

VA Financial Policies and Procedures
Management's Discussion & Analysis

CHAPTER 8

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0801 OVERVIEW

The Department of Veterans Affairs (VA) must include a section entitled *Management's Discussion and Analysis* (MD&A) in its annual Performance and Accountability Report (PAR)¹ in order to comply with generally accepted accounting principles (GAAP) for Federal entities. The MD&A is an important vehicle for communicating management's insights about VA, increasing the understandability and usefulness of the PAR and providing understandable and accessible information about VA and its operations, service levels, successes, challenges and future.

This chapter provides the policies and procedures relating to the preparation of the annual MD&A. Although guidelines provide VA with flexibility in the development of the MD&A, it must provide a clear description of VA's performance measures, financial highlights, systems and controls, compliance with laws and regulations and actions taken or planned to address problems. To optimize usefulness, the MD&A must be concise and readable to a non-technical audience; focus on the issues that are most important to VA and its stakeholders; and provide a balanced, analytical assessment of program and financial performance that includes both positive and negative information. The MD&A shall also include forward-looking information about the possible effects of the most important existing performance and financial demands, events, conditions and trends.

0802 POLICIES

080201 VA will prepare the MD&A in a manner that presents an overview of VA, its financial highlights and overall performance clearly and succinctly.

080202 VA will present matters that have the potential to lead to significant actions or proposals by top VA management; to be significant to the managing, budgeting and oversight functions of Congress and the Administration; and to affect the judgment of citizens significantly about the efficiency and effectiveness of VA.

080203 VA will engage employees from both the Central Office and field facilities in the process of preparing the MD&A.

080204 VA will ensure that the MD&A is prepared in accordance with all authoritative guidelines presented in this chapter.

080205 VA will maintain adequate documentation supporting all information presented in the MD&A.

¹MD&A will be essentially the same whether VA decides to participate in OMB's Annual Financial Report (AFR) pilot or whether the AFR become the official OMB policy. VA has chosen not to participate in the pilot consisting of the AFR, APR and Citizens' Report. It instead continues to produce the "traditional" PAR along with a shorter "highlights" document titled "Highlights for the Citizen."

080206 Given the flexibility OMB has provided agencies to present material in the MD&A, VA will include the essence of the following content areas:

A. Mission and Organizational Structure

The MD&A shall present an overview of VA, including:

1. Identification of VA's major functions, including its commercial functions, such as information technology, healthcare operations, legal and financial services and personnel investigations
2. Statement of VA's mission, major goals and organizational structure
3. Identification of the numbers of individuals and/or groups served by or benefiting from VA's major programs
4. Indicators of the size of VA's major programs (e.g., budget, dollars expended, populations served and the numbers of personnel employed in carrying out the major programs)
5. Description of the manner in which VA is organized to provide its major program(s), including leadership and governance structures and information related to its geographic locations.

B. Performance Goals, Objectives and Results²

The MD&A must include, at a minimum, a high-level presentation of performance information, including:

1. Key highlights of performance goals, objectives and results (shortfalls and successes) for the applicable fiscal year, related to VA's strategic goals.
2. Progress made toward accomplishing VA's mission and associated strategic goals.
3. The most important matters that would likely affect the judgments and decisions of people who rely on the PAR as a key source of information (e.g., matters that VA believes could lead to significant actions or proposals by top management or that would significantly affect the judgment of stakeholders about VA's effectiveness). These matters, whether positive or negative, must relate to and be consistent with the major goals and objectives in VA's strategic and performance plans, including trend data. These matters will:

² While many of the items discussed in this section appear in Part I of the PAR, some of them are not shown until Part II of the PAR, where performance is discussed in more detail.

- a. Provide a clear, objective picture of VA's program results as compared to its goals and objectives.
- b. Indicate the extent to which VA's programs are achieving their intended goals and objectives with an explanation of performance trends.
- c. Discuss the strategies and resources VA uses to address its performance goals.
- d. Evaluate the significance of underlying factors that may have affected the reported performance, including, as applicable, factors that are substantially outside VA's control as well as information about factors over which it has significant control.
- e. Discuss and explain plans and timelines to improve performance, where targets were not met.
- f. Summarize the procedures VA has designed and followed to provide reasonable assurance that reported performance information is relevant and reliable.
- g. Discuss, to the extent relevant, important limitations and difficulties associated with performance measurement and reporting.

C. Analysis of Financial Statements and Stewardship Information

The MD&A should help users to understand VA's financial results, position and condition as conveyed in the principal financial statements. It should include comparisons of the current year to the prior year and should provide an analysis of the agency's overall financial position and the results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities. It should include a discussion of key financial-related measures that emphasize financial trends and assess financial operations.

The MD&A should provide users the benefit of management's understanding of:

1. Major changes in types or amounts of assets, liabilities, costs, revenues, obligations and outlays.
2. The relevance of particular balances and amounts shown in the principal financial statements, particularly if relevant to important financial management issues.
3. Stewardship information over certain types of resources entrusted to VA.

D. Analysis of VA's Systems, Controls and Legal Compliance

In reporting on the status of VA's systems and internal controls that support preparation of the financial statements, performance information and compliance with applicable laws, the MD&A shall provide a brief summary of material weaknesses revealed by

management or through audits or otherwise known to management in accordance with the Federal Managers' Financial Integrity Act (Integrity Act).

1. The financial systems requirements are mandated by the Federal Financial Management Improvement Act (FFMIA) and OMB Circular A-127, Financial Management Systems, Section 7.
2. OMB A-11, Section 52, Information on Financial Management, outlines requirements for VA's plans for bringing its systems into substantial compliance. Financial management systems include both financial and financially related (or mixed) systems.

E. Forward-looking Information and Possible Future Effects of Existing Events and Conditions.

The MD&A needs to convey information about current demands, risks, uncertainties, events, conditions and trends that go beyond a mere description of existing conditions. The possible future effect of these factors must be addressed to include, but not be limited to, demographic characteristics, claims, contingencies, deferred maintenance, commitments or major unfunded liabilities. Forward-looking information about the possible effects of anticipated future demands, events, conditions and trends should also be labeled "projected" or "projection" and the key underlying assumptions explained.

F. Other Management Information, Initiatives and Issues

VA has the discretion to include a summary in the MD&A of other information, implementing key administration management initiatives.

G. Limitations of Financial Statements

The MD&A shall include a section articulating the limitations of the principal financial statements. This section shall state the following:

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

0803 AUTHORITY AND REFERENCES

- 080301 [Chief Financial Officers Act of 1990, Public Law 101-576](#)
- 080302 [Government Performance and Results Act of 1993](#)
- 080303 [Reports Consolidation Act of 2000, Public Law 106-531](#)
- 080304 [Office of Management and Budget \(OMB\) Circular A-11, Preparation, Submission and Execution of the Budget](#)
- 080305 [OMB Circular A-123, Management's Responsibility for Internal Control](#)
- 080306 [OMB Circular A-127, Financial Management Systems](#)
- 080307 [OMB Circular A-136, Financial Reporting Requirements - Revised](#)
- 080308 [Statement of Federal Financial Accounting Concepts \(SFFAC\) No. 3](#)
- 080309 [Statement of Federal Financial Accounting Standards \(SFFAS\) No. 15](#)
- 080310 [Statement on Auditing Standards No. 93 "Omnibus Statement on Auditing Standards – 2000," AU Section 411.01](#)

0804 ROLES AND RESPONSIBILITIES

080401 The preparation of VA's MD&A is a responsibility of performance, financial management and program officials. Similarly, in preparing the MD&A, VA must consider not only performance, but also the relationship of program performance to financial condition and results.

080402 The Assistant Secretary for Management/Chief Financial Officer (CFO), as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309, oversees all financial management activities relating to the Department's programs and operations. Specific responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

080403 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chief Accountants, and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter. In addition, they will submit all requisite performance and program-related information to OB to support the preparation of the MD&A

080404 The Office of Finance (OF) is specifically responsible for preparing the financial sections of the PAR and provides guidance and timelines to VA Administration Chief Financial Officers, Fiscal Officers and Accounting Chiefs on the steps needed to complete the financial sections of the MD&A. In addition, OF must gather and retain adequate documentation supporting all information presented in the financial sections of the MD&A and prepare VA's assurance statement for the Secretary's signature.

080405 The Office of Budget (OB) is responsible for preparing all other sections of the PAR, preparing guidance and providing training to Administrations and staff offices for preparation of the PAR. OB receives and analyzes submissions, provides feedback to offices and finalizes the document.

0805 PROCEDURES

080501 Governance over the Preparation of the MD&A.

A. OB will develop and implement a schedule to manage the preparation of the MD&A to ensure that it incorporates all required information and meets completion timeframes.

B. OF will be responsible for developing the financial management and internal control-related material to be published in the MD&A.

C. Leadership from each Administration area will designate subject-matter experts to work in cooperation with OB to develop the performance and program-related areas incorporated in the MD&A. OB and designated subject-matter experts will draft the MD&A in a manner that ensures that it meets all current requirements.

D. The draft MD&A will be forwarded to leadership from each Administration area for review.

080502 Upon receipt of feedback from VA leadership, OB and the designated subject-matter experts will coordinate all revisions among the proper VA stakeholders in order to address the comments received.

080503 Once concurrence has been obtained, OB will conduct a final, comprehensive quality assurance review before publication to ensure that no typographical or content errors exist.

080504 Analysis of Entity's Systems, Controls and Legal Compliance

A. VA must provide assurances related to the Federal Managers' Financial Integrity Act (FMFIA) in a separate section of the MD&A, titled "Management Controls, Systems, and Compliance with Laws and Regulations: Management Assurances." The FMFIA assurance statement shall:

1. Provide VA's assessment of the effectiveness of its internal controls to support effective and efficient programmatic operations, reliable financial reporting and

compliance with applicable laws and regulations (Section 2); and whether the financial management systems conform to financial systems requirements (Section 4). The same item should not be listed as a finding in both Sections 2 and 4.

2. Provide a separate assessment of the effectiveness of the internal controls over financial reporting as a separate paragraph within the FMFIA Assurance Statement.
3. Include a summary of material weaknesses (Section 2) and non-conformances ("Section 2") and a summary of corrective actions to resolve the material weaknesses and non-conformances.

B. VA must also provide assurances related to the Federal Financial Management Improvement Act in the MD&A section, titled "Management Controls, Systems, and Compliance with Laws and Regulations: Management Assurances." VA must provide its assessment of the organization's compliance with Federal financial management systems requirements, standards promulgated by FASAB and the U.S. Standard General Ledger (USSGL) at the transaction level. Financial management systems include both financial and financially related (or mixed) systems.

The FMFIA assurance statements and the FFMA compliance determination must be reviewed for consistency with the findings in the annual financial statement audit report(s). The Office of Inspector General or external auditor will compare material weaknesses identified during the audit with the material weaknesses reported in the agency's FMFIA report, as well as disclose any material weaknesses identified by the audit that were not reported in VA's FMFIA report.

The Secretary is required to sign the agency assurance statement.

080505 VA has the discretion to include a summary in the MD&A of other information, initiatives and issues it identifies. This could include a summary of entity progress in implementing key administration management initiatives.

0806 DEFINITIONS

080601 Management's Discussion & Analysis. A section of VA's Performance and Accountability Report that addresses VA's performance measures, financial statements, systems and management controls, compliance with laws and regulations and actions taken or planned to address problems.

0807 QUESTIONS

Questions concerning these financial policies and procedures should be directed as shown below:

VHA	VHA Accounting Policy (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
All Others	OFP Accounting Policy (Outlook)