with actual workload served. In conjunction with this change, the VERA price groups were modified, and there is now a separate price for Priority Group 7 veterans in each of the 10 price groups based on their relative cost to Priority Group 1 through 6 veterans. As a result, VERA now has 20 prices, 2 in each price group.

2B. CARES

VA has begun to make more efficient use of its health care resources to serve its growing patient base. However, to meet the growing demand for care, VA must carry out its plan to realign its capital assets and acquire support services more efficiently. At the same time, VA needs to improve its process for allocating resources to its 21 health care networks to ensure more equitable funding. VA must also seek additional efficiencies with the Department of Defense (DoD), including more joint purchasing of drugs and medical supplies.

VA is one of many Federal agencies facing challenges in managing problems with excess and underutilized real property, deteriorating facilities, and unreliable property data. In 1998, GAO reported that in the Chicago area alone, as much as \$20 million could be freed up annually if VA served area veterans with three instead of four hospitals. In response, in October 2000, VA established the Capital Asset Realignment for Enhanced Services (CARES) program, which called for assessments of veterans' health care needs and available service delivery options to meet those needs in each health care market — a geographic area with a high concentration of

enrolled veterans. VA needs to build and sustain the momentum necessary to achieve efficiencies and effectively meet veterans' current and future needs. The challenge is to do this while mitigating the impact on staffing, communities, and other VA missions. Successfully completing this capital asset realignment will depend on VA's ability to strategically and expeditiously complete the implementation of CARES.

VA's Program Response: CARES is the most comprehensive analysis of VA's health care infrastructure that has ever been conducted, and it provides a 20-year blueprint for the critical modernization and realignment of VA's health care system. The CARES process provided a data-driven assessment of veterans' health care needs within each market, the condition of the infrastructure, and the strategic realignment of capital assets and related resources to better serve the needs of veterans. This process identified the necessary infrastructure to provide high-quality health care to veterans where it is most needed now and in the future. Through CARES, VA based its plan for enhanced health care services on objective criteria and analysis as well as cost-effectiveness, and in some cases, significant capital asset restructuring. In designing the CARES process, VA explicitly followed GAO recommendations, such as working to eliminate subjective judgments, developing methods to quantify the benefits of locations and facilities, and seeking the best defined measurement standards. CARES became a comprehensive, data-driven, objective capital investment planning process with extensive stakeholder involvement.

The "roll-out" of CARES began on June 5, 2002, when the Secretary of Veterans Affairs announced the initiation of the CARES process. Fourteen months later, on August 1, 2003, the draft National CARES Plan was presented to the CARES Commission for its review and to provide recommendations to the Secretary. The CARES Commission developed and applied six factors in the review of each proposal in the draft plan: 1) impact on veterans' access to health care; 2) impact on health care quality; 3) veteran and stakeholder views; 4) economic impact on the

community; 5) impact on VA missions and goals; and 6) cost to the government. Commission members visited 81 VA and DoD medical facilities and state veterans homes, conducted 38 public hearings, and analyzed more than 212,000 comments from stakeholders. The CARES Commission submitted its report to the Secretary in February 2004.

In May 2004, the Secretary announced his CARES decisions. He accepted the majority of the recommendations of the Commission report including:

- Construction of new medical centers in Orlando, Florida and Las Vegas, Nevada and a replacement hospital in Denver, Colorado.
- Replacement and major expansion of the Columbus, Ohio, VA Outpatient Clinic.
- New bed towers in Tampa, Florida and San Juan, Puerto Rico.
- 156 new community-based outpatient clinics by 2012, about 55 to 60 of which will open in the next 2 years.
- Consolidations of medical center divisions in Pittsburgh, Pennsylvania; Cleveland, Ohio; and Biloxi, Mississippi.
- Creation of four new and expansion of five existing spinal cord injury centers.
- Two new blind rehabilitation centers.

The Secretary's CARES decisions call for additional studies to refine the analyses developed in the CARES planning and decision-making process, which VA is already formulating. Master plans as referenced in the Secretary's decision document have been redefined to be more specific regarding the work to be done at each site and have been divided into two categories - capital plans and reuse plans. A statement of work is being developed for contractor(s) to conduct site-specific studies and capital and reuse planning for sites for which the Secretary requested further study. Local site task forces that will include VA staff and stakeholder representatives are in the process of being formulated to interact with the national contractor.

The objective of a capital plan is to provide the best configuration of capital assets for modern health care delivery. Capital plans will be developed in conjunction with the reuse plans and health care delivery studies (if appropriate) to assist in development of overall options to determine the best method, location, and cost-effective physical configuration of VA capital assets to deliver health care services while improving or maintaining the level of access and the quality of VA health care. The reuse plans will include highest and best use determination for the property and a cost-effectiveness analysis. VA will pursue enhanced use (EU) opportunities for vacant and underutilized space.

Overall, the CARES plan identified more than 100 major construction projects in 37 states, the District of Columbia, and Puerto Rico. When implemented, CARES will dramatically improve access to primary care, especially for veterans living in rural areas. In 2001, VA met inpatient care access guidelines in only 28 of our 77 health care market areas. When the CARES process is complete, VA will meet that standard in 73 of its health care market areas. Implementation of the CARES plan will decrease vacant space within VHA from 8.57 million square feet to 4.93 million square feet, a reduction of 42.5 percent.

In addition, VHA has created the Office of Strategic Initiatives to oversee and coordinate CARES implementation across the country. CARES' actions will also be incorporated in the VISN FY 2005 strategic plans. A CARES implementation board has been established and is composed of senior level VA officials, chaired by the Secretary, to ensure Department-level oversight of CARES implementation plans.

In June 2004, the Department produced its first 5-year capital plan, a systematic and comprehensive framework for managing VA's portfolio of more than 5,500 buildings and approximately 32,000 acres of land. This plan is a sound blueprint for managing the Department's capital investments and will lead to improved use of resources and more effective delivery of health care and benefits. This plan outlines CARES implementation by identifying priority

projects that will improve the environment of care at VA medical facilities and ensure more effective operations by redirecting resources from maintenance of vacant and underused buildings and reinvesting the resources in veterans' health care. The plan is being reviewed by Congress and serves as a budget request for 30 major construction projects that would be funded using FY 2004 available dollars and the FY 2005 requested amount. The plan reflects a need for additional investments of approximately \$1 billion per year for the next 5 years to modernize VA's medical infrastructure and enhance veterans' access to care. Through CARES and improved asset management strategies, VA is meeting the challenge identified by GAO for Federal agencies in managing problems with excess and underutilized real property.

2C. Alternative Methods for Patient Care Support Services

VA's transformation from an inpatient to an outpatient-based health care system has significantly reduced the need for certain patient care support services such as food and laundry. In November 2000, GAO recommended that VA conduct studies at all of its food and laundry service locations to identify and implement the most cost-effective way to provide these services at each location. In August 2002, the Department issued a directive establishing policy and responsibilities for VA networks to follow in implementing a competitive sourcing analysis to compare the cost of contracting versus in-house performance to determine the appropriate entity to do the work. VA needs to follow through on its commitment to ensure that the most cost-effective, quality service options are applied throughout its health care system and to conduct system-wide feasibility assessments for consolidation and competitive sourcing.

VA's Program Response: VA has stopped developing studies that examine competitive sourcing of consolidated laundry services because VA's General Counsel has determined that VHA is not authorized to use appropriated funds to conduct competitive sourcing studies under current law. VA has been authorized to conduct such

studies in the past and is now requesting this authority. The Nutrition and Food Service (NFS) in VHA Central Office continues to assess the efficiency and cost effectiveness of its VA food service operations in order to identify potential alternative service delivery options. The NFS Product Standardization User Group is in the process of developing a national cook/chill equipment model to realize cost savings on high-cost equipment items. Effective July 2004, the Veterans Canteen Service (VCS) now shares the efficiencies and cost savings of the NFS/VHA subsistence prime vendor (SPV) contract as the VCS purchases its food products from the SPV contract. The estimated food purchases by VCS are approximately \$18-20 million annually. A national benchmarking program was established in partnership with a private sector organization to compare VA operations with private non-contract health care facilities.

2D. VA/DoD Sharing

In an effort to save Federal health care dollars, VA and DoD have sought ways to work together to gain efficiencies. To ensure sharing occurs to the fullest extent possible, VA needs to continue to work with DoD to address remaining barriers, as GAO recommended in its 2000 report. It is particularly critical that VA take a long-term approach to improving the VA/DoD sharing database, which VA administers. Currently, VA and DoD do not collect data on the volume of services provided, the amount of reimbursements collected, or the costs avoided through the use of sharing agreements. Without a baseline of activity or complete and accurate data, neither VA, DoD, nor the Congress can assess the progress of VA and DoD sharing.

VA's Program Response: Upon further review, VA believes that the investment of dollars and effort spent to modify the database to include utilization data would not result in improved management of VA/DoD sharing agreements. Several local factors (for example, not having excess capacity to provide services to active military personnel without impacting care for veterans) can influence the level of VA/DoD sharing. VA/DoD reimburse-

ment amounts are currently tracked but have not yet been integrated within the VA/DoD database. VA plans to continue efforts to integrate utilization and reimbursement data into the database in the future.

Over the past 3 years, VA and DoD have undertaken unprecedented efforts to remove barriers impeding inter-agency collaboration in order to improve access to quality health care and increase efficiency. Using the President's Management Agenda and the Final Report of the President's Task Force to Improve Health Care Delivery for Our Nation's Veterans, the Departments have developed a strategy to institutionalize VA/DoD partnering and focus collaboration in areas that will ensure enhanced services to veterans and military beneficiaries.

VA's commitment to this effort is demonstrated through the Joint Executive Council structure, which has brought the senior leadership of both Departments into collaborative discussions at an earlier stage, thus increasing both oversight and accountability. When the Under Secretary of Defense for Personnel and Readiness and the Deputy Secretary of Veterans Affairs signed the VA/DoD Joint Strategic Plan in April 2003, it was a significant step forward in the partnership between the two Departments. The first document of its kind, the Joint Strategic Plan articulates a vision for collaboration, establishes priorities for partnering, launches processes to develop and implement interagency policy decisions, develops joint operations guidelines, and institutes performance monitors to track progress. While some of the target dates included in the initial joint strategic plan were overly ambitious, much has been accomplished.

Through the Health Executive Council, VA and DoD have adopted a schedule to develop interoperable electronic medical records by the end of FY 2005. This agreement (the VA/DoD Joint Electronic Health Records Plan – HealthPeople strategy) is outlined in the VA/DoD Joint Strategic Plan and calls for joint development of a virtual health record that will be accessible by authorized users throughout DoD and VA.

Significant progress has also been made to improve the transition of separating servicemembers, with particular emphasis on those who have sustained injuries, illnesses, and disabilities in Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF). Examples of this include placement of full-time VA social workers and veterans' service representatives at military medical centers receiving large numbers of OEF/OIF casualties, while part-time VA staff liaisons were assigned to other military treatment facilities. We also established specific points of contact and case managers at all VHA and VBA sites. These individuals work closely with active duty health care teams to ensure the optimal seamless transition from DoD to VA for servicemembers who will require VA care upon separation from active service.

Through the Benefits Executive Council, we have simplified the transition from active military to veteran status by developing a single physical examination that meets both the military services' separation requirements and VA's disability compensation examination criteria. A national memorandum of agreement to codify this policy is scheduled for implementation in the second quarter of FY 2005.

The VA/DoD Joint Executive Council also established a Joint Capital Asset Planning Committee. The Committee provides a formalized structure to facilitate collaboration in achieving an integrated approach to capital coordination that considers both short-term and long-term strategic capital issues mutually beneficial to both Departments. The Committee provides the final review of all joint capital asset initiatives recommended by the executive council structure or Department-specific body, including the VA CARES and DoD Base Realignment and Closure (BRAC) programs, and provides the oversight necessary to ensure that collaborative opportunities for joint capital asset planning are maximized.

Many other joint projects in the areas of procurement, provider credentialing, health care and business operations, data exchange, and information management are also underway. Although proud of these successes, VA

recognizes there is still much work to be done. Therefore, at the April 2004 meeting of the Joint Executive Council, the co-chairs of the Health and Benefit Executive Councils and Capital Asset Planning Committee were charged with updating the VA/DoD Joint Strategic Plan. That process is currently underway. The updated plan will build on the successes that have been achieved over the last year, include medium- and long-range objectives, refine the performance measures, and continue to emphasize the issues raised by the President's Task Force to Improve Health Care Delivery for Our Nation's Veterans as well as our efforts to enhance the transition from active duty to veteran status. The revised plan is expected to be completed in the first quarter of 2005.

The accomplishments of the first joint strategic plan will be outlined in the first annual report of the VA/DoD Joint Executive Council to be submitted to the Secretaries and the Congress in the first quarter of FY 2005.

2E. Third-Party Collections

VA's third-party collections increased in FY 2001 — reversing a trend of declining collections — and again in FY 2002. However, over the past several years, GAO has reported on persistent collections process weaknesses — such as lack of information on patient insurance, inadequate documentation of care, a shortage of qualified billing coders, and insufficient automation — that have diminished VA's collections. VA has taken several steps to improve its collections performance, including developing the Veterans Health Administration Revenue Cycle Improvement Plan in 2001, which aims to address VA's long-standing collections problems. More recently, in May 2002, VA created a Chief Business Office that planned additional initiatives to improve collections. However, by the end of FY 2002, VA was still working to implement proposed initiatives for resolving its long-standing collection problems. To ensure it maximizes its third-party collections, VA will need to be vigilant in implementing its plan and initiatives.

VA's Program Response: Collections through August 2004 totaled \$1.5 billion, which is \$175 million above last fiscal

year's record collection rate as of the same date. Estimated collections for this fiscal year are approximately \$1.7 billion, representing the largest amount collected in the history of the revenue program. In addition, and consistent with industry measurement approaches, VHA continues to reduce gross days revenue outstanding, accounts receivable greater than 90 days, and days to bill.

VHA has made considerable improvement in operating processes and systems, migrating from a labor-intensive manual process to automated billing and collection activities. Upon creation of the Chief Business Office, VHA initiated a comprehensive assessment of ongoing activities within the revenue program. The 2001 revenue improvement plan was integrated into the 2003 revenue action plan. This assessment focused on "industry best" practices and resulted in the identification of a series of objectives in addition to those originally included in the 2001 revenue improvement plan. The revenue action plan is a living document. As we continue to develop additional initiatives and projects intended to improve revenue business processes, we will add to the plan.

The immediate improvement strategies include development of the Medical Care Collections Fund (MCCF) performance metrics, an expanded focus on contracting for collection of accounts receivable over 60 days, and utilization of available contract support encompassing collections, insurance identification and verification, and coding. Currently, over 70 outsourcing contracts are being used throughout VHA. Many of these are structured to allow contractors to retain a percentage of collections, which minimizes operational costs. Another significant accomplishment is the development and implementation of electronic data interchange for third-party claims to meet Health Insurance Portability and Accountability Act (HIPAA) deadlines. The initial e-Claims software is operational at all VA facilities, and as of July 2004, more than 11.4 million claims have been generated.

An important improvement in the revenue action plan, targeted for completion this fall, will be the completion of the Medicare Remittance Advice project. This project is

designed to improve the quality of the many Medicare supplemental claims and accurately identify deductible and coinsurance amounts that Medicare supplemental insurers calculate to determine reimbursement to VA. This effort will also allow VA to more accurately identify accounts receivable. Numerous other improvement strategies are underway to improve data quality, expand data sharing capabilities, and allow the receipt of electronic payments from insurers. Additionally, a major tactical initiative currently underway is the phased piloting of Consolidated Patient Account Centers. Modeled after private industry as an effort to enhance revenue consolidation efforts throughout VA, the initiative is targeted for deployment in September 2005 and is designed to gain economies of scale by regionally consolidating key business functions.

A major focus of VHA's long-term strategy is the implementation of an industry-proven patient financial services system (PFSS) that will yield dramatic improvements in both the timeliness and quality of claims and collections. VA's Chief Information Officer will provide additional oversight and monitoring to ensure the project stays on schedule. The PFSS project is targeted for rollout at the first test site in VISN 10 (Cleveland) in October 2005, with subsequent rollout to the remaining four test sites in this network.

In order to alleviate weaknesses in the collection process caused by a shortage of qualified coders and to improve the documentation of care, VHA has taken several steps. Coding Blanket Purchase Agreements were signed and issued to the field for use in September 2003. These allow the field to implement coding contracts quickly without conducting an entire bid solicitation. Hybrid Title 38 status was given for medical record coding positions. While this will not solve the scarcity issue, it will shorten the hiring delay, allowing VHA to compete for the best coders in the marketplace. The Health Data and Informatics, Health Information Management program, in conjunction with the Employee Education System, will continue to offer educational coding satellite sessions in FY 2005 to assist coding staff in improving and retaining coding skills.

GAO3. Prepare for Biological and Chemical Acts of Terrorism

Following the attacks of September 11, 2001, VA determined that it needed to stockpile pharmaceuticals and improve its decontamination and security capabilities. VA also has new responsibilities to establish four medical emergency preparedness centers and carry out other activities to prepare for potential terrorist attacks.

VA's Program Response: The Department has completed its procurement of 143 pharmaceutical caches located at VA medical centers. Decontamination/hazmat training and equipment were initially provided to the 78 medical centers determined to be the highest priority. VA completed training and equipment for a second group of 53 facilities in September 2004. The week-long course is provided to trainees from about six medical centers at a time, four students per facility. Recurring training will continue at a reduced but still significant level due to staff turnover.

Although Congress directed VA to establish four medical emergency preparedness centers, previous appropriations language prohibited VA from using funds on these centers.

The full assessment of 18 and preliminary assessment of 100 of VA's critical facilities was completed in July 2004. The 18 facilities receiving full assessments represent unique facilities, facilities with national responsibilities, and facilities where CARES major construction projects are funded or planned. In July 2004, VA obtained an electronic database to capture vulnerability assessment data. The data will be linked with existing VA space and building databases as well as law enforcement databases.

The study to assess the Department's ability to reconstitute its essential business papers was completed and the Office of Information and Technology has presented VA leadership with an implementation plan.

Recommendations emerging from the study of preparedness of VA personnel are currently under review, and a major revision of the Department's Continuity of Operations plan is in final coordination.

Under a new contract with a major consulting firm, VA is also conducting an independent evaluation of VA medical centers to assess their emergency preparedness posture and capability in the event of a chemical, biological, or weapons of mass destruction event. The focus of the study is to provide a comprehensive, independent, and current assessment of the capabilities of our hospital system and to focus VA management efforts on improvement of related policies, resource allocation, and training.

GAO4. Improve Veterans' Disability Program: A High-Risk Area

VA acted to improve its timeliness and quality of claims processing, but is far from achieving its goals. Of greater concern are VA's outmoded criteria for determining disability and its capacity to handle the increasing number and complexity of claims. VA will need to seek solutions to provide meaningful and timely support to veterans with disabilities. While the Department is taking actions to address these problems in the short term, longer-term solutions may require more fundamental changes to the program including those that require legislative action. For these reasons, GAO has added VA's disability benefits program, along with other federal disability programs, to the 2003 "high-risk" list.

The Secretary made improving claims processing performance one of VA's top management priorities, setting a 100-day goal for VA to make accurate decisions on rating-related compensation and pension claims, and a reduction in the rating-related inventory to about 250,000 claims by the end of FY 2003.

4A. Challenges to Improving Timeliness

While VA has made some progress in improving production and reducing inventory, the Department is far from

achieving the Secretary's goals. Improving timeliness, both in the short and long term, requires more than just increasing production and reducing inventory. VA must also continue addressing delays in obtaining evidence to support claims, ensuring that VA has experienced staff for the long term, and implementing information systems to help improve productivity.

VA's Program Response: VBA has had marked success in reducing the number of pending rating claims and improving the timeliness of rating-related actions. The organization reduced the pending rating inventory from a high of 432,000 claims in January 2002 to 253,000 in September 2003. The timeliness of our pending inventory improved from 203 days in January 2002 to 111 days in September 2003. The average length of time to provide veterans with a decision on their claims improved from a high of 233 days in March 2002 to 156 days in September 2003. However, as noted by the Office of the Inspector General, court decisions interpreting the Veterans Claims Assistance Act of 2000 (VCAA) significantly adversely affected the gains made by VBA in claims processing.

Specifically, the September 2003 decision of the U.S. Federal Circuit Court of Appeals in *PVA v. Principi* caused VBA to stay the processing of over 62,000 claims. The *PVA* decision, issued in response to a challenge to VA's regulations implementing the VCAA, held that unless VA could grant a claim for benefits, VA was required to wait 1 year before it could deny a claim in order to afford the claimant time to submit information or evidence to substantiate the claim. This, in effect, resulted in a stay of any rating action that would, in whole or in part, contain a denial of a claimed benefit.

As a result, VBA lost nearly 3 months of full production, and the volume and age of the rating inventory continually increased until Congress clarified the language of the law in a December 16, 2003, amendment, expressly allowing VA to decide claims for benefits prior to the expiration of the 1-year time period in the law during which a claimant could submit evidence on a claim. Consequently, VBA produced 64 percent fewer rating

decisions in the first 3 months of FY 2004 than in the first 3 months of FY 2003 (69,316 versus 192,669). Once VA could resume normal rating production, it was faced with the prospect of addressing the backlog of claims while keeping pace with processing incoming claims. The average processing time for claims completed in January 2004 reached 189 days as we began to process the deferred claims. Timeliness of completed actions is back down to 163 days during the month of September 2004, and we continue to make progress toward the Secretary's goal. Two years ago, 35 percent of VBA's rating inventory was comprised of cases pending over 6 months. As of September 2004, that percentage has been reduced to 21 percent.

VBA has also experienced a significant increase in disability claim receipts. During FY 2004, VBA recorded a 5 percent increase in disability claims. The majority of the increased receipts were original disability claims. Specifically, our original claim receipts are up by 17 percent over last year, most likely attributable to the impact of claims filing by servicemembers returning from Operation Enduring Freedom and Operation Iraqi Freedom. Despite these challenges, VBA continues to make progress toward the high expectations set by the Secretary.

VBA is working to ensure that it has a well-trained workforce for the long term with efforts underway to facilitate the necessary knowledge transfer due to expected retirements. The organization is implementing a workforce and succession planning strategy to ensure current and future capability to provide a comprehensive program of benefits to veterans. This strategy includes workforce development, innovative technology, recruitment, retention, and succession planning. VBA will continue these efforts and pursue innovations and adjustments to enable the organization to compete for talent and foster a high-performing workforce.

The organization remains committed to the transition from our older technology base for claims processing to

the Modern Award Processing applications as part of the Veterans Services Network (VETSNET). Rating Board Automation (RBA) 2000, Modern Award Processing – Development (MAP-D), SHARE (a computer application used by regional office employees to establish pending issue claim data), and other VETSNET applications have been deployed and are in use at all VA regional offices. Currently, testing of the award processing component of VETSNET is ongoing at the Lincoln Regional Office. The development and deployment of a modern information technology infrastructure continues to be a priority for VBA.

4B. Decision Accuracy and Consistency

To help improve decision accuracy and consistency across regional offices, VA established the Training and Performance Support System (TPSS), a computer-assisted system designed to provide standardized training for staff at all regional offices. However, many of the modules were not available to help train the new claims processing staff VA hired during FY 2001 and 2002, and, in May 2001, GAO reported that VA had pushed back its completion of all TPSS modules until sometime in 2004. Until VA completes TPSS implementation, the Department will not be able to evaluate the program's impact on claims processing accuracy and consistency. More recently, GAO recommended in August 2002 that VA establish a system to regularly assess and measure the degree of consistency across all levels of VA claims adjudication and to improve the quality of decisions made by VA's Board of Veterans' Appeals.

VA's Program Response: Developing and sustaining a knowledgeable workforce is a significant challenge for VBA, and the Training and Performance Support System (TPSS) is just one initiative to address this critical issue. We recognize that we must have a properly trained workforce to analyze the complex details of veterans' medical conditions and to adjudicate claims for other benefits. This workforce has to be able to assess veterans' benefits claims in the context of a dynamic environ-

ment of ever-changing statutes, regulations, and veterans' needs.

TPSS is a dynamic training system that will constantly evolve as requirements change. Since the GAO Report on Training for Claims Processors was published in May 2001, for example, the claims processing improvement (CPI) initiative, recommended by the Secretary's Claims Processing Task Force, necessitated significant change in the design of TPSS. The CPI changed the basic foundations of how the work is performed, and therefore training must adapt accordingly. There remain numerous advanced level modules to be developed, not only for Veterans Service Representatives (VSRs) and Rating VSRs, but also for other key decision-making positions within a service center, such as Decision Review Officer.

Evaluating the direct impact of TPSS on claims processing accuracy and consistency may be difficult to achieve. TPSS is effective in providing employees the knowledge they need to accurately and consistently process claims. In applying that knowledge, a number of factors may intervene, making it difficult to isolate the effects of TPSS training from other factors that might influence those same results. This remains a critical issue and a great challenge for all organizations.

VBA believes that consistency of the adjudication process is an important goal that is best achieved by comprehensive training and communication throughout all steps of the process. Significant individual and joint training efforts are underway to improve the quality and consistency of the adjudication process. VBA continues to use the national Statistical Technical Accuracy Review (STAR) process to ensure quality and consistency. The CPI model's creation of specialized teams focusing on discrete steps in the claims adjudication process, thereby building considerable expertise in the skill set required for that step, leads to more consistent decision-making. In addition, VA is in the process of revising 38 CFR Part 4, Part B, Schedule for Rating Disabilities, to remove criteria for evaluating disabilities that are inherently subjective (for example, "slight" limitation of motion) and replacing

these criteria with objective measures (for example, limitation of motion to 20 degrees), thereby ensuring consistent application of the evaluation criteria.

In response to the GAO finding that the Board of Veterans' Appeals (BVA) understated the quality of its decisions by affording nonsubstantive errors the same weight as substantive errors, BVA modified its system to capture only substantive errors. BVA also modified its decision sampling method to ensure review of a statistically valid sampling of work products. Finally, BVA amplified its training efforts, using information gathered in the quality review process to target specific problem areas. As a result of these efforts, decisional quality has improved significantly. For example, in April 2003, the error-free decision rate was 84.5 percent; for FY 2004, the rate was up to 93 percent.

The Secretary concurred in principle with GAO's recommendation that VA develop a system to regularly assess consistency through all levels of the adjudication system. However, the Secretary stated that this could best be done by "comprehensive communication and training" by all involved in the process. To this end, BVA has been deeply involved in training efforts for its own personnel as well as in continuing intra-Departmental training and improvement programs. These programs include the Compensation and Pension Examination Project (CPEP) program to improve Compensation and Pension medical examinations; joint VBA, OGC, and BVA bimonthly satellite training broadcasts to all VA regional offices; participation in VBA's quarterly Judicial Review Hotline; training sessions for BVA, VBA, and OGC personnel at the Adjudication Academy; and training provided to VHA adjudication personnel.

4C. Disability Criteria

Of greater concern is VA's use of outmoded criteria for determining disability. In 1997, GAO reported that VA's disability rating schedule is still primarily based on physicians' and lawyers' judgments made in 1945 about the effect service-connected conditions had on the average

individual's ability to perform jobs requiring manual or physical labor.

More recently, GAO reported that the criteria used by VA and other Federal programs to determine disability have not been fully updated to reflect medical and technological advances and have not incorporated labor market changes. GAO recommended that VA use its annual performance plan to delineate strategies for and progress in periodically updating its disability criteria. GAO also recommended that VA study and report to the Congress the effect that a comprehensive consideration of medical treatment and assistive technologies would have on VA disability programs' eligibility criteria and benefit package. VA did not concur with the recommendations. The Secretary of Veterans Affairs stated that the current medically-based criteria are an equitable method for determining disability and that VA is in the process of updating its criteria to account for advances in medicine. However, GAO believes that until VA aligns its disability criteria with medical and technological advances and holds itself accountable for ensuring that disability ratings are based on current information, future decisions affecting its disability program will not be adequately informed. This fundamental problem and sustained challenges in processing disability claims put the VA disability program at high risk of poor performance.

VA's Program Response: VA disagrees with the assessment of GAO that VA's rating schedule is "...still primarily based on physicians' and lawyers' judgments made in 1945 about the effect service-connected conditions had on the average individual's ability to perform jobs requiring manual or physical labor."

38 U.S.C. § 1110 provides (in part) that veterans be compensated for disability resulting from personal injury suffered or disease contracted in the line of duty. 38 U.S.C. §1114 provides the dollar amount for each level of disability.

38 CFR 4.1 states that "the percentage (disability) ratings represent as far as can practicably be determined the

average impairment in earning capacity resulting from such diseases and injuries . . ." The American Medical Association (AMA) Guides to the Evaluation of Permanent Impairment (AMA 2001) are a well-known and authoritative treatise on disability. The guides provide percentages or ratings for impairment based on the severity of the medical condition (using specific and objective criteria) and the degree to which the impairment decreases an individual's ability to perform common activities of daily living, excluding work (AMA Guide, page 4). As far as VA can practicably determine, the rating schedule represents the average impairment in earning capacity as a consequence of service-connected disease and injury.

When considering the effect of a disability on the ability to earn a living, VA is cognizant of the potential interrelationship between a physical disability and the veteran's ability to earn a living. VA recognizes that its rating schedule may not accurately compensate veterans in every specific case. To accord justice, 38 CFR 3.321 provides that VA can go outside the schedule when determining compensation ratings.

VA has reviewed and revised, or reviewed and proposed revisions, for the major body systems in VA's rating schedule. The revisions in the rating schedule reflect advances in medicine. To ensure that similarly disabled veterans are similarly evaluated, VA has adopted and continues to adopt objective rating criteria.

VA withdrew a proposal for the musculoskeletal system because of the nature of the comments VA received. Adopting some of the suggestions (with which we concurred) would have produced a rule that would not have been seen as a "logical outgrowth" of the proposed rule. VA is working on a new proposal. VA believes that its rating schedule equitably determines the level of disability, across disabilities, because the evaluation criteria reflect advances in medicine and are objective.

The Americans with Disabilities Act (ADA) mandates that employers make reasonable accommodations for those

with disabilities. Labor markets have changed over the past several decades, and the labor market varies across the Nation. VA continues to believe that its rating schedule is the fairest way to compensate veterans who have suffered a disease or an injury while serving in the military.

GAO5. Develop Sound Departmentwide Management Strategies to Build a High-Performing Organization

Since 1997, VA has spent about \$1 billion annually on its information technology. VA has established executive support and is making strides in developing an integrated Departmentwide enterprise architecture. To safeguard financial, health care, and benefits payment information and produce reliable performance and workload data, VA must sustain its commitment.

5A. Link Health Care Budget Formulation and Planning Processes

Establishing a close link between budgeting and planning is essential to instilling a greater focus on results. While VA's health care budget formulation and planning processes are centrally managed, they are not closely linked. VA's annual performance plan describes the Department's goals, strategies, and performance measures. However, the relationship between its performance plan and its health care budget formulation is unclear.

VA officials noted that steps are being taken to better integrate the health care budget formulation and planning processes. However, VA continues to face challenges in further integrating these processes and in defining areas for improvement.

VA's Program Response: VA continues to make a number of advancements toward integrating budget planning, operational execution, and performance monitoring. As part of the budget formulation process, VHA sometimes develops budget scenarios. Associated

with each funding option are performance goals that are tied to the varying resource levels. This approach gives senior leadership the information needed to help make funding decisions based, at least in part, on the expected performance to be achieved with these resources. These scenarios are based on prior years' outcomes and budget allocations. This process is used to predict costs, number and mix of veterans served, and types of employees required to provide services to veterans. The budget scenario process is a key component in VHA's budget formulation and future services plans.

Managers throughout the VA health care system have strongly embraced linking performance with resource and operations management responsibilities. Prior to the start of each year, VA central management enters into written performance plan agreements with each network director. In turn, each network director has written performance plan agreements with their medical facility directors. These agreements contain detailed standards for VA's key measures that must be achieved and establish expected levels of performance in a wide range of administrative, financial, and clinical areas. The types of measures that are tracked include waiting time standards, financial indices, quality of care, clinical intervention standards, and work force planning.

Monthly performance reviews involving VA senior leadership have created the forum for a continual review of financial and program performance, workload, and major construction and information technology projects at and below the national program level. The purpose of these regularly scheduled reviews, chaired by the Deputy Secretary, is to monitor operations and to inform while identifying issues through a detailed review of Department operations. Because all programs are represented at this meeting, the resulting management decisions are immediately communicated and plans are put in place to implement actions needed to help ensure that the Department makes the most efficient and effective use of resources and makes progress toward achievement of performance goals.

5B. Information Technology Challenges: A High-Risk Area

GAO has designated protecting information systems supporting the Federal government and the Nation's critical infrastructures as a governmentwide high-risk area. Over the past 2 years, VA's commitment to addressing critical weaknesses in the Department's IT management has been evident. Nonetheless, challenges to improve key areas of IT performance remain. Specifically, VA's success in developing, implementing, and using a complete and enforceable enterprise architecture hinges upon continued attention to putting in place a sound program management structure. In addition, VA's computer security management program requires further actions to ensure that the Department can protect its computer systems, networks, and sensitive health and benefits data from vulnerabilities and risks.

VA is also challenged to develop an effective IT strategy for sharing information on patients who are both VA and DoD beneficiaries or who seek care from DoD under a VA/DoD sharing agreement. The lack of complete, accurate, and accessible data is particularly problematic for veterans who are prescribed drugs under both systems. While each department has established safeguards to mitigate the risk of medication errors, these safeguards are not necessarily effective in a shared environment — in part because VA's and DoD's IT systems are separate. Consequently, DoD providers and pharmacists cannot electronically access health information captured in VA's system to aid in making medication decisions for veterans, nor can they take advantage of electronic safeguards such as computerized checks for drug allergies and interactions.

VA's Program Response: In order to maximize limited resources to make the most significant improvement in the Department's overall security posture in the near term, the VA Chief Information Officer (CIO) sponsors an annual program review to prioritize Federal Information Security Management Act (FISMA) remediation activities. To establish FY 2004 remediation priorities, the VA

CIO, in conjunction with program managers and VA Deputy CIOs, reviewed the summary results of the recently completed 2003 FISMA self-assessment survey as well as the results of OIG and GAO audits conducted during the past year. With advice from the program managers and Deputy CIOs, and in consultation with the OIG, the VA CIO identified 11 key weakness areas for priority remediation during FY 2004.

Two new "priority remediation areas" were identified for FY 2004: (1) establishing policies and controls related to the use of wireless devices and (2) Departmentwide deployment of authentication and authorization technologies. These priorities were identified by the OIG and included in its draft *2003 Audit of the Department of Veterans Affairs Information Security Program* report. The OIG has reported that wireless security assessments identified vulnerabilities that would allow a potential hacker to gain unauthorized access to VA systems and data, including circumventing security measures VA has established as part of its firewall protection. Additionally, the OIG has reported vulnerabilities associated with the transmission of patient data in clear text, as VA's legacy medical and benefit systems do not have a viable encryption application that can adequately protect the electronic transfer of sensitive data. The Department, following the OIG's recommendations, made these additional activities a priority for FY 2004 in order to enhance protection of its computer systems, networks, and sensitive health and benefits data from identified vulnerabilities and risks.

The 11 priority remediation goals for FY 2004 are depicted in priority order as follows: (1) certification and accreditation of key financial and human resource systems; (2) a Departmentwide critical infrastructure protection plan; (3) data center contingency planning; (4) configuration management; (5) enterprise-wide intrusion detection system capability; (6) upgrade of external connections; (7) relocation of the VACO server farm from a sub-ground location to preclude flooding; (8) application program/operating system change controls; (9) physical access controls at data centers; (10) deployment of

authorization and authentication technologies; and (11) a standardized Department-level wireless device policy.

During 2004, VA began a very effective collaboration with the DoD Joint Requirements and Integration Office, concerning the introduction and integration of DoD Defense Integrated Military Human Resource System (DIMHRS) veteran service history data. VA is developing consolidated data requirements across all business lines for submission to DoD. VA expects DoD to provide a draft data specification and dictionary by December 2004 and to provide live DIMHRS data for the Army, as a pilot, by September 2005. The Office of Enterprise Architecture Management in VA's Office of Information and Technology is working directly with VHA, VBA, and NCA to achieve DIMHRS data integration and to further numerous short-term initiatives for improved data sharing in support of returning Operation Iraqi Freedom and Operation Enduring Freedom servicemembers.

An example of the improvement in the collaboration between VA and DoD is the VA Seamless Transition Task Force formed to better serve our newest veterans from Operation Iraqi Freedom and Operation Enduring Freedom. By sharing early information about servicemembers who are injured but still in the military, VA can provide a seamless transition to civilian life. VA medical and benefits personnel can visit these veterans while they are still in the military medical facility. VA personnel interview the veteran and enter the data in a centralized database. This will not only improve service to the veteran, but he or she will also have a better entry experience into the VA system.

5C. Financial Management Material Weaknesses

In December 2002, VA's independent auditor issued an unqualified audit opinion on VA's consolidated financial statements for fiscal years 2002 and 2001. However, the unqualified opinion was achieved, for the most part, through extensive efforts of both program and financial management staff and the auditors to overcome material

internal control weaknesses to produce auditable information after year-end. The auditor reported two long-standing systems and control problems that remain unresolved. In addition, VA's accounting systems — similar to those of most major agencies — did not comply substantially with Federal Financial Management Improvement Act requirements. These weaknesses continue to make VA's program and financial data vulnerable to error and fraud and limit the Department's ability to monitor programs through timely internal financial reports throughout the fiscal year.

VA has demonstrated management commitment to addressing material internal control weaknesses previously reported and has made significant improvements in financial management. For example, in February 2001, the auditor reported that VA had improved on its reporting and reconciling of fund balances with Treasury — removing this as a material weakness. VA also continued to make progress in implementing recommendations from the GAO March 1999 report, which resulted in improved control and accountability over VA's direct loan and loan sale activities and compliance with credit reform requirements.

However, during its audit of VA's FY 2002 financial statements, the auditor reported that two previously reported material weaknesses still exist in the areas of information systems security and financial management system integration.

Departmentwide weaknesses in security controls over automated data processing continue to make VA's sensitive financial and veteran medical and benefit information at risk of inadvertent or deliberate misuse or fraudulent use.

Material weaknesses continue to hamper timely completion of financial statements. Specifically, VA continues to have difficulty related to the preparation, processing, and analysis of financial information to support the efficient and effective preparation of its financial statements.

VA's Program Response: VA's Office of Information and Technology (OIT) has developed and monitors the implementation of a Departmentwide information security controls plan that details corrective actions through March 2005. Currently, OIT is in the process of refining the Departmentwide plan to include specific information recently received from the auditors. In the meantime, OIT continues to ensure the Department moves forward in eliminating the risk of inadvertent or deliberate misuse or fraudulent use of VA's sensitive financial and veteran medical and benefits information.

The Department continues to face challenges in building and maintaining financial management systems that comply with federal requirements. Until recently, the Department intended to replace the current financial system with the Core Financial and Logistics System (CoreFLS). During the testing phase of the CoreFLS project, problems occurred with data conversion, training, testing, segregation of duties, and access controls. As a result, VA is reevaluating the current plans for CoreFLS. To address the material weakness, Lack of Integrated Financial Management System, task groups will investigate the feasibility of developing tools to support the effective and efficient preparation of financial statements to eliminate significant manual workarounds, improve interfaces between legacy systems and VA's core accounting system (Financial Management System), enhance data consistency between the core accounting and subsidiary systems, and automate reconciliation processes.

GAO6. Federal Real Property: A High-Risk Area

GAO has designated "federal real property" as a governmentwide high-risk area. There is a need for a comprehensive and integrated real property transformation strategy that could identify how best to realign and rationalize federal real property and dispose of unneeded assets; address significant real property repair and restoration needs; develop reliable, useful real property data; resolve the problem of heavy

reliance on costly leasing; and minimize the impact of terrorism on real property.

VA has struggled to respond to asset realignment challenges due to its mission shift to outpatient, community-based services. GAO reported in 1999 that VA had 5 million square feet of vacant space and that utilization will continue to decline. VA has recognized that it has excess capacity and has an effort underway known as the Capital Asset Realignment for Enhanced Services (CARES) that is intended to address this issue. VA's environment contains a diverse group of competing stakeholders who could oppose realignment plans that they feel are not in their best interests, even when such changes would benefit veterans.

Improvements in capital planning are needed. For example, GAO reported in 1999 that VA's capital asset decision-making process appeared to be driven more by the availability of resources within VA's different appropriations than by the overall soundness of investments. This resulted in VA's spending millions more on leasing property instead of ownership because funds were more readily available in the appropriation that funds leases than in the construction appropriation.

In recent years, VA has also developed legislative proposals to establish a capital asset fund, which would, among other things, be aimed at improving VA's capability to dispose of unneeded real property by helping to fund related costs such as demolition, environmental cleanup, and repairs.

VA's Program Response: VA concurs with GAO's recommendation. VA is committed to a comprehensive, corporate-level approach to capital asset management. This approach helps VA closely align asset decisions with its strategic goals, elevate awareness of its assets, and employ performance management techniques to monitor asset performance on a regular basis through the entire lifecycle of an asset. Each significant capital investment is tracked through its lifecycle from formulation to execution, steady-state, and disposal. At the core of VA's

capital asset business strategy is value management – striving to return value to VA's business and managing existing value for greater return.

VA began its pursuit of a comprehensive capital asset planning process and management strategies in 1997. VA developed a structure that facilitated a comprehensive system-wide integrated capital investment planning process. The fundamental goal of the new process was to ensure that all major capital investment proposals, including high-risk and/or mission-critical projects, were based upon sound business and economic principles; promoted the *One-VA* vision by linking diverse but complementary objectives; were aligned with VA's overall strategic goals and objectives; addressed the Secretary's priorities by emphasizing program objectives in support of internal goals; and supported the President's Management Agenda. Each year, VA re-evaluates its capital investment decision models to ensure alignment with the administration's management agenda and the strategic plan, goals, and objectives.

In June 2004, the Department produced its first 5-year capital plan, a systematic and comprehensive framework for managing the Department's portfolio of more than 5,500 buildings and approximately 32,000 acres of land. This plan is a sound blueprint for managing the Department's capital investments and will lead to improved use of resources and more effective delivery of health care and benefits. This plan outlines CARES implementation by identifying priority projects that will improve the environment of care at VA medical facilities and ensure more effective operations by redirecting resources from maintenance of vacant and underused buildings and reinvesting them in veterans' health care. The plan reflects a need for additional investments of approximately \$1 billion per year for the next 5 years to modernize VA's medical infrastructure and enhance veterans' access to care. The plan is being reviewed by Congress and serves as a budget request for 30 major construction projects that would be funded using FY 2004 available dollars and the FY 2005 requested amount.

In February 2004, the President signed Executive Order 13327, Federal Real Property Asset Management. This order was created to promote the efficient and economical use of federal real property assets and to ensure management accountability for implementing federal real property management reforms. The order also encourages federal departments and agencies to recognize the importance of effective real property management and the establishment of clear goals and objectives, as well as improved policies and levels of accountability. One central component of the order was the establishment of the Federal Real Property Council (FRPC), whose membership consists of the Real Property Officers from each designated agency or department. This council has a broad range of responsibilities including creating government-wide principles for effective asset management. The FRPC is in the process of finalizing first-tier performance measures, which are measures that all federal agencies are expected to calculate, track, and monitor on an agency-wide basis. The primary first-tier performance measures address significant real property issues of quality, quantity, and cost. These measures include such things as facility condition index, facility sustainment rate, facility recapitalization rate, facility utilization index, and mission dependency investment. In addition, the FRPC encourages agencies to implement second-tier performance measures, which are measures that are tracked by an agency and are either not rolled up for agency-wide use or may not be directly applicable as a real property management measure. VA is transitioning to implementing both first and second-tier performance measures. Another important requirement found in the order was that all federal departments and agencies must develop an asset management plan (AMP). VA is in the process of completing its AMP. The VA AMP reflects the initiatives VA has implemented and is developing in order to meet and/or exceed its own requirements as well as those found in both the executive order and the guiding principles developed by the FRPC. The AMP serves as a companion document to the recently published VA 5-year capital plan. The long-term plan provides detailed descriptions of current and future capital investments, including the

investments needed to implement the recent decisions made by the Secretary regarding the CARES process. The AMP provides information, descriptions, and examples of the following:

- The Department's capital budget for FY 2005, which identifies and categorizes an inventory of assets owned, leased, or managed by VA.
- The VA capital asset management philosophy, which is grounded in the life-cycle approach and details the guiding principles used at each phase. This includes tracking the performance and making necessary adjustments for all capital assets in our portfolio during all stages of an investment lifecycle (formulation through disposal).
- A description of VA's capital portfolio goals and illustration of how they serve as both our short-term and long-term objectives.
- A description of the important elements found in the "building block" business case (OMB Exhibit 300), including strategic alignment, alternatives considered, risk analysis, and cost effectiveness analysis.
- Illustration of the actions being taken by VA to improve the formulation and operational management of our portfolio, including the development of our capital portfolio system known as the Capital Asset Management System (CAMS).
- A description of VA's sustainment model, which was recently created to assist in developing facility maintenance needs and measures.
- A description of the valuation mechanism used at VA, including fair market value, replacement value, book value, and land value.
- A description of the human capital strategies employed, including the policies developed to govern asset management at VA.

Over the past several years, VA has undertaken some major initiatives in order to improve and strengthen the capital asset management program. VA has integrated best practices into the fabric of the capital investment process, learning from the best planning and performance measurement found in government and private industry. Initiatives include: 1) creation of the VA Office of Asset Enterprise Management (OAEM); 2) reorganiza-

tion of the Office of Management; 3) establishing Capital Asset Managers at the local level; 4) initiation of the CARES process; 5) creation and deployment of CAMS; and 6) introduction of pertinent legislation. Details of each initiative are as follows.

1) Creation of OAEM: The Secretary has taken steps to significantly improve the Department's management of capital assets, including the establishment of OAEM in 2001. OAEM promotes capital programming strategies including the development of integrated approaches to transform underutilized or unneeded capital assets from liabilities to potential capital resources through the use of existing authorities (enhanced-use leasing and enhanced sharing) and legislative and policy changes when necessary.

2) Office of Management Reorganization: In November 2002, the Secretary approved the Office of Management's plan to implement a major reorganization of finance, acquisition, and capital asset functions throughout VA into regional centers with delegations of authority and increased responsibility and accountability. By combining multiple functions into a single office of business oversight and streamlining field operations to a manageable size via regional business offices, VA can realize both efficiencies and improvements in its business activities.

3) Establishing Capital Asset Managers at the local level: In November 2002, the Secretary approved implementation of a major reorganization of finance, acquisition, and capital asset functions throughout VA into regional centers with clearer delegations of authority and increased responsibility and accountability. The VISN Capital Asset Manager (CAM) will provide corporate (VISN) leadership, directing activities relating to the planning, acquisition, management, and disposal of capital assets. This includes management of all capital programs including major and minor construction, non-recurring maintenance, enhanced-use leasing, sharing agreements, leasing, real property, major medical and non-medical equipment, and energy conservation/savings initiatives and associated resources. It also involves developing and monitoring VISN capital program goals and performance as well as

any corrective action plans to bring capital assets into compliance and adherence with VISN and national benchmarks and portfolio performance standards. As of October 2004, all the capital asset managers have been selected and are in place at their respective VISN.

4) CARES Process: VA's CARES process was launched to align capital assets to meet veterans' future needs for accessible, quality health care. VA's enhanced-use lease authority will play a major role in the realignment of VHA's capital assets by transforming underutilized space from a liability to an important component of VA's overall capital portfolio.

5) CAMS: VA is in the final stages of developing and deploying CAMS, which is a portfolio management tool for all significant VA capital assets. Investment protocols and capital asset management policies were developed to provide guidelines for each major phase or milestone in the life cycle of a capital asset decision. These assets are monitored and evaluated against a set of performance measures (including capital assets that are underutilized and/or vacant) and capital goals to maximize highest return on the dollar to support veteran needs. VA established the following Department-level portfolio goals:

- Decrease operational costs.
- Reduce energy utilization.
- Decrease underutilized capacity.
- Increase intra/inter-agency and community-based sharing.
- Increase revenue opportunities.
- Maximize highest and best use.
- Safeguard assets.

As mentioned previously, VA is transitioning to the above goals to be consistent with the FRPC "Tier 1" measures where appropriate.

CAMS represents the first successful attempt to link asset managers in the field with corporate and oversight branches of VA so that current data are electronically shared and vetted according to a set schedule. In

FY 2004, CAMS was deployed with portfolios for leased assets, owned buildings and land, major equipment, and asset-related agreements. In FY 2005, CAMS will add an inter-portfolio capacity, which will allow for better integration of data. The information harnessed via CAMS will lead to improved asset performance measurement, which ultimately will provide VA decisionmakers with the information needed to either repair and restore assets or to divest assets that are no longer needed.

6) Legislation: For FY 2004, VA again introduced legislation that would allow the Department to dispose of, sell, transfer and/or exchange excess properties and retain the proceeds by establishing a capital asset fund. This incentive would allow VA to better manage its underutilized or excess real property by improving its capability to dispose of unneeded property. Funds may also be used to pay for related significant costs such as environmental clean-up and demolition. A majority of the proceeds received would be used to fund CARES capital needs. The improvements to VA's infrastructure would also allow dollars currently being spent on maintenance and operations to be diverted to enhance veterans' health care delivery.

VA has also performed security studies that assess the vulnerabilities (including terrorist attacks) of its infrastructure. As of July 2004, the Department completed full assessments of 18 facilities and preliminary assessments of 100 of VA's critical facilities. VA is working to appropriately address any issues or deficiencies identified by these assessments.

GAO7. Strategic Human Capital Management: A High-Risk Area

GAO has designated "strategic human capital management" as a governmentwide high-risk area. It was also placed at the top of the President's Management Agenda (PMA). Please see the discussion on pages 50-51 in the PMA section regarding VA's progress on strategic human capital management.

Improper Payments Information Act of 2002 Reporting Details

Detail I

A. Describe your agency's risk assessment(s), performed subsequent to compiling your full program inventory.

VA reviewed Government Accountability Office (GAO) and Office of Inspector General (OIG) audit reports to identify those programs which are susceptible to significant erroneous payments. After completing the review, VA decided to statistically sample all 19 programs to provide statistically valid estimates of the amount of improper payments.

In FY 2004, VA completed sampling for 17 of the 19 programs in our inventory. We were unable to perform statistical samples on the Housing program and Vocational Rehabilitation and Employment program. However, VBA is diligently working on a methodology and implementing the necessary actions needed to comply with the Improper Payments Information Act. The statistical samples revealed that 12 of the programs had estimated improper payments of less than \$10 million. Dependency and Indemnity Compensation (DIC) is one of the programs previously identified in the former Section 57 of OMB Circular A-11 but is reported here as part of Compensation & Pension. VBA's five programs either had estimated improper payments exceeding \$10 million and/or were programs previously identified in the former Section 57 of OMB Circular A-11.

VBA recognizes the inherent risk associated with administering benefits programs to veterans and beneficiaries. The criteria used to determine

entitlement, the scope of administering through 57 regional offices, the legislative changes, reporting requirements, time constraints, and the responsibility of ensuring appropriate use of resources all contribute to VBA's emphasis on identifying and minimizing vulnerabilities that lead to improper payments.

1. Compensation (including Dependency & Indemnity Compensation) and Pension

Erroneous payments are defined as payments made to ineligible beneficiaries or payments that were made for an incorrect amount. Erroneous payments may be caused by procedural or administrative errors made during the claims process or late reporting, misreporting, or fraud on the part of employees, beneficiaries, or claimants.

Over and under payments are based on the results of the national Systematic Technical Accuracy Review (STAR) program. The STAR review process conducts a comprehensive technical accuracy review of a statistically valid random sample of completed cases. The annual STAR review sample includes approximately 16,000 currently processed cases including a mix of compensation and pension claims. The STAR review process identifies erroneous payments for the following categories: Improper Grant/Denial, Improper Percentage Evaluation Assigned, Improper Effective

Dates Affecting Payment, and Improper Payment Rates. The results of this review sample are extrapolated to the universe of completed claims to calculate estimated annual over and under payments. Separate annual amounts are calculated for the compensation program and pension program. (Please refer to Detail II for a full discussion regarding the statistical sampling process.) Our methodology for determining overpayments and underpayments also assesses the causes of the erroneous payments. Overpayments created not due to error on the part of VA are included in our overpayment figures.

2. Education

Education Service currently conducts Quality Assurance (QA) Reviews of a random sample of completed Education benefit claims, which identifies the Payment Accuracy Rate. QA reviews are conducted using a checklist with eight questions, three covering internal data integrity issues, and five covering customer service issues in claims processing. Only one of the questions is used in determining the Payment Accuracy Rate: "Were the payment determinations correct?" The checklist does, however, require additional information about each case reviewed, including:

- Amount of payment authorized.
- Amount actually due.
- Amount of over or underpayment, if any, erroneously authorized.

Although the payment information currently collected through the QA review process is not on a fiscal year basis, it was adjusted in order to compare with the total benefit dollars paid in a given fiscal year, in order to produce an estimate of both the percentage and amount of erroneous payments in the Education program. From FY 2000 through FY 2003, the percentage of erroneous payments exceeded 2.5 percent in two of the four years, while the total amount of erroneous payments exceeded \$10 million in all four years. (Please refer to Detail II for a full discussion regarding the statistical sampling process.)

3. Vocational Rehabilitation & Employment

Vocational Rehabilitation and Employment (VR&E) Service implements the Quality Assurance Program, created under the provision of Public Law 106-117, The Veterans Millennium Health Care and Benefits Act. This law states that the Veterans Benefits Administration must establish and execute a Quality Assurance Program. The process is designed to assess the quality of services provided to veterans, as well as case managers' work in terms of quality and accuracy of entitlement determination, rehabilitation services, fiscal activities, and rehabilitation outcomes.

VR&E Service staff members review cases from each regional office. The Systematic Analyses of Operations for Debt Avoidance and Fiscal Control, and the re-establishment of the VR&E Field Surveys are systems used to minimize the occurrence of improper payments. (Please refer to Detail II for a full discussion regarding the statistical sampling process.)

4. Loan Guaranty

The Loan Guaranty program's internal control procedures significantly reduce the risk of improper payments. Only limited amounts of improper payments have been discovered during the annual financial statement audit. About 75 percent of Loan Guaranty's payments are intra-governmental that are processed electronically from one Loan Guaranty account to another or to the Treasury. (Please refer to Detail II for a full discussion regarding the statistical sampling process.)

5. Insurance

Based on VBA's ongoing evaluation of methods and procedures of the Insurance Program's internal controls and the percentage of improper payments in prior years, VBA considers the risk assessment of improper payments to be low. However, this program was previously reported under Section 57 of OMB

Circular A-11 and must be reported. The erroneous payment rate for this program would not exceed the current improper payment reporting threshold. (Please

refer to Detail II for a full discussion regarding the statistical sampling process.)

B. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through your risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A-11.

1. Compensation and Pension

Compensation and Pension is composed of several programs as discussed below.

A. Disability Compensation is provided to veterans for disabilities incurred or aggravated while on active duty. The amount of compensation is based on the degree of disability. Several ancillary benefits are also available to certain severely disabled veterans.

B. Dependency and Indemnity Compensation is provided for surviving spouses, dependent children, and dependent parents of veterans who died of service-connected causes or while on active duty on or after January 1, 1957. Prior to January 1, 1957, death compensation was the benefit payable to survivors.

C. Nonservice-Connected Disability Pension is provided for veterans with nonservice-connected disabilities who served in time of war. The veterans must be permanently and totally disabled or must have attained the age of 65 and must meet specific income limitations.

D. Death Pension is provided for surviving spouses and children of wartime veterans who died of nonservice-connected causes, subject to specific income limitations.

2. Education

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

3. Vocational Rehabilitation and Employment

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

4. Loan Guaranty

This program is to help veterans and active duty personnel purchase and retain homes in recognition of their service to the nation. The program enables eligible veterans to obtain financing for the purchase, construction, or improvement of a home by insuring a percentage of the loan. This mandatory program encourages the lender to extend favorable loan terms and competitive interest rates to veterans who might otherwise prove ineligible. The Loan Guaranty program disburses payments for:

- Specially Adapted Housing (SAH) Grants.
- Claim and Acquisition Payments.
- Portfolio Servicing of Direct Loans.
- Property Management.
- Subsidy Transfers.
- Transfers between the various accounts within the Loan Guaranty Program.
- Repayment of Treasury Borrowings and Payment of Interest Expense to Treasury.
- Administrative Funds transfers within VA.

5. Insurance

This program provides veterans and servicemembers life insurance benefits that may not be available from the commercial insurance industry because of lost or impaired insurability resulting from military service.

Insurance's mission is to provide coverage that is available at competitive premium rates and with policy features comparable to those offered by commercial companies. A competitive, secure rate of return is ensured on investments held on behalf of the insured.

Detail II

Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.

Compensation (including Dependency & Indemnity Compensation) and Pension

VBA's calculation of the estimate of the improper payment rate for both the Compensation (including Dependency & Indemnity Compensation) and Pension programs is based upon actual dollar amounts of debt referred to the VA Debt Management Center (DMC) and erroneous payments identified in VA's quality assurance program known as STAR. Half of the estimated debt identified by STAR is included in the calculation of erroneous payments. That half is the amount which is written off as an administrative error. The other half of the STAR-identified erroneous payment results in award actions to create debts which are reflected in the DMC data. Debts referred to the DMC can reflect erroneous payments spanning multiple years as in overpayments associated with VA's Income Verification Match (IVM) and fugitive felon match. In FY 2003 the DMC received \$129.1 million in compensation debts for collection and \$250.5 million for the pension program.

The STAR review represents a review of a statistically valid sample of completed cases. STAR is VBA's national

quality assurance program for the Compensation and Pension programs. For this year's study, results were based on review of cases completed during the second half of FY 2003 in order to meet the reporting deadline. Review results were doubled to annualize the results. Future year reports will be based on a twelve-month review cycle. Of the 7,360 cases reviewed, 6,133 were compensation cases and 1,227 were pension cases. The number of cases reviewed represented 0.78 percent of all cases subject to review. Since sampling was random to each regional office's completed workload, a weighting factor was used to reflect regional office share of workload in computing the national result.

While the errors found on review were clearly identified as either compensation or pension, the overall review sample contained some cases with both compensation and pension elements. For the overall volume of cases subject to review (940,241 cases completed during the second half of FY 2003) 455,957 were clearly identified as compensation cases and 259,541 were clearly identified as pension cases. The remaining 224,743 cases were recorded under end product codes that could apply to either compensation or pension claims. We assumed a ratio of 80 percent compensation to 20 percent pension cases, and accordingly, completed compensation cases were increased to 635,751 with total pension count adjusted to 304,490. Accordingly, the sample size was 0.96

percent (6,133 cases reviewed divided by the completed compensation cases totaling 635,751) for the compensation program and 0.40 percent (1,227 cases reviewed divided by the completed pension cases totaling 304,490) for the pension program.

STAR analysis for 2003 indicated an estimated \$32.6 million in erroneous overpayments for compensation. STAR also identified an estimated \$110.8 million in underpayments for compensation.

STAR analysis for 2003 identified an estimated \$37.4 million in erroneous overpayments for pension. STAR also identified an estimated \$14.6 million in underpayments for pension.

Education

QA Reviews are designed to provide statistically valid results at the 95 percent confidence level plus or minus 2.5 percent. An annual nationwide random sample is composed of 1,600 cases. Reviews are also conducted and reports issued quarterly, showing payment accuracy on a fiscal year to date (FYTD) basis.

Vocational Rehabilitation & Employment

Data for the improper payment rate is gathered through the QA review results. In 2002, Booz Allen Hamilton conducted a study on the VR&E QA program. As a result of the recommendations from the study, the total number of cases to be reviewed annually was increased from 2,850 to 3,648 cases. The increase was intended to obtain a more valid random sampling size for each regional office.

The National QA Review is divided into two review sessions with 32 cases per regional office per session. Currently, there have been 2,016 cases reviewed with 1,632 case reviews to be completed by the end of this fiscal year.

Loan Guaranty

The Loan Guaranty program uses different methods of Statistical Quality Control (SQC) for the various types of payments. SQC samples range from small statistically valid random samples to a 100 percent review of all payments. All of the SAH grants (about 600 per year) are reviewed to ensure eligibility and proper payment. The Regional Loan Centers randomly sample claim and acquisition payments every year to ensure appropriate amounts have been disbursed. Annually, a survey team from the Loan Guaranty Service also performs a random sampling/review of claim and acquisition payments. The Portfolio Loan Oversight Unit (PLOU) performs a 100 percent review of payments made for the approximately 19,000 loans in the direct loan portfolio. The Property Management Program was recently changed to accommodate the establishment of a contract-operated program. All (100 percent) property expense payments are reviewed by the Property Management Oversight Unit (PMOU). In addition, PMOU personnel perform site visits to validate the invoiced services. A process will be established for a statistically valid review by an independent agency of all intra-governmental transfers. Intra-governmental transfers include: subsidy transfers and upward reestimates from the program to financing accounts, downward reestimates from the financing to Treasury Receipt accounts, reimbursements between financing accounts, repayments of borrowings and payments of interest expense to Treasury, and transfers of administrative funds from the program to General Operating Account.

The steps for determining Loan Guaranty improper payments are:

- The VBA Finance section will determine the type and amount of payments in the prior fiscal year through current and additional reports.
- Loan Guaranty or an Independent Agency will determine which payments were improper payments based on invoices for property expenses or acquisition and claim payments.

- Loan Guaranty will determine the dollar amount of all invoice-supported improper payments.
- An Independent Agency will determine the dollar amount of intra-governmental transfers/disbursements that were processed using improper amounts.
- Divide total dollar amount of improper payments by the dollar amount of total disbursements to determine the improper payment rate for the fiscal year.

Insurance

The Insurance program uses its Statistical Quality Control (SQC) program to help validate the improper payment rate. The Insurance SQC program is the method for assessing the ongoing quality and timeliness of work products. A random sample of completed or pending work products is reviewed each month to ensure that the service provided to the veteran or the veteran's representative was accurate, appropriate, and complete, according to established guidelines. Each month a computer-generated program randomly selects 100 cash disbursements created by

policy loan or cash surrender and 100 samples relating to the processing and payment of a death claim. Each case is reviewed for accuracy and timeliness. The accuracy rate for cash disbursements for the past 12 months was over 99 percent.

The steps to determine the actual rate of improper payments for Insurance are as follows:

- Determine the number of accounts receivable established in the prior fiscal year through a report created by the Accounts Receivable database.
- Determine which accounts receivables were created because of an improper payment, using the reason codes listed in the report.
- Determine the dollar amount of all the receivables determined to be improper payments.
- Determine the dollar amount of all disbursements made for the same fiscal year.
- Divide the dollar amount of all improper payments by the dollar amount of all disbursements to determine the improper payment rate for the fiscal year.

Detail III

Explain the corrective actions your agency plans to implement to reduce the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or have been ongoing for some length of time, it is appropriate to include that information in this section.

1. Compensation (including Dependency & Indemnity Compensation) and Pension

A. Compensation (including Dependency & Indemnity Compensation)

Based on STAR data, the three most common causes for erroneous compensation overpayments are the

assignment of improper evaluations (17% of errors), the improper grant of service connection (17% of errors) and improper effective dates (47% of errors). These reasons are the same reasons for erroneous underpayments.

VBA is engaged in initiatives that address these errors. The first of these initiatives is the Regulation Rewrite project charged with redrafting VA's regulations into clear and understandable language. One of the most

complex regulations in VA's inventory deals with effective dates. Clarifying the regulation regarding effective dates is a primary focus of the Regulation Rewrite staff. Publication of the revised regulation dealing with effective dates is anticipated in the last quarter of calendar year 2005. VBA anticipates the rewritten regulation will help reduce common errors identified above that result in overpayments.

VA has been involved in a significant effort to expand its rating capacity in the last four years. With a large number of relatively inexperienced rating specialists, errors in evaluation and granting or denying of benefits are possible. We believe that our training programs, the increasing experience of disability decision makers, as well as the publication of the STAR Reporter, which advises the field of error trends, will significantly improve these areas. Recent reviews of the evaluation of diabetes claims also identified areas where all disabilities related to diabetes were not awarded service connection. A review of more than 13,000 cases is addressing the shortcomings in that area. Therefore, we also anticipate improvement in the area of compensation underpayments.

Other reasons for overpayments include:

1. Non-entitlement for the month of death.
2. Reductions/terminations due to incarceration or fugitive felon status.
3. Remarriage of surviving spouse.

The month of death overpayment occurs when the veteran dies late in the month, too late to stop the release of the check for the month of death, a benefit to which he/she is not entitled. Approximately 47,000 veterans are removed from the compensation rolls each year, virtually all due to death. An estimated \$14.9 million in overpayments for the month of death are created when death occurs in the last 10 days of the month and the average compensation payment is \$941 monthly. Although the overpayment is created, the majority of these payments are recouped.

Overpayments are created as a result of notification of incarceration or fugitive felon status. According to current statute, these cases are given due process and then adjusted. Notification of either status is a function of agreements made with states, the Bureau of Prisons, and law enforcement agencies. As previously indicated, these overpayments typically span multiple years.

Recent legislation that entitles surviving spouses who remarry after age 57 to retain entitlement to Dependency Indemnity Compensation (DIC) will significantly reduce the amount of erroneous payments due to surviving spouse remarriage.

B. Pension

The pension program administered by VA is a highly complex program that is intended to provide the financial resources needed by beneficiaries based upon anticipated income. Consequently, like similar programs such as Supplemental Security Income, it is prone to overpayments due to late or misreporting of income changes or failure to report such changes by claimants. For this reason, VA has engaged in a process of consolidating the processing of pension workload in order to improve the quality and timeliness of the pension processing, as well as to focus training in this area. Another goal of consolidation is to reduce the size of erroneous payments through greater claims processing efficiencies and reduced cycle time. We believe that an improved quality of pension processing and focused training should reduce erroneous payments. Pension processing quality has increased dramatically through the consolidation and specialization, and we expect it to continue.

The most common causes for erroneous pension overpayments and underpayments are improper effective dates and improper calculation of family income.

Other causes for overpayments are:

1. Non-entitlement for the month of death.
2. Reductions or terminations due to claimant reports on Eligibility Verification Reports (EVR).
3. Reductions or terminations based upon matching programs.
4. Inaccurate reporting of monthly social security benefits.

VA is engaged in initiatives that address these issues. One of these initiatives is the Regulation Rewrite project charged with redrafting VA's regulations into clear and understandable language. One of the most complex regulations in VA's inventory deals with effective dates. Clarifying this regulation is a primary focus of the Regulation Rewrite staff. Publication of the revised regulation is anticipated during the last quarter of calendar year 2005.

Approximately 79,000 pension records are terminated annually. The estimated annual overpayment for the month of death, considering deaths that occur in the last 10 days of the month with an average monthly payment of \$455 when veterans and survivors are combined, is estimated at \$12 million annually.

VA currently does not have a dollar amount identified with EVR processing. A funding study will be conducted to prepare a request for submission in the FY 2007 budget.

Due to the particular nature of the pension program, a significant number of overpayments will be created due to reporting failures by beneficiaries. The following list of audits and investigations are designed to detect misreporting. FY 2003 overpayment values associated with these programs are noted where known.

- **Death Match Project:** The OIG death match project is conducted to identify individuals who may be defrauding VA by receiving VA benefits intended for beneficiaries who have passed away. (\$3,822,297 in overpayments)

- **Fugitive Felon Program:** On December 27, 2001, Public Law 107-103 was enacted. The law prohibits veterans who are fugitive felons, or their dependents, from receiving specified veterans benefits. At any given time more than 100,000 individuals are on a fugitive felon list maintained by the federal government and/or state and local law enforcement agencies. This program, as it is rolled out with other police jurisdictions, is an example of how overpayments will be identified in later years based upon newly acquired information. (\$1.3 million in overpayments)
- **Payments to Incarcerated Veterans:** An agreement was reached with the Social Security Administration (SSA) that allowed VA to use the State Verification and Exchange System (SVES) to identify claimants incarcerated in state and local facilities. We are processing both Bureau of Prisons Match and SSA Prison Match cases on a monthly basis. (See above data relating how fugitive felon dollars are combined.)
- **Benefit Overpayments Due to Unreported Beneficiary Income:** VBA has implemented the recommendations from the November 2000 OIG report that will (i) significantly increase the efficiency, effectiveness, and amount of potential overpayments that are recovered; (ii) better ensure program integrity and identification of program fraud; and (iii) improve delivery of services to beneficiaries.
- **Disability Compensation Benefits for Active Military Reservists:** VA and DoD have worked to correct procedures and processes to ensure dual compensation benefits are properly offset.
- **Railroad Retirement and OPM Matches:** These matches report income from these sources compared to what pension beneficiaries report. (\$700,000 in overpayments)
- **Eligibility Verification Report:** This is an annual report required of most pension recipients in which they are required to report their actual previous year and anticipated current year income. Reporting requirements of the statutes result in overpayments due to the late reporting of changes in income.

- **Monthly Benefit Rate Match:** This is a match with social security in which the amount of monthly social security reported by the claimant is compared to Social Security Records. (\$25,394,218 in overpayments)
- **Unmatched records with Social Security Administration:** C&P Service analyzes an extract of hits from data runs in order to obtain the Unverified Social Security Numbers listing.

2. Education

VBA has used the Quality Assurance Review program to assess payment errors since FY 1992. Quarterly Education Service quality review reports identify error trends and causes and are used by Regional Processing Offices to conduct refresher training. For FY 2003, as compared to the previous fiscal year, this training was effective in reducing estimated erroneous payments from 4.1 percent to 2.4 percent. In FY 2003, the majority of erroneous payments were due to:

- Incorrectly processing monthly verification of enrollment information concurrent with award action.
- Incorrectly awarding benefits for intervals between terms.
- Incorrectly determining whether the student was training at the full-time rate or at part-time.
- Incorrectly determining the date on which to reduce or terminate benefits.

VBA is developing an automated claims processing system as part of The Electronic Education System (TEES), which will help reduce payment errors. In addition, VBA is developing standardized training materials for use by field stations. We have begun using these materials in FY 2004, and expect them to help improve performance in the future.

3. Vocational Rehabilitation & Employment

A letter containing the results of the National QA Review is provided to each regional office. The letter outlines

the errors found during the review and indicates the required corrective actions. Each regional office is required to submit certification of compliance to the corrective actions to the VR&E Service through the regional office director's office.

Beginning January 2004, VR&E Service required that all compliance reports for corrective actions on errors found on fiscal activities must also include the amount of over or under payments for Chapter 31 benefits. The review sample results are applied to the national total workload to generate VR&E's overall estimated improper payments by using weighted factors based on the regional offices' caseload size.

VR&E Service is moving forward in the development and implementation of plans to reduce improper payments. However, there are two major issues that have impacted progress.

- The QA Web site, which maintains the data for the improper payment statistics, was not available for use until the last month of the first quarter of FY 2004.
- In order to ensure consistency in the review process, the QA Review site relocated to Nashville in February 2004. All new QA Reviewers are assigned to one location, as opposed to many reviewers assigned to several locations. The relocation required a full restructuring of the QA Review Team and its processes. Consequently, the QA Review had been temporarily suspended until the office could become fully operational. Data collection for the improper payment report has not been completed. VR&E is currently developing a formal methodology and collecting data for FY 2004 to provide the reports and analysis for improper payments.

4. Loan Guaranty

Loan Guaranty is in the process of establishing procedures for determining the amount of improper payments and developing an action plan. It is believed that a majority of improper payments will be the result of

human error during numerous calculations that result from the volume and type of payments made for the Loan Guaranty program.

An audit in FY 2003 of the Property Management function determined that the PLOU was operating in an efficient and effective manner. The audit sampled 21.4 percent of property management payments during the audit. The PMOU was established this year to review all of the invoices submitted by the property management contractor for property expenses. Also, the financial statement auditors have discovered only insignificant improper payment amounts during their review of payments for the financial statement audit. All of these reviews lead us to believe that the amount of improper payments is insignificant. That assumption appears reasonable based on the type of payments, most of which are intra-governmental, and the internal control and review processes currently in place.

5. Insurance

The majority of improper payments are the result of human error, which is directly related to the speed of service we endeavor to provide, as well as the large volume of transactions we process. In the overall universe of transactions processed, improper payments are relatively insignificant, constituting well less than one percent of all transactions processed. This low figure is primarily due to the reviews conducted by the Insurance Internal Control Staff (ICS).

Established in 1992, the ICS monitors, reviews, and approves all employee-generated insurance

disbursements and certain other controlled transactions. It is the duty of these reviewers to perform accurate reviews to verify the correctness and propriety of all critical insurance actions. In short, this staff is the primary control point for all of our processes involving employee-generated disbursement actions. This staff also has the responsibility of ensuring the propriety of our system-generated disbursements. The ICS exists to augment traditional management controls (i.e., internal system edits, supervision, performance reviews, and quality control reviews, etc.).

In addition to the above, the ICS conducts a variety of post-audit reviews using, among other things, matching reports to help us prevent and detect fraud, waste, and abuse. Moreover, the ICS reviews the work of its own staff. Through these reviews, the staff supervisors ensure that work is being done in date order, that it is being reviewed properly, and that no fraud has been committed.

The ICS identified best practices by consulting with the Office of Inspector General, who provided them with a variety of computer matching programs that assist in identifying patterns that may indicate abuse. Internal Control managers also regularly attend classes in statistical sampling and in the prevention and detection of fraud, waste, and abuse, and have received formal training in management and accountability. They have shared their expertise with other elements of VBA, and the OIG has referred to their operation as a “best practice.”

Detail IV

Improper Payment Reduction Outlook FY 2003 - FY 2007
\$ in Millions

Program	FY 03 Outlays 1/\$	FY 03 IP %	FY 03 IP \$	FY 04 Outlays \$	FY 04 IP %	FY 04 IP \$	FY 05 IP %	FY 06 IP %	FY 07 IP %
Compensation 2,3	24,750	.586	145	26,536	.500	132	.450	.400	.350
		.448	111		.400	106	.350	.200	.100
Pensions 2	3,219	8.36	269	3,326	7.50	249	6.75	6.00	5.50
		.454	15		.400	13	.350	.300	.275
Education	2,129	2.4	52	2,306	2.4	55	2.3	2.3	2.2
Vocational Rehabilitation 4	515			550					
Loan Guaranty 5	6,623			9,176					
Insurance	1,676	.02	0.261	1,705	.02	0.369	.02	.02	.02

Notes to Improper Payment Reduction Outlook Table:

1 For some programs, dollars reported are payments, not necessarily outlays.

2 Overpayments (shaded cells) and underpayments are identified for both Compensation and Pension programs.

3 Dependency & Indemnity Compensation is included with Compensation.

4 Vocational Rehabilitation & Employment (VR&E) VR&E Service is beginning to collect data this fiscal year and will determine baseline rate and improvement targets for the next submission.

5 Loan Guaranty

Loan Guaranty is establishing a process for determining improper payments and for determining improper payment rates for the various programs.

Detail V

Discuss your agency's recovery auditing effort, if applicable, including the amount of recoveries expected, the actions taken to recover them, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. (This reporting replaces the original legislative requirement for reporting not later than 12/31/04.)

Financial Services Center, Austin, TX

VA continues to enhance audit recovery efforts related to improper/duplicate vendor payments. By centralizing some vendor payment activities at the Financial Services Center (FSC) in Austin, TX, VA increased its focus on identifying and preventing vendor payment errors. The FSC 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. Since starting this effort in FY 2004, the FSC has recovered over \$31,000 in erroneous interest penalties, service charges, and sales taxes for reuse by VA entities.

In FY 2004, FSC 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.

Health Administration Center, Denver, CO

Public Law 106-74 mandated VA conduct, by contract, a recovery audit program of past payments for hospital care. In the associated conference report for Public Law 106-379, the primary intent of this program was further described as an interest to ensure that clinical diagnoses and treatments match the codes, which are submitted to VA for payment and, where an overpayment has been made, enable VA to recover the funds for medical care.

VA awarded a recovery audit contract in December 2000. As of September 30, 2004, the contractor has identified 51,247 receivables totaling \$36,628,282 of which VA has recovered \$28,310,191.

Supply Fund

The Office of Acquisition and Materiel Management works with the Inspector General's office to recover funds owed the Department of Veterans Affairs due to: (1) defective pricing - whether the prices for the items awarded were based on accurate, complete, and current disclosures by the offeror during contract negotiations; and (2) price reduction violations - whether the contractor complied with the terms and conditions of the price reduction clause. As part of the IG's post-award contract reviews, they also look for, and collect, overcharges that were the result of the contractor charging more than the contract price. In FY 2004, this audit recovery program recovered \$16.6 million.

Detail VI

Describe the steps the agency has taken and plans to take to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.

Compensation & Pension

Quality of claims processing is a key element in the performance standards of the regional office director and the service center manager and all supervisors in the service center that execute the Compensation and Pension programs. Directors report to the Associate Deputy Under Secretary for Field Operations. Additionally, award money is available for stations that exceed targeted quality, timeliness, and production goals.

Education

Performance accountability measures are set at the Administration level for Directors of the offices that process Education claims, and by the Directors for subordinates. Education Service is developing standardized nationwide performance standards for personnel who process claims. The Payment Accuracy Rate is included in all of these performance standards.

Vocational Rehabilitation & Employment

The VR&E Quality Assurance Reviews are conducted twice each fiscal year. After each station's review, a letter is sent to the regional office, which contains the results and outlines the errors found. Additionally, the letter outlines required corrective actions. The regional office is required to submit certification of compliance on the corrective actions to the VR&E Service through the regional office director's office. In FY 2004, VR&E Service began to require all regional offices with corrective actions on fiscal activities to submit the amount of under and over payments.

Detail VII

A. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.

Except for Education, VA has the information systems and other infrastructure needed to reduce improper payments to targeted levels.

B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its FY 2005 budget submission to Congress to obtain the necessary information systems and infrastructure.

Education

In the FY 2005 Budget Submission, VBA's Education Service requested \$5.2 million in resource requirements for The Electronic Education System (TEES) development.

Detail VIII

A description of any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments.

There are no statutory or regulatory barriers that limit corrective actions in reducing improper payments for any of the programs discussed.

DEFINITIONS

Please note: Key Measures are defined in the Key Measures Data Table.

Accounts payable

The money VA owes to vendors and other Federal entities for products and services purchased. This is treated as a liability on the balance sheet. (Financial)

Accounts receivable

The amount of money that is owed to VA by a customer (including other Federal entities) for products and services provided on credit. This is treated as a current asset on the balance sheet and includes such items as amounts due from third-party insurers for veterans' health care and from individuals for compensation, pension, and readjustment benefit overpayments. (Financial)

Accuracy of decisions (Services)

Percent of cases completed accurately for veterans who receive Chapter 31 (disabled veterans receiving vocational rehabilitation) services and/or educational/vocational counseling benefits under several other benefit chapters. Accuracy of service delivery is expressed as a percent of the highest possible score (100) on cases reviewed. (VR&E)

Accuracy of program outcome

This measure seeks to ensure the accuracy of decisions made to declare a veteran rehabilitated or discontinued from a program of services. (VR&E)

Acute Bed Days of Care (BDOC)/1000

A measure that evaluates cost efficiency and utilization patterns by evaluating the number of beds in use for the full population of unique patients served. This ratio assists in ensuring that there are not inappropriate admissions. (Medical Care)

Allowance

The amounts included in the President's budget request or projections to cover possible additional proposals, such as statutory pay increases and contingencies for relatively uncontrollable programs and other requirements. As used by Congress in the concurrent resolutions on the budget, allowances represent a special functional classification designed to include amounts to cover possible requirements, such as civilian pay raises and contingencies. Allowances remain undistributed until they occur or become firm; then they are distributed to the appropriate functional classification(s). (Financial)

Appeals decided per Veterans Law Judge

The total number of decisions, remands, dismissals, and vacatur issued by the Board of Veterans' Appeals, divided by the total number of Veterans Law Judges. (BVA)

Appeals resolution time (in days)

The average length of time it takes the Department to process an appeal from the date a claimant files a Notice of Disagreement (NOD) until a case is finally resolved, including resolution at a regional office or by a final decision by the Board. (BVA and C&P)

Apportionment

A distribution made by the Office of Management and Budget of amounts available for obligation in an appropriation or fund account. Apportionments divide amounts available for obligation by specific time periods (usually quarters), activities, projects, objects, or a combination thereof. The amounts so apportioned limit the amount of obligations that may be incurred. (Financial)

Appropriation

The specific amount of money authorized by Congress for approved work, programs, or individual projects. (Financial)

Appropriation Authority

The authority granted by Congress for the agency to spend government funds. (Financial)

Attainment of statutory minimum goals for small business concerns as a percent of total procurement

The procurement dollars spent with small business concerns divided by the total procurement dollars, expressed as a percentage. (Departmental Management)

Average cost of placing participant in employment

This performance measure is a Common Measure whose definition is under development with the Departments of Labor, Education, Health and Human Services, and Veterans Affairs and will go into effect in FY 2005. (VR&E)

Average days to process – DIC actions

The average length of time it takes to process a DIC claim from the date of receipt of claim in VA until the date of completion. (Compensation)

Average hold time in seconds

The average length of time (in seconds) that a caller using the toll-free service number waits before being connected to an insurance representative. (Insurance)

Average number of days to obtain service medical records

Elapsed time, in days, from the date a field office submits a request for service medical records to the National Personnel Records Center (NPRC) until the date the field office receives the information. (Note: A statistically reliable method to capture this information has not yet been developed.) (VBA)

Average number of days to process a claim for reimbursement of burial expenses

Elapsed time, in days, from receipt of a claim in the regional office to closure of the case by issuing a decision by the regional office. (VBA/Burial)

Average waiting time for new patients seeking primary care clinic appointments (in days)

This measure is calculated using the *VistA* scheduling software and calculates the average number of days between when an appointment request is made (entered into the computer) and the date for which the appointment is actually scheduled. (Medical Care)

Average waiting time for next available appointment in primary care clinics (in days)

This measure is calculated using the *VistA* scheduling software and takes the average of primary care appointments that are designated as 'next available' and is measured from the date of the request to the date the appointment is actually made. (Medical Care)

Average waiting time for next available appointment in specialty clinics (in days)

This measure is calculated using the *VistA* scheduling software and takes the average of specialty care appointments that are designated as 'next available' and is measured from the date of the request to the date the appointment is actually made. (Medical Care)

Average waiting time for patients seeking a new specialty clinic appointment (in days)

This measure is calculated using the *VistA* scheduling software and takes the average number of days between when an appointment request is made (entered into the computer) and the date for which the appointment is actually scheduled. The specialty clinics included in this measure are audiology, cardiology, eye care (both ophthalmology and optometry), urology, and orthopedics. (Medical Care)

Balance sheet

A summary of all the assets the agency owns and the liabilities owed against those assets as of a point in time (the end of the fiscal year for VA is September 30). This statement always shows two consecutive fiscal year snapshots so the reader can compare the information. There is no “owners’ equity” in a federal agency, as there is in a non-government company. However, we instead report our “net position,” which is the amount of unexpended appropriation authority. (Financial)

Budget Authority

The authority provided by law to enter into obligations that will result in immediate or future outlays involving Federal Government funds, except that budget authority does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government. The basic forms of budget authority are appropriations, authority to borrow, and contract authority. Budget authority may be classified by the period of availability (1-year, multiple-year, no-year), by the timing of congressional action (current or permanent), or by the manner of determining the amount available (definite or indefinite). (Financial)

Budgetary resources

Budgetary resources are forms of authority given to an agency allowing it to incur obligations. Budgetary resources include new budget authority, unobligated balances, direct spending authority, and obligation limitations. (Financial)

BVA cycle time

BVA cycle time measures the time a case spends at the Board, other than the time the case file is in the possession of a Veterans Service Organization. (BVA)

CARES – Capital Asset Realignment for Enhanced Services

The program to assess veteran health care needs in VHA Networks, identify service delivery options to meet those needs in the future, and guide the realignment and allocation of capital assets to support the delivery of health care services. (Medical Care)

Chief Financial Officers Act of 1990

Legislation enacted to improve the financial management practices of the Federal government and to ensure the production of reliable and timely financial information for use in the management and evaluation of Federal programs. (Financial)

Compliance survey completion rate

The percentage of compliance surveys completed compared with the number of surveys scheduled at the beginning of the fiscal year. (Education)

Cost – Obligations per unique patient user

The average cost of total obligations for medical care divided by unique patients served. (Medical Care)

Cost per case

A unit decision cost derived by dividing BVA’s total obligational authority by the number of decisions produced. (BVA)

Cumulative number of kiosks installed at national and state veterans cemeteries

The total number of kiosk information centers installed at national and state veterans cemeteries to assist visitors in finding the exact gravesite locations of individuals buried there. In addition to providing the visitor with a cemetery map for use in locating the gravesite, the kiosk information center provides such general information as the cemetery’s burial schedule, cemetery history, burial eligibility, and facts about the National Cemetery Administration. (Burial)

Cumulative percent of commercially eligible FTE on which competitive sourcing studies are completed

The cumulative percentage of Full Time Equivalent (FTE) positions competed under competitive sourcing studies against the total number of commercial positions identified in VA’s OMB-approved competitive sourcing plan. Note: Until such time as VA receives legislative relief to the Competitive Sourcing prohibition contained in Title 38 section 8110 (a)(5), VA will not measure Competitive Sourcing activities as an element of the PAR. (Departmental Management)

Customer satisfaction

Customer satisfaction scores (measured on a scale of one through five, with five being the highest possible score) are based on surveys returned to OIG by the principals impacted by audits, investigations, contract reviews, health care inspections, and Combined Assessment Program Reviews. In instances where customer surveys are returned with lower than anticipated ratings, management may follow up with survey participants to identify any issues that caused low ratings and possible solutions. (OIG)

Customer satisfaction – high ratings

Nationally, the percentage of respondents to the education customer satisfaction survey who were “very satisfied” or “somewhat satisfied” with the way VA handled their education benefits claim. (Education)

Customer satisfaction (Survey)

Percent of veterans who answered “very satisfied” or “somewhat satisfied” overall with the VR&E program (of those who completed or withdrew from the program). (VR&E)

Decrease underutilized space from FY 03 baseline of 19,930,244 sq. ft.

Underutilized space is any space that is in use, but is in excess of the amount derived through the approved space planning method. For example, if the approved space model indicates that the workload for a given site justifies a 10,000 sq. ft. radiology space, any space above that amount is considered to be underutilized, even if it is in use as radiology space. This measure shows how much VA has decreased underutilized space as compared to the FY 2003 baseline. (Departmental Management)

Decrease vacant space from FY 03 baseline of 8,874,544 sq. ft.

VA defines vacant space as any block of space over 500 sq. ft. that is at least 75 percent empty. This measure shows how much VA has decreased vacant space as compared to the FY 2003 baseline. (Departmental Management)

Deficiency-free decision rate

This goal is based on a random sampling of approximately 5 percent of Board decisions. Decisions are checked for deficiencies in the following categories: identification of issues, findings of fact, conclusions of law, reasons and bases/rationale for preliminary orders, and due process. (BVA)

Dollar value of 1st and 3rd party collections

Medical care received within VHA has a co-payment attached in some cases. This co-payment is referred to as 1st party collections. In addition, for veterans who have other insurance, as appropriate, those insurance companies are billed for services. Those collections are referred to as 3rd party collections. (Medical Care)

Efficiency – Annual number of appointments per year per FTE

The ratio of all outpatient visits against the number of clinical full-time equivalent employees. The measure has an indirect relationship to efficiency. (Medical Care)

Exchange Revenue

Exchange revenues arise when a Federal entity provides goods and services to the public or to another government entity for a price. (Financial)

Federal Credit Reform Act of 1990

Legislation enacted to improve the accounting for costs of federal credit programs. (Financial)

Federal Financial Management Improvement Act (FFMIA)

The FFMIA requires agencies to produce timely and reliable financial statements that demonstrate their compliance with Federal financial management systems requirements, Federal accounting standards, and the U.S. government standard general ledger. If an agency believes its systems are not FFMIA-compliant, it must develop a remediation plan to achieve compliance within 3 years. (Financial)

Federal Managers' Financial Integrity Act (FMFIA) of 1982

Legislation that requires Federal agencies to establish processes for the evaluation and improvement of financial and internal control systems in order to ensure that management control objectives are being met.

(Financial)

Fiduciary Activities – Initial Appointment & Fiduciary – Beneficiary Exams (completed) (%)

This measure is the percentage of work products completed that exceeded the timeliness standard. It is obtained by dividing the sum of initial appointment (IA) and fiduciary beneficiary (FB) field examination work products completed untimely during a month by the total number of IAs and FBs completed during that month. A work product is considered overdue if it is completed in over 45 days for IAs and over 120 days for FBs. The FYTD measure is the total sum of each month's overdue completed cases divided by the total number of completed IAs + FBs. (C&P)

Fiduciary Activities – Initial Appointment & Fiduciary – Beneficiary Exams (pending) (%)

This measure is the percentage of pending field examinations that are already pending beyond the timeliness standard. The percentage is obtained by dividing the sum of initial appointment (IA) and fiduciary-beneficiary (FB) field examinations pending over standard by the total number of IAs and FBs pending at the end of the month. IAs and FBs pending over 45 and 120 days, respectively, are untimely. (C&P)

Franchise Fund

VA's fund is comprised of six enterprise centers that competitively sell common administrative services and products throughout the Federal Government. The funds are deposited into the Franchise Fund. The Centers' operations are funded solely on a fee-for-service basis. Full cost recovery ensures they are self-sustaining.

(Departmental Management)

Fund Balance with the Treasury

The aggregate amount of funds in VA's accounts with the Department of the Treasury for which we are authorized to make expenditures and pay liabilities. This account includes clearing account balances and the dollar equivalent of foreign currency account balances. (Financial)

Government Management Reform Act of 1994

Legislation enacted to provide more effective and efficient executive branch performance in reporting financial information to Congress and committees of Congress. (Financial)

Heritage Assets

Heritage Assets are unique and are generally expected to be preserved indefinitely. Heritage assets may have historical or natural significance; be of cultural, educational, or artistic importance; or have significant architectural characteristics. (Financial)

High customer ratings

The percent of insurance customers who rate different aspects of insurance services in the highest two categories, based on a 5-point scale, using data from the insurance customer survey. (Insurance)

Home Purchase – Percent of active duty personnel and veterans that could not have purchased a home without VA assistance

Comparison (ratio) of the median financial assets available to veterans at closing of a guaranteed loan versus the amount necessary to obtain an FHA loan. (Housing)

Increase the percent of funded grants providing services to homeless veterans that are faith-based

To expand opportunities for faith-based and community organizations to better meet the social needs of veterans and their families through grant-funded programs and other activities. (Departmental Management)

Intragovernmental assets

These assets arise from transactions among Federal entities. These assets are claims of the reporting entity against other Federal entities. (Financial)

Intragovernmental liabilities

These liabilities are claims against the reporting entity by other Federal entities. (Financial)

Inventory

An inventory is a tangible personal property that is (i) held for sale, including raw materials and work in process, (ii) in the process of production for sale, or (iii) to be consumed in the production of goods for sale or in the provision of services for a fee. (Financial)

Low customer ratings

The percent of insurance customers who rate different aspects of insurance services in the lowest two categories, based on a 5-point scale, using data from the insurance customer survey. (Insurance)

Management (or internal) controls

Safeguards (organization, policies, and procedures) used by agencies to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported, and used for decision making. (Financial)

Material weakness

A reportable condition in which the design or operation of the specific internal control does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the consolidated financial statements being audited. This condition may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. (Financial)

Medical residents' and other trainees' scores on a VHA survey assessing their clinical training experience

The satisfaction survey for residents and other medical trainees assists VHA in determining how well we are achieving VA's academic mission of providing innovative and high-quality health care training for VA and the Nation. The survey results are used to learn what satisfies medical trainees and to improve the clinical training experience. The sources of this data are the responses to a summary question from the Learners' Perceptions Survey. (Medical Care)

Memorial Service Network

NCA's field structure is geographically organized into five Memorial Service Networks (MSNs). The national cemeteries in each MSN are supervised by the MSN Director and staff. The MSN offices are located in Philadelphia, Pennsylvania; Atlanta, Georgia; Indianapolis, Indiana; Denver, Colorado; and Oakland, California. The MSN Directors and staff provide direction, operational oversight, and engineering assistance to the cemeteries located in their geographic areas. (Burial)

Montgomery GI Bill usage rate: All program participants

The MGIB usage rate is derived by dividing the number of veterans who have received MGIB benefits by the number of all veterans who participated in the MGIB program and have separated from active military service. The usage rate includes those veterans who are still within their 10-year eligibility period but have not, as yet, applied for education benefits. (Education)

Montgomery GI Bill usage rate: Veterans who have passed their 10-year eligibility period

The MGIB usage rate is derived by dividing the number of veterans who have received MGIB benefits by the number of all veterans who participated in the MGIB program, have separated from active military service, and are beyond their eligibility period, generally 10 years after they left active duty. (Education)

National accuracy rate (authorization work)

Nationwide, the percentage of original death pension claims, dependency issues, income issues, income verification matches, income verification reports, burial and plot allowances, claims for accrued benefits, and special eligibility determinations completed and determined to be technically accurate. The accuracy rate for the Nation is a compilation of the C&P Service's review of the 57 regional offices. (C&P)

National accuracy rate (fiduciary work)

Nationwide, the percentage of field examinations and account audits completed and determined to be technically accurate. The accuracy rate for the Nation is a compilation of the C&P Service's review of the 57 regional offices. (C&P)

National Accuracy Rate for burial claims processed

Nationwide, the percentage of claims completed and determined to be technically accurate. (Burial)

Net cost of operations

Net cost of operations is the gross cost incurred by VA less any exchange revenue earned from its activities. The gross cost of a program consists of the full cost of the outputs produced by that program plus any non-production costs that can be assigned to the program. (Financial)

Net position

Net position comprises the portion of VA's appropriations represented by undelivered orders and unobligated balances (unexpended appropriations) and the net results of the reporting entity's operations since inception, plus the cumulative amount of prior period adjustments (cumulative results of operations). (Financial)

Net program cost

Net program cost is the difference between a program's gross cost and its related exchange revenues. If a program does not earn any exchange revenue, there is no netting and the term used might be total program cost. (Financial)

Non-rating actions - average days pending

Elapsed time, in days, from date of receipt of a claim (for which work has not been completed) in the regional office to current date. Non-rating actions include the following types of claims: original death pension, dependency issues, income issues, income verification matches, income verification reports, burial and plot allowances, claims for accrued benefits, and special eligibility determinations. (C&P)

Non-rating actions - average days to process

Elapsed time, in days, from receipt of a claim in the regional office to closure of the case by issuing a decision by a regional office. Non-rating actions include the following types of claims: original death pension, dependency issues, income issues, income verification matches, income verification reports, burial and plot allowances, claims for accrued benefits, and special eligibility determinations. (C&P)

Notes to the Consolidated Financial Statements

The notes provide additional disclosures that are necessary to make the financial statements more informative and not misleading. The notes are an integral part of the financial statements. (Financial)

Number of audit qualifications identified in the auditor's opinion on VA's Consolidated Financial Statements

Audits are performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and the requirements of the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements," as amended. This measure reports how many audit qualifications are identified each year in VA's consolidated financial statements. (Departmental Management)

Number of business lines transformed to achieve a secure veteran-centric delivery process that would enable veterans and their families to register and update information, submit claims or inquiries, and obtain status
Maintain a *One VA* information technology framework that supports the integration of information across busi-

ness lines and provides a course of consistent, reliable, accurate, and secure information to veterans and their families, employees, and stakeholders. (Departmental Management)

Number of indictments, arrests, convictions, administrative sanctions, and pretrial diversions

Output measures resulting from the conduct of an OIG investigation into allegations of criminal activities related to programs and operations of VA or into allegations against senior VA officials and other high profile matters of interest to Congress and the Department. (OIG)

Number of material weaknesses identified during the Annual Financial Statement Audit or identified by management

Audits are performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and the requirements of the Office of Management and Budget (OMB) Bulletin No. 01-02, *"Audit Requirements for Federal Financial Statements,"* as amended. This measure reports how many material weaknesses are identified each year in VA's consolidated financial statements. (Departmental Management)

Number of reports issued

An output measure resulting from the preparation and release of a formal document prepared and released by the OIG following the conduct of a Consolidated Assessment Program review, administrative investigation, audit, or health care inspection. (OIG)

Obligations

Obligations represent the amount of orders placed, contracts awarded, services received, and other transactions occurring during a given period that would require payments during the same or future period. (Financial)

OMB Circular No. A-123

The Office of Management and Budget (OMB) issued Circular No. A-123 to provide guidance to Federal managers on improving the accountability and effectiveness

of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls. (Financial)

OMB Circular No. A-127

The Office of Management and Budget (OMB) issued Circular No. A-127 to prescribe policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. (Financial)

Outlay

Outlay is the amount of checks, disbursement of cash, or electronic transfer of funds made to liquidate a Federal obligation. Outlays also occur when interest on the Treasury debt held by the public accrues and when the Government issues bonds, notes, debentures, monetary credits, or other cash-equivalent instruments in order to liquidate obligations. (Financial)

Outpatient visits/1000 – subdivided by: Med/Surg

A ratio of all visits to providers against unique patients served for all medical and surgical clinics. Provides information that assists in the evaluation of cost efficiency. (Medical Care)

Outpatient visits/1000 – subdivided by: Mental Health

A ratio of all visits to providers against unique patients served for all mental health clinics. Provides information that assists in the evaluation of cost efficiency. (Medical Care)

Overall satisfaction

Nationally, the percentage of respondents to the C&P customer satisfaction survey who were "very satisfied" or "somewhat satisfied" with the way VA handled their claim. (C&P)

Participation rate in the monthly Minority Veterans Program Coordinators (MVPC) conference call

Conference calls are scheduled monthly to identify concerns and issues that affect benefits delivery to minority

veterans, collaborate and exchange best practices, and update the Center on current as well as ongoing initiatives within their respective areas. (Departmental Management)

Payment accuracy rate

Measures how well decisions reflect payment at the proper rate for the correct period of time. (Education)

Percent change in earnings from pre-application to post-program employment

This performance measure is a Common Measure whose definition is under development with the Departments of Labor, Education, Health and Human Services, and Veterans Affairs and will go into effect in FY 2005. (VR&E)

Percent decrease of annual IT budget spent on sustainment, shifting corresponding savings to modernization (zero sum gain)

Decrease the amount spent on IT maintenance projects by 5 percent to enable increased spending on modernization projects. (Departmental Management)

Percent increase in the annual IT budget above the previous year's budget (excluding pay raise and inflation increases)

Cap the IT budget to the FY 2003 rebaselined amount. (Departmental Management)

Percent increase of EDI usage over base year of 1997

The percent increase in the number of line items ordered through Electronic Data Interchange (EDI) by fiscal year. (Departmental Management)

Percent of all patients evaluated for the risk factors for hepatitis C

Hepatitis C is a major public health problem, and there is a concern that this disease occurs more frequently among veterans than the rest of the population. From a patient and public health perspective, all patients should be screened for high risk factors. If patients are at high risk for being exposed to hepatitis C, then they should be

tested and evaluated for possible drug therapy.

Regardless of whether they elect to initiate drug therapy or are candidates for current treatments, they need to receive information about disease transmission, the benefits of avoiding hepatotoxins such as alcohol, and the current recommendations regarding vaccination against other types of viral hepatitis. The numerator is the number of patients ever screened for risk factors, tested, and/or diagnosed for hepatitis C. The denominator is all patients in the sample. (Medical Care)

Percent of all patients tested for hepatitis C subsequent to a positive hepatitis C risk factor screening

The number of patients who are ever tested or diagnosed for hepatitis C divided by the number of patients in the sample ever tested, diagnosed, or screened with a positive risk factor. (Medical Care)

Percent of blocked calls

The percentage of call attempts for which callers receive a busy signal because all circuits were in use for the insurance toll-free service number. (Insurance)

Percent of cases using alternate dispute resolution (ADR) techniques

The percent of contract dispute matters electing to use Alternate Dispute Resolution (ADR) techniques. ADR techniques refer generally to several formal and informal processes for resolving disputes that do not entail courtroom litigation. (Departmental Management)

Percent of claimants who are Benefits Delivery at Discharge (BDD) participants

Nationally, the percentage of all BDD-eligible service personnel who submitted BDD claims. (Compensation)

Percent of clinical software patches installed on time: CPRS, BCMA, Imaging

The clinical software patches that support the electronic medical record (CPRS), blood administration (BCMA), and radiology (Imaging) have been identified as having significant safety potential for patients if not installed on

time. This measure ensures that all are installed in an appropriate time frame. (Medical Care)

Percent of compensation recipients who perceive that VA compensation redresses the effect of service-connected disability in diminishing the quality of life

The percent of veterans in a Program Outcome Study of the compensation program who believe the compensation they are receiving is fair. (Compensation)

Percent of compensation recipients who were kept informed of the full range of available benefits

Nationally, the percentage of respondents to the C&P customer satisfaction survey who indicated that the VA kept them informed of the full range of VA benefits and services available, of those who needed that information. (Includes both persons applying for and receiving compensation.) (Compensation)

Percent of DIC recipients above the poverty level

The percent of DIC recipients as measured by the Spouse and Parents DIC Program Outcome Studies who are above the poverty level threshold for the year in which the study is done. (Compensation)

Percent of DIC recipients who are satisfied that the VA recognized their sacrifice

The percent of DIC recipients in a Program Outcome Study of the DIC program who believe the DIC benefits they are receiving are fair. (Compensation)

Percent of employees who are aware that alternate dispute resolution (ADR) is an option for addressing workplace disputes

The percent of employees who are made aware of ADR through a variety of mechanisms, such as increased training opportunities, mediation satellite broadcast programs, and promotion of videotape examples on mediation. (Departmental Management)

Percent of funeral directors who respond that national cemeteries confirm the scheduling of the committal service within 2 hours

The percent of funeral directors who respond that the amount of time it typically takes to confirm the scheduling of an interment is less than two hours. (Burial)

Percent of Group 1 emergency preparedness officials who receive training or, as applicable, who participate in exercises relevant to VA's COOP plan on the National level

This measure provides an indicator of the extent to which senior Washington-based VA leaders are trained and prepared to assume effective leadership roles and ensure continuity of VA operations in time of national emergency. (Departmental Management)

Percent of Group 2 emergency preparedness officials who receive training or, as applicable, who participate in exercises relevant to VA's COOP plan on the National level

This measure provides an indicator of the extent to which VA field-based leaders scheduled to assume a VA headquarters role at a remotely located "mirror-site" are trained and prepared to assume effective leadership of the Department and ensure continuity of VA operations in time of national emergency, when the VACO leadership structure has been compromised. (Departmental Management)

Percent of headstones and markers ordered by national cemeteries for which inscription data are accurate and complete

This percentage represents the number of headstone and marker inscriptions ordered by national cemeteries for which inscription information is correctly and accurately recorded by cemetery personnel divided by the total number of inscriptions ordered. (Burial)

Percent of headstones and markers ordered online by other federal and state veterans cemeteries using BOSS

This percentage represents the number of headstones and markers ordered through NCA's Burial Operations Support System (BOSS) by other federal (for example,

Arlington National Cemetery) and state veterans cemeteries divided by the total number of headstones and markers ordered by other federal and state veterans cemeteries. (Burial)

Percent of headstones and markers that are undamaged and correctly inscribed

This percentage represents the number of headstones and markers that are undamaged and correctly inscribed, divided by the number of headstones and markers ordered. (Burial)

Percent of headstones and/or markers in national cemeteries that are at the proper height and alignment

This percentage represents the number of headstones and markers in national cemeteries that are at the proper height and alignment divided by the total number assessed. (Burial)

Percent of headstones, markers, and niche covers that are clean and free of debris or objectionable accumulations

This percentage represents the number of headstones, markers, and niche covers that are clean and free of debris or objectionable accumulations divided by the total number assessed. (Burial)

Percent of individual headstone and marker orders transmitted electronically to contractors

The percent of individual headstone and marker orders that were transmitted to contractors via communication software or Internet e-mail. (Burial)

Percent of outpatient encounters that have electronic progress notes signed within 2 days

The percent of all outpatient encounters that have progress notes entered into the electronic medical record within 2 days of the encounter. (Medical Care)

Percent of participants employed first quarter after program exit

This performance measure is a Common Measure whose definition is under development with the Departments of Labor, Education, Health and Human

Services, and Veterans Affairs and will go into effect in FY 2005. (VR&E)

Percent of participants still employed three quarters after program exit

This performance measure is a Common Measure whose definition is under development with the Departments of Labor, Education, Health and Human Services, and Veterans Affairs and will go into effect in FY 2005. (VR&E)

Percent of patients who report being seen within 20 minutes of scheduled appointments at VA health care facilities

Percent of patients who report in the Survey of Health care Experiences of Patients (SHEP) that they were seen by the provider within 20 minutes or less of their scheduled appointment time. (Medical Care)

Percent of pension recipients who were informed of the full range of available benefits

Nationally, the percentage of respondents to the C&P customer satisfaction survey who indicated that the VA kept them informed of the full range of VA benefits and services available, of those who needed that information. (Includes both persons applying for and receiving pension.) (Pension)

Percent of Presidential Memorial Certificates that are accurately inscribed

A Presidential Memorial Certificate (PMC) conveys to the family of the veteran the gratitude of the Nation for the veteran's service. To convey this gratitude, each certificate must be accurately inscribed. This measure represents the number of PMCs sent to the families of deceased veterans that are accurately inscribed, divided by the number of PMCs issued. (Burial)

Percent of recipients who said their claim was very or somewhat fair

Nationally, the percentage of respondents to the C&P customer satisfaction survey who indicated that VA's evaluation of their claim was "somewhat" or "very" fair.

(Includes both persons applying for and receiving pension.) (Pension)

Percent of respondents who would recommend the national cemetery to veteran families during their time of need

The percent of survey respondents who agree or strongly agree that they would recommend the national cemetery to veteran families during their time of need. (Burial)

Percent of VA medical centers that provide electronic access to health information provided by DoD on separated service persons

All VA medical centers will provide electronic access for separated service persons to their own military health records as well as for Veterans Benefits offices to facilitate claims processing. (Medical Care)

Percent of veterans in receipt of compensation whose total income exceeds that of like-circumstanced veterans

A figure derived from a Compensation Program Outcome Study measuring available income and other cash and non-cash resources for service-connected disabled veterans compared to nonservice-connected veterans. (Compensation)

Percent of veterans served by a burial option in a national cemetery within a reasonable distance (75 miles) of their residence

NCA determines the percentage of veterans served by a burial option in existing national cemeteries within a reasonable distance of their residence by analyzing census data on the veteran population. A burial option is defined as a first family member interment option (whether for casketed remains or cremated remains, either in-ground or in columbaria) in a national cemetery that is available within 75 miles of the veteran's place of residence. From 2000 through 2002, the number of veterans and the number of veterans served were extracted from the VetPop2000 model using updated 1990 census data. Beginning in 2003, the number of veterans and the number of veterans served were extracted from a revised VetPop2000 model using 2000 census. (Burial)

Percent of veterans served by a burial option only in a state veterans cemetery within a reasonable distance (75 miles) of their residence

NCA determines the percentage of veterans served by a burial option only in a state veterans cemetery within a reasonable distance of their residence by analyzing census data on the veteran population. A burial option is defined as a first family member interment option (whether for casketed remains or cremated remains, either in-ground or in columbaria) in a state veterans cemetery that is available within 75 miles of the veteran's place of residence. From 2000 through 2002, the number of veterans and the number of veterans served were extracted from the VetPop2000 model using updated 1990 census data. Beginning in 2003, the number of veterans and the number of veterans served were extracted from a revised VetPop2000 model using 2000 census. (Burial)

Percent of veterans who were discharged from a Domiciliary Care for Homeless Veterans (DCHV) Program or HCHV Community-based Contract Residential Care Program to an independent or a secured institutional living arrangement

This measure tracks the percentage of veterans discharged from a DCHV or HCHV program directly to independent living or secure housing in the community. Independent living is defined as residence in one's own apartment, room, or house. Secured living arrangement is defined as half-way house, transitional housing, or domiciliary. (Medical Care)

Prevention Index II (Special Populations)

The overall Prevention Index score is comprised of nine disease or health factors that measure how well VA follows nationally recognized primary prevention and early detection recommendations that significantly determine health outcomes. Indicators within the Index include: rate of immunizations for influenza and Pneumococcal pneumonia; screening for tobacco consumption, alcohol abuse, breast cancer, cervical cancer, and colorectal cancer; screening for prostate cancer education; and screening for cholesterol levels. The same overall index is then evaluated for those patients who meet the definition of a special population as a sub-group. (Medical Care)

Program evaluation

An assessment, through objective measurement and systematic analysis, of the manner and extent to which Federal programs achieve intended outcomes. (Departmental Management)

Prompt Payment Act

The Prompt Payment Final Rule (formerly OMB Circular No. A-125, "Prompt Payment") requires Executive departments and agencies to pay commercial obligations within certain time periods and to pay interest penalties when payments are late. (Financial)

Property, Plant, and Equipment

Property, plant, and equipment consist of tangible assets, including land, that have estimated useful lives of 2 years or more, not intended for sale in the ordinary course of operations, and have been acquired or constructed with the intention of being used, or being available for use, by the reporting entity. (Financial)

PTSD – Post Traumatic Stress Disorder

PTSD is an anxiety disorder that can occur following the experience or witnessing of life-threatening events, such as military combat, natural disasters, terrorist incidents, serious accidents, or violent personal assaults such as rape. People who suffer from PTSD often relive the experience through nightmares and flashbacks, have difficulty sleeping, and feel detached or estranged. These symptoms can be severe enough and last long enough to significantly impair the person's daily life. Common PTSD stressors in veterans include war zone stress (e.g., combat and exposure to mass casualty situations), the crash of a military aircraft, or sexual assault. VA is committed to providing an integrated, comprehensive, and cost-effective continuum of care for veterans with PTSD. (Medical Care)

Quality – The percentage of diabetic patients taking the HbA1c blood test in the past year

Clinical Practice Guidelines recommend an annual evaluation of HbA1c testing as it is used to measure long-range glycemic control. Increased control decreases potential complications from diabetes. (Medical Care)

Reduce facility energy consumption relative to a 1985 baseline

Facility energy consumption is measured by BTU's per gross square foot in VA facilities. This measure shows how much VA has decreased energy consumption as compared to a 1985 baseline. (Departmental Management)

Reportable Conditions

Matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control that could adversely affect the organization's ability to properly record, process, and summarize transactions and comply with applicable laws and regulations. (Financial)

Research and Development

Research and development investments are expenses included in the calculation of net costs to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new and improved products and processes, with the expectation of maintaining or increasing national economic productivity capacity or yielding other future benefits. (Financial)

Speed of entitlement decisions in average days

Average number of days from the time the application is received until the veteran is notified of the entitlement decision. (VR&E)

State Veterans Cemetery

State veterans cemeteries, which complement VA's system of national cemeteries, provide burial options for eligible veterans and their family members. These cemeteries may be established by the States with the assistance of VA's State Cemetery Grants Program (SCGP). The SCGP provides grants to states of up to 100 percent of the cost of establishing, expanding, or improving state veterans cemeteries. (Burial)

Statement of Budgetary Resources

A financial statement that provides assurance that the amounts obligated or spent did not exceed the available budget authority, obligations and outlays were for the purposes intended in the appropriations and authorizing legislation, other legal requirements pertaining to the account have been met, and the amounts are properly classified and accurately reported. (Financial)

Statement of Changes in Net Position

A financial statement that provides the manner in which VA's net costs were financed and the resulting effect on the Department's net position. (Financial)

Statement of Financing

A financial statement that explains how budgetary resources obligated during the period relate to the net cost of operations. It also provides information necessary to understand how the budgetary resources finance the cost of operations and affect the assets and liabilities of the Department. (Financial)

Statement of Net Costs

A financial statement that provides information to help the reader understand the net costs of providing specific programs and activities, and the composition of and changes in these costs. (Financial)

Statement of Written Assurance

A statement of written assurance is required by the Federal Managers' Financial Integrity Act. Each year, the head of each executive agency must prepare a statement that the agency's systems of internal accounting and administrative control fully comply with the requirements of the law, or that they do not comply. In the latter case, the head of the agency must include a report in which (a) material weaknesses in the agency's system of internal accounting and administrative controls are identified and (b) the plans and schedules for correcting any such weaknesses. (Financial)

Statistical quality index

A quality index that reflects the number of correct actions found in Statistical Quality Control reviews, measured as a percentage of total actions reviewed. (Housing)

Status of Budgetary Resources

Obligations incurred, the unobligated balances at the end of the period that remain available, and unobligated balances at the end of the period that are unavailable except to adjust or liquidate prior year obligations. (Financial)

Stewardship Land

Land not acquired for or in connection with items of general property, plant, and equipment. (Financial)

Stewardship Property, Plant, and Equipment

Assets whose physical properties resemble those of general PP&E that are traditionally capitalized in financial statements. However, due to the nature of these assets, (1) valuation would be difficult and (2) matching costs with specific periods would not be meaningful. Stewardship PP&E consists of heritage assets, national defense PP&E, and Stewardship Land. (Financial)

Sustain 2002 level of partnering opportunities with: Veterans Service Organizations; other Federal Agencies; non-profit foundations, e.g., American Heart Association, American Cancer Society; and private industry, e.g., pharmaceutical companies

This measures the number of partnering opportunities with other Federal agencies and with the private sector for joint research efforts in order to leverage research dollars. (Medical Research)

Telehealth

The use of electronic communications and information technology to provide and support health care when distance separates the participants. It includes health care practitioners interacting with patients, and patients interacting with other patients. (Medical Care)

Telemedicine

The provision of care by a licensed independent health care provider that directs, diagnoses, or otherwise provides clinical treatment delivered using electronic communications and information technology when distance separates the provider and the patient. (Medical Care)

Telephone activities - abandoned call rate

Nationwide, the percentage of call attempts for which the caller gets through, but hangs up before talking to a VA representative. (C&P, Education)

Telephone activities - blocked call rate

Nationwide, the percentage of call attempts for which callers receive a busy signal because all circuits were in use. (C&P, Education)

Unobligated Balances

Balances of budgetary resources that have not yet been obligated. (Financial)

VA Domiciliary

A VA domiciliary provides comprehensive health and social services in a VA facility for eligible veterans who are ambulatory and do not require the level of care provided in nursing homes. (Medical Care)

VA Hospital

A VA hospital is an institution that is owned, staffed, and operated by VA and whose primary function is to provide inpatient services. Note: Each division of an integrated medical center is counted as a separate hospital. (Medical Care)

VA National Cemetery

A VA national cemetery provides burial options for eligible veterans and their family members. VA's 120 national cemeteries are national shrines that are important sites for patriotic and commemorative events. (Burial)

VA Regional Office

A VA regional office is a VBA office located in each state that receives and processes claims for VA benefits. (VBA)

Value of monetary benefits from IG audits

Funds put to better use and monetary recoveries associated with recommendations to enhance VA operations and correct operating efficiencies resulting from OIG audits. (OIG)

Value of monetary benefits from IG contract reviews

Funds put to better use and monetary recoveries resulting from preaward and postaward contract reviews. (OIG)

Value of monetary benefits from IG investigations

Funds, including fines, penalties, restitutions, civil judgments, recoveries, and efficiencies that result from criminal and administrative investigations. (OIG)

Veterans Integrated Service Network (VISN)

The 21 VISNs are integrated networks of health care facilities that provide coordinated services to veterans to facilitate continuity through all phases of health care and to maximize the use of resources. (Medical Care)

Veterans satisfaction

The percentage of veterans answering the survey that were "very satisfied" or "somewhat satisfied" with the process of obtaining a VA home loan. (Housing)

List of Abbreviations and Acronyms

AAC

Austin Automation Center

ADR

Alternate Dispute Resolution

AHA

American Hospital Association

AICPA

American Institute of Certified Public Accountants

AMAS-R

Automated Monument Application System–Redesign

ARC

Allocation Resources Center

AZT

Azidothymidine

BDD

Benefits Delivery at Discharge

BDN

Benefits Delivery Network

BDOC

Bed Days of Care

BEC

Benefits Executive Council

BOB

Business Oversight Board

BOSS

Burial Operations Support System

BPA

Blanket Purchase Agreement

BVA

Board of Veterans' Appeals

C&P

Compensation and Pension

CAMS

Capital Asset Management System

CAP

Combined Assessment Program

CAPRI

Compensation and Pension Records Interchange

CARES

Capital Asset Realignment for Enhanced Services

CBOC

Community-based Outpatient Clinic

CDC

Centers for Disease Control and Prevention

CDCI II

Chronic Disease Care Index II

CFO

Chief Financial Officer

CFS

Consolidated Financial Statements

CHL

Countrywide Home Loans

CIO

Chief Information Officer

CIRC

Central Incident Response Capability

CLO

Clinical Logistics Office

CMOP

Consolidated Mail Outpatient Pharmacy

CMS

Centers for Medicare and Medicaid Services

CNH

Community Nursing Home

COLAs

Cost of Living Adjustments

COOP

Continuity of Operations Plan

CoreFLS

Core Financial and Logistics System

CPRS

Computerized Patient Record System

CPTS

Centralized Property Tracking System

CSMAS

Competitive Sourcing and Management Analysis Service

CSO

Commissioners Standard Ordinary

CSP

Cyber Security Professionalization

CSRS

Civil Service Retirement System

CWT

Compensated Work Therapy

CWT/TR

Compensated Work Therapy/Transitional Residential

DAEO

Designated Agency Ethics Official

DCHV

Domiciliary Care for Homeless Veterans

DFAS

Defense Finance and Accounting Service

DIC

Dependency and Indemnity Compensation

DMC

Debt Management Center

DoD

Department of Defense

DOE

Department of Energy

DOL

Department of Labor

DOOR

Distribution of Operational Resources

DSS

Decision Support System

EA

Enterprise Architecture

ECAP

Electronic Certification Automated Processing

ECSIP

Enterprise Cyber Security Infrastructure Project

EDI

Electronic Data Interchange

EFO

Enterprise Fund Office

EPA

Environmental Protection Agency

FAIR Act

Federal Activities Inventory Reform Act

FASAB

Federal Accounting Standards Advisory Board

FASB

Financial Accounting Standards Board

FATS

Foreclosure Avoidance Through Servicing

FECA

Federal Employees' Compensation Act

FERS

Federal Employees Retirement System

FFMIA

Federal Financial Management Improvement Act

FIFO

First In First Out

FISCAM

Federal Information System Controls Audit Manual

FISMA

Federal Information Security Management Act

FITSAF

Federal Information Technology Security Assessment Framework

FMFIA

Federal Managers' Financial Integrity Act

FMS

Financial Management System

FOAM

Financial Quality Assurance Manager

FSC

Financial Services Center

FSQAS

Financial & Systems Quality Assurance Service

FSS

Federal Supply Schedule

FTE

Full-time Equivalent

FY

Fiscal Year

G&EC

Geriatrics and Extended Care

GAAP

Generally Accepted Accounting Principles

GAO

Government Accountability Office

GMRA

Government Management Reform Act

GPO

Government Printing Office

GPRA

Government Performance and Results Act

GSA

General Services Administration

GWVIS

Gulf War Veterans Information System

HCHV

Health Care for Homeless Veterans

HEC

Health Eligibility Center

H/HHA

Homemaker/Home Health Aide

HIM

Health Information Management

HIPAA

Health Information Portability and Accountability Act

HUD

Department of Housing and Urban Development

HUD-VASH

HUD-VA Supported Housing

IDS

Intrusion Detection System

IFCAP

Integrated Funds Distribution, Control Point Activity, Accounting and Procurement

IG

Inspector General

IHS

Indian Health Service

IMS

Inventory Management System

ISO Information Security Officer	NSLI National Service Life Insurance
IT Information Technology	NSOC Network and Security Operations Center
IVM Income Verification Match	OA&MM Office of Acquisition and Materiel Management
JEC Joint Executive Council	OAEM Office of Asset Enterprise Management
LETC Law Enforcement Training Center	OCIS Office of Cyber and Information Security
LS&C Loan Service & Claims	OGC Office of General Counsel
MAP-D Modern Award Processing - Development	OHRM Office of Human Resources Management
MCCF Medical Care Collections Fund	OIG Office of Inspector General
MEO Most Efficient Organization	OM Office of Management
MPI Master Patient Index	OMB Office of Management and Budget
MSN Memorial Service Network	OPM Office of Personnel Management
MVPC Minority Veterans Program Coordinators	ORD Office of Research and Development
NAC National Acquisition Center	OSDBU Office of Small and Disadvantaged Business Utilization
NCA National Cemetery Administration	OSGLI Office of Servicemembers' Group Life Insurance
NEPEC Northeast Program Evaluation Center	OWCP Office of Workers' Compensation Program
NIH National Institutes of Health	P&F Program and Financing
NOD Notice of Disagreement	PA&I Office of Performance Analysis and Integrity

PAID

Personnel and Accounting Integrated Data

PART

Program Assessment Rating Tool

PBSC

Performance-based Service Contracting

PFSS

Patient Financial Service System

PI II

Prevention Index II

PKI

Public Key Infrastructure

PLOU

Portfolio Loan Oversight Unit

PMC

Presidential Memorial Certificate

PP&E

Property, Plant & Equipment

PTSD

Post Traumatic Stress Disorder

QA

Quality Assurance

QAS

Quality-Access-Satisfaction

QM

Quality Management

R&D

Research and Development

RBA 2000

Rating Board Automation 2000

REMIC

Real Estate Mortgage Investment Conduits

REO

Real Estate Owned

RID

Review and Inspections Division

RMC

Records Management Center

RO

Regional Office

RPO

Regional Processing Office

RVSR

Rating Veteran Service Representative

S&IC

Security and Investigations Center

S-DVI

Service-Disabled Veterans Insurance

FFAS

Statement of Federal Financial Accounting Standards

SGLI

Servicemembers' Group Life Insurance

SHEP

Survey of Healthcare Experiences of Patients

SKIPPES

Skills, Knowledge, and Insurance Practices and Procedures Embedded in Systems

SMC

Strategic Management Council

SQC

Statistical Quality Control

SSA

Social Security Administration

SSN

Social Security Number

STAR

Statistical Technical Accuracy Review

SVES

State Verification and Exchange System

SVH
State Veterans Home

SWA
Statement of Written Assurance

TAP
Transition Assistance Program

TBI
Traumatic Brain Injury

TMP
Telecommunications Modernization Project

TOP
Treasury Offset Program

TPSS
Training and Performance Support System

TREASURY
Department of the Treasury (U.S. Treasury)

TRICARE
DoD-Managed Care Support Contract

UME
Unreimbursed Medical Expense

U.S.C.
United States Code

USGLI
United States Government Life Insurance

VA
Department of Veterans Affairs

VACERT
VA Electronic Education Certification Program

VACO
VA Central Office

VAEB
VA Executive Board

VAMC
VA Medical Center

VA RC&V
VA Records Center and Vault

VARO
VA Regional Office

VBA
Veterans Benefits Administration

VCAA
Veterans Claims Assistance Act

VERA
Veterans' Equitable Resource Allocation

VETSNET
Veterans Services Network

VGLI
Veterans' Group Life Insurance

VHA
Veterans Health Administration

VISN
Veterans Integrated Service Network

VistA
Veterans Health Information Systems and Technology Architecture

VMLI
Veterans' Mortgage Life Insurance

VR&E
Vocational Rehabilitation and Employment

VRI
Veterans' Reopened Insurance

VSLI
Veterans' Special Life Insurance

WAN
Wide Area Network

WCP
Workers' Compensation Program

Key Report Officials

WILLIAM A. MOORMAN

Acting Assistant Secretary for Management, CFO

D. MARK CATLETT

Principal Deputy Assistant Secretary for Management

EDWARD J. MURRAY

Acting Deputy Assistant Secretary for Finance,
Deputy CFO

ROMANO MASCETTI, III

Associate Deputy Assistant Secretary for
Financial Policy

JAMES G. BRADLEY

Financial Statements - Preparation

RICHARD SASSOON

Performance Measurement

RICHARD J. GRIFFIN

Inspector General

MICHAEL L. STALEY

Assistant Inspector General for Auditing

MARIE A. MAGUIRE

Financial Statements - Audit

JIMMY A. NORRIS

Veterans Health Administration, CFO

LYNNETTE NILAN, RN, EdD.

Veterans Health Administration,
Performance Measurement

JAMES M. BOHMBACH

Veterans Benefits Administration, CFO

RUTH WHICHARD

Veterans Benefits Administration,
Performance Analysis and Integrity

DANIEL A. TUCKER

National Cemetery Administration, CFO

JOHN E. GAEGLER

National Cemetery Administration,
Policy and Planning



The Annual Performance and Accountability Report is published by the Department of Veterans Affairs, Office of Management (041H), Room 619, 810 Vermont Avenue, NW, Washington, DC 20420-1000. An electronic version of this report is available on the World Wide Web at www.va.gov/budget/report

For additional copies of this report, please call the VA Budget Office at 202-273-5289.