Financial Highlights

The principal financial statements have been prepared to report the financial position and results of operations of the Department of Veterans Affairs (VA), pursuant to the requirements of 31 U.S.C. 3515(b). VA is a component of the U.S. Government, a sovereign entity. While the statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by OMB, they are, in addition to the financial reports, used to monitor and control budgetary resources that are prepared from the same books and records.

VA received an unqualified opinion on the Department's financial statements for 2008 and 2007 from the external auditors, Deloitte & Touche LLP. As a result of its audit work, Deloitte & Touche LLP reported three material weaknesses that are also repeat material weaknesses. In addition, the auditors reported 16 Significant Deficiencies, seven of which are not included in the material weaknesses.

VA programs operated at a net cost of $422.6 billion in 2008 compared with $51.1 billion in 2007. Again this year, the change in the actuarial liability for future years' veterans' compensation is primarily responsible for the significant variation in net cost from year to year. The actuarial liability increased by $339 billion during 2008 and decreased by $26.1 billion during 2007. The 2008 increase in actuarial liability was caused primarily by a change in the discount rates and changes in original compensation awards. Lower discount rates, which track the interest rates of Treasury securities, resulted in an increase in liability. Additionally, the liability increased significantly due to factoring in a considerable number of original compensation awards for Vietnam veterans suffering from diabetes and other diseases, the prevalence for which generally increases with age. Excluding the change in this actuarial liability from the net cost would result in an adjusted net cost for VA's programs of $82.5 billion and $76.2 billion for 2008 and 2007, respectively. Two VA programs, Medical Services and Compensation, accounted for the bulk of the increase in the adjusted net cost, $3 billion and $3 billion, respectively.

Assets and liabilities reported in VA's balance sheets do not show significant change from year to year with the exception of Fund Balance with Treasury, Public Accounts Payable, and Federal Employee and Veterans Benefits Liability. The majority of change in the Federal Employee and Veterans Benefits Liability, $339 billion, is driven by the actuarial estimate previously discussed. It should be noted that the future cash flows to liquidate the actuarial estimate liability are not supported by identifiable assets as they are anticipated to be funded from the future general revenues of the U.S. Government. Fund Balance with Treasury increased $4.1 billion primarily due to higher appropriations received as a result of providing improved healthcare to a higher number of patients and an increase in veterans' benefits as a result of the growth in compensation and pension claims. In FY 2008, VA received appropriations of $92.7 billion. This compares to $82.6 billion of appropriations received in 2007. In 2008 VA provided disability compensation, death compensation, and pensions to 3.7 million people. More than 5.5 million people received care in VA health care facilities in 2008.

Medical care collections continue to improve. In FY 2008, collections totaled $2.4 billion. MCCF exceeded the FY 2008 goal of $2.2 billion by $128.5 million (105.6 percent of the FY 2008 goal), which builds on the $2.1 billion collected in FY 2007. VA plans to continue to increase these collections, reaching $2.5 billion in FY 2009.

In the area of debt management, in 2008, VA referred $577 million (98.8 percent) of eligible debt to Treasury for offset under the Treasury Offset Program (TOP). Under the cross-servicing program, VA referred $108 million (96.9 percent) of eligible debt to Treasury for collection.

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

During 2008, the Department aggressively used the Governmentwide commercial purchase card program. Over 4.8 million transactions were processed, representing $3.0 billion in purchases. The electronic billing and payment process for centrally billed accounts earned VA over $49 million in credit card refunds compared to $42 million during 2007. These refunds are returned to VA entities for use in veterans programs.

Throughout 2008, VA continued to make operational enhancements, which resulted in improvements in interest paid, discounts earned, and audit recoveries. Interest improvements occurred largely because the Department centralized VHA-certified payments at the Financial Services Center (FSC) in Austin, Texas, while the percentage of discounts earned increased because of operational improvements implemented at the FSC and VA's National Acquisition Center. Interest paid per million dollars disbursed improved almost 18 percent from $84 per million in 2007 to $69 per million in 2008, and VA earned nearly 93 percent ($6.4 million) of its available discounts.

During 2008, the FSC collected improper payments and recovered unapplied vendor statement credits totaling nearly $2.6 million. Since the program's inception in 2001, VA has recovered $23.9 million in improper payments and cancelled another $48.2 million in improper payments before making payment.

VA's audit recovery contract to review past payments by VA's Health Administration Center for hospital care resulted in the contractor's identification of 9,298 receivables totaling $39,843,062. Of that amount, VA has recovered $22,750,469.

VA continues to work diligently to address its three audit material weaknesses. Improvements were made in VA financial management throughout the year in providing additional and clarifying financial policies and procedures to VA's fiscal community, particularly in the area of internal controls. VHA's Business Process Improvement Committee (BPIC) continued to work toward improving VHA's internal controls and reforming VHA business processes to improve financial performance.

VHA also continues to monitor and improve reports, such as the Financial Indicators Report, that monitor facility operations on a monthly basis. In 2008 VHA began development of a quick reference Desk Guide pertaining to management and processing of refunds, offsets, overpayments, and underpayments that impact health care accounts receivables. A national conference to address the requirements and implementation of the Desk Guide released in 2007 was held in January 2008. In March 2009, VHA will conduct a national finance training conference targeted to fiscal staff to address areas that contributed to the material weakness.

Additionally, training modules in the areas of payroll, accounting, agent cashier, travel, budget, and funds control continue to be developed.

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

VBA implemented the Centralized Administrative Accounting System in 2008. This system allows the regional offices to process the majority of their accounting transactions online with a direct interface into the VA financial management system. This system has improved our business process by eliminating the need to create paper documents and fax them to VBA's Administrative and Loan Accounting Center for input into the financial management system. A joint VHA/VBA team has developed a plan and procedures for the transfer of finance functions related to automobile adaptive equipment to VHA. This concept is being pilot-tested with three VBA regional offices and VHA medical centers. In the second quarter of 2009, the joint team will make final recommendations to either move forward with implementation or stop the project based on the results of the pilot test.

NCA implemented the business office concept to establish a single site for each of the primary activities: finance, acquisition, and asset management. Currently, a good portion of the major acquisition and associated accounting is accomplished by the operations support center in Quantico, with general acquisition, finance, and asset management support being provided by a VA medical center or regional office. Centralization of activities began in 2007 with a limited number of sites and functions. During FY 2008, NCA began utilizing the Centralized Administrative Accounting System for the centralization effort. To date, the Memorial Service Network offices, NCA Human Resources Center, three fully operational cemeteries, and five new cemeteries are centralized for finance and procurement. A full implementation is under way for the centralization of finance and acquisition.