DEPARTMENT OF VETERANS AFFAIRS

OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

DEPARTMENT OF VETERANS AFFAIRS

Audit of VA's Financial Statements for Fiscal Years 2019 and 2018

AUDIT | REPORT #19-06453-12 | NOVEMBER 19, 2019

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DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL
WASHINGTON, DC 20001

November 19, 2019

MEMORANDUM

TO: Secretary of Veterans Affairs (00)

FROM: Assistant Inspector General for Audits and Evaluations (52)

SUBJECT: Audit of VA's Financial Statements for Fiscal Years 2019 and 2018

1. We contracted with the independent public accounting firm CliftonLarsonAllen LLP (CLA) to audit VA's financial statements as of September 30, 2019, and 2018, and for the fiscal years (FYs) then ended. This audit is an annual requirement of the Chief Financial Officers Act of 1990. The results of CLA's audit are presented in the attached report.
2. CLA provided an unmodified opinion on VA's financial statements for FYs 2019 and 2018. With respect to internal control, CLA identified five material weaknesses. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. The five identified material weaknesses with respect to internal control are as follow:
    - Controls over significant accounting estimates and transactions, which includes in part a prior material weakness and incorporates a prior significant deficiency, both reported since FY 2016
    - Accrued liabilities, undelivered orders, and reconciliations, which is reported in part from a prior material weakness and incorporates a prior significant deficiency, both reported since FY 2016
    - Financial systems and reporting, which has been reported as a material weakness since FY 2015, with "systems and" added to the title in FY 2018
    - Information technology security controls, which has been reported as a material weakness for more than 10 years
    - Entity level controls including chief financial officer organizational structure, which has been reported as a material weakness in part since FY 2016 and was expanded to include entity level controls in FY 2018

3. CLA identified the following conditions regarding noncompliance with laws and regulations:
   - Substantial noncompliance with federal financial management systems requirements and the United States Standard General Ledger at the transaction level under the Federal Financial Management Improvement Act (FFMIA) of 1996, which has been reported in part for more than 10 years
   - Improvements needed in order to fully comply with the intent of the Federal Managers' Financial Integrity Act, which has been reported since FY 2015
   - Instances of noncompliance with Title 38 United States Code § 5315 pertaining to the charging of interest and administrative costs, which has been reported for more than 10 years
   - VA reported one violation of the Antideficiency Act, Title 31 United States Code § 1341 (a), in July 2019 and had one potential violation. In addition, five other violations, which are carried forward from prior years, are under further discussion with the Office of Management and Budget. CLA has reported violations of the Antideficiency Act since FY 2012.
   - Noncompliance with the Improper Payments Elimination and Recovery Act for FY 2018, as reported by the Office of Inspector General since 2012
4. CLA is responsible for the attached audit report dated November 19, 2019, and the conclusions expressed in the report. We do not express opinions on VA's financial statements, internal control, or compliance with FFMIA. We also do not express conclusions on VA's compliance with laws and regulations. The independent auditors will follow up on these internal control and compliance findings and evaluate the adequacy of corrective actions taken during the FY 2020 audit of VA's financial statements.

LARRY M. REINKEMEYER
Assistant Inspector General
for Audits and Evaluations

Attachment

Section I

Independent Auditors’ Report

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

To the Secretary
And Inspector General
United States Department of Veterans Affairs

Report on the Financial Statements

We have audited the accompanying consolidated financial statements (financial statements) of the United States Department of Veterans Affairs (VA), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

VA management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-03). Those standards and OMB Bulletin 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Veterans Affairs (VA) as of September 30, 2019 and 2018, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Emphasis of Matter

As discussed in Note 13 to the financial statements, VA continued to refine the impact of the new enrollee assumption used in its education/retraining type program (education) estimates in FY 2019. A material weakness in Controls over Significant Accounting Estimates and Transactions is included in the Report on Internal Control over Financial Reporting. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the U.S. require that the information in the VA's Management Discussion and Analysis (MD&A), Required Supplementary Information (RSI), and Required Supplementary Stewardship Information (RSSI) sections be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB), which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. All other information exclusive of the financial statements, MD&A, RSI, and RSSI as listed in the table of contents of the Agency Financial Report is presented for purposes of additional analysis and is not a required part of the financial statements. In addition, management has included references to information on websites or other data outside of the Agency Financial Report. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered VA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of VA's internal control or on management's assertion on internal control included in the MD&A.

Accordingly, we do not express an opinion on the effectiveness of VA's internal control or on management's assertion on internal control included in the MD&A.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of VA's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we identified certain deficiencies in internal control, described below and in Exhibit A which we consider to be material weaknesses.

Controls Over Significant Accounting Estimates and Transactions

The Veterans Benefits Administration (VBA) models used to estimate the education benefits and loan guarantee liabilities warrant management's continued focus. In addition, VBA's control activities related to review, approval, and monitoring over significant accounting transactions need improvement.

Accrued Liabilities, Undelivered Orders, and Reconciliations

In FY 2019, VA implemented a new actuarial model to estimate the cost of care provided by community healthcare providers to its veterans but not yet paid as of September 30. VA needs to develop and formalize procedures that support internal controls surrounding this estimate, including documentation, look-back analyses, and reconciliation of data inputs included in the model to the general ledger. Also, VA continues to have weaknesses that include the lack of sufficient reconciliations of its feeder/subsidiary systems to the Financial Management System (FMS) and monitoring activities to validate the accuracy and completeness of balances derived from its procurement process.

Financial Systems and Reporting

VA's legacy FMS has an antiquated information technology infrastructure with limited functionality. Consequently, FMS requires extensive journal entries, manual processes, and reconciliations in order for VA to produce a set of auditable financial statements. Further, VA continues to have various financial reporting issues though some improvements have occurred since the prior year in certain areas.

Information Technology Security Controls

VA continues to have control weaknesses in Configuration Management, Access Controls, Security Management, and Contingency Planning.

Entity Level Controls including Chief Financial Officer (CFO) Organizational Structure

VA continues to have serious control weaknesses throughout the organization with respect to financial reporting, as described in this report. These weaknesses are attributed to a decentralized and fragmented organizational structure for financial management; weaknesses in risk assessment and monitoring; the lack of an effective, comprehensive, and integrated financial management system and a challenging IT environment; and the undue reliance placed on manual processes to identify or correct errors with financial information.

Compliance with Laws, Regulations, Contracts, and Grant Agreements

As part of obtaining reasonable assurance about whether VA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a material effect on the financial statements.

The results of our tests disclosed instances of noncompliance or other matters, described below and in Exhibit B, that are required to be reported in accordance with *Government Auditing Standards* or OMB Bulletin 19-03.

We also performed tests of compliance with certain provisions of the Federal Financial Management Improvement Act (FFMIA). Under FFMIA, each agency must implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. As described in Exhibit B, the results of our tests of these provisions disclosed instances in which VA's financial management systems did not substantially comply with (1) Federal financial management systems requirements and (2) the USSGL at the transaction level.

Management's Responsibility for Internal Control and Compliance

VA management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, (3) ensuring VA's financial management systems are in substantial compliance with FFMIA requirements, and (4) complying with other applicable laws, regulations, contracts, and grant agreements.

Auditors' Responsibilities

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing whether VA's financial management systems substantially comply with the FFMIA requirements referred to above, and (3) testing compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to VA. We limited our tests to certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct effect on the determination of the material financial statement amounts and disclosures. 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. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

INDEPENDENT AUDITORS’ REPORT (CONTINUED)

Management’s Response to Findings

Management has presented a response to the findings identified in our report. We did not audit VA’s response and, accordingly, we express no opinion on it.

Status of Prior Year’s Control Deficiencies and Noncompliance Issues

We have reviewed the status of VA’s corrective actions with respect to the findings included in the prior year’s Independent Auditors’ Report, dated November 26, 2018. The status of prior year findings is presented in Exhibit C.

Purpose of the Report on Internal Control over Financial Reporting and on Compliance

The purpose of the Report on Internal Control over Financial Reporting and on Compliance is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of VA’s internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering VA’s internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

CLIFTONLARSONALLEN LLP

CliftonLarsonAllen LLP

Greenbelt, Maryland
November 19, 2019

EXHIBIT A
Material Weaknesses

1. Controls over Significant Accounting Estimates and Transactions

Background:
VBA is responsible for administering various programs that provide financial and other forms of assistance to veterans, their dependents, and survivors. Three benefit programs that significantly impacted VA's financial statements for FY 2019 reporting that also had weaknesses with respect to significant accounting estimates or transactions were: (1) Education Programs (2) Loan Guaranty Program, and (3) Group Term Life Insurance Program. These programs are described with more detail in the succeeding paragraphs below.

VBA manages several education benefit programs with total disbursements of $14 billion in FY 2019. The VBA Office of Financial Management (OFM) estimates the present value of these future benefits as of the end of the fiscal year. The Post- 9/11 GI Bill (Chapter 33) is the largest education program (approximately 80 percent of total education disbursements) and is available for individuals who served active duty after September 10, 2001. The other education programs included in the estimate are the (1) Montgomery GI Bill Active Duty (Chapter 30), (2) Vocational Rehabilitation and Employment (Chapter 31), and (3) Survivor's and Dependents' Educational Assistance Program Chapter (35).

VBA also manages VA's Home Loan Guaranty program that provides a guaranty to commercial lenders against losses from veterans' mortgage loan defaults. VBA uses complex models to estimate future cash flows over the life of the loans and determine the cost of these guarantees on a present value basis for budgetary and financial reporting purposes. These models ultimately produce an estimate that is reported as the largest component of the Liability for Loan Guarantee (LLG) in the balance sheet. VBA's OFM, headed by VBA's CFO, is responsible for preparing the LLG estimate and maintaining the models. OFM considers its model to be an econometric model.

VA also provides a term life insurance program to servicemembers (Servicemember Group Life Insurance (SGLI)) and veterans (Veterans' Group Life Insurance (VGLI)) that VBA oversees. VA selected a third party service provider to act as the primary insurer to the program (see 38 United States Code (U.S.C.) § 1966). Since the third party provider assumes all the risks of managing the premiums and benefit payments, there is no reporting requirement for VA, as the policy holder, to record its insurance program activities until a transfer of excess funds is required. By law, the Secretary of VA has the authority to transfer excess contingency reserve funds from the third party service to VA's revolving fund (see 38 U.S.C. § 1971(e) and § 1977(f)).

Conditions:

VBA management is responsible for establishing a process for preparing accounting estimates as well as reviewing any significant transactions that pose financial reporting risk to VA. With respect to accounting estimates, the established process should include relevant aspects of internal controls such as adequate review and approval of the estimate by appropriate levels of authority, and comparison of prior estimates with subsequent results to assess reliability of the process used to develop the estimate. In addition, management is responsible for designing and executing effective internal controls over financial transactions and events to prevent or detect a material reporting error. We found that the controls over significant accounting estimates and transactions still require some enhancements.

EXHIBIT A
Material Weaknesses

A. Veterans Benefits Actuarial Liability Estimate

The accuracy of VBA's education program liability estimates is highly dependent on the reasonableness of the assumptions used and the completeness of the underlying data within the actuarial models. During FY 2019, VBA management hired a team of permanent actuaries to assist with the modeling efforts and enhanced the actuarial models for the education programs by refining the actuarial assumption and data inputs. These education program estimates account for approximately $106 billion of VA's $3.243 trillion federal employee and veterans benefits liability reported on VA's financial statements. These enhancements were primarily due to the results of an experience study conducted on the future new enrollee's assumption. The future new enrollees represent those who are eligible for the educational benefit but have never enrolled in the program and are estimated to enroll in the future. These efforts resulted in an improvement to remediate prior year control weaknesses; however, VA should continue to evaluate and refine the assumptions and data input elements and perform a look back analysis. For example:

- VA was not able to obtain data on active service members from the Department of Defense (DoD). Therefore, the benefit projections for other beneficiary categories were extrapolated to reflect those benefits.
- The models did not recognize limitation of eligible participant's usage under two or more programs which subsequently led to an on-top adjustment.
- The initial population that was used to build the future new enrollee model was based on data at the end of FY 2017. Therefore, due to this data set being two fiscal years behind, an adjustment factor and assumptions were applied to the liability calculation for future new enrollees.
- A lookback analysis (i.e., comparing actual results to model projections) to assess the precision of the estimation methodology used to calculate the estimated liability was performed at the auditor's request instead of VA management proactively initiating the analysis.

B. Loan Guaranty Liability

In prior years, VBA took several steps to improve its existing Variable Default Model (VDM) and Cash Flow Model by addressing some of the model deficiencies. Despite these improvements, the following major deficiencies remain in three main areas as summarized below:

1. VDM model assumptions and specification
   a) The VDM model is designed to estimate the probability of default at the loan cohort level. Specifically, cohorts are defined by the year of loan origination and the type of loan product (for example, an adjustable rate mortgage loan). The lack of loan level modeling to include location, mark-to-market, and other underwriting characteristics at the individual loan level creates potential for bias and/or inefficiencies in assumptions. Forecasting estimates using loan-level data would allow for more robust modeling and the amount and timing of each cash flow.
   b) The dependent variable is constructed from a composite data set of two materially different data series. Prior to 1991, the default amount was calculated as the estimated amount of default. After 1991, the default amount is the sum of acquisition costs and claim amounts.
   c) The year-over-year percentage change in median price of existing homes sold is used for cohorts prior to 2007, whereas the year-over-year percentage change in the Federal Housing Finance Agency (FHFA) purchase-only house price index is used for cohorts after 2007.

d) The Cash Flow Model uses a moving average versus a predictive approach, where predictive models are able to factor in the fundamental drivers of the cash flows and cohort performance.
e) VA changed from an Ordinary Least Squares (OLS) estimator to a Logistic Regression (logit) estimator in FY 2018. Estimating the proportion of loan balances default at a cohort level is not an appropriate use of the logit estimator. As currently employed, the logit is estimating the probability that the entire cohort defaults, which is an unlikely scenario representing a flawed estimation approach.

2. Use of Microsoft Excel spreadsheet application to carry out complex modeling calculations and estimates
   a) Using Microsoft Excel as the software package rather than a statistical software package for specifying and executing the model is suboptimal in producing reliable reestimates.
   b) This methodology reduces the transparency and readability of the model, complicates error checking, and makes sensitivity analysis difficult at best.

3. Internal control
   a) The model documentation lacks information on why certain choices are made. For example, the documentation does not provide information on the selection or results of statistical tests used to identify the functional form of the model and does not provide the basis for several management overrides. Moreover, the methodology to "smooth" 135 default rates from 2011 to 2019 was not clearly documented and explained in the provided model documentation.
   b) VBA has improved its documentation by defining the processes for engaging senior OFM leadership outside of the budget office for critical decisions and oversight of various loan guarantee subsidy modelling activities, including model development, risk assessment, assumption development and review, and model validation. However, there was limited evidence that these control activities were implemented, and in some cases, approvals were verbal where no evidence could be provided.
   c) Inadequate evidence existed documenting that the Cash Flow Model was tested for reliability by comparing estimated cash flows to actual cash flows and assessing the model's ability to replicate program performance.

C. <u>Excess Contingency Reserve Transfers for Supervised Insurance Programs</u>

VA provides a term life insurance program to servicemembers (SGLI) and veterans (VGLI). VA selected a third-party service provider to administer these programs. In FY 2019, VA recognized a receivable from the third-party provider for $3.4 billion for the VGLI program. We observed the following weaknesses with respect to the identification, recording, and transferring of excess contingency reserve funds held by the third-party.

- Lack of effective collaboration and communication between program and financial offices that further impeded timely resolution of the matter.
- Lack of an established process documented in formal policy and procedures to identify excess contingency reserves in a timely manner, including an established threshold or materiality consideration.
- Research, review, and approval over the accounting treatment for the excess contingency reserves did not encompass a broader consideration of Financial Accounting Standards Board issuances to supplement FASAB guidance that led to an incorrect initial assessment.

The above weaknesses with respect to VBA's significant estimates and transactions result in an increased risk of a material misstatement or inadequate disclosure in VA's financial statements. Further, key stakeholders may make operational or programmatic decisions based on incomplete or inaccurate financial data.

Criteria:

The Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government,* state the five components of internal control must be effectively designed, implemented, and operating together in an integrated manner, for an internal control system to be effective. The five components are control environment, risk assessment, control activities, information and communication, and monitoring.

OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, provides guidance to Federal managers on improving accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal controls. Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, and reliable financial reporting.

FASAB's Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of The Federal Government,* states "Postemployment benefits other than pensions (OPEB) include all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, Section 35, "Reasonable Estimates," states, "The entity's estimates should reflect its judgment about the outcome of events based on past experience and expectations about the future. Estimates should reflect what is reasonable to assume under the circumstances."

FASAB's Federal Financial Accounting and Auditing Technical Release 6*: Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act*, provides specific guidance for loan and loan guarantee programs.

Cause:

A. The education models are relatively new, and historical experience and review of data is needed to further refine or stabilize the education models. Management did not perform adequate analysis that compared actuals to estimates to identify potential improvements to the models. Also, there are data limitations (including time constraints) that pose challenges on the completeness and accuracy of the data inputs and underlying assumptions.

B. Management has been delayed in addressing the corrective actions for the loan guaranty models identified in the prior year.

C. There were no established policies and procedures documented with respect to the excess contingency reserve funds. Further, there was ineffective communication between the program and financial offices within VA.

Effect:

These conditions increase the risk of material misstatements to VA's largest liability and inaccurate financial reporting.

Recommendations:

We recommend that the Assistant Secretary for Management/CFO and the VBA CFO:

1. Continue to follow or strengthen the following practices regarding the actuarial models:
   a) Conduct the appropriate analyses and validation of data sources.
   b) Review and ensure the reasonableness of assumptions used and document the rationale behind these assumptions.
   c) Actuarial assumptions should be updated/refined as credible experience dictates. While model results are not equally sensitive to all assumptions, regular review and update of assumptions help maintain model integrity.
   d) Consider changes in conditions or programs that require further research and analysis to update the assumptions when necessary. Elements that require a change to the model assumptions/inputs should be clearly documented and supported.
   e) Continue to perform sensitivity analyses to determine the effect of changes in the assumptions on these accounting estimates.
   f) Document the consideration of alternative assumptions or outcomes and why management has rejected them or how management has otherwise addressed estimation uncertainty in making the accounting estimate (e.g., a sensitivity study, etc.).

2. Continue and expand look-back analyses on assumptions and other relevant factors used in the calculation as well as the total cost estimated to ensure accuracy offinancial reporting.
   a) Compare estimates with subsequent results to assess the reliability of the assumptions and data used to develop estimates.
   b) Identify significant variances to be investigated and researched.
   c) Segregate those already enrolled versus new entrants and by each of the applicable programs and document the information in the analysis.

3. Include the following enhancements to the VA Home Loan Guaranty Modeling activities:
   a) Exclude cohort data prior to 1992 from the model and switch to FHFA purchase-only house price index as it is available to 1976.
   b) Compare model accuracy generated by logistic regression with alternative modeling methodologies every year to see whether logistic regression produces the optimal result.
   c) Switch to loan level data as input to the default model versus at a cohort level.
   d) Include variables at the loan level to account for underwriting characteristics, geographic specific house price appreciation, and mark-to-market loan-to-value.
   e) Switch from moving average to predictive model.
   f) Move from a Microsoft Excel spreadsheet-based model to using a statistical software package appropriate for estimating proportional probabilities.
   g) Follow Federal Financial Accounting and Auditing Technical Release 3 (Revised): *Auditing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform – Amendments to TR 3,* Appendix A: *Acceptable Sources of Documentation for Subsidy Estimates and Reestimates*.
   h) Implement a set of policies and procedures for a model risk management oversight and governance structure, with a control framework that defines the roles and responsibilities for program, budget, department and government stakeholders. Ensure implementation of those policies and procedures are evidenced with proper documentation and sign off.
   i) Implement the remaining unresolved recommendations noted within the VA Budget Model Verification Report issued in FY 2017.

4. Establish policy and procedures to identify and transfer excess contingency reserves on a timely basis and for the proper accounting treatment. Additionally:
   a) Provide training and/or awareness seminars to program offices and personnel on their responsibility to identify and report significant financial events impacting the VA.
   b) Increase transparency and collaboration among organizations under the CFO's leadership to ensure timely identification of significant accounting events.

2. Accrued Liabilities, Undelivered Orders, and Reconciliations

Background:

The Veterans Health Administration (VHA) purchases medical services for veterans from community health care providers under its VA Community Care (Community Care or VACC) programs. VHA's Office of Community Care (OCC) manages all VA Community Care programs. In FY 2019, VHA implemented the Obligation at Payment (OAP) method for all VACC programs, which operate in Funds 0140 and 0172. Under the OAP model, VHA records VACC obligations when claims are adjudicated. Once the vendor claim is approved for payment, FMS automatically increases the available obligation balance to match the adjudicated/approved claim amount. The OAP methodology was implemented prospectively; thus, obligations recorded prior to FY 2019 were not subject to this method.

In addition, VA Office of Management hired an actuary to implement a new actuarial model to estimate the cost of care incurred but not reported (i.e., cost of services rendered by community healthcare providers for which VA has not yet received a claim). VA must record an estimated liability for such unpaid expenses. The new actuarial model was implemented to remediate long standing concerns over VA's ability to accurately estimate these costs of care. This new "Incurred But Not Reported" (IBNR) model was implemented in the third quarter of FY 2019.

Conditions:

VA continues to have weaknesses in the following areas:

A. <u>IBNR Model</u>
During our testing of the June 30 balances, we found that documentation for the IBNR model implemented by VA did not clearly describe important assumptions and judgments used to develop the IBNR liability. For example, there was insufficient documentation to support the appropriateness of the lag ratios (i.e., ratios based on the time from when services are rendered to when VA receives a claim) and the development of the claim payment trend. Also, a look back analysis was not performed to assess the reasonableness of the IBNR model's estimated results for June 30.

Also, the financial data used in the IBNR model had material differences compared to the balances recorded in VA's FMS general ledger. VA management did not clearly indicate which source systems were used for the IBNR transaction input, which information is necessary to support a proper reconciliation of the data with FMS. Further, VA management did not provide a sufficient explanation for the materiality thresholds used to determine which VACC program costs would be included or excluded from the IBNR model as of June 30.

Subsequent to year-end, VA management provided an updated IBNR model with the requested information and data reconciliations. However, we found that management continued to have reconciliation issues at year-end and did not adequately reconcile the data inputs in the IBNR model with the general ledger, which resulted in a reduction to the final IBNR liability of approximately $420 million. Complete documentation, reconciliations, and look-back analyses are important controls surrounding actuarial estimates.

B. Accrued Expense Methodology for Pre-FY 2019 VACC Programs
Prior to FY 2019, VHA generally obligated its Community Care funds through an estimation process using VA Form 1358, "Obligation or Change in Obligation" (1358s). These estimates were performed at the beginning of each fiscal year, and subsequent adjustments were made to derive the monthly estimated obligation for each category of care (e.g., inpatient care, outpatient care, etc.). At year-end, VA used an auto accrual process in FMS to record accrued expenses based on the remaining outstanding 1358 obligation balances regardless of whether the services were provided. This process continued during FY 2019 that resulted in overstatements of VA's accounts payable balance although VA made adjustments during the year.

C. Non-VACC Program Expenses and Related Obligations
As reported in previous years and in the Financial Systems and Reporting material weakness, VA does not perform a complete reconciliation of all outstanding obligations and expenditures between the Integrated Funds Distribution Control Point Activity, Accounting and Procurement System (IFCAP), Centralized Administrative Accounting Transaction System (CAATS), Electronic Contract Management System (eCMS) and FMS at the transaction level. Not performing periodic cumulative reconciliations between these subsidiary systems and FMS increases the risk that all activities are not accurately reflected in the financial records, and ultimately, in the financial statements.

Further, the extensive use of 1358s to record financial transactions related to procurement obligations continued in FY 2019. As of September 30, 2019, VA's obligations based on 1358s approximated $9.7 billion. VA allows 21 different categories of use, and they are integral to the operation of some large VA programs. In most cases, 1358s bypass conventional contracting controls by design, in order to support program circumstances or needs. Consistent with the prior year control deficiencies, the 1358 transactions were not closely monitored and validated by management to ensure recorded obligations and accrued expenses were not overstated. VA's auto-accrual process based on open obligations cannot replace active monitoring and requires careful monitoring itself.

Also, VA did not have an adequate process to validate accounts payable and accrued balances. Estimates for the accrued balance amounts should be compared against actual payment data from FMS. A comprehensive look-back analysis or validation of its accrual methodology for its non-VACC activity was not performed for the majority of the fiscal year which resulted in a significant manual adjustment of approximately $1.4 billion at year end to accurately report the Accounts Payable balance at September 30, and a $500 million manual adjustment to accurately report undelivered orders.

In addition, we observed instances of the following across VA from our sample testing that affect the accuracy of financial reporting related to the non-VACC programs:

- Untimely liquidation of inactive undelivered orders (UDOs) – Delays ranged from four months to three years.
- Untimely recording of contracts or modifications into the general ledger system (FMS) – Delays ranged from approximately two months to eight months.

- Recording of obligations prior to contract execution – Obligations, including purchases through the National Acquisition Center (NAC), were recorded in FMS up to 1 year and 1 month prior to the execution of the contracts or contract amendments.
- Over-obligation of funds – Recorded obligations exceeded the contract or purchase order amounts.
- Proper procurement procedures were not followed in obtaining goods or services – We identified a variety of exceptions.

Criteria:

See GAO's *Standards for Internal Control in the Federal Government* and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular A-123) criteria in Material Weakness 1.

Additionally, the FMFIA requires agencies to implement controls that ensure obligations and costs are in compliance with applicable laws and that revenues and expenditures are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Cause:

VA was unable to hire a new actuary for the IBNR model until the third quarter and to implement a new IBNR model until late in the third quarter. As a result, VA management did not have time and/or did not adequately plan and perform its due diligence responsibility when preparing the accrued expense methodology for its June and September 30 reporting. This situation continued through year-end. Regarding the accrued expense methodology for pre-FY 2019 VACC programs, management did not change the process based on their anticipation that those obligation balances would continue to decline and not be material at year-end. Also, the information technology system used to record VA's financial activities and events have significant system limitations that hinder its ability to accurately report the financial transactions. Further, VA is a highly decentralized organization accompanied by the lack of effective oversight and monitoring controls.

Effect:

These conditions led to inaccurate financial reporting, and some conditions led to misstatements for obligations, accrued expenses, and UDOs which required manual adjustments to accurately report balances at September 30.

Recommendations:

We recommend that the Assistant Secretary for Management/CFO in conjunction with other administration and organizational CFOs, as appropriate:

1. Develop and formalize procedures that support internal control surrounding the IBNR liability estimate and management's responsibilities. Such procedures should include documentation requirements and reconciliation of data input to the general ledger before claims data is input into the IBNR model.

2. Update or refine the assumptions and inputs used within the IBNR model based on further review of historical claim data and/or claim patterns. In addition, perform retroactive testing of the data in order to validate the methods selected and provide insight on margin and trend assumption development.

3. For pre-FY 2019 VACC programs, ensure continued communication and coordination of accounting policies and procedures are effectively communicated between the CFOs, OCC, Veterans Integrated Service Networks (VISN), and medical centers so that key accounting and financial management controls with respect to open obligations and accrued expenses are properly performed.

4. Continue efforts to develop and refine auditable methodologies for establishing and validating non-VACC obligations and accruals. Elements that require a change to the obligation and accrual methodologies should be clearly documented and supported.

5. For non-VACC programs, establish and implement detailed guidance and procedures to assist staff in reviewing open obligations and automated accruals for potential adjustment. Include instructions on performing root cause analysis and performing follow-up analysis on aged obligations. Supplement the guidance with training. Continue efforts to reduce the use of 1358s, research alternatives that provide better control, and improve monitoring of them. Develop strategies and controls to ensure the proper recording of contracts or modifications in FMS.

6. Improve the periodic look-back validations and analyses of obligation and accrual balances reported for all programs against subsequent activity to:
   a) Ensure accuracy of financial reporting and to maximize budgetary resources.
   b) Identify significant variances to be investigated and researched.

7. Perform monthly consolidated reconciliations of obligations and expenditures recorded in IFCAP, CAATS, eCMS, and FMS for all open obligations to ensure the accounting information is valid and proper.

3. Financial Systems and Reporting

Background:

An agency's financial systems and reporting are essential to prepare accurate and timely financial statements. VA implemented its legacy core financial management and general ledger system, FMS, in 1992. There have been a variety of federal financial reporting requirements that have been increasingly demanding and complex for agencies to implement. VA's current financial system has limited functionality to meet the current financial management and reporting needs. VA utilizes another application, the Management Information Exchange (MinX) system, to consolidate general ledger activities from FMS and create financial statements for external financial reporting. This process requires significant manual intervention and creates risks to the accuracy and completeness of financial reporting.

Conditions:

VA continues to refine its financial reporting practices. However, many of these issues have existed for years and require extensive efforts to change the current business processes, research legacy differences, and implement solutions to resolve them. Those long standing issues require time and sustained VA-wide efforts to ensure proper implementation. Through FY 2019, VA's financial systems and reporting issues continued to exist in the following areas:

A. <u>Lack of FMS Reconciliations with Subsidiary Systems</u>
VA has several legacy subsidiary systems that no longer meet the financial management system requirements and do not have a two-way interface with FMS. We reported these IT control deficiencies in our prior year audit reports. See the FFMIA non-compliance section for specific details of the condition in FY 2019. The reconciliations between the subsidiary systems where the

financial transactions were initiated and FMS were either not performed, partially performed, performed decentralized, or performed manually. Consequently, VA's accounting and financial reporting is severely hindered by system and business process limitations. Subsidiary systems where the financial events were initiated were not always the systems that directly fed information into FMS, which further exacerbated the reconciliation issues.

B. Extensive Reliance on the Use of Journal Vouchers (JVs)

VA continues to reduce its dependency on manual efforts to accurately report its balances at year-end. However, consistent with prior years, VA still records a large number of manual adjustments to prepare its financial statements. Most of these adjustments consist of "top-side" entries recorded into MinX. Top-side entries are manual adjustments recorded outside of VA's general ledger system and are used to accurately report financial statement balances at a point in time. Each accounting period in MinX is independent which requires numerous JVs, manual reconciliations, and analyses to be re-performed and re-entered to produce VA's quarterly financial statements and trial balances. The use of manual adjustments such as top-side entries often bypass controls instituted for ordinary transaction processing and increases the risk of introducing errors into financial reporting.

C. Issues with Intragovernmental Agreements and Reconciliations

VA does not have a complete centralized repository for all active intragovernmental agreements to support and facilitate its transaction level research and reconciliation. As a result, accounts involving intragovernmental financial transactions, such as obligations, unfilled customer orders, and offsetting collections recorded in FMS, did not agree to the intra-agency agreement amounts. The VA intragovernmental differences by trading partner approximated $603 million as of June 30, 2019.

Due to FMS system limitations, transactions were mapped to the incorrect Federal or Non-Federal attributes as a default. FMS does not have the system functionality to meet the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) reporting requirements. The high-volume, high dollar JVs are entered into MinX to adjust trading partner and general ledger attributes (including adding main account codes) in order for VA's trial balance submission to pass GTAS edits. The JVs recorded by management include categories such as "No Trading Partner," "IntraVA," "Unknown," etc.

D. Recording of Prior Year Budgetary Recoveries

In FY 2019, VA designed and implemented an automated tool to assist with data cleansing efforts related to prior year recoveries transactions. These efforts were needed to address long standing system limitations which had previously resulted in inaccurate reporting for these types of transactions. Consequently, VA management recorded material adjustments to correct errors in recoveries accounts for approximately $1.8 billion during the year.

E. Budgetary to Proprietary Analyses (Tie Points) Contained Material Differences

The Budgetary to Proprietary analysis (i.e. tie points) is a monitoring control used to identify potential recording errors that exist between the USSGL budgetary accounts and the corresponding proprietary accounts. VA made significant improvements researching the underlying causes to its tie point differences in resolving the outstanding reconciling transactions and/or balances as compared to prior year. However, there remained an absolute difference of $403 million ($72 million net value) at September 30, 2019. A portion of this variance related to adjustments that were made for system issues.

F. Lack of Reconciliation and Timely Clearing of Deposit/Clearing Account Activities

VA continues to lack a centralized and consolidated process to properly report, reconcile, and monitor the outstanding unapplied deposit/clearing account activities relating to the $300 million reported in Note 3, Fund Balance with Treasury, to the financial statements. Management was unable to provide a detailed report containing valid and outstanding transactions that still needed to be researched and applied to the proper account at year-end.

Criteria:

See GAO's *Standards for Internal Control in the Federal Government* and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular A-123) criteria in Material Weakness 1.

OMB Memorandum M-13-23, Appendix D to Circular No. A-123, *Compliance with the Federal Financial Management Improvement Act of 1996* (Appendix D), states as part of its scope: "Transactions are posted to the financial system in accordance with the standard general ledger accounting requirements the Department of Treasury (Treasury) published in the USSGL supplement to the Treasury Financial Manual (TFM)."

Appendix D also states, "The Federal Government's financial management system policy is to make the best use of financial management systems to initiate, record, process, and report transactions to support agency missions in making business decisions and to provide transparency to the public. These systems shall help agencies ensure the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations."

OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, Appendix F, provides the authoritative guidance with regard to recording recoveries.

Cause:

The age and limitations of VA's various financial management systems caused VA to record numerous manual JVs and implement extensive manual processes and controls to prepare its financial statements for external reporting purposes. In addition, adequate internal controls were lacking in the following key areas: 1) centralized and consolidated reconciliations for key accounts, 2) complete inventory, proper accounting, and monthly reconciliation of intra and interagency agreements 3) reporting for prior year recoveries transactions, and 4) researching and clearing of deposit/clearing account activities. Also, management considered the budgetary to proprietary variances to be immaterial.

Effect:

These weaknesses increased the risk of errors in the financial reporting process.

Recommendations:

We recommend that the Assistant Secretary for Management/CFO in coordination with the VHA CFO and the VBA CFO:

1. With respect to FMS reconciliations with subsidiary systems:
   a) Perform an enterprise risk management (ERM) review that includes all of VA's subsidiary systems to inventory all types of VA's financial transactions and how they are initiated, interfaced, and ultimately recorded in FMS. Such an analysis can be performed in conjunction with the system modernization efforts including identifying the gaps and developing gap alternatives to address the systems that will not be part of the modernization.

b) Establish a risk register for each of those systems and prioritize system modernization or institute system fix efforts. Coordinate efforts with the Office of Information and Technology (OIT) and the relevant business offices to ensure complete and consolidated reconciliations between those subsidiary systems and the general ledger system are performed on a monthly basis.
c) Strengthen the FMS cumulative reconciliation with the subsidiary systems that includes performing complete and consolidated reconciliations between those subsidiary systems and FMS on a predetermined frequency basis (i.e. monthly) to support the accuracy and completeness of financial reporting.

2. With respect to JVs:
   a) Continue to monitor the JV recording process surrounding the research and review of account differences and subsequent adjustments. Focus on addressing the common root causes of these JVs in order to:
      - Implement the necessary system fixes to reduce the volume and value of JVs prior to system modernization.
      - Ensure any risks identified are considered and addressed in the upcoming system modernization efforts.
      - Continue reviewing and researching all JVs recorded in the FMS Station 151 default account and reclassify them to the proper funds and accounts promptly.
   b) Perform a pro forma analysis to validate major accounting entries with their posting logic and attribute settings in FMS and the subsidiary ledgers used by the various business lines. Continue efforts to correct and establish missing FMS transaction posting logic to minimize the use of manual JVs. Manual JVs should be used only for unusual transactions, as a general rule (e.g., quarterly accruals, timing differences, or unusual one-time entries, etc.).

3. With respect to intra-governmental agreements and reconciliations:
   a) Comply with the reimbursable policy to provide the final agreement and continue to work to maintain and validate all intragovernmental agreements in the centralized repository to ensure that all agreements are current and contain all the required terms and conditions. Perform an inventory review of those agreements to:
      - Determine whether balances are recorded in FMS accurately.
      - Ensure that agreements in the repository reflect an active or closed status, identify obligation amounts separately from contract/agreement values, and ensure that values are supported by agreements or task orders released against the agreement.
   b) Continue to review closed agreements and determine whether these agreements need to be renewed, maintained in the repository, or archived.
   c) Produce reliable subsidiary trading partner reports with details at the transaction level that can be linked to the agreement level to facilitate management's review and reconciliation with the trading partner reporting in GTAS and in the financial statements. Any corrections made as a result of the research should be documented and recorded in FMS at the transaction level.
   d) Continue to strengthen VA's controls and processes as described in the Treasury Financial Manual Volume I, Part 2, Chapter 4700, Appendix 6, *Intragovernmental Transaction Guide*, issued in July 2019, Section 2.3, for:
      - Authoritative Source Reconciliation (subsection 2.3.1)
      - Material Difference Reports (subsection 2.3.2)
      - Root Cause/Corrective Action Plan Process (subsection 2.3.3)
      - Dispute Resolution Process (subsection 2.3.4)
      - Measure IGT Activity/Scorecards (subsection 2.4)

e) Continue to provide training/webinars/guidance documents on the use, accounting, and reconciliation of intragovernmental agreements to ensure their proper implementation throughout VA (including using correct vendor code structure with GTAS main account codes).
f) As part of the system modernization, consider the following:
   - Ensure a two-way interface occurs between the repository and the general ledger system when a transaction occurs.
   - Automate cumulative reconciliation between the repository and the general ledger system monthly.
   - Provide automated notification to the agreement holder when the agreement is expiring in 60 days (or based on management's own set timelines) and when it has expired. *Until system modernization occurs, management must continue to improve their controls and processes as recommended in the other Recommendations.*

4. With respect to prior year budgetary recoveries:
   a) Document the policies and procedures to identify and adjust for any prior year recovery (PYR) errors in FMS including management's assessment of completeness that all errors are identified and removed.
   b) Continue to enhance and improve the PYR automation tool to aid with eliminating and correcting errors caused by FMS limitations. In instances when the PYR tool is turned off or not used, perform an analysis of transactions occurring during that period and identify any errors that would have otherwise been captured and addressed by the PYR tool so the errors can be manually corrected.
   c) Continue to perform an assessment to validate the transactions included in the population of PYR prior to recording them on the financial statements.
   d) Ensure when changes to an obligation's internal cost accounting structure, such as a modification to the budget object class code, transaction code (i.e., MO to SO), or federal/non-federal attributes are made, the accounting treatment is properly reflecting the activity per USSGL and OMB Circular A-11 guidance, and the transaction is not erroneously recorded as prior year recoveries.
   e) Perform in-depth analyses and/or reviews of the PYR automated tool results to assess accuracy. The review should consist of selecting a predetermined sample of transactions and vouching to supporting documentation.
   f) As part of the system modernization efforts, establish PYR transaction codes that are consistent with USSGL when transactions occur.

5. With respect to budgetary to proprietary analysis:
   a) Continue to research significant discrepancies to determine the cause, and document resolution of variances as part of management's updated review process.

6. With respect to deposit/clearing account activities:
   a) Develop an effective process to properly monitor and age all deposit/clearing activities back to transaction level detail for the 101000 account showing the document ID, station information, date transaction is recorded, and the outstanding balance. Unreconciled differences should be researched and resolved within 60 days pursuant to management policy. This should be performed as part of the Fund Balance with Treasury reconciliation and as a monitoring control to ensure completeness.

EXHIBIT A
Material Weaknesses

4. Information Technology Security Controls

VA relies extensively on information technology (IT) system controls to initiate, authorize, record, process, summarize, and report financial transactions in the preparation of its financial statements. Many of VA's legacy systems have been obsolete for several years. For example, VA's core financial accounting system, FMS, is coded in Common Business Oriented Language (COBOL) - a programming language developed in the late 1950s and VA's system employed at the medical centers - Veterans Health Information Systems and Technology Architecture (VistA) was built in the late 1970s. Because of their age, legacy systems are more burdensome and costly to maintain, cumbersome to operate, and difficult to adapt to meet today's operational and security requirements. Internal controls over these operations are essential to ensure the integrity, confidentiality, and reliability of critical data while reducing the risk of errors, fraud, and other illegal acts.

Our review of IT controls covered general and selected business process application controls across 24 selected VA medical centers, regional offices, and major data centers. As noted in prior years' audits, VA continues to have weaknesses in Configuration Management, Access Controls, Security Management, and Contingency Planning Controls designed to protect mission-critical systems from unauthorized access, alteration, or destruction.

Our current year audit identified security weaknesses that were corrected in some locations and for certain control activities and systems; however, weaknesses still persist. Examples of VA improvements in its IT control environment include further implementation of system monitoring and logging tools and techniques. Additionally, in order to establish more consistent processes, VA continued centralizing some control functions that in prior years were disbursed across the field sites. VA also has continued predictive scanning of its networks allowing for the identification of vulnerabilities across field offices. Further, VA has begun to transition systems to a new IT Governance, Risk and Compliance (GRC) Tool and is planning on having their entire system inventory migrated in the upcoming year to improve the process for assessing, authorizing, and monitoring the security posture of the agency.

The aforementioned controls require time to mature and show evidence of their effectiveness. Additionally, controls need to be applied in a holistic manner to information systems across VA in order to be considered consistent and fully effective. Accordingly, we continue to see information system security deficiencies similar in type and risk level to our findings in prior years and an overall inconsistent implementation of the security program. Moving forward, VA needs to ensure a proven process is in place across the agency. VA also needs to continue to address control deficiencies that exist in other areas across all VA locations.

We continue to find control deficiencies in Configuration Management, Access Controls, Security Management, and Contingency Planning domains. Most importantly, we continue to identify significant technical weaknesses in databases, servers, and network devices that support transmitting financial and sensitive information between VA's medical centers, regional offices, and data centers. This is a result of an inconsistent application of vendor patches and outdated system software that could jeopardize the data integrity and confidentiality of VA's financial and sensitive information. VA has made progress in deploying current security patches; however, older patches and previously identified vulnerabilities related to configuration weaknesses and outdated system software continue to persist on its networks. While some progress was made in these areas, VA needs to improve deployment of security patches, system upgrades, and system configurations that will mitigate significant security vulnerabilities and enforce a consistent management process across all field offices. We also identified issues related to access controls and configuration management for financially significant applications. In addition, VA continues to operate key financial management systems using outdated technology that hinders mitigation of certain vulnerabilities. We also identified instances of unsupported software that did not have extended vendor support.

Many of these weaknesses can be attributed to an inconsistent enforcement of an agency-wide information security program across the enterprise and ineffective communication between VA management and the individual field offices. Therefore, VA needs to improve its performance monitoring to ensure controls are operating as intended for all systems and at all facilities. Further, VA should communicate security deficiencies to the appropriate personnel, who take responsibility for implementing corrective actions and ensuring those actions are taken. Our assessment of the general and application controls of VA's key IT infrastructure and financial systems identified the following conditions:

Conditions:

A. Configuration Management

- Systems including key databases supporting financial applications were not timely patched or securely configured to mitigate known and unknown information security vulnerabilities. The deployment of vendor patches and system upgrades to mitigate the vulnerabilities was decentralized, inconsistent, and not effective across all VA facilities. Furthermore, VA did not have a complete inventory of the devices connected to its networks and thus we could not verify that all of VA's computers undergo continuous monitoring to ensure they remain securely configured, free of technical vulnerabilities, and adequately patched.
- VA did not effectively scan all devices connected to VA's network to mitigate security risks posed by these devices. Additionally, vulnerabilities were identified on trusted hosts that had the capability to communicate with medical devices protected by network segmentation.
- Key financial management systems use outdated technology that hinders mitigation of certain vulnerabilities. While VA has purchased extended support for some of its software, we noted many instances of unsupported software that did not have extended vendor support. This has resulted in numerous unresolved security issues that expose other VA systems to possible security breaches stemming from unmitigated software vulnerabilities.
- VA made progress in implementing controls to segment medical devices; however, we continued to identify instances where segmentation was not appropriately designed or configured for ensuring medical devices are properly segregated from general use systems and networks.
- Although VA continued to document and implement new baselines, weaknesses remain in the process for developing, approving, and implementing configuration baseline standards. Specifically, VA was in the process of reviewing its systems environment, identifying systems that did not have secure baseline configuration guides in place and developing baseline configuration guides for those systems. In addition, VA did not consistently monitor compliance with its established configuration baselines. Further, VA's baseline security process does not adequately address emerging security threats and vulnerabilities that could adversely impact mission critical systems.
- The process for developing and maintaining an accurate listing of software, hardware, and component inventory was not fully implemented throughout the enterprise.
- Change management procedures for authorizing, documenting, testing, and approving system changes were not consistently implemented for networks and mission-critical systems.
- VA did not employ automated mechanisms to prevent the execution of changes to systems prior to approval and did not consistently monitor for unauthorized changes across all system platforms.

- An agency-wide process was not fully implemented for identifying and removing unauthorized application software on Agency systems. VA has made progress by expanding automated software monitoring and continues to work on implementing an enterprise-wide continuous monitoring solution for unauthorized software.

B. Access Controls
- Password standards were not consistently implemented and enforced across multiple VA systems, including the network domain, databases, and key financial applications. Specifically, we identified default passwords, easily guessed passwords, and blank passwords on these platforms.
- Inconsistent reviews of user access rights had resulted in numerous generic, system, terminated, and inactive user accounts that were not removed from the applications and networks. Several financial applications were identified with inadequate controls related to inactive accounts, audit logging, and segregation of duties. In addition, inconsistent exit clearance processes for employees contributed to an increased number of separated employees with active system user accounts or accounts that were not disabled timely.
- Proper completion of user access requests was not consistently performed to eliminate conflicting roles and enforce principles of least system privilege. In addition, technical access controls were not implemented in key financial applications to ensure access is based on defined roles and adequate separation of duties.
- Monitoring of access for individuals with elevated application privileges was lacking within the production environment of several major applications.
- Identification, notification, and remediation of security and privacy incidents were not consistently implemented to ensure incidents were resolved timely. In addition, network and application security event logs, which provide audit trails, were not consistently maintained, correlated, or reviewed across all facilities and systems.
- Multi-factor authentication was not fully in place throughout the period. VA was at roughly 88% enforcement for 2019.

C. Security Management
- Security Control Assessments (SCAs) were not consistently performed for new systems gaining an Authority to Operate and existing systems going through re-authorization. In addition, most SCAs were conducted by groups that were not independent of the system management process and they did not always assess the effectiveness of the existing controls in place.
- System security plans were incomplete and did not reflect the current environment. Specifically, medical and special purpose systems were assigned to the Regional General Support System boundaries; however, the inventory of these devices was not reflected in the associated system security plans and the control implementation details specific to these devices were not addressed.
- Background reinvestigations were not performed timely and tracked effectively and the VA's system of record was inaccurate. In addition, some personnel did not receive the proper level of investigation for their position sensitivity levels and there was no centralized method for monitoring the investigation status of contractors.
- Plans of Action and Milestones (POA&Ms) were not consistently updated to incorporate all known control weaknesses, reflect changes to milestones, and documentation was inadequate to support closed actions. In addition, control weaknesses identified during SCAs were not always tracked individually in POA&Ms.

D. Contingency Planning
- There were instances of unplanned outages or disruptions where systems or services were not recovered within prescribed Recovery Time Objectives.

- Contingency and Disaster Recovery Plans and exercises did not always consider system interdependencies and did not identify critical system assets.

Criteria:

OMB Circular A-130, Appendix I, *Responsibilities for Protecting and Managing Federal Information Resources,* states that, "Federal agencies must implement information security programs and privacy programs with the flexibility to meet current and future information management needs and the sufficiency to comply with Federal requirements and manage risks. As technologies and services continue to change, so will the threat environment. Agency programs must have the capability to identify, respond to, and recover from current threats while protecting their information resources and the privacy of the individuals whose information they maintain. The programs must also have the capability to address new and emerging threats. To be effective, information security and privacy considerations must be part of the day-to-day operations of agencies. This can best be accomplished by planning for the requisite security and privacy capabilities as an integral part of the agency strategic planning and risk management processes, not as a separate activity. This includes, but is not limited to, the integration of Federal information security and privacy requirements (and security and privacy controls) into the enterprise architecture, system development life cycle activities, systems engineering processes, and acquisition processes."

OMB Circular A-130 also states that, "Agencies shall implement an agency-wide risk management process that frames, assesses, responds to, and monitors information security and privacy risk on an ongoing basis across the three organizational tiers (i.e., organization level, mission or business process level, and information system level)."

The Federal Information Security Modernization Act of 2014 (FISMA), amended the FISMA Act of 2002 that requires each agency to develop an agency-wide information security program that includes:

- Periodic assessments of risk, including the magnitude of harm that could result from the unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems that support the operations and assets of the organization;
- Policies and procedures that are based on risk assessments, cost-effectively reduce information security risks to an acceptable level and address information security throughout the life cycle of each organizational information system;
- Plans for providing adequate information security for networks, facilities, information systems, or groups of information systems, as appropriate;
- Security awareness training to inform personnel of the information security risks associated with their activities and their responsibilities in complying with organizational policies and procedures designed to reduce these risks;
- Periodic testing and evaluation of the effectiveness of information security policies, procedures, practices, and security controls to be performed with a frequency depending on risk, but no less than annually;
- A process for planning, implementing, evaluating, and documenting remedial actions to address any deficiencies in the information security policies, procedures, and practices of the organization;
- Procedures for detecting, reporting, and responding to security incidents; and
- Plans and procedures for continuity of operations for information systems that support the operations and assets of the organization.

Cause:

Dispersed locations, continued reorganization, and diversity of applications have impacted facilities' and management's ability to consistently remediate IT security deficiencies across the enterprise. For example, VA's complex and disparate financial system architecture has resulted in a lack of common system security controls and inconsistent maintenance of IT mission-critical systems. Also, VA recently underwent a system boundary re-organization which aligned their main systems along regional/district territories. This has created system boundaries that are extremely large and complex and encompass many system environments, components and services across VA. Consequently, VA continues to be challenged with consistent and proactive enforcement of established policies and procedures throughout its geographically dispersed portfolio of legacy applications and newly implemented systems.

VA has had several leadership and organizational changes throughout the last several years. The lack of consistent leadership and continued reorganization of components within VA, such as the centralization of data centers and the shift of control from the local sites to regional and enterprise levels, has caused delays in communicating established policies with personnel throughout VA. In addition, VA lacks an effective and consistent corrective action process for addressing and monitoring known internal security vulnerabilities on databases and network infrastructures.

Effect:

By not effectively implementing and enforcing IT policies and procedures, there is an increased risk that financial and personally identifiable information may be inadvertently or deliberately misused and may result in improper disclosure or theft without detection. Further, key financial management systems use outdated technology that hinders mitigation of certain security vulnerabilities. Without remediating all significant security vulnerabilities, systems could be compromised resulting in potential harm to confidentiality, integrity, and availability of VA sensitive data.

Recommendations:

The Assistant Secretary for the Office of Information and Technology should continue to analyze and prioritize remediation efforts to accomplish security and control objectives. Key tasks should include, but are not limited to:

1. Implement improved mechanisms to continuously identify and remediate security deficiencies on VA's network infrastructure, database platforms, and Web application servers in support of the established policy timeframes.

2. Implement improved processes to ensure all VA organizations and systems are included in the vulnerability management program. Implement processes to consolidate the security responsibilities for local facility systems, not managed by OIT, and ensure security scans are performed with credentials and the subsequent vulnerabilities are remediated in a timely manner.
3. Develop and implement a strategic plan to address unsupported technology.

4. Continue to implement controls to restrict medical devices from unnecessary access to the general network.

5. Maintain up-to-date, complete, and accurate security baseline configurations for all platforms. Ensure that all baselines are appropriately implemented, tested, and monitored for compliance with established VA security standards.

6. Implement improved procedures for establishing, documenting, and monitoring an accurate software and hardware inventory across the enterprise.

7. Implement improved change control procedures to ensure the consistent documentation, testing, and approval of system changes for VA financial applications and networks.

8. Implement improved procedures for preventing and detecting potential unauthorized changes across all platforms.

9. Fully develop a comprehensive list of approved and unapproved software and implement automated continuous monitoring processes to identify and prevent the use of unauthorized software on agency devices.

10. Implement improved processes to ensure compliance with VA password policy and security configuration baselines on domain controllers, operating systems, databases, applications, and network devices.

11. Implement improved processes for periodic reviews of network and financial applications to ensure appropriate user access rights. Remove generic and inactive accounts on systems and networks.

12. Implement improved processes to ensure the proper completion and retention of user access request forms that enforce principles of least system privilege, prior to granting system access.

13. Implement improved processes to ensure the proper completion of termination processes for separated employees. Verify that VA property, including access badges, are returned and system accounts are disabled timely.

14. Implement technical access controls that will restrict user access based on defined roles and enforce adequate separation of duties principles.

15. Strengthen agency-wide incident response procedures to ensure timely notification, reporting, updating, and resolution of computer security incidents in accordance with VA standards.

16. Implement improved processes for monitoring system audit logs for unauthorized or unusual activities across all systems and platforms. Ensure privileged user account activity is monitored on all systems and applications. Implement improved procedures for analyzing all significant audit logs and ensure audit logs are maintained in accordance with VA policy contained within Handbook 6500.

17. Fully implement two-factor authentication for system access throughout the agency.

18. Implement an improved continuous monitoring program to ensure that independent system security evaluations are performed prior to granting authority to operate decisions.

19. Implement improved processes for updating key security documentation to include results from applicable security control assessments. Additionally, such updates will ensure all required information is included and accurately reflects the current environment, new security risks, and applicable Federal standards.

20. Implement improved processes to ensure security control implementation status and risks are accurately reported to support a comprehensive risk management program across the

organization.

21. Strengthen processes to ensure appropriate levels of background investigations are completed for applicable VA employees and contractors in a timely manner.

22. Strengthen processes to ensure local facilities track reinvestigations for employees and contractors in high-risk positions and that all reinvestigations are initiated in a timely manner.

23. Implement improved processes for local facilities to accurately and timely report any changes in position sensitivity levels. Furthermore, local facilities should ensure position descriptions are appropriately marked for position risk and sensitivity levels in accordance with VA and Office of Personnel Management standards.

24. Formalize the methodology used to assign position sensitivity and designations within the Human Resource business processes to ensure that employees with similar positions are required to have the same level of background investigation.

25. Implement improved processes for establishing and maintaining accurate investigation data within an authoritative system of record for the VA.

26. Strengthen processes to ensure that POA&Ms are developed for known weaknesses and they are tracked and updated in a timely manner.

27. Implement improved processes to ensure closed POA&Ms are adequately supported with appropriate documentation.

28. Ensure that deficiencies are tracked individually for each control weakness instead of consolidating findings under one control.

29. Review the system boundaries, recovery priorities, and recovery operations to determine where changes need to occur to ensure established recovery objectives are consistently met.

30. Fully consider and document system interdependencies in existing contingency plans to include critical information systems, components, and detailed recovery priorities.

5. Entity Level Controls including CFO Organizational Structure

Background:

The establishment and execution of an internal controls system is critical to meet an agency's operational, programmatic, and financial objectives. Entity-level controls have a pervasive effect on VA's internal control system and encompass the elements of control environment, control activities, monitoring, risk assessment, and information and communication.

With respect to the control environment, management is responsible for establishing an organizational structure, assigning responsibility, and delegating authority to achieve the entity's objectives. VA's financial management structure is decentralized, with most of VA's budget authority and financial statement accounts under the operational control of its major administrations and offices. The reliability of VA's financial reporting as a whole is largely dependent on the quality of financial management at these organizations.

EXHIBIT A
Material Weaknesses

The Assistant Secretary for Management is VA's statutory CFO, as required under the CFO Act. The VA CFO has responsibility for establishing financial policy, systems and operating procedures for all VA financial entities; providing guidance on all aspects of financial management; and producing VA's consolidated financial reports. VA administrations and other offices are responsible for implementing those policies and producing the financial information that the VA CFO's office consolidates. Business components, such as VHA, VBA, and the National Cemetery Administration (NCA), have their own CFOs, who oversee financial management operations and follow the chain of command within those organizations. These CFOs have reporting lines of authority to the head of their components, not to the VA CFO. Further, VHA's financial management functions are managed by three categories of CFOs - the VHA CFO, the OCC CFO, and 18 VISN CFOs, each under different lines of reporting.

Condition:

VA continues to have serious control weaknesses throughout the organization with respect to financial reporting. These weaknesses are attributed to a decentralized and fragmented organizational structure for financial management and reporting; the lack of an effective, comprehensive, and integrated financial management system and a challenging IT environment; and the undue reliance placed on manual processes to identify or correct errors with financial information. Active involvement from VA's senior leadership on a continued basis is needed to effectively mitigate the control weaknesses identified in this report.

A. <u>Control Environment</u>
During FY 2018, VA established the CFO Council to serve as an advisory committee to the VA CFO to address longstanding financial management control weaknesses. The Council held meetings throughout FY 2019. We have observed some improvements in VA's financial reporting practices in certain areas; however, we also found new control deficiencies. Specifically, we identified the following:

- Given the system issues and decentralization, there were instances where VA lacked the additional oversight and coordination needed in providing reliable and accurate financial information to support certain financial statement line items in a timely and auditable manner. For example, this information was needed to support VA's balances for obligations and recoveries and the significant transactions related to the excess contingency funds.

- VA does not provide sufficient organizational authority for the VA CFO to fully perform all responsibilities under the CFO Act, such as overseeing financial personnel or developing and maintaining an integrated agency accounting and financial management system, including financial reporting and internal controls. The different CFOs report through their own organizational chains of command rather than to the VA CFO. The VA CFO also does not have, as an alternative, formal authority to participate in matters such as performance evaluations of financial personnel. As a result, responsibility and accountability are not effectively aligned.

Consistent with our prior year observation, VA's current governance structure does not include strong accountability controls for financial management at the enterprise level. More time is needed to assess the effectiveness of the CFO Council in supporting these mitigating factors.

In summary, financial management responsibility and accountability should be aligned in such a way that supports a strong internal control system, including entity-level controls for the department as a whole, and prevents, reduces, and eventually eliminates VA's material weaknesses.

EXHIBIT A
Material Weaknesses

B. Control Activities, Monitoring, and Risk Assessment
The control activities of an organization are the policies, procedures, and techniques that management uses to address operational, programmatic, and financial reporting risks. These activities require sufficient and descriptive documentation that is clear and concise to ensure that the appropriate steps are executed to achieve the desired objective. In addition, active monitoring by VA at the entity level and within each business line (e.g. VHA, VBA, and NCA) is critical to evaluating the design and effectiveness of the internal control system. An effective monitoring system uses control activities such as regular management and supervisory reviews, reconciliation, automated tools, and other activities to identify deficiencies in need of corrective action. Overall, VA's risk assessment process should provide the principal basis for developing the appropriate responses to risks. However, we continue to report repeated weaknesses in VA's financial management and IT environment. VA has not effectively mitigated these weaknesses in a timely manner.

In FY 2019, we continued to identify deficiencies in control activities, monitoring, and risk assessment at the entity level as identified in this report. These conditions have been discussed in detail in Material Weaknesses 1-4 and Compliance 1-2 and include the following:

- Incomplete documentation for all key significant business processes (called process narratives) affecting financial management that describe VA's most current key control activities
- Incomplete reconciliations for subsidiary/feeder systems to FMS (general ledger)
- Lack of a look-back analysis (i.e., comparing actual results to model projections) for the education program actuarial models and the IBNR model
- Insufficient or inadequate development and execution of IT control activities
- Incomplete or insufficient reconciliations and look-back analysis for accrual/IBNR
- Review, approval, and monitoring controls surrounding the identification, recording, and transferring of excess contingency reserve funds held by third-party provider to VA
- Various continued deficiencies for the loan guaranty model

Details can be found in the sections of this report describing individual material weaknesses and noncompliance with FFMIA and FMFIA. Although VA has been working to identify root causes and made some improvements, many of these issues have existed for years and require changes to the existing business processes and systems to resolve them. The resolution of these longstanding weaknesses requires senior management attention and VA-wide efforts and time to ensure consistent and focused implementation.

C. Information and Communication
The quality of information within VA is vital to users for decision-making purposes and the evaluation of key operational, programmatic, and financial reporting measures. Also, the IT systems and communication infrastructure should produce information that is relevant, reliable, timely, and free from material errors or inconsistencies. Throughout the fiscal year, we found that VA management could not provide accurate and complete data to support certain account balances in a timely manner. In some instances, great efforts were needed to provide the required support for examination. These conditions have been discussed in detail in Material Weaknesses 1-3 and include the following:

- Delays in implementing and documenting the IBNR estimation methodology and performing reconciliations to ensure data completeness
- Lack of a complete centralized repository for intragovernmental agreements
- Extensive use of journal vouchers due to system limitations
- Lack of a centralized and consolidated process to properly report, reconcile, and monitor the outstanding unapplied deposit/clearing account activities

- Continued invalid PYR transactions although an automated tool was implemented that helped reduce the number of erroneous transactions
- Lack of effective collaboration and communication amongst appropriate offices to resolve excess contingency reserves issue in a timely manner

Criteria:

See GAO's *Standards for Internal Control in the Federal Government* and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular A-123) criteria in Material Weakness 1.

The CFO Act of 1990 stipulates the following:

Sec. 902. Authority and functions of agency Chief Financial Officers, states:
"a. An agency Chief Financial Officer shall—

1. report directly to the head of the agency regarding financial management matters;
2. oversee all financial management activities relating to the programs and operations of the agency;
3. develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, which—
   - A. complies with applicable accounting principles, standards, and requirements, and internal control standards;
   - B. complies with such policies and requirements as may be prescribed by the Director of the Office of Management and Budget;
   - C. complies with any other requirements applicable to such systems; and
   - D. provides for--
     - i. complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management;
     - ii. the development and reporting of cost information;
     - iii. the integration of accounting and budgeting information; and
     - iv. the systematic measurement of performance;
4. make recommendations to the head of the agency regarding the selection of the Deputy Chief Financial Officer of the agency;
5. direct, manage, and provide policy guidance and oversight of agency financial management personnel, activities, and operations, including-
   - A. the preparation and annual revision of an agency plan to-- (i) implement the 5-year financial management plan prepared by the Director of the Office of Management and Budget under section 3512(a)(3) of this title; and (ii) comply with the requirements established under sections 3515 and subsections (e) and (f) of section 3521 of this title;
   - B. the development of agency financial management budgets;
   - C. the recruitment, selection, and training of personnel to carry out agency financial management functions;
   - D. the approval and management of agency financial management systems design or enhancement projects;
   - E. the implementation of agency asset management systems, including systems for cash management, credit management, debt collection, and property and inventory management and control;
6. monitor the financial execution of the budget of the agency in relation to actual expenditures, and prepare and submit to the head of the agency timely performance reports."

Cause:

VA has not adequately designed and placed the appropriate controls in operation to remediate the financial reporting risks associated with a decentralized reporting structure. Also, VA has a complex, disjointed, and legacy financial system architecture that cannot fully support financial management needs without significant manual intervention.

Effect:

The lack of an effective entity level control, including the decentralized reporting structure coupled with legacy system issues, has led to systemic and pervasive control deficiencies that impedes the Department's ability to process, summarize, and report reliable financial information in a timely manner. Also, VA may not fully comply with existing federal financial reporting guidelines and related laws, regulations, contracts, and grant agreements.

Recommendations:

We recommend that the VA Secretary and Deputy Secretary:

1. Provide the VA CFO office with authority to actively participate in:
    - Approving job descriptions and skill requirements for those who head VA components' financial management activities and operations.
    - Selection and recommendation of those individuals.
    - Their annual performance evaluation.

We recommend the VA Assistant Secretary for Management/CFO and CFO Council:

2. Work to develop a transparent and accountable culture across organizational components by:
    - Openly sharing information regarding issues, root causes of issues/findings, analyses, and best practices.
    - Work with responsible parties to implement corrective actions to timely address and mitigate identified issues/risks.
    - Encourage communication and collaboration under the CFO's leadership to establish working level committees to resolve any identified accounting, financial management, and financial reporting issues.
    - Involve other stakeholders such as key leaders from acquisition, logistics, and asset management to collaboratively address financial management issues and develop risk mitigation strategies.
    - Provide the necessary financial management training and performance monitoring to continuously elevate the financial management capabilities and knowledge within VA.

3. Ensure that system modernization efforts address and support remediation of the material weaknesses, significant deficiencies, and system deficiencies identified in this report, as well as meet all Federal system requirements.

EXHIBIT B
Compliance Findings

1. Noncompliance with FFMIA

Financial Management Systems

VA's complex, disjointed, and legacy financial management system architecture has continued to deteriorate and no longer meets the increasingly stringent and demanding financial management and reporting requirements mandated by the Treasury and OMB. VA continues to be challenged in its efforts to apply consistent and proactive enforcement of established policies and procedures throughout its geographically dispersed portfolio of legacy applications and systems. As a result, VA's financial management systems do not substantially comply with the Federal financial management systems requirements and the USSGL at the transaction level, as required by FFMIA Section 803(a). These conditions should be read in conjunction with all material weaknesses reported in Exhibit A, including Material Weakness 4 concerning the IT security control environment.

A. Federal Financial Management System Requirements
VA's core accounting system, FMS, was implemented in 1992. Since that time, Federal financial reporting requirements have become more complicated and the level of financial information required by Congress and other oversight bodies has become increasingly demanding and complex. Some of the effects of FMS' limited functionality are described in the material weakness, "Financial Systems and Reporting." Due to these limitations, VA utilizes a separate accounting system, MinX, to consolidate general ledger activities from FMS to produce auditable financial statements and GTAS trial balances. Further, each accounting period in MinX is independent and thus, numerous manual JVs, reconciliations, and analyses must be reperformed and reentered in each period to produce VA's financial statements and GTAS trial balances. FMS' functionality limitations are further exacerbated due to the age of FMS.

As reported in previous years, complete and consolidated reconciliations between FMS and the following subsidiary/feeder systems were not performed throughout FY 2019:

- *Electronic Contract Management System (eCMS).* eCMS is an intranet-based contract management system mandated by VA policy. Source documentation of all actions pertaining to open-market procurements over a certain threshold are required to be created and maintained in eCMS. However, VA does not utilize eCMS to electronically process the approval and reviews performed for its acquisitions. Obligation of funds and assignment of purchase order numbers are still performed in IFCAP.

  In addition, VA has not fully implemented a standard procurement file structure in eCMS to maintain acquisition documentation in a consistent and efficient manner. As a result, it was difficult at times to find acquisition documentation to support the procurement process followed by VA. The information in this system is incomplete and can be unreliable.

- *Veterans Health Information Systems and Technology Architecture (VistA).* VistA is VHA's decentralized system utilized for patient billing and collection transactions. Each medical center has its own instance of VistA that must be separately maintained and updated. VistA contains the detailed subsidiary records that support the FMS general ledger control accounts.

  In the case of the Medical Care Collections Fund (MCCF), VistA does not provide management with the ability to effectively and efficiently monitor MCCF activities at the transaction level. In particular, although billing and collection functions have been centralized at the Consolidated Patient Accounting Centers (CPACs), CPAC personnel still cannot generate combined reports for all the facilities under their purview. Reports are generated separately for individual medical centers, which leads to inefficiencies in operations and revenue management. Further, a nationwide report at a sufficient level of detail cannot be generated. For financial reporting, MCCF revenues are recorded in FMS through a lump-sum journal entry based on station-by-station data. This complicates reconciliation of revenue transactions to collections and the supporting audit trail. In addition, as VistA is not able to produce a consolidated accounts receivable aging report at a sufficient level of detail, management does not have the tools to properly assess the reasonableness of its allowance for loss provision or perform a retrospective analysis to ascertain the reasonableness of its allowance methodology.

- *Integrated Funds Distribution Control Point Activity, Accounting and Procurement System (IFCAP)*. IFCAP is a module within VistA that is used by VHA, contracting officers, and other VA personnel to initiate and authorize purchase requisitions for goods and services, as well as to accumulate vendor invoices for payment. Further, transactions initiated and recorded in IFCAP cannot be centrally and completely reconciled to those in FMS or to the procurement source documentation maintained in eCMS.

Further, the following subsidiary systems do not have two-way interface among key systems that share financial data or with FMS:

- The Centralized Administrative Accounting Transaction System (CAATS)
- The Benefits Delivery Network (BDN)
- The Veterans Services Network (VETSNET)
- The interface from the Long Term Solutions (LTS) system to BDN is a one-way process. Education benefit payments were determined and processed in LTS and transferred through the system interface to BDN for payments by VBA. However, the payment data in BDN did not feed back into LTS to show the entire history from eligibility and entitlement determinations, to actual payment processed. No reconciliation is performed to ensure consistency of relevant data in both systems.
- The Education benefits for the various programs are processed using different applications (e.g., BDN, LTS, C-WINRS (system used to process chapter 31 benefits), FOCAS (system used for Flight on the Job Training program), etc.), some of which do not interface with FMS. Further, due to the limited functionality of these systems, intensive manual efforts are necessary to adjudicate and process education benefits. These manual processes create additional inherent risk and leave room for error.

Moreover, certain subsidiary systems were not integrated with each other resulting in additional manual input that produced inefficiencies and manual errors. For example, for veterans who submit applications for Education benefits through the VA Online Application System (VONAPP), the applications are scanned into TIMS and then manually input into LTS for the processing of each initial claim. The lack of information interface from VONAPP to LTS creates additional inherent risk and leaves room for manual input error.

B. <u>USSGL at the Transaction Level</u>
FMS did not substantially comply with the USSGL at the transaction level for the following:

- Certain USSGL transaction codes continue to be missing from FMS. For example, VA cannot record USSGL transaction code A118 in its financial system. As a result, a workaround is required to put anticipated funds apportioned into the proper account 4590 - Apportionments - Anticipated Resources - Programs Subject to Apportionment. The process is currently not being performed through a JV but is a hardcoded adjustment to the GTAS Bulk File which inherently increases the risk of misstatement in the VA financial statements.

- FMS does not allow for 6-digit USSGL account reporting as required by the Treasury Financial Manual.
- FMS is outdated and unable to keep up with the existing Treasury reporting requirements.
  - ➢ The existing FMS posting logic was not updated for required Treasury account attributes established in the USSGL. As a result, VA management needed to execute workarounds to compensate for FMS' system limitations. For example, the modification of the FMS chart of accounts to incorporate letters and general ledger numbers in subsidiary ledger accounts to classify Federal and non-Federal (i.e., public) transactions. However, mapping issues in FMS prevent the proper application of Federal and non-Federal attributes when a business event occurs. This limitation contributed to VA's extensive reliance on JVs.
  - ➢ FMS also lacks the appropriate edit checks to ensure the proper posting of intragovernmental transactions, which results in significant trading partner-related adjustments as part of its GTAS submission to the Treasury.
  - ➢ Account codes with differences in descriptions did not match the USSGL description.
  - ➢ The FMS chart of accounts was not consistent with USSGL.

2. Noncompliance with FMFIA

VA management continues to make progress in FY 2019 by strengthening VA Administrations' use of the Reporting Entity Assessment tool to assess VA-wide entity level risk and to consolidate various on-going assessment efforts throughout VA to increase efficiency. However, according to management, efforts were invested in certain processes that will be impacted by the system modernization initiative.

The guidance established by OMB Circular A-136, *Financial Reporting Requirements*, identified the following assurances to be provided by management:

- Effectiveness and efficiency of internal control over programmatic operations (FMFIA § 2)
- Conformance with financial systems requirements (FMFIA § 4)
- Effectiveness of internal control over financial reporting (FMFIA § 2)
- A summary of material weaknesses (FMFIA § 2), instances of non-compliance (FMFIA § 4), a summary of the assurance (unmodified, modified, or no assurance), and a summary of corrective actions to resolve the material weaknesses and instances of non- compliance

We found the following areas in need of improvement in order to fully comply with the intent of FMFIA:

- VA did not implement best practices to use transactional level testing to support the assurance statements at the individual reporting entity level, which ultimately support the Secretary's assurance statement.
- VA's internal control process was unable to remediate recurring material weaknesses, prior year significant deficiencies, and noncompliance matters, although VA plans to address some issues through system modernization.
- VA did not perform recent tests of design and effectiveness over key cycles in FY 2019 such as Financial Reporting.

3. 38 USC 5315

Consistent with previous years, VBA did not charge interest or administrative costs on delinquent payments for receivables outstanding over 90 days related to the compensation, pension, and education benefit programs.

The requirement to charge interest and administrative costs on receivables not paid "within a reasonable period of time" after notification is specified in 38 USC Sec 5315, *Interest and* *administrative cost charges on delinquent payments of certain amounts due the United States*. VA's policy to not charge interest has been long-standing and is based on a former VA Deputy Secretary's July 1992 instruction.

As a result of the directive, VA is noncompliant with 38 USC 5315.

Other Matters

4. Actual and Potential Violations of the Antideficiency Act

VA reported one violation of the Antideficiency Act, 31 U.S.C 1341 (a) in July 2019 and has one potential violation. In addition, five other violations, which are carried forward from prior years are under further discussion with OMB's Office of General Counsel (OGC).

5. Noncompliance with Improper Payments Elimination and Recovery Act

On June 3, 2019, the VA Office of Inspector General reported that VA did not fully comply in FY 2018 with the Improper Payments Elimination and Recovery Act, 31 U.S.C. 3321.

EXHIBIT C
Status of Prior Year Findings

Our assessment of the current status of the recommendations from the prior year audit is presented below.

Type of Finding	*FY 2018 Finding*	*Fiscal Year 2019 Status*
Material Weakness	Community Care Obligations, Reconciliations, and Accrued Expenses	Modified Repeat – See FY 2019 Material Weakness Finding 2
Material Weakness	Financial Systems and Reporting	Modified Repeat – See FY 2019 Material Weakness Finding 3
Material Weakness	Information Technology Security Controls	Repeat – See FY 2019 Material Weakness Finding 4
Material Weakness	Compensation, Pension, Burial, and Education Actuarial Estimates	Modified Repeat – See FY 2019 Material Weakness Finding 1
Material Weakness	Entity Level Controls including CFO Organizational Structure	Modified Repeat – See FY 2019 Material Weakness Finding 5
Significant Deficiency	Loan Guarantee Liability	Modified Repeat – See FY 2019 Material Weakness Finding 1
Significant Deficiency	Procurement, Undelivered Orders, Accrued Expenses, and Reconciliations	Modified Repeat – See FY 2019 Material Weakness Finding 2
Compliance Finding	Noncompliance with FFMIA	Repeat – See Compliance Finding 1
Compliance Finding	Noncompliance with FMFIA	Repeat – See Compliance Finding 2
Compliance Finding	Noncompliance with 38 U.S.C. 5315	Repeat – See Compliance Finding 3
Compliance Finding	Non-compliance with 38 U.S.C. 3733	Resolved
Compliance Finding	Actual and Potential Violations of the Antideficiency Act	Repeat – See FY 2019 Compliance Finding 4
Compliance Finding	Noncompliance with Improper Payments Elimination and Recovery Act	Repeat – See FY 2019 Compliance Finding 5

Section II

Agency Comments

- A Message from VA's Secretary
- A Message from VA's Chief Financial Officer
- VA Response to the Auditors' Report

A MESSAGE FROM VA'S SECRETARY

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

November 19, 2019

I am pleased to present the Department of Veterans Affairs' (VA) Fiscal Year (FY) 2019 Agency Financial Report. This report provides complete and reliable financial and performance information demonstrating our commitment to providing world-class benefits, medical, and burial services to the millions of men and women who have served this country with honor.

VA's Strategic Plan provides a roadmap for its ongoing work to achieve four strategic goals: ensuring the Department provides Veterans easy access, greater choices, and clear information to make informed decisions; offering Veterans highly reliable and integrated care and support and excellent customer service that improves their well-being and independence; building Veterans' trust in VA through accountability and transparency; and transforming business operations by modernizing systems, focusing resources more efficiently to be competitive, and providing world-class customer service to Veterans and our employees. The Department has made progress toward each of these goals in FY 2019 and will continue to do so to ensure positive and enduring outcomes for Veterans, their dependents, and survivors.

Independent public accounting firm CliftonLarsonAllen, reviewed the Department's financial statements and issued an unmodified opinion for the 21st consecutive year, indicating that VA's financial statements are fairly presented in all material aspects. Despite our unmodified opinion, VA has identified areas where we can continue to improve our financial management in FY 2020. Please refer to the discussion of these weaknesses and corrective action plans in the Management's Statement of Assurance on page 25. Many of the challenges we face are directly linked to the Department's legacy financial and acquisition systems. VA employees have spent countless hours working towards modernization of these systems through the Financial Management Business Transformation effort and I am committed to prioritizing the continued progress of this effort.

Our mission, "To care for him who shall have borne the battle and for his widow, and his orphan," is non-negotiable with the American people, and the Department will continue to provide a sound financial system that best supports VA's mission and customers.

Sincerely,

Robert L. Wilkie

Robert L. Wilkie

A MESSAGE FROM VA'S CHIEF FINANCIAL OFFICER

DEPARTMENT OF VETERANS AFFAIRS
ASSISTANT SECRETARY FOR MANAGEMENT
WASHINGTON DC 20420

November 19, 2019

The Department of Veterans Affairs (VA) is arguably going through the greatest transformation in its storied history. Implementation of the Maintaining Internal Systems and Strengthening Integrated Outside Networks (MISSION) Act, deployment of a system-wide Electronic Health Record coupled with a new logistics system, expansion of the Caregivers program, implementation of the Colmery Act expanding GI Bill benefits, and recent legal and legislative action expanding benefits to Blue Water Navy Veterans are representative of the size and scope of the transformation. Any one of these on its own would be a major undertaking. Taken together, the magnitude of change and upside for Veterans is huge.

Because fiscal resources figure prominently in everything we do, particularly with major transformational efforts, financial professionals across VA have had an extremely busy year. I am proud to report that they not only rose to the challenge, they made Fiscal Year (FY) 2019 an incredible success.

First and foremost, VA received its unprecedented 21st consecutive unmodified ("clean") audit opinion of the Department's consolidated financial statements providing an independent assessment on the fairness of VA's financial reporting. Equally impressive, for the first time since 2013, VA *reduced* improper payments. Despite adding two new programs, VA achieved an overall reduction of $2.7 billion in reported improper payments this year alone. We scored a major victory against fraud by pioneering a computer matching agreement with the Centers for Medicare and Medicaid Services to promptly identify, investigate, and prohibit unethical health care providers from treating Veterans. To streamline medical claims payments to our health care partners, VA deployed a state-of-the-industry electronic claims administration system. We provided financial training to over 1,300 staff in 76 sessions; developed a financial management performance dashboard; and improved debt collection services to Veterans through call center changes that increased the number of calls handled by 10 percent while reducing call wait times to under 2.5 minutes.

Perhaps most important for the VA's future financial performance, we have made strong and sustained progress in replacing VA's legacy core financial and acquisition management systems with a modern, cloud-based Commercial Off the Shelf product. In FY 2019, the Financial Management Business Transformation (FMBT) initiative completed the enterprise finance and acquisition system configuration standardizing the core system configuration that will be used VA-wide. FMBT is on track for deployment at the National Cemetery Administration in FY 2020.

Notwithstanding these exceptional accomplishments, the Department still faces a number of financial management challenges. Five material weaknesses were noted by the auditors, they include: controls over significant accounting estimates and transactions; liability for Community Care, undelivered orders, reconciliations, and accrued expenses; financial systems and reporting; information technology security controls; and entity level controls including Chief Financial Officer organizational structure. Many of these weaknesses are due to limitations of the existing, antiquated financial and acquisitions systems and will be resolved upon successful completion of FMBT.

VA recognizes that in order to improve its financial stewardship, it must confront these challenges head on and is prepared to do so. I am committed to pursuing those efforts that will improve fiscal accountability and provide the best possible experience to Veterans.

I am proud of what VA's financial community accomplished in FY 2019, and am sincerely grateful to the men and women in VA's financial community, without whom none of this could have happened.

Sincerely,

Jon J. Rychalski

VA RESPONSE TO THE AUDITORS' REPORT

Department of Veterans Affairs

Memorandum

Date: November 19, 2019

From: Assistant Secretary for Management and Chief Financial Officer (004)

Subj: Report of the Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Years 2019 and 2018

To: Assistant Inspector General for Audits and Evaluations (52)

1. We have reviewed the Report of the Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Years 2019 and 2018 and are pleased with the receipt of an unmodified opinion. Please extend to your staff and the staff of CliftonLarsonAllen, LLP our appreciation for their detailed planning, hard work, and cooperation during this year's audit.

2. The Department's senior officials and I, as well as program managers in the Veterans Health Administration, Veterans Benefits Administration, National Cemetery Administration, and affected Staff Offices are aware of the results of the audit. We will focus on developing remediation plans and taking corrective actions to address the findings and recommendations in your audit report.

3. Thank you again for your efforts in helping us reach another successful conclusion of the audit cycle.

Jon J. Rychalski

Section III

Financial Statements

- Financial Statements
- Notes to the Financial Statements
- Required Supplementary Stewardship Information (Unaudited)
- Required Supplementary Information (Unaudited)

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED BALANCE SHEETS (dollars in millions)
AS OF SEPTEMBER 30, 2019 AND 2018

		2019		2018
Assets				
Intragovernmental				
Fund Balance with Treasury (Note 3)	$	58,306	$	66,099
Investments (Notes 5 and 19)		4,358		4,742
Accounts Receivable (Note 6)		9		29
Other Assets		1,762		1,246
Total Intragovernmental Assets		**64,435**		**72,116**
Cash (Note 4)		4		4
Investments (Note 5)		140		140
Accounts Receivable, Net (Note 6)		6,078		2,565
Direct Loans and Loan Guarantees, Net (Note 7)		1,397		1,336
Inventory (Note 8)		49		40
General Property, Plant, and Equipment, Net (Note 9)		27,164		26,479
Other Assets		38		65
Total Assets	**$**	**99,305**	**$**	**102,745**
Heritage Assets (Note 10)				
Liabilities				
Intragovernmental				
Accounts Payable	$	126	$	213
Debt (Note 11)		569		539
Other Liabilities (Note 15)		3,540		4,484
Total Intragovernmental Liabilities		**4,235**		**5,236**
Accounts Payable		12,161		13,474
Loan Guarantee Liability, Net (Note 7)		7,636		8,722
Federal Employee and Veterans Benefits (Note 13)		3,242,812		3,024,368
Environmental and Disposal Liabilities (Note 14)		934		926
Insurance Liabilities (Note 17)		5,703		6,396
Other Liabilities (Note 15)		5,774		5,173
Total Liabilities	**$**	**3,279,255**	**$**	**3,064,295**
Commitments and Contingencies (Note 18)				
Net Position				
Unexpended Appropriations – All Other Funds	$	33,486	$	37,780
Cumulative Results of Operations – Funds from Dedicated Collections (Note 19)		4,293		868
Cumulative Results of Operations – All Other Funds		(3,217,729)		(3,000,198)
Total Net Position		**(3,179,950)**		**(2,961,550)**
Total Liabilities and Net Position	**$**	**99,305**	**$**	**102,745**

The accompanying notes are an integral part of these Consolidated Financial Statements.

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENT OF NET COST (dollars in millions)
FOR THE PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Net Program Costs By Administration		
Veterans Health Administration		
Gross Cost	$ 93,418	$ 84,486
Less Earned Revenue	(4,648)	(4,288)
Net Program Cost	88,770	80,198
Veterans Benefits Administration		
Gross Cost		
Program Costs	115,570	105,761
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	155,685	82,102
Less Earned Revenue	(673)	(847)
Net Program Cost	270,582	187,016
National Cemetery Administration		
Gross Cost	391	332
Net Program Cost	391	332
Indirect Administrative Program Costs		
Gross Cost	2,294	2,107
Less Earned Revenue	(456)	(372)
Net Program Cost	1,838	1,735
Net Program Costs by Administration Before (Gain)/Loss From Changes in Veterans Benefits Actuarial Assumptions	361,581	269,281
(Gain)/Loss From Changes in Actuarial Assumptions (Note 13)	58,033	79,153
Net Cost of Operations	**$ 419,614**	**$ 348,434**

The accompanying notes are an integral part of these Consolidated Financial Statements.

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION (dollars in millions)
FOR THE PERIOD ENDED SEPTEMBER 30, 2019

	Funds from Dedicated Collections (Note 19)	All Other Funds	Consolidated Total
Unexpended Appropriations			
Beginning Balance	$ -	$ 37,780	$ 37,780
Beginning Balance, as adjusted	-	37,780	37,780
Budgetary Financing Sources			
Appropriations received	-	197,963	197,963
Appropriations transferred in/out	-	128	128
Other Adjustments	-	(908)	(908)
Appropriations Used	-	(201,477)	(201,477)
Total Budgetary Financing Sources	-	(4,294)	(4,294)
Total Unexpended Appropriations	-	33,486	33,486
Cumulative Results of Operations			
Beginning Balance	868	(3,000,198)	(2,999,330)
Beginning Balance, as adjusted	868	(3,000,198)	(2,999,330)
Budgetary Financing Sources			
Other adjustments	-	(6)	(6)
Appropriations used	-	201,477	201,477
Nonexchange revenue	-	133	133
Donations and forfeitures of cash and cash equivalents	24	-	24
Transfers in/out without reimbursement	(3,841)	4,039	198
Other Financing Sources (Nonexchange)			
Donations and Forfeitures of Property	59	-	59
Transfers In/Out Without Reimbursement	(39)	39	-
Imputed Financing	-	3,043	3,043
Other	3,412	(2,832)	580
Total Financing Sources	(385)	205,893	205,508
Net (Cost)/Benefit of Operations (Note 21)	3,810	(423,424)	(419,614)
Net Change	3,425	(217,531)	(214,106)
Cumulative Results of Operations	**4,293**	**(3,217,729)**	**(3,213,436)**
Net Position	**$ 4,293**	**$ (3,184,243)**	**$ (3,179,950)**

The accompanying notes are an integral part of these Consolidated Financial Statements.

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION (dollars in millions)
FOR THE PERIOD ENDED SEPTEMBER 30, 2018

	Funds from Dedicated Collections (Note 19)	All Other Funds	Consolidated Total
Unexpended Appropriations			
Beginning Balance	$ -	$ 34,594	$ 34,594
Beginning Balance, as adjusted	-	34,594	34,594
Budgetary Financing Sources			
Appropriations received	-	195,552	195,552
Appropriations transferred in/out	-	131	131
Other Adjustments	-	(2,182)	(2,182)
Appropriations Used	-	(190,315)	(190,315)
Total Budgetary Financing Sources	-	3,186	3,186
Total Unexpended Appropriations	-	37,780	37,780
Cumulative Results of Operations			
Beginning Balance	823	(2,840,883)	(2,840,060)
Beginning Balance, as adjusted	823	(2,840,883)	(2,840,060)
Budgetary Financing Sources			
Other adjustments	-	(16)	(16)
Appropriations used	-	190,315	190,315
Donations and forfeitures of cash and cash equivalents	21	-	21
Transfers in/out without reimbursement	(3,428)	3,640	212
Other Financing Sources (Nonexchange)			
Donations and Forfeitures of Property	25	-	25
Transfers In/Out Without Reimbursement	(12)	21	9
Imputed Financing	-	2,752	2,752
Other	-	(4,154)	(4,154)
Total Financing Sources	(3,394)	192,558	189,164
Net (Cost)/Benefit of Operations (Note 21)	3,439	(351,873)	(348,434)
Net Change	45	(159,315)	(159,270)
Cumulative Results of Operations	**868**	**(3,000,198)**	**(2,999,330)**
Net Position	**$ 868**	**$ (2,962,418)**	**$ (2,961,550)**

The accompanying notes are an integral part of these Consolidated Financial Statements.

DEPARTMENT OF VETERANS AFFAIRS
COMBINED STATEMENT OF BUDGETARY RESOURCES (dollars in millions)
FOR THE PERIOD ENDED SEPTEMBER 30, 2019

	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources (discretionary and mandatory)		
Unobligated balance from prior year budget authority, net	$ 28,927	$ 11,070
Appropriations	202,402	-
Borrowing authority	-	110
Spending authority from offsetting collections	6,474	3,905
Total Budgetary Resources	**$ 237,803**	**$ 15,085**
Status of Budgetary Resources		
New obligations and upward adjustments (total)	$ 216,780	$ 6,116
Unobligated balance, end of year:		
Apportioned, unexpired account	17,897	-
Unapportioned, unexpired accounts	56	8,969
Unexpired unobligated balance, end of year	17,953	8,969
Expired unobligated balance, end of year	3,070	-
Unobligated Balance, end of year (total)	21,023	8,969
Total Status of Budgetary Resources	**$ 237,803**	**$ 15,085**
Outlays, Net		
Outlays, net (total) (discretionary and mandatory)	$ 207,438	$ 2,150
Distributed offsetting receipts (-)	(4,367)	(3,497)
Agency Outlays, net (discretionary and mandatory)	**$ 203,071**	**$ (1,347)**

The accompanying notes are an integral part of these Consolidated Financial Statements.

DEPARTMENT OF VETERANS AFFAIRS
COMBINED STATEMENT OF BUDGETARY RESOURCES (dollars in millions)
FOR THE PERIOD ENDED SEPTEMBER 30, 2018

		Budgetary		Non-Budgetary Credit Reform Financing Account
Budgetary Resources (discretionary and mandatory)				
Unobligated balance from prior year budget authority, net	$	24,676	$	11,114
Appropriations		198,727		-
Borrowing authority		-		108
Spending authority from offsetting collections		5,541		4,704
Total Budgetary Resources	**$**	**228,944**	**$**	**15,926**
Status of Budgetary Resources				
New obligations and upward adjustments (total)	$	203,919	$	4,783
Unobligated balance, end of year:				
Apportioned, unexpired account		21,846		-
Unapportioned, unexpired accounts		90		11,143
Unexpired unobligated balance, end of year		21,936		11,143
Expired unobligated balance, end of year		3,089		-
Unobligated Balance, end of year (total)		25,025		11,143
Total Status of Budgetary Resources	**$**	**228,944**	**$**	**15,926**
Outlays, Net				
Outlays, net (total) (discretionary and mandatory)	$	184,775	$	29
Distributed offsetting receipts (-)		(3,789)		(2,477)
Agency Outlays, net (discretionary and mandatory)	**$**	**180,986**	**$**	**(2,448)**

The accompanying notes are an integral part of these Consolidated Financial Statements.

SECTION II: FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

As noted in the U.S.C., the mission of VA is to serve America's Veterans, their dependents, and beneficiaries with dignity and compassion and to be their principal advocate in ensuring that they receive medical care, benefits, social support, and lasting memorials (38 U.S.C. section 301(b) 2011). The Department is organized under the Secretary, whose office includes a Deputy Secretary and a Chief of Staff. The Secretary has direct lines of authority over the Under Secretary for Health (USH), the Under Secretary for Benefits (USB), and the Under Secretary for Memorial Affairs. Additionally, seven Assistant Secretaries, an Inspector General, a General Counsel, and the Chairman of the Board of Veterans' Appeals (Board) support the Secretary.

B. REPORTING ENTITY AND BASIS OF PRESENTATION

VA's Consolidated Financial Statements and the Combined Statement of Budgetary Resources report all VA component activities. VA components are fully described in the Management's Discussion and Analysis of Section I. The consolidated financial statements meet the requirements of the CFO Act of 1990 and the Government Management Reform Act of 1994. The principal financial statements have been prepared to report the financial position and results of operations of VA, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of VA in accordance with GAAP for Federal entities and the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the understanding that VA is a component of the U.S. Government, a sovereign entity. VA interacts with and is dependent upon the financial activities of the Federal Government as a whole. Therefore, the results of all financial decisions reflected in these consolidated financial statements are not the sole decisions of VA as a stand-alone entity. VA's fiscal year-end is September 30.

The Statement of Federal Financial Accounting Standards (SFFAS) No. 47, *Reporting Entity,* establishes principles to identify organizations for which elected officials are accountable and guides preparers of general-purpose Federal financial reports in determining what organizations to report upon; whether such organizations are considered "consolidation entities" or "disclosure entities;" and what information should be presented about those organizations.

The standard also requires information to be provided on related-party relationships. VA has relationships with many organizations from nonprofits to special interest groups that provide support to VA and advocacy for Veterans. However, none of VA's relationships is of such significance as to warrant separate or individual disclosure as specified in SFFAS No. 47.

Public Law (P.L.) 100-322, now codified at sections 7361-66 of title 38, U.S.C., permits the Secretary to authorize the establishment of Nonprofit Research and Education Corporations at VA medical centers.

SFFAS No. 55, *Amended Inter-Entity Cost Provisions*, requires component reporting entities disclose that only certain inter-entity costs are recognized for goods and services from other Federal entities at no cost or at a cost less than the full cost. VA receives goods and services from other Federal entities at no cost or at a cost less than the full cost to the providing Federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by VA are recognized as imputed costs in the Statement of Net Cost and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to business-type activities, employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in the financial statements.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. VA has no such classified information that requires modification of presentation to prevent disclosure.

C. BASIS OF ACCOUNTING

The principal financial statements are prepared in accordance with GAAP as promulgated by the Federal Accounting Standards Advisory Board and OMB Circular No. A-136, *Financial Reporting Requirements*, as revised. SFFAS No. 34, *The Hierarchy of Generally Accepted Accounting Principles (GAAP), Including the Application of Standards Issued by the Financial Accounting Standards Board*, establishes a hierarchy of GAAP for Federal financial statements. The principal financial statements, prepared in accordance with GAAP, include the consolidated financial statements prepared on an accrual basis of accounting, and the Statement of Budgetary Resources, which reflect the appropriation and consumption of budget and spending authority, and other budgetary resources before eliminations.

The consolidated financial statements include the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. To prepare reliable consolidated financial statements, transactions occurring among VA components must be eliminated. All significant intra-entity transactions are eliminated from VA's consolidated financial statements. However, to remain consistent with the aggregate of the account-level information presented in budgetary reports, the Statement of Budgetary Resources is not consolidated but combined; therefore, elimination of intra-entity transactions is not permitted.

D. 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 intragovernmental funds. Under budgetary reporting principles, budgetary resources are consumed at the time of 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.

The Statement of Budgetary Resources is the basic financial statement that reports the Department's budgetary resources, status of budgetary resources, and outlays. Specific forms of budget authority that the Department receives are appropriations, borrowing authority, and spending authority from offsetting collections. Details on the amounts shown in the Statement of Budgetary Resources are included in the Required Supplementary Information (RSI) section on the Schedule of Budgetary Activity shown by major account.

See Note 22 for further disclosure on budgets and budgetary accounting.

E. REVENUES AND OTHER FINANCING SOURCES

VA collects revenues for both exchange and nonexchange activities. Recognition of these revenues is based upon the exchange versus nonexchange determination and is further discussed below.

Nonexchange revenue is an inflow of resources to VA that is recognized when VA establishes a specifically identifiable, legally enforceable claim to cash or other assets, to the extent that collection is probable, and the amount is measurable, from nonexchange transactions with other Federal agencies or the public where VA does not give value directly in exchange for the inflow of resources.

VA receives nonexchange revenue in the form of voluntary donations or has the power to demand or compel payment in the form of a penalty. Nonexchange revenue consists primarily of imputed financing, but also includes forfeitures of property, and transfers in/out without reimbursement. Imputed financing sources consist of imputed revenue for expenses relating to legal claims paid by the Treasury Judgment Fund and postretirement benefits for VA employees paid by the OPM.

Exchange revenue is an inflow of resources to VA that is recognized when earned from exchange transactions with other Federal agencies or the public where each party to the transaction sacrifices value and receives value in return. Exchange revenues are discussed further in Note 20, Exchange Transactions.

Exchange revenue, which is primarily medical revenue, is recognized when earned from other Federal agencies or the public as a result of costs incurred or services performed on their behalf. Medical revenue is earned by VA when services are provided and are billable to the first-party (Veterans) and third-party insurance companies. Under Chapter 17, title 38, U.S.C., VHA is authorized to bill a Veteran's third-party health insurer for health care provided at VA and non-VA medical facilities. Generally, VA considers a

Veteran's health care billable if the treatment is not for a service-connected disability.

Billable amounts are based on reasonable charges by locality for services provided as determined under the methodology prescribed by 38 Code of Federal Regulations (CFR) 17.101. Under this methodology, the billable amounts for services provided by VA represent the 80th percentile of nationwide average rates developed from commercial and Medicare statistical data by locality throughout the nation. The statistical data is adjusted by the Consumer Price Index (CPI) to account for the historical nature of the data being utilized. The billable amounts by service provided are developed based on the classification of services as inpatient, outpatient, professional, surgical, or non-surgical. The nationwide average rates used to determine billable amounts for services provided for inpatient care are updated annually effective October 1, and nationwide average rates for billable amounts for outpatient and professional care are updated annually effective January 1. The updated charges are published by a Notice in the Federal Register, and the charges are available on the VHA OCC website under Reasonable Charges Rules, Notices, and Federal Register Information or https://www.va.gov/COMMUNITYCARE/revenue_ops/payer_rates.asp. Revenue earned but unbilled is estimated using historical average data. An allowance for contractual adjustments from insurance companies and uncollectible amounts is determined using historical average data.

F. TRANSFERRING BUDGET AUTHORITY TO OTHER AGENCIES

VA, as the transferring (parent) entity, is a party to allocation transfers with DoD, the transferee (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (transfer appropriation account) is created in the Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this transfer appropriation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations, and budget apportionments are derived.

G. FUND BALANCE WITH TREASURY

Treasury performs cash management activities for all Federal Government agencies. The Fund Balance With Treasury (FBWT) represents VA's right to draw funds from the Treasury for allowable expenditures. These balances in Note 3 are reconciled to Treasury and primarily consist of trust, revolving, special, and appropriated funds.

H. INVESTMENTS

Investments are reported in Note 5 at cost net of amortized premiums or discounts and accrued interest, which approximates market value, and are redeemable at any time for their original purchase price. Interest rates for Treasury special securities are initially set based on average market yields for comparable Treasury issues. See Note 19 for additional disclosure of Treasury securities in funds from dedicated collections.

Allowances are recorded to reflect estimated losses of principal as a result of the subordinated position in housing trust certificates. The estimated allowance computations are based upon discounted cash flow analysis. VA continues to use the income from these subordinated housing trust certificates to fund the Housing Trust Reserve Fund (Reserve Fund), which is used in turn to fund deficiencies in scheduled monthly principal and interest on the loans as well as to cover any realized losses incurred in the prior month. Any excess funds in the Reserve Fund are reimbursed to VA upon request.

I. ACCOUNTS RECEIVABLE

Accounts Receivable are reported in Note 6 at net realizable value measured as the carrying amount, less an allowance for loss provision or contractual adjustment for medical care, as considered necessary. Contractual adjustments are estimated for Medical Care Collection Fund (MCCF) receivables due from patients and insurance companies using the allowance method. The allowance is determined based on the contractual nature of the balance due and VA's historical experience with collection efforts including a rolling 12-month analysis. Uncollectible amounts are written off against the allowance for loss provision or contractual adjustment for medical care once VA determines an amount, or a portion thereof, to be uncollectible.

Overpayments to Veterans/beneficiaries are the main cause of Compensation, Pension, and Education receivables. VA is required by P.L. 96-466 to charge interest and administrative costs on benefit debts similar to charges levied on other debts owed to the Federal Government. VA's current practice is not to charge interest on compensation, pension debts, and certain education benefits based on a July 1992 decision by the then VA Deputy Secretary.

J. DIRECT LOANS AND LOAN GUARANTEES

Direct loan obligations and loan guarantee commitments made after FY 1991 are governed by the Federal Credit Reform Act of 1990 (Credit Reform Act). The Note 7 disclosures are in accordance with SFFAS No. 2, *Accounting for Direct Loans and Guarantees*; SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees;* and SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees*. The Credit Reform Act provides that the present value of the estimated net cash flows to be paid by VA for subsidy costs associated with direct loans and loan guarantees be recognized as a cost in the year the loan is disbursed as a result of its borrowing from Treasury. Direct loans and guaranteed loans receivable are reported net of an allowance for subsidy costs at present value, and loan guarantee liabilities are reported at present value.

The subsidy costs related to direct loans and guaranteed loans receivable consist of the interest rate differential between the loans to Veterans and the borrowing from Treasury, estimated default costs, net of recoveries, offsets from fees and collections, and other estimated subsidy costs affecting cash flows. Adjustments to the allowance for subsidy costs affecting cash flows consist of fees received, foreclosed property acquired, loans written off, subsidy allowance amortization and re-estimates of interest rates, and application of loan technical/default provisions approved by OMB.

When the present value of cash inflows is less than the present value of cash outflows, a subsidy cost is incurred and reported as an allowance for subsidy costs, reducing direct loans and guaranteed loans receivable reported in the Balance Sheet. However, a negative subsidy occurs when the present value of cash inflows to VA exceeds the present value of cash outflows made by VA. The resulting negative subsidy is reported as an allowance for subsidy costs that increases direct loans and guaranteed loans receivable reported in the Balance Sheet.

The cash flow costs used to calculate the present value of the liability for loan guarantees and loan sale guarantees consist of the estimated default costs, net of recoveries, fees and other collections, adjustments for fees received, foreclosed property and loans acquired, claim payments to lenders, interest accumulation on the liability balance, modifications, changes in re-estimates of interest rates, and application of loan technical/default provisions approved by OMB.

Direct loans obligated before October 1, 1991, are not subject to the Credit Reform Act and are recorded at the net realizable value given the remaining balance of amounts disbursed plus accrued and unpaid interest receivable. The allowance for loan losses on direct loans obligated before October 1, 1991, is recognized when it is more likely than not that the direct loans will not be totally collected. The allowance of the uncollectible amounts is re-estimated each year as of the date of the financial statements. Loan losses are re-estimated by program.

Risk factors are evaluated for each program and separate loan year disbursed. Risk factors include historical loan experience, regional economic conditions, financial and relevant characteristics of borrowers, value of collateral to loan balance, changes in recoverable value of collateral, and new events that would affect the loans' performance. A systematic methodology based on an econometric model is used to project default costs by risk category. Actual historical experience includes actual payments, prepayments, late payments, defaults, recoveries, and amounts written off.

K. PROPERTY, PLANT, AND EQUIPMENT

VA has a significant construction program for medical facilities, national cemeteries, and other Veteran-related projects. VA submits its major construction project plans for medical facilities and national cemeteries to Congress for approval prior to receiving appropriated funds. VA maintains separate appropriated fund accounts for each type of project, as authorized, for major and minor construction and nonrecurring maintenance projects.

Construction project costs are recorded in construction Work-In-Process (WIP) accounts. The assets are transferred to either capitalized or noncapitalized Property, Plant, and Equipment (PP&E), as appropriate, when placed in service. Construction projects completed in multiple phases are recorded as construction WIP until the project phase is placed in service. Personal property and equipment not meeting the capitalization criteria is expensed upon being placed in service.

Individual items are capitalized if the useful life is two years or more and the unit price is $1 million or greater. Buildings are depreciated on a straight-line basis over estimated useful lives of 25 to 40 years. Equipment is depreciated on a straight-line basis over its useful life, usually 5 to 20 years.

Internal Use Software (IUS) is also subject to the $1 million threshold for capital assets. The costs subject to capitalization are incurred during the software development phase. The capitalized costs are amortized on a straight-line basis, and the amortization term is in accordance with the planned lifecycle established during the software's planning phase. The useful life regarding capitalization of IUS is determined on a per-project basis, no less than four years, and consistent with the solution's longevity as limited by legal, regulatory, and/or contractual provisions.

PP&E components are valued at net cost. A summary is reported in Note 9.

L. OTHER ASSETS

Intragovernmental other assets are reported at cost, and consist primarily of advance payments to the U.S. Army Corps of Engineers for major construction.

Public other assets are reported at cost and consist of advance payments mostly to hospitals and medical schools under house staff contracts, grantees, and beneficiaries, with the balance of the advances being made to employees on official travel.

M. ACCOUNTS PAYABLE

Accounts Payable are amounts owed by VA for goods and services received, progress in contract performance, and rents due. When VA accepts title to goods, whether the goods are delivered or in transit, or incurs costs for services received, VA recognizes a liability for the unpaid amount of the goods and services. If invoices for those goods and services are not available when financial statements are prepared, the amounts owed are estimated.

Accounts Payable also include payables to Veterans such as scheduled compensation, pension, and education benefits. Significant variances can occur from year to year depending on the timing of compensation and pension benefit payments. By law, these monthly recurring payments are due on the first day of the month, unless that day is a Saturday, Sunday, or Federal Holiday per 38 U.S.C. Section 5120 (e). When the first day of the month falls on a weekend or Federal Holiday, payments are made on the last working day of the benefit month.

Intragovernmental Accounts Payable consists of amounts owed to other Federal Government agencies. The remaining Accounts Payable consist of amounts due to the public. Intragovernmental and public Accounts Payable are covered by budgetary resources.

N. LIFE INSURANCE LIABILITIES

Through VA, the Federal Government administers six life insurance programs:

(1) United States Government Life Insurance (USGLI) program;
(2) National Service Life Insurance (NSLI) program;
(3) Veterans Special Life Insurance (VSLI) program; and
(4) Veterans Reopened Insurance (VRI) program.

The above four programs cover Veterans who served during World Wars I and II, and the Korean Conflict eras and are closed to new issues.

(5) Service-Disabled Veterans Insurance (S-DVI) program, provides insurance to Veterans who receive a service-connected disability rating and is open to new issues, and
(6) Veterans Mortgage Life Insurance (VMLI) program, which covers severely disabled Veterans and is open to new issues; VMLI is part of the Veterans Insurance and Indemnities (VI&I) fund.

Note 17 discloses liabilities for VA's life insurance programs, which include policy reserves, unearned premiums, insurance dividends left on credit or deposit and related interest payable, dividends payable to policyholders, and unpaid policy claims.

The next sections discuss the different components included in the computation of VA’s life insurance liability reserves.

USGLI permanent plan policy reserves are based on the American Experience Table with 2.0 percent interest and are held on a net single premium basis.

NSLI basic policy reserves for permanent plans are based on the American Experience Table with 3.0 percent interest, except for the modified life plans, which are based on the 1958 Commissioner’s Standard Ordinary (CSO) Basic Table with 3.0 percent interest, and paid-up additions purchased by dividends, which are based on the 2001 Valuation Basic Male (VBM) Table with 3.0 percent interest. The reserve for term policies is based on the 2001 VBM Table with 3.0 percent interest and the age 70 rate (the capped premium) of $6.18 per month per $1,000 face amount.

VSLI permanent plan policy reserves are based on the X-18 Table at 2.5 percent interest, except for paid-up additions, which are based on the 2001 VBM Table with 4.0 percent interest. The reserve for term policies is based on the 2001 VBM Table with 4.0 percent interest and the age 70 rate (the capped premium) of $5.87 per month per $1,000 face amount.

VRI basic policy reserves are based on an interest rate of 3.5 percent and a mortality basis that varies by segment (“J,” or “JR,”) and by rating code within the “JR” segment. For “J,” the basis is 100 percent of the 1958

CSO Basic Table. For “JR,” the basis is the same as the rating code (150, 175, 200, 250, 300, 400, or 500 percent) of the Basic Table. Reserves for paid-up additions are based on the 2001 VBM Table and 3.5 percent interest for “J,” and the 1958 CSO Basic Table and 3.5 percent interest for “JR.”

S-DVI permanent plan policy reserves are based on the 1941 CSO Table at 3.5 percent interest using rate book premiums. The reserve for five-year term policies is based on varying ratios of the 1941 CSO Table at 3.5 percent interest using rate book premiums and is computed on a complete contract basis. The mortality ratios start at 250 percent for ages 50 and below and grade down to 100 percent of the table for ages 65 and older. The reserve for term policies renewed at age 70 and over is based on the 1941 CSO Table with 3.5 percent interest and the age 70 term capped premium of $5.87 per month per $1,000 face amount.

The VMLI program is operated through the VI&I fund. The reserve for VMLI policies are based on 500 percent of the 1958 CSO Basic Table at 2.5 percent interest.

A reserve for unearned premiums is held for premiums paid for coverage past the date of the statement. It comprises an estimate for premiums paid less than one month in advance that are unearned at the end of the reporting period, and a reserve for premiums paid one month or more in advance computed from in-force master records.

Insurance dividends that are left on credit or deposited with VA accrue interest at a rate that varies by fund relative to the fund's investment portfolio earnings. For FY 2019 and FY 2018, the interest rates range from 4.25 percent to 3.5 percent.

The Secretary determines annually the excess funds available for dividend payment. Policyholders can elect to: receive a cash payment; prepay premiums; repay loans; purchase paid-up insurance; or deposit the amount in an interest-bearing account. Policies in four of the administered programs are eligible for dividends: NSLI, USGLI, VSLI, and VRI. The dividend authorization is based on an actuarial analysis of each program’s claims and investment experience, compared to the mortality and interest assumptions utilized in that program at the end of the preceding calendar year. Dividends are declared on a calendar-year basis and paid on policy anniversary dates. 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.

The reserve for dividends payable is an estimate of the present value of dividends accrued as of the valuation date. In accordance with GAAP requirements, VA records only that portion of the estimated policy dividend that applies to the current reporting period as a dividend liability. For FY 2019, a discount rate of 3.0 percent for NSLI, 2.0 percent for USGLI, 4.0 percent for VSLI, and 3.5 percent for VRI, along with the appropriate accrual factor is used. For FY 2018, a discount rate of 3.0 percent for NSLI, 2.0 percent for USGLI, and 4.0 percent for VSLI and VRI, along with the appropriate accrual factor was used. The methodology employed by VA to estimate the dividend liability reflects expected dividends to be paid by quarter using percentages that are based on the actual distribution of dividend anniversaries at the end of the prior year. The financial statement disclosures herein (Note 17) are in accordance with SFFAS No. 51, *Insurance Programs*.

O. ANNUAL LEAVE

Federal employees' annual leave (reported in Note 15) is accrued as it is earned, and the accrual is reduced annually for actual leave taken. Each year, the accrued annual leave balance is adjusted to reflect the latest pay rates for leave that has been earned but not taken. Sick and other types of nonvested leave are expensed as taken. To the extent appropriations are not available to fund annual leave earned but not used, funding will be obtained from future financing sources, and therefore, these liabilities are not covered by budgetary resources.

P. 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 comprises 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 (reported in Note 15), and (2) the actuarial liability for compensation cases to be paid beyond the current year (reported in Note 13).

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. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds.

Q. PENSION, OTHER RETIREMENT BENEFITS, AND OTHER POSTEMPLOYMENT BENEFITS

Each employing Federal agency is required to recognize its share of the cost and imputed financing of providing pension and postretirement health benefits and life insurance to its employees (reported in Note 13). Factors used in the calculation of these pension, postretirement health, and life insurance benefit expenses are provided by OPM to each agency.

VA's employees are covered under the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). VA contributes according to both plan's requirements. CSRS and FERS are multiemployer plans administered by OPM. 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.

R. 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 and burial 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 total number of Veterans, estimated future military separations, the number of Veterans and dependents receiving payments, discount rates, COLA, presumptive service conditions resulting in disability benefits coverage, and life expectancy impact the amount of the liability.

Estimated liabilities for Veterans compensation and burial obligations in the financial statements are measured as of the end of the fiscal year, based on June 30 beneficiary data that is adjusted for estimated changes in the number of participants covered (enrollment) such as deaths, new cases, and changes in degree of disability during the fourth quarter. The method used to measure the liabilities provides for consistency in the underlying relationship between discount rate, COLA, and other economic assumptions. For FY 2019, the valuation techniques used to measure the fair value of the actuarial liabilities are consistently applied compared to the previous year.

For eligible Veterans, Servicemembers, and their dependents, VA provides four unique education/retraining programs:

- Post-9/11 GI Bill (Chapter 33);
- VR&E (Chapter 31);
- Survivors' and Dependents' Education Assistance (DEA) (Chapter 35); and
- Montgomery GI Bill Active Duty (MGIB-AD) (Chapter 30).

The liability for future education and VR&E benefits 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 total number of Veterans with entitlement, average usage of entitlement, the program stop and restart rate, the number of Veterans and dependents receiving payments, and discount rates adjustments impact the amount of the liability.

Estimated liabilities for the Post-9/11 GI Bill obligations in the financial statements are measured on the academic year of August 1 to July 31, and are adjusted for known material changes. Since the Post-9/11 GI Bill dropout assumption rates are derived on an academic year basis, the estimated liabilities are measured on an academic year basis instead of a fiscal year basis.

Estimated liabilities for all other education obligations in the financial statements are as of the end of the fiscal year based on June 30 beneficiary data that is adjusted for known material changes during the fourth quarter. The method used to measure the liabilities provides for consistency in the underlying relationship between discount rate, and the other economic assumptions.

Periodically, VA refines its valuation techniques, or the application used to measure the present value of the actuarial liabilities. VA management concludes the resulting measurements are equally or more representative of present value of the actuarial liabilities and are due to improved computer software modeling capability and/or improved information. The resulting changes in present value of the actuarial liabilities from the changes in valuation techniques or their application are treated as a change in estimate and accounted for on a prospective basis.

Occasionally, a new circumstance may arise for which the existing actuarial assumptions are no longer current and updated assumptions are needed. In such circumstances, it is possible that the impact of the updated assumptions could be significant. Therefore, an actuarial experience study is necessary to evaluate the differences between assumed and actual experience over a period of time (e.g. 3 to 5 years), with the goal of examining the trends related to actual experience and using that to develop an accurate assumption. In these instances, VA may decide to calculate a liability for the expected impact using a best estimate calculation until an experience study can be completed. The results of these estimates, and all other projections in the actuarial valuations, are dependent on the assumptions used. Actual results may differ, due to actual experience deviating from the assumptions used.

Beginning in FY 2019, VA implemented a new policy change to record obligations at the time of payment for Community Care. This change in obligation methodology requires VA to obligate funds at the time claim invoices are received, validated, and paid. VA will estimate an IBNR liability at the end of each period to recognize the cost of services incurred where claim invoices have not yet been received, validated, or paid. This policy change is being implemented prospectively; therefore, obligations made in FY 2019 and thereafter are subject to the new reporting change. VA will continue to record obligations for services received prior to FY 2019 at the time of authorization. Additional information on the Medical Claims Benefits Liability is presented in Note 13.

All the projected liabilities do not include any administrative costs. Actual administrative costs incurred annually are included in the Department's Net Program Costs shown in the accompanying Statement of Net Costs.

The financial statement disclosures herein (Note 13) are in accordance with SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting Gains and Losses from Changes in Assumptions, and Selecting Discount Rates and Valuations Dates* and SFFAS No. 5, *Accounting for Liabilities of the Federal Government.*

S. COMMITMENTS AND CONTINGENCIES

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 resolution of these proceedings, actions, and claims will not materially affect the financial position or results of VA operations other than as disclosed in Note 18, Commitments and Contingencies.

T. APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions that may change in the future. Actual results could differ materially from the estimated amounts. The financial statements include information to assist in understanding the effect of changes in assumptions to the related information.

U. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the auditors' report date, which is the date the financial statements are available to be issued, and management determined that there are no other items to disclose.

NOTE 2. NON-ENTITY ASSETS

Entity and non-entity assets have been combined on the Balance Sheet. Non-entity assets relate primarily to state and local taxes included in FBWT, downward re-estimates for VA's Home Loan Program and amounts due to Treasury for medical costs billed to Veterans.

There are offsetting liabilities in the Balance Sheet for the non-entity assets reported below. Offsetting liabilities are included in Accounts Payable and Other Liabilities, Insurance Liabilities, and Other Liabilities. There is no balance in the Net Position of the Balance Sheet for the non-entity assets.

Non-Entity Assets (dollars in millions)
As of September 30, 2019 and 2018

	2019	2018
Intragovernmental:		
Fund Balance with Treasury	$ 192	$ 170
Accounts Receivable	2,406	13
Total Intragovernmental	2,598	183
Accounts Receivable	54	48
Total Non-Entity Assets	**2,652**	**231**
Total Entity Assets	**96,653**	**102,514**
Total Assets	**$ 99,305**	**$ 102,745**

NOTE 3. FUND BALANCE WITH TREASURY

The Status of FBWT represents VA's unobligated balances, obligated balances, deposit funds, clearing accounts, unavailable general funds receipts, and unavailable receipts accounts. The SF-133, *Report on Budget Execution and Budgetary Resources*, allows the monitoring of the status of funds that are apportioned. The status of obligations presented in the following schedule is derived from the SF-133. The obligated and unobligated balances reported on the SF-133 are supported by FBWT, as well as other budgetary resources that do not affect FBWT, primarily special funds, general receipts, and medical care funds.

Fund Balance with Treasury (dollars in millions) As of September 30, 2019 and 2018		
	2019	2018
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 16,647	$ 20,238
Unavailable	10,900	13,559
Obligated Balance Not Yet Disbursed	30,120	31,799
Deposit funds, clearing accounts and unavailable general fund receipts	300	219
Unavailable Receipts Account	339	284
Fund Balance with Treasury	**$ 58,306**	**$ 66,099**

NOTE 4. CASH

Cash consists of Veterans Canteen Service and Agent Cashier Advances held at VA field stations. All other cash receipts and disbursements are processed by Treasury.

Cash (dollars in millions) As of September 30, 2019 and 2018		
	2019	2018
Cash		
Canteen Service	$ 3	$ 3
Agent Cashier Advance	1	1
Total Cash	**$ 4**	**$ 4**

NOTE 5. INVESTMENTS

Treasury Securities, which comprise most of VA's investments, are nonmarketable Special Bonds and Notes. Special Bonds, which mature during various years through 2034, are generally held to maturity unless needed to finance insurance claims and dividends. Amounts collected from Prudential for the VGLI excess contingency reserve funds are invested in Special Bonds. None of the Special Bonds are reclassified as available for sale or early redemption, nor are there any permanent impairments on these investments. Treasury Notes help finance operations and events supported by the General Post Fund for the benefit of Veterans and their beneficiaries.

Public Securities consist of Loan Guarantee Program investments in housing trust certificates.

Investments (dollars in millions) As of September 30, 2019						
	Cost	**Amortization Method**	**Amortized (Premium)/ Discount**	**Interest Receivable**	**Investments, Net**	**Market Value Disclosure**
Treasury Securities (Note 19)						
Special Bonds	$ 4,199	N/A	$ -	$ 38	$ 4,237	$ 4,237
Notes	120	Effective Interest	-	1	121	121
Total	**4,319**		**-**	**39**	**4,358**	**4,358**
Public Securities						
Trust Certificates (Loan Guarantee)	140	N/A	-	-	140	140
Total	**$ 140**		**$ -**	**$ -**	**$ 140**	**$ 140**
As of September 30, 2018						
Treasury Securities (Note 19)						
Securities (Note 19)						
Special Bonds	$ 4,605	N/A	$ -	$ 46	$ 4,651	$ 4,651
Notes	91	Effective Interest	(1)	1	91	91
Total	**4,696**		**(1)**	**47**	**4,742**	**4,742**
Public Securities						
Trust Certificates (Loan Guarantee)	140	N/A	-	-	140	140
Total	**$ 140**		**$ -**	**$ -**	**$ 140**	**$ 140**

NOTE 6. ACCOUNTS RECEIVABLE, NET

Accounts Receivable consist of intragovernmental and public Accounts Receivable. Intragovernmental Accounts receivable consist of amounts due from other Federal Government agencies primarily for reimbursement of costs and lease payments receivable. All amounts due from Federal Government agencies are considered fully collectible; therefore, no Allowance for Loss Provision is recognized.

Public Accounts Receivable consist primarily of (a) amounts due for Veterans' health care, (b) amounts due for compensation and pension overpayments, (c) amounts due for education and VR&E overpayments, (d) excess contingency reserve funds due from Prudential, and (e) other miscellaneous receivables due primarily for general fund advances and medical research.

In FY 2019, VA initially recognized a receivable from Prudential for $3.4 billion for the Veterans' Group Life Insurance (VGLI) program. This amount will be collected by VA over the next five years. Beginning August 2019, VA received the first installment of the VGLI receivable for $300 million; which resulted in a remaining balance of $3.1 billion as of September 30, 2019. The full amount of the VGLI receivable is contractually guaranteed; therefore, no Allowance for Loss Provision is recognized.

VA also expects to receive excess contingency reserve funds from Prudential for the Servicemembers Group Life Insurance (SGLI) program. Additional information on the VGLI and SGLI transfers is contained in Note 17, Life Insurance Programs.

The total Contractual Adjustment and Allowance for Loss Provision as a percentage of total public Accounts Receivable is approximately 33 percent and 52 percent at September 30, 2019 and 2018, respectively. Excluding the contractually guaranteed Prudential amount, this computation is approximately 51 percent and 52 percent at the same two dates.

A separate disclosure is required for criminal restitution amounts included in Accounts Receivable. This includes the gross amount of receivables related to monitored criminal restitution orders, and the estimate of net realizable value determined to be collectible for monitored criminal restitution orders. VA's Accounts Receivable as of September 30, 2019, and 2018, includes $66 million and $53 million, respectively, related to monitored criminal restitution orders, for which an estimate of net realizable value is currently undeterminable but is considered negligible.

Accounts Receivable, Net (dollars in millions)
As of September 30, 2019 and 2018

	2019	2018
Intragovernmental Accounts Receivable	**$ 9**	**$ 29**
Accounts Receivable		
Medical Care	$ 3,656	$ 3,159
Contractual Adjustment and Allowance for Loss Provision	(1,997)	(1,536)
Net Medical Care	1,659	1,623
Compensation and Pension Benefits	1,705	1,432
Allowance for Loss Provision	(785)	(698)
Net Compensation and Pension Benefits	920	734
Education and VR&E Benefits	589	601
Allowance for Loss Provision	(286)	(474)
Net Education and VR&E Benefits	303	127
Excess Contingency Reserve Funds	3,112	-
Net Excess Contingency Reserve Funds	3,112	-
Other	164	107
Allowance for Loss Provision	(80)	(26)
Net Other	84	81
Total Accounts Receivable	9,226	5,299
Total Contractual Adjustment and Allowance for Loss Provision	(3,148)	(2,734)
Accounts Receivable, Net	**$ 6,078**	**$ 2,565**

NOTE 7. DIRECT LOANS AND LOAN GUARANTEES

The accounting for direct loans and loan guarantees made after FY 1991 is governed by the Credit Reform Act.

VA operates the following direct loan and loan guarantee programs:

Program Name	Program Group	Program Type
Vendee Loans	Home Loan	Direct
Acquired Loans	Home Loan	Direct
Native American Direct Loans	Home Loan	Direct
Housing Guaranteed Loans	Home Loan	Guarantee
Insurance	Insurance	Direct
Loan Sale Guarantees	Loan Sale Guarantees	Guarantee

A. LOAN PROGRAMS

HOME LOANS

VA's Home Loan Program is the largest of the loan programs. The Home Loan Program provides loan guarantees and direct loans to Veterans, Servicemembers, qualifying dependents, and limited non-Veterans to purchase homes and retain homeownership with favorable market terms.

Vendee loans are direct loans issued to a third-party borrower for the market value of the Real Estate Owned (REO) property. VA acquires REO property from a private sector mortgage lender upon default of a loan subject to VA Loan Guarantee Program.

Acquired loans are VA guaranteed loans in default that VA purchases from the private sector mortgage lender. VA subsequently services the loan directly with the Veteran after VA determines the Veteran can meet debt payments.

Native American direct loans are special financing loans that enable Native Americans to purchase or construct a home on Federally recognized trust land.

Under the Housing Guaranteed Loan program, a loan may be made to an eligible Veteran borrower 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 a default by the Veteran borrower results in a loss by the mortgage lender. If the mortgage lender acquires the property that had secured the guaranteed loan at the liquidation sale, the loan holder can elect to convey the property to VA, which then attempts to resell the property at the best possible price and terms.

VA operates in the broader mortgage marketplace; as a result, VA housing program is affected by overall housing market conditions. The current mortgage market has demonstrated steady improvements, and homeowner equity is recovering. For the most part, VA and loan servicers will be better able to use foreclosure-resolution and avoidance tools to improve the outcomes of servicing efforts offered to borrowers with delinquent VA-guaranteed home loans. The Economic Growth Regulatory Relief, and Consumer Protection Act (sec. 125 P.L. 115-174) was signed into law on May 24, 2018, which may limit the options Veterans have to utilize their home loan refinancing benefits. For example, borrowers must be able to recoup refinancing fees through the lower monthly payment, within 36 months; interest rates on refinances must be a certain minimum level below the rate of the original loan; and lenders are required to provide borrowers with a net tangible benefit worksheet demonstrating that borrowers would benefit from home loan refinancing. The Act has extended the Vendee Loan program through September 30, 2019, and has resulted in an increase in Vendee loans during FY 2019.

INSURANCE POLICY LOANS

Veterans that are Government life insurance policyholders with permanent plan coverage or paid-up additional insurance can borrow against the cash value of their policy, creating an insurance policy direct loan. The loan amount may not exceed 94 percent of the cash surrender value of the policy or the paid-up additional insurance.

LOAN SALE GUARANTEES

VA owns REO properties as a result of VA guaranteed loans that defaulted and have gone through the foreclosure process with the mortgage servicer. VA sells the real estate to a third-party owner and makes the direct loan for the underlying mortgage loan receivable. To reduce the administrative burden of servicing these loans, VA has the authority to bundle these loans and sell them to a third-party investor (Trust) pursuant to a sale agreement.

Under the sale agreement, the Trust owns the mortgage loans and other property acquired in the sale and makes elections to treat certain assets as one or more Real Estate Mortgage Investment Conduits for U.S. Federal income tax purposes. In addition, the Trust will issue certificates backed by mortgage loans and installment contracts. The certificates represent interests in the assets of the Trust and are paid from the Trust's assets. On the closing date of the certificates, VA transfers its entire interest in the related loans receivable and collateral to the Trustee for the benefit of the related certificate holders pursuant to the sale agreement. VA guarantees that the investor will receive full and timely distributions of the principal and interest on the certificates backed by the full faith and credit of the Federal Government.

B. LOANS RECEIVABLE

Loans receivable consist of direct loans and defaulted guaranteed loans receivable. The loans receivable are secured by the underlying real estate and insurance policies, except for loans obligated prior to FY 1992.

For Direct Home Loans, interest income is accrued at the contractual rate on the outstanding principal amount. Interest continues to accrue on non-performing loans at the contractual rate. For terminated guaranteed loans made prior to

March 1, 1988, interest income is accrued based on the outstanding loan amount. In accordance with Title 38 § 3713 & 3714, VA does not establish a receivable or accrue interest on home loans guaranteed on or after March 1, 1988.

Prior to November 2, 1987, life insurance policy loans were issued at fixed rates depending on the fund and time period. The fixed rate loans that remain are at 4.0 and 5.0 percent. All policy loans issued since November 2, 1987, have a variable interest rate with a minimum of 5.0 and a maximum of 12.0 percent. Rate changes are tied to the 10-year constant maturity of the U.S. Treasury Securities Index and may only change on October 1. The variable rate has been 5.0 percent since October 1, 2001.

The recorded value of loans receivable, net, and the value of assets related to loans receivable are not the same as the proceeds that VA would expect to receive from selling its loans. It is at least reasonably possible that the proceeds from the sale of its loans will differ from the reported carrying value of the loans receivable and the underlying value of their related assets, which will result in a realized gain or loss on sale.

The amount of new direct loans disbursed as of September 30, 2019, and 2018, was $117 million and $53 million, respectively.

An analysis of loans receivable and the nature and amounts of the subsidy costs associated with the loans is provided in the table that follows.

Loans Receivable and Related Foreclosed Property from Direct and Guaranteed Loans (dollars in millions)
As of September 30, 2019

	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Loans, Net
Loans Obligated Prior to FY 1992 (Allowance for Loan Loss Method)						
Direct Home Loans	$ 1	$ -	$ -	$ -	$ -	$ 1
Defaulted Guaranteed Home Loans	9	-	(9)	-	-	-
Loans Obligated After FY 1991 (Present Value Method)						
Direct Home Loans	405	20	-	23	2	450
Defaulted Guaranteed Home Loans	4	-	-	-	731	735
Direct Insurance Policy Loans	206	5	-	-	-	211
Total Loans Receivable	**$ 625**	**$ 25**	**$ (9)**	**$ 23**	**$ 733**	**$ 1,397**

Loans Receivable and Related Foreclosed Property from Direct and Guaranteed Loans (dollars in millions) As of September 30, 2018						
	Loans Receivable, Gross	**Interest Receivable**	**Allowance for Loan Losses**	**Allowance for Subsidy Cost (Present Value)**	**Foreclosed Property**	**Value of Assets Related to Loans, Net**
Loans Obligated Prior to FY 1992 (Allowance for Loan Loss Method)						
Direct Home Loans	$ 1	$ 9	$ -	$ -	$ -	$ 10
Defaulted Guaranteed Home Loans	16	-	(15)	-	1	2
Loans Obligated After FY 1991 (Present Value Method)						
Direct Home Loans	370	22	-	29	2	423
Defaulted Guaranteed Home Loans	4	-	-	-	667	671
Direct Insurance Policy Loans	224	6	-	-	-	230
Total Loans Receivable	**$ 615**	**$ 37**	**$ (15)**	**$ 29**	**$ 670**	**$ 1,336**

Direct home loans obligated prior to FY 1992 consist of Vendee and Acquired loans. Direct home loans obligated after FY 1991 consist of Vendee, Acquired, and Native American Housing loans. Pre-FY 1992 defaulted guaranteed home loans consist of Veterans Housing Benefit loans. Post-FY 1991 defaulted guaranteed home loans consist of Housing Loans For Homeless Veterans and Veterans Housing Benefit loans.

FORECLOSED PROPERTY

Prior to the foreclosure of property secured by a VA Loan Guarantee, VA obtains an independent appraisal of the property. This appraisal is reviewed by VA staff or a delegated Staff Appraisal Reviewer to substantiate the fair market value. To determine the net value of the property, VA costs (e.g., acquisition, management, and disposition of the property), as well as estimated losses on property resale, are subtracted from the estimated fair market value. The amount recorded for foreclosed property is estimated based upon the present value of future cash flows to be received upon the disposition of the property. Future cash flows are estimated based on the estimated selling price less the amounts paid at foreclosure plus estimated costs to carry the property.

Potential volatility in the U.S. housing market could change the estimates and assumptions used for these calculations in the future, which could impact the amounts reported and disclosed herein.

There has been no change in the methodology for calculating the amount recorded for foreclosed property, and there are no restrictions on the use or disposition of foreclosed property for the periods ended September 30, 2019, and 2018.

As of September 30, 2019, and 2018, the number of residential properties in VA's inventory is 5,680 and 5,365, respectively.

For both FY 2019 and 2018, the average holding period from the date properties are conveyed to VA until the date properties are sold was approximately six months. The number of properties for which foreclosure proceedings are in process is 47,058 and 39,501 as of September 30, 2019, and 2018, respectively.

C. ALLOWANCE FOR SUBSIDY FOR DIRECT LOANS (POST-FY 1991)

The allowance for subsidy represents the difference between the balance of the direct loan and the present value of the estimated net cash flows to be paid by VA. The allowance for subsidy is the result of 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.

Schedule for Reconciling Subsidy Cost Allowance Balances (dollars in millions)
As of September 30, 2019 and 2018

	2019	2018
Allowance balance as of October 1,	$ **(29)**	$ **(33)**
Add: Subsidy expense for direct loans disbursed during the reporting years by component:		
Interest rate differential costs	(1)	(1)
Default costs (net of recoveries)	-	1
Total of the above subsidy expense components	**(1)**	**0**
Adjustments:		
Foreclosed property acquired	11	(10)
New Loans	5	2
Loans written off	(2)	-
Subsidy allowance amortization	(23)	(8)
Change in re-estimate approved by OMB	3	7
Total Adjustments	**(6)**	**(9)**
Ending balance of the subsidy cost allowance before re-estimates	**(36)**	**(42)**
Add or subtract subsidy re-estimates by component		
Interest rate re-estimate	1	6
Technical/default re-estimate	12	7
Total of the above re-estimate components	**13**	**13**
Ending balance of the subsidy cost allowance	$ **(23)**	$ **(29)**

D. SUBSIDY EXPENSE

The Credit Reform Act of 1990 defines subsidy expense as the budgetary costs of Federal loan guarantees and direct loans, excluding all administrative costs. The budgetary costs are present values of cash flows for Federal loans. VA reports subsidy expense in the financial statements annually. VA also reports revisions to subsidy expense, which are categorized as subsidy re-estimates.

VA uses cash flow models to estimate subsidy expense and re-estimates. The primary VA model is a limited dependent econometric model for VA home loan guarantees. The model estimates future cash flows and subsidy expenses. The key inputs to the model are loan disbursements, claims, recoveries, mortgage rates, Treasury bond note yields, home price appreciation, and borrower payments.

VA updates the models with actual data and data assumptions every year. VA periodically upgrades the models and obtains independent review of the models.

The updated models are used to estimate future cash flows that are transformed into subsidy expenses and re-estimates. Subsidy re-estimates are the difference between estimated and actual cash flows.

VA has experienced prolonged growth in lending volume since FY 2010. This growth in lending has caused the overall number of claims to rise, while keeping the percentage of claims lower mainly attributed to high performance of the portfolio. Actual loan volume and claims drive cash spending on subsidy expense and re-estimates.

BUDGETARY SUBSIDY RATES BY COMPONENT (POST-FY 1991)

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 both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes re-estimates.

Direct and Guaranteed Loans Subsidy Rates	Defaults, net of recoveries	Interest	Fees	All Other	Total Subsidy Rate
Veterans Housing Direct Acquired Loans	5.99%	0.36%	0.00%	-0.02%	6.33%
Veterans Housing Direct Vendee Loans	0.10%	-5.64%	0.00%	0.07%	-5.47%
Native American Housing Loans	0.00%	-17.43%	-0.51%	6.05%	-11.89%
Housing Guaranteed Loans	1.21%	0.00%	-1.14%	0.00%	0.07%

SUBSIDY EXPENSE FOR DIRECT HOME LOANS AND LOAN GUARANTEES (POST-FY 1991)

Direct and Guaranteed Loan Subsidy Expense Post-FY 1991 (dollars in millions)

	Interest Differential	Defaults	Fees	Interest Rate Re-estimates	Technical Re-estimates	Total Subsidy Expense
As of September 30, 2019						
Direct Home Loans	$ (1)	$ -	$ -	$ 1	$ 12	$ 12
Guaranteed Home Loans	-	2,114	(1,984)	(104)	(2,140)	(2,114)
Loan Sale Guarantees	-	-	-	(7)	(1)	(8)
Total Subsidy Expense	**$ (1)**	**$ 2,114**	**$ (1,984)**	**$ (110)**	**$ (2,129)**	**$ (2,110)**
As of September 30, 2018						
Direct Home Loans	$ (1)	$ 1	$ -	$ 6	$ 7	$ 13
Guaranteed Home Loans	-	2,584	(2,167)	(233)	(2,981)	(2,797)
Loan Sale Guarantees	-	-	-	(49)	(18)	(67)
Total Subsidy Expense	**$ (1)**	**$ 2,585**	**$ (2,167)**	**$ (276)**	**$ (2,992)**	**$ (2,851)**

E. OUTSTANDING LOAN GUARANTEES

In the table that follows, the face value of the principal of guaranteed loans represent the unpaid balances of home loans made to eligible borrowers by mortgage lenders. The outstanding principal guaranteed amounts represent the portion of unpaid home loan and loan sale balances that VA has guaranteed.

Guaranteed Loans Outstanding	Principal of Guaranteed Loans, Face Value (dollars in millions)	Amount of Outstanding Principal Guaranteed (dollars in millions)
As of September 30, 2019		
Pre-FY 1992		
Home Loan Guarantees	$ 9	$ 4
Post-FY 1991		
Home Loan Guarantees	712,307	179,674
Loan Sale Guarantees	-	602
Total	**$ 712,316**	**$ 180,280**
As of September 30, 2018		
Pre-FY 1992		
Home Loan Guarantees	$ 23	$ 10
Post-FY 1991		
Home Loan Guarantees	663,633	167,930
Loan Sale Guarantees	-	725
Total	**$ 663,656**	**$ 168,665**

New Guaranteed Loans Disbursed	Principal of Guaranteed Loans, Face Value (dollars in millions)	Amount of Outstanding Principal Guaranteed (dollars in millions)	Number of Loans Disbursed
As of September 30, 2019			
New Guaranteed Home Loans	$ 155,382	$ 38,523	558,696
As of September 30, 2018			
New Guaranteed Home Loans	$ 144,882	$ 35,878	553,975

During the period FY 1992 through 2012, total loans sold amounted to $14 billion. There have been no new loan sale guarantees since FY 2012. There were no outstanding loan sale guarantees made prior to FY 1992.

F. LOAN GUARANTEE LIABILITIES

The liability on the guaranteed loans represents the present value of the estimated net cash outflows considered most likely to be paid by VA as a result of a claim against the guarantee.

For home loan guarantees, 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.

Loan sales contain two types of guarantees for which VA pays net cash flow. 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 by the borrower, VA allows the loan servicer to take funds from a cash reserve account for the amount of the deficiency. VA also guarantees the loans against loss at foreclosure. Although VA will not buy back the loan, VA will pay the loan loss and foreclosure expenses.

Schedule for Reconciling Guarantee Loan Liability Balance (dollars in millions)
As of September 30, 2019

	Home Loans Post-FY 1991	Loan Sales Post-FY 1991	Home Loans Pre-FY 1992	Total
Liability balances as of October 1, 2018	**$ 8,393**	**55**	**274**	**$ 8,722**
Add: Subsidy expense for guaranteed loans disbursed during the reporting years by component:				
Default costs (net of recoveries)	2,114	-	-	2,114
Fees and other collections	(1,984)	-	-	(1,984)
Total of the above subsidy expense components	**130**	**-**	**-**	**130**
Adjustments:				
Fees received	1,696	-	-	1,696
Foreclosed property acquired	(201)	-	(7)	(208)
Claim payments to lenders	(492)	(5)	-	(497)
Interest accumulation on the liability balance	174	6	-	180
Veteran liability debts	-	-	6	6
Changes in re-estimate approved by OMB	(202)	61	-	(141)
Total Adjustments	**975**	**62**	**(1)**	**1,036**
Ending balance of the liability before re-estimates	**9,498**	**117**	**273**	**9,888**
Add or subtract subsidy re-estimates by component:				
Interest rate re-estimate	(104)	(7)	-	(111)
Technical/default re-estimate	(2,140)	(1)	-	(2,141)
Total of the above re-estimate components	(2,244)	(8)	-	(2,252)
Ending balance of the loan guarantee liability	**$ 7,254**	**$ 109**	**$ 273**	**$ 7,636**

Schedule for Reconciling Guarantee Loan Liability Balance (dollars in millions)
As of September 30, 2018

	Home Loans Post-FY 1991	Loan Sales Post-FY 1991	Home Loans Pre-FY 1992	Total
Liability balances as of October 1, 2017	**$ 10,184**	**125**	**259**	**$ 10,568**
Add: Subsidy expense for guaranteed loans disbursed during the reporting years by component:				
Default costs (net of recoveries)	2,584	-	-	2,584
Fees and other collections	(2,167)	-	-	(2,167)
Total of the above subsidy expense components	**417**	**-**	**-**	**417**
Adjustments:				
Fees received	2,025	-	-	2,025
Foreclosed property acquired	(246)	-	2	(244)
Claim payments to lenders	(664)	(9)	1	(672)
Interest accumulation on the liability balance	221	7	-	228
Veteran liability debts	-	-	12	12
Changes in re-estimate approved by OMB	(330)	(1)	-	(331)
Total Adjustments	**1,006**	**(3)**	**15**	**1,018**
Ending balance of the liability before re-estimates	**11,607**	**122**	**274**	**12,003**
Add or subtract subsidy re-estimates by component:				
Interest rate re-estimate	(233)	(49)	-	(282)
Technical/default re-estimate	(2,981)	(18)	-	(2,999)
Total of the above re-estimate components	(3,214)	(67)	-	(3,281)
Ending balance of the loan guarantee liability	**$ 8,393**	**$ 55**	**$ 274**	**$ 8,722**

G. LOAN GUARANTEE MODIFICATIONS

OMB Circular No. A-11, Section 185, specifies that modifications to existing loan guarantee subsidy costs result from the Government's decision to alter the percentage of the loan it will guarantee. The subsidy cost of a modification is the difference between the net present value of the remaining estimated cash flows before and after the modification (i.e., postmodification liability minus premodification liability), and the change in carrying amount is recognized as a gain or a loss. A reduction in the loan guarantee liability due to a modification reflects as savings to VA, which results in a modification gain being recognized. An increase in the loan guarantee liability due to a modification reflects increased costs to VA, which results in a modification loss being recognized. The carrying amount of the loan guarantee liability reflects the postmodification liability balance.

Loan servicers perform loan modifications under current laws without the need to modify executed subsidy estimates for existing loan guarantees from FY 1992 to 2019.

H. ADMINISTRATIVE EXPENSE

The administrative expense for direct and guaranteed loans for the periods ended September 30, 2019, and 2018, are $176 million and $151 million, respectively.

NOTE 8. INVENTORY

Inventory consists primarily of Veterans Canteen Service (VCS) retail store stock held for current sale and is reported at cost using the weighted-average cost method. VCS provides retail merchandise, food, and vending services across the country. Operating, medical, and pharmaceutical supplies inventory are recorded at cost and are expensed when transferred to VAMCs, regional officers, or cemeteries.

Inventory (dollars in millions)
As of September 30, 2019 and 2018

	2019	2018
VCS Retail Store Stock	$ 31	$ 29
Operating, Medical, and Pharmaceutical Supplies	18	11
Total Inventory	**$ 49**	**$ 40**

NOTE 9. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

The majority of General PP&E owned or leased by VA is used to provide medical care to Veterans. Capital lease components of both buildings and equipment are included in Note 16 as capital lease assets. Multiuse heritage assets are recognized and presented with general PP&E in the basic financial statements, and are further described in Note 10.

Depreciation and amortization expense totals $1.9 billion and $2.1 billion in FY 2019, and 2018, respectively. Loss on disposition of assets are $234 million and $265 million in FY 2019 and 2018, respectively.

General Property, Plant and Equipment (dollars in millions)
As of September 30, 2019

	Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land	$ 536	$ -	$ 536
Buildings	37,362	(20,300)	17,062
Equipment	3,809	(2,672)	1,137
Other Structures	5,186	(2,899)	2,287
Internal Use Software	4,436	(2,605)	1,831
Construction Work in Progress	4,311	-	4,311
Total Property, Plant, and Equipment	**$ 55,640**	**$ (28,476)**	**$ 27,164**

General Property, Plant and Equipment (dollars in millions)
As of September 30, 2018

	Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land	$ 506	$ -	$ 506
Buildings	36,015	(19,060)	16,955
Equipment	3,979	(2,773)	1,206
Other Structures	5,126	(2,831)	2,295
Internal Use Software	4,055	(2,279)	1,776
Construction Work in Progress	3,741	-	3,741
Total Property, Plant, and Equipment	**$ 53,422**	**$ (26,943)**	**$ 26,479**

NOTE 10. HERITAGE ASSETS

Heritage assets are properties that possess one or more of the following characteristics: historical or natural significance; cultural, educational, or aesthetic importance; or significant architectural characteristics. VA has properties at medical centers, regional offices, and national cemeteries that meet the criteria for heritage assets. Historic heritage assets allow VA to meet its responsibilities under the National Historic Preservation Act to preserve Federal owned, administered, or controlled historic resources in a spirit of stewardship for the inspiration and benefit of present and future generations.

Generally, increases and decreases of VA's inventory result from field station condition assessment surveys, which identify items such as new collections or newly designated assets. There were no heritage assets transferred between Federal entities or acquired through donation that were considered material to the consolidated financial statements for FY 2019 and 2018; therefore, fair value disclosure is not required for heritage assets acquired by donation. VA classifies its heritage assets as art collections (including artwork, archives, historic medical equipment, medals and awards, furniture, archaeological materials, and photographs); archaeological sites; buildings (including historic hospitals, quarters, lodges, warehouses, laboratories, and chapels, but excluding multiuse buildings); monuments; nonbuildings (including flag poles, structures, rostrums, gates, and historic walls); and cemeteries. According to VA's policy for heritage assets, only developed sections of national cemeteries are classified as heritage assets.

VA has 1,196 multiuse heritage assets that are included in general PP&E. Multiuse heritage assets have both operating and historic characteristics and are utilized predominantly in Government operations such as administration, engineering, and maintenance buildings.

VA expensed $6 million and $1 million for the periods ended September 30, 2019, and 2018, respectively, of heritage asset costs associated with acquisition, construction, renovation, and/or modification of VA-owned personal property, buildings, and structures.

See RSI for Deferred Maintenance and Repairs information.

Heritage Assets (in Units) As of September 30, 2019	2019 Beginning Balance	2019 Increases	2019 Decreases	2019 Ending Balance
Archaeological Sites	12	-	(1)	11
Art Collections	41	1	-	42
Buildings	548	113	(47)	614
Monuments	1,304	59	(4)	1,359
Multi-Use Buildings in PP&E	1,271	41	(116)	1,196
Non-Buildings	1,052	7	(5)	1,054
Cemeteries, Soldier's Lots and Monument Sites	171	2	(2)	171
Total Heritage Assets in Units	**4,399**	**223**	**(175)**	**4,447**

Heritage Assets (in Units) As of September 30, 2018	2018 Beginning Balance	2018 Increases	2018 Decreases	2018 Ending Balance
Archaeological Sites	10	5	(3)	12
Art Collections	28	24	(11)	41
Buildings	607	70	(129)	548
Monuments	1,107	212	(15)	1,304
Multi-Use Buildings in PP&E	1,216	190	(135)	1,271
Non-Buildings	1,055	435	(438)	1,052
Cemeteries, Soldier's Lots and Monument Sites	170	1	-	171
Total Heritage Assets in Units	**4,193**	**937**	**(731)**	**4,399**

NOTE 11. DEBT

Other Intragovernmental Debt (dollars in millions) As of September 30, 2019 and 2018	2018 Beginning Balance	2018 Net Borrowing	2018 Ending Balance	2019 Net Borrowing	2019 Ending Balance
Debt to the Treasury	$ 560	$ (25)	$ 535	$ 30	$ 565
Debt to the Federal Financing Bank	4	-	4	-	4
Total Other Debt	**$ 564**	**$ (25)**	**$ 539**	**$ 30**	**$ 569**

All debts are classified as intragovernmental debt. Debt to Treasury consists of Direct Loan Program Debt. Debt to the Federal Financing Bank consists of Loan Guarantee Program debt. The Direct and Guarantee Home Loan Program debt has a 30-year term from the date of issuance. Vocational Rehabilitation Direct Loan Program Debt has a two-year term from the date of issuance.

The interest rates on debt issued in FY 2019 range from 2.16 percent to 2.93 percent and 1.42 percent to 3.09 percent in FY 2018. The interest rates on all outstanding debt issued range from 2.01 percent to 7.59 percent for FY 2019 and 1.42 percent to 7.59 percent for FY 2018. Interest expense is $24 million and $23 million for FY 2019 and 2018, respectively.

Net borrowings do not include any amounts that result from refinancing debt. There are no redemptions or calls of debts before maturity or write-offs of debt owed to the Treasury.

NOTE 12. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources are unfunded liabilities that require Congressional action before budgetary resources can be provided. VA's unfunded liabilities are listed below and are explained in the Notes referenced in the schedule.

Liabilities not requiring budgetary resources are liabilities that have not and will never require Congressional action. These are primarily deposit and clearing accounts, custodial liabilities, and general fund receipts. They can be fully liquidated without the use of budgetary resources.

Liabilities Not Covered By Budgetary Resources (dollars in millions)
As of September 30, 2019 and 2018

	2019	2018
Intragovernmental		
Workers Compensation (FECA) and Other Employee Benefits	$ 443	$ 446
Future Funded Expense - Contract Dispute Act	199	233
Total Intragovernmental (Note 15)	**642**	**679**
Federal Employee and Veterans Benefits (Note 13)	3,242,812	3,024,368
Environmental and Disposal Liabilities (Note 14)	934	926
Insurance (Note 17)	1,620	1,603
Other (Note 15)	3,735	3,428
Total Liabilities Not Covered By Budgetary Resources	**3,249,743**	**3,031,004**
Total Liabilities Covered By Budgetary Resources	**28,300**	**32,042**
Total Liabilities Not Requiring Budgetary Resources	**1,212**	**1,249**
Total Liabilities	**$ 3,279,255**	**$ 3,064,295**

NOTE 13. FEDERAL EMPLOYEE AND VETERANS BENEFITS LIABILITIES

Federal Employee and Veterans Benefits Liabilities comprise Workers' Compensation (FECA), Medical Claims Benefits, Compensation and Burial benefits paid to Veterans and their beneficiaries, and Education and VR&E benefits provided to Veterans, Servicemembers, and their dependents. The table below summarizes Federal Employee and Veterans Benefits Liabilities reported by VA on the Balance Sheet.

Federal Employee and Veterans Benefits Liabilities (dollars in millions) For the Periods Ended September 30, 2019 and 2018	2019	2018
Workers' Compensation (FECA)	$ 2,387	$ 2,399
Medical Claims Benefits*	4,738	-
Compensation	3,122,700	2,949,100
Burial	7,100	7,200
Education and VR&E	105,887	65,669
Total Federal Employee and Veterans Benefits Liabilities	**$ 3,242,812**	**$ 3,024,368**

*The Medical Claims Benefits liability represents unfunded liabilities for services rendered in the current year, but not yet invoiced nor paid at the end of each quarter. VA implemented the IBNR method for this liability prospectively beginning in FY 2019.

A. FEDERAL EMPLOYEE BENEFITS

VA is the employer entity that generates employee costs to be funded, not the administrative entity responsible for managing and accounting for VA employees' retirement, health insurance, and life insurance benefit plans. As a result, VA recognizes the benefit costs for the reporting period in its financial statements in an amount equal to the service cost for its employees based on the benefit plan's actuarial cost method and assumptions applied to VA and provided by the administrative entity, OPM. The offset to the expense is an increase to an intragovernmental imputed financing source titled "Imputed Financing under Other Financing Sources (Nonexchange)" in the Statement of Changes in Net Position, representing the amount being financed directly through the benefit plan's administrative entity. The following table summarizes the imputed expenses reported by VA for its employees' benefit plans.

A liability is recorded for estimated and actual future payments to be made for workers' compensation pursuant to FECA. The FECA component of the Federal Employee and Veterans Benefits Liabilities consists of the actuarial liability for compensation cases to be paid beyond the current year.

Federal Employee Benefits: Imputed Expenses - Employee Benefits (dollars in millions) For the Periods Ended September 30, 2019 and 2018				
		2019		2018
Civil Service Retirement System	$	828	$	631
Federal Employees Health Benefits		2,096		1,999
Federal Employees Group Life Insurance		5		5
Total Imputed Expenses-Employee Benefits*	**$**	**2,929**	**$**	**2,635**

* The total imputed expenses – employee benefits, when combined with the imputed financing paid by other entities reported in Note 18, reconciles to the total imputed financing costs reported in the Statement of Changes in Net Position.

B. MEDICAL CLAIMS BENEFITS

VA provides care to Veterans through community providers when VA cannot provide the care needed. Community care is based on specific eligibility requirements, availability of VA care, and the needs and circumstances of individual Veterans. VA also provides health care benefits through community providers to Veterans' eligible spouses, children, and survivors. This care is also provided based on specific eligibility and enrollment requirements, which vary by program.

INCURRED BUT NOT REPORTED MODEL FOR MEDICAL CLAIMS BENEFITS

As disclosed in Note 1, R. Veterans Benefits Liability, in order to recognize a liability for services incurred but not yet invoiced or paid, VA uses a standard actuarial development model (IBNR model), which provides a framework for estimating completed incurred claims (and the portion that has not yet been paid) based on prior period claim lag patterns.

The IBNR model is used to estimate an IBNR for the following VA Veterans and Family Member programs:

- Inpatient;
- Outpatient (including Dental and Emergency Room);
- Pharmacy;
- Community Nursing Home; and
- Contract Dialysis.

The State Home Per Diem Program is administered in an invoice-based payment processing system (rather than a claims processing system); therefore, a different (simpler) IBNR estimation method is applied to State Home Per Diem benefits.

The actuarial liability is developed by a Qualified Actuary within VA's OM using monthly claims paid by program and service date, eligibility and enrollment data, and authorization data.

Each quarter, VA will evaluate the reasonableness of prior period IBNR estimates by comparing the estimated claims runout to emerging experience and consider the adequacy of prior estimates when setting assumptions for the current estimate.

C. VETERAN (COMPENSATION AND BURIAL) BENEFITS

Eligible Veterans who die or are disabled during active military service-related causes, as well as their dependents, and dependents of Servicemembers who died during active military service receive compensation benefits. In addition, Servicemembers who die during active military service and Veterans who separated under other-than-dishonorable conditions are provided a burial flag, headstone/marker, and grave liner for burial in a VA National Cemetery or are provided a burial flag, headstone/marker, and a plot allowance for burial in a private cemetery. These benefits are provided under title 38, Part 2, Chapter 23 in recognition of a Veteran's military service and are recorded as a liability on the balance sheet in the period the requirements are met.

VA also provides eligible Veterans and/or their dependents with pension benefits if the Veteran died, is over age 65, or is totally disabled, based on annual eligibility reviews. The pension program is not accounted for as a "Federal employee pension plan" under SFFAS No. 5; therefore, a future liability for pension benefits is not recorded due to differences between its eligibility conditions and those of Federal employee pensions. The present value of projected amount of future payments for pension benefits (presented for informational purposes only) as of September 30, 2019, and 2018, is $100.2 billion and $104.8 billion, respectively.

ASSUMPTIONS USED TO CALCULATE THE VETERANS BENEFITS LIABILITY (COMPENSATION AND BURIAL)

A liability is recognized for the present value of projected benefit payments to: (1) those beneficiaries, including Veterans and survivors, currently receiving benefit payments, (2) current Veterans who become future beneficiaries of the compensation program, and (3) a proportional share of those on active military service as of the valuation date who are expected to be future Veterans. Future benefits payments to survivors of those Veterans in classes (1), (2), and (3) above are also incorporated into the projection.

On June 25, 2019, the President signed into law the Blue Water Vietnam Veterans Act of 2019 (P.L. 116-23), which grants Veterans who served offshore of Vietnam, disability compensation for presumptive diseases that resulted from the exposure to Agent Orange. Approximately $20.7 billion was recognized as prior service costs related to P.L. 116-23 in the FY 2019 liability estimate.

Discount rates at September 30, 2019 and 2018 were computed based on the average of the last 10-year quarterly spot rates. These averages were provided by the Treasury. These spot rates are equivalent to a single average discount rate of 3.42 percent and 3.52 percent as of September 30, 2019, and 2018, respectively. All calculations were performed separately by age for the Compensation and Burial programs.

The Veterans benefits liability is impacted by interest on the liability balance, changes in experience, changes in actuarial assumptions, prior service costs, and amounts paid for costs included in the liability balance. Interest on the liability balance is based on the prior year-end liability balance multiplied by the single average discount rate used to compute the Veterans benefits liability balance for the prior year-end. Changes in experience include the number of Veterans and dependents receiving payments, changes in degree of disability connected with military service, changes to the average level of benefits paid, and the impact of those changes on future years.

Changes in actuarial assumptions include changes in the average of the last 10-year quarterly spot rates, COLAs, mortality, and future new compensation rates. Prior service costs relate to new benefits due to administrative, judicial, or legislative changes. Amounts paid are the projected payments in the prior year-end model.

The total number of estimated Veterans and total number of beneficiary participants are determined through actual record level data and Office of Enterprise Integration’s (OEI) 2016 Veteran Population Projection Model (VetPop2016). The amount of benefits by beneficiary category and age were based on current amounts being paid, future COLAs, change in degree of disability connected with military service, and changes in other factors that affect benefits.

Life expectancies of beneficiaries collecting benefits from the Compensation program were based on the Mortality Experience Study of the same population between 2011 and 2015. Life expectancies of Veterans not yet collecting these benefits used in the calculation of the liability for future beneficiaries are based on mortality rates developed by the OEI for the VetPop2016. In addition, rates of benefit termination of beneficiaries due to reasons other than mortality are also reflected. Expected benefit payments have been explicitly modeled for the next 100 years. The Compensation projection only reflects benefits associated with military service through September 30, 2019.

VA Compensation and Burial programs are not defined benefit plans and have no plan assets set aside to fund future costs. VA funds the current year costs of Veterans service-related disability compensation and burial costs through its annual appropriations that are recognized in Program Costs under Veterans Benefits Administration in the Statements of Net Cost and in Amounts Paid in the Reconciliation of Veterans Compensation, Burial, Education, and VR&E Actuarial Liabilities table that follows below.

D. VETERANS EDUCATION AND VR&E BENEFIT LIABILITIES

POST-9/11 GI BILL

The Post-9/11 GI Bill is authorized by Congress under title 38, Chapter 33. Veterans with at least 90 days of aggregate service after September 10, 2001, or individuals honorably discharged with a service-connected disability after 30 continuous days after September 10, 2001 are eligible to receive Post-9/11 GI Bill benefits, which include tuition and fees and a monthly housing allowance. Veterans are eligible for up to 36 months of enrollment in an educational institution, which includes a monthly housing allowance, yearly textbook and supplies stipend, and one-time payment for relocation. The Veterans' eligibility for these amounts is based on the length of their active duty service. Formerly, VA only recognized an education benefit liability once VA approved an original enrollment certification in the Long-Term Solution system.

VR&E

The VR&E Program is an authorized program by Congress under title 38, Chapter 31. VR&E helps Veterans and active duty Servicemembers transitioning to civilian employment with service-connected disabilities and an employment handicap prepare for, obtain, and maintain suitable careers.

The basic period of eligibility for Chapter 31 benefits is 12 years, beginning on the date of the event that occurred last from the following options:

- Separation from active military duty;
- First notification of a service-connected disability rating; or
- The basic period of eligibility may be extended if a Vocational Rehabilitation Counselor (VRC) determines that a Veteran has a Serious Employment Handicap.

Once eligibility is established, the Veteran is scheduled to meet with a VRC for a comprehensive evaluation to determine if he/she is entitled to services. The VRC works with the Veteran to complete a determination if an employment handicap exists. An employment handicap exists if the Veteran's service-connected disability impairs his/her ability to obtain and maintain a job.

The VRC and Veteran will agree to a rehabilitation plan, which is an individualized, written plan of services that outlines the resources and criteria that will be used to achieve employment or independent living goals. The plan is an agreement that is signed by the Veteran and the VRC and is updated as needed to assist the Veteran to achieve his/her goals. The approved plan would establish the Veteran into one of five rehabilitation "tracks":

- Reemployment (with a former employer);
- Direct job placement services for new employment;
- Self-employment;
- Employment through long-term services, (including on-the-job training, college, and other training); or
- Independent living services.

Benefits paid can include a monthly subsistence payment, tuition, books, and supplies. For those who are eligible, a Veteran could choose to be paid the Post-9/11 GI Bill housing rate instead of the basic VR&E subsistence rate. Formerly, VA recognized a VR&E benefit liability once a Rehabilitation Plan had been signed by the Veteran and VRC.

SURVIVORS' & DEPENDENTS' EDUCATIONAL ASSISTANCE

DEA Program (Chapter 35) offers education and training opportunities to eligible dependents of Veterans who are permanently and totally disabled due to a service-related condition or of Veterans who died while on active duty or as a result of a service-related condition.

To receive benefits for attending school or job training, a son or daughter must be between the ages of 18 and 26. This benefit may not be available for active duty personnel who are in the armed forces. A child over 18 years old using DEA will not be eligible to receive Dependency Indemnity Compensation (DIC) payments from VA.

For a spouse, benefits end 10 years from the date VA determines eligibility or from the date of death of the Veteran. If VA rated the Veteran permanently and totally disabled with an effective date of three years from discharge, a spouse will remain eligible for 20 years from the effective date of the rating. For surviving spouses of Servicemembers who died on active duty, benefits end 20 years from the date of death.

A beneficiary may be entitled to receive up to 45 months of DEA benefits. Effective August 1, 2018, the number of months of entitlement was reduced to 36 months for beneficiaries who began using DEA on or after August 1, 2018.

Benefits are paid monthly directly to the Dependent. Currently, VA recognizes an education benefit liability once VA approves an original enrollment certification.

MONTGOMERY GI BILL-ACTIVE DUTY

MGIB-AD is an authorized program by Congress under title 38, Chapter 30. The MGIB-AD program provides education benefits to Veterans and Servicemembers who have at least two years of active duty and have had their pay reduced by $1,200 or meet other eligibility requirements.

Eligible Servicemembers have 10 years to use their MGIB-AD benefits, but the time limit can be fewer or more years depending on the situation. Servicemembers may receive up to 36 months of education benefits. Benefits are paid monthly based on the type of training, length of service, category, and college fund eligibility. Veterans usually have 10 years to use their MGIB-AD benefits, but the time limit can be fewer or more years depending on the situation. VA continues to recognize an education benefit liability once VA has approved an original enrollment certification.

ASSUMPTIONS USED TO CALCULATE THE VETERANS EDUCATION AND VR&E BENEFIT LIABILITY

ALL PROGRAMS

Several significant actuarial assumptions were used in the valuation of education benefits to calculate the present value of the liability.

The discount rate for all of the programs was based on 10-year average spot rates. These spot rates are equivalent to the single average discount rates presented by chapter in the table below, along with the liability balances and number of years modeled, as of September 30, 2019, and 2018, respectively.

Education and VR&E Liability by Program (dollars in millions)
For the Periods Ended September 30, 2019 and 2018

	2019	2018
Post-9/11	$ 87,103	$ 56,559
VR&E	13,968	6,541
DEA	4,601	2,323
MGIB-AD	215	246
Total	**$ 105,887**	**$ 65,669**

Spot Rates
For the Periods Ended September 30, 2019 and 2018

	2019 New Enrollees	2019 Existing Enrollees	2018 Existing Enrollees
Post-9/11	2.99%	3.08%	3.10%
VR&E	2.46%	1.50%	1.35%
DEA	-	1.28%	1.24%
MGIB-AD	-	1.25%	1.18%

Number of Years Modeled
For Expected Program Benefit Payments

Post-9/11	62 Years
VR&E	19 Years
DEA	10 Years
MGIB-AD	20 Years

The liability is impacted by interest on the liability balance, changes in experience, changes in actuarial assumptions, and amounts paid for costs included in the liability balance. Interest on the liability balance is based on the prior year-end liability balance multiplied by the single average discount rate used to compute the benefit liability balance for the prior year-end.

NEW PROJECTION

VA education benefits are unique programs unlike any other in the Federal Government or commercial environment. As such, to develop estimates, VA needs to use data that is specific to the population of Servicemembers and Veterans, which is not available from outside sources. These models have been in operation for only three years and additional analysis of the assumptions and relevant information, as compared to experience, is needed to calculate a more precise estimate.

In FY 2018, and years prior, the Education actuarial modeling estimates were based only on beneficiaries who had already started to use their benefits and did not include assumptions for expected future new beneficiaries as an input to calculate the estimated liability. However, based on experience, it was probable that new beneficiaries would enroll in these programs in future years and that the associated liability needed to be recognized. At the time there was no reliable and credible experience data about new enrollees that could be used to develop an accurate estimate.

In FY 2019, VA conducted an in-depth experience study to refine the impact of the new enrollee assumption to be used in the estimates. VA's Education Liability includes an estimate for potential new enrollees who are eligible for Post-9/11 GI Bill and VR&E benefits which approximates $48.3 billion as of September 30, 2019.

New actuarial projections often have unique aspects that require development of additional assumptions and model refinements. During the process of implementing the projection for potential future enrollees, potential data limitations were found to be inherent in the data being used. These data limitations might lead to Veterans with dual entitlement in both programs' projections without being subject to any required constraints and potentially result in a misstatement of the liability estimates. To compensate for the potential misstatement associated with the dual eligibility component, VA developed a preliminary non-actuarial estimate of the potential liability based on a conservative scenario of what may occur.

VA's DEA liability valuation model currently does not include future new enrollees. Due to unavailability of required data, VA did not complete an experience study in FY 2019 for new beneficiaries who are eligible for benefits but have not used them (new enrollees). VA developed a preliminary, non-actuarial estimate of the liability associated with the potential future enrollees using certain assumptions from the existing model and data from historical payment files. Based on this estimate, VA recognized a $1.9 billion liability. VA plans to conduct an experience study on future new enrollees for Chapter 35 in the following year.

At this time, VA considers these estimates reasonable as they are based on relevant data attributes that can be quantified with sufficient reliability. However, these accounting estimates could change once experience studies are performed.

VA does not plan to include potential enrollees in its MGIB-AD (Chapter 30) projections since the majority of the new beneficiaries enroll in the Post-9/11 GI Bill program, the successor of the MGIB-AD program.

Additional information on VA's actuarial estimates is available in Note 1.R.

FACTORS NOT CONSIDERED IN THE ESTIMATION PROCESS

Actuarial practice commonly involves the estimation of uncertain events. Such is the case in the Veterans Benefits Liability estimations. In particular, the future demographic population, and timing and severity of the uncertain events are likely to be different from the near- and long-term assumptions used in the projections. Uncertainties for Education and VR&E are discussed below.

- Change in Covered Population Group: The Education and VR&E actuarial models are based on beneficiaries who are eligible for the benefits at the time of the valuation date. This is the group that VA has a potential liability for as they continue or begin to use their benefits. No commitment has been made by VA to any group of potential beneficiaries other than those who are eligible as of the valuation date, including active Servicemembers and their dependents who are not yet eligible to receive benefits as well as future Servicemembers. The model is recalculated each fiscal quarter and therefore the covered population groups are updated during each valuation quarter.
- Data Inputs: Whenever possible, VA uses the most current and relevant data that is available. However, occasionally data may not be available through the current fiscal year. As an example, VA uses the United States Veterans Eligibility Trends and Statistics, which is always two fiscal years behind. In instances where timely data is unavailable, VA may extrapolate data from similar sources and adjust the data to reflect the characteristics of the group being measured.

In addition, there are certain elements for consideration. For instance, Education and VR&E benefits are considered short duration in nature and are capped at a maximum of 48 months of total use. As such, given the short benefit duration, future payments projected by the Education and VR&E models will trend significantly downward in all projected years as there will be less benefits remaining available for use by each eligible beneficiary.

Estimates made prior to this year may differ substantially because of revisions to the assumptions based on changes in conditions or experience, triggering events, and changes in actuarial methodology. Given that the Education and VR&E models are relatively new models, it is reasonable to expect more changes for similar reasons in the future.

Reconciliation of Veterans Compensation, Burial, Education, and VR&E Actuarial Liabilities
(dollars in millions)
For the Periods Ended September 30, 2019 and 2018

	Compensation	Burial	Education and VR&E	Total
Liability at October 1, 2017	**$ 2,805,100**	**$ 4,900**	**$ 50,714**	**$ 2,860,714**
Expense:				
Interest on the Liability Balance*	102,700	200	1,281	104,181
Actuarial (Gain)/Loss				
Changes in Experience (Veterans Counts, Status)*	45,500	(100)	14,596	59,996
Changes in Assumptions:				
Changes in Discount Rate Assumption	94,900	200	(1,454)	93,646
Changes in COLA Rate Assumption	(3,600)	-	-	(3,600)
Changes in Other Assumptions	(24,500)	2,200	11,407	(10,893)
Net (Gain)/Loss from Changes in Assumptions	66,800	2,400	9,953	79,153
Prior Service Costs*	14,300	-	-	14,300
Total Expense	229,300	2,500	25,830	257,630
Less Amounts Paid*	(85,300)	(200)	(10,875)	(96,375)
Net Change in Actuarial Liability	144,000	2,300	14,955	161,255
Liability at September 30, 2018	**$ 2,949,100**	**$ 7,200**	**$ 65,669**	**$ 3,021,969**
Liability at October 1, 2018	**$ 2,949,100**	**$ 7,200**	**$ 65,669**	**$ 3,021,969**
Expense:				
Interest on the Liability Balance**	103,800	300	1,501	105,601
Actuarial (Gain)/Loss				
Changes in Experience (Veterans Counts, Status)**	121,200	(100)	12,651	133,751
Changes in Assumptions:				
Changes in Discount Rate Assumption	55,700	100	35	55,835
Changes in COLA Rate Assumption	(30,300)	(100)	3	(30,397)
Changes in Other Assumptions	(4,500)	-	37,095	32,595
Net (Gain)/Loss from Changes in Assumptions	20,900	-	37,133	58,033
Prior Service Costs **	20,700	-	-	20,700
Total Expense	266,600	200	51,285	318,085
Less Amounts Paid**	(93,000)	(300)	(11,067)	(104,367)
Net Change in Actuarial Liability	173,600	(100)	40,218	213,718
Liability at September 30, 2019	**$ 3,122,700**	**$ 7,100**	**$ 105,887**	**$ 3,235,687**

* The sum of these changes represents Veterans benefits actuarial cost, excluding changes in actuarial assumptions on the Statement of Net Cost for FY 2018.

** The sum of these changes represents Veterans benefits actuarial cost, excluding changes in actuarial assumptions on the Statement of Net Cost for FY 2019.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

VA has unfunded Environmental and Disposal Liabilities in the amount of $934 million and $926 million as of September 30, 2019, and 2018, respectively. The majority of VA's unfunded Environmental and Disposal Liabilities involve asbestos removal, lead abatement, replacement of underground oil and gasoline tanks, decommissioning of waste incinerators, and decontamination of equipment prior to disposal. Included in the total unfunded Environmental and Disposal Liabilities are the liabilities for friable asbestos removal, $238 million and $232 million, for September 30, 2019, and 2018, respectively; and nonfriable asbestos removal, $430 million and $431 million, for September 30, 2019, and 2018, respectively.

While some facilities have applied prevailing state regulations that are more stringent than Federal guidelines, Occupational Safety and Health Administration and Environmental Protection Agency regulations are the legal basis 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.

It is at least reasonably possible that the estimated liabilities will change, as a result of changes in applicable laws and regulations, technology, future location requirements or plans, budgetary resources, and changes in future economic conditions including inflation and deflation.

NOTE 15. OTHER LIABILITIES

Other Liabilities are liabilities not reported elsewhere in the Balance Sheet. They consist of funded and unfunded liabilities within the intragovernmental and public categories. Funded liabilities are generally considered to be current liabilities. Unfunded liabilities represent future financial commitments that are currently not funded and considered noncurrent.

Other Liabilities (dollars in millions) As of September 30, 2019		
	Funded	Unfunded
Intragovernmental		
Credit Reform Act Subsidy Re-estimates *	$ 2,405	$ -
General Fund Receipt Accounts Liability	55	-
Workers Compensation (FECA) and Other Employee Benefits	409	443
Future Funded Expense - Contract Dispute Act **	-	199
Other	29	-
Accrued Annual Leave***	25	2,314
Energy Savings Performance Contracts and Similar Unfunded Contracts	-	299
Accrued Payables	150	-
Accrued Salaries and Benefits	1,537	-
Contingent Legal Liabilities (Note 18)	-	1,122
Deposit and Clearing Account Liability	297	-
Other	30	-
Total Other Liabilities	**$ 4,937**	**$ 4,377**

Other Liabilities (dollars in millions) As of September 30, 2018		
	Funded	Unfunded
Intragovernmental		
Credit Reform Act Subsidy Re-estimates *	$ 3,362	$ -
General Fund Receipt Accounts Liability	60	-
Workers Compensation (FECA) and Other Employee Benefits	356	446
Future Funded Expense - Contract Dispute Act **	-	233
Other	27	-
Accrued Annual Leave***	23	2,325
Accrued Payables	139	-
Accrued Salaries and Benefits	1,327	-
Contingent Legal Liabilities (Note 18)	-	1,103
Deposit and Clearing Account Liability	217	-
Other	39	-
Total Other Liabilities	**$ 5,550**	**$ 4,107**

*Credit Reform Act Subsidy Re-estimates represents excess subsidy due to Treasury as a result of downward re-estimates.

**Future Funded Expense – Contract Dispute Act represents a liability to Treasury's Judgment Fund Branch for amounts paid by Treasury on behalf of VA for claims related to Contract Dispute Acts (CDA). VA is required to reimburse Treasury for claims involving CDAs.

***Annual leave is accrued when earned and is adjusted at the end of each reporting period to reflect current pay rates of cumulative leave earned but not taken. Sick and other types of leave are expensed as taken.

NOTE 16. LEASES

VA has both capital and operating leases. Capital leases consist primarily of buildings, along with computer, information technology, medical, and office equipment.

The following is an analysis of the leased property under capital leases by major classes that is included in general PP&E as disclosed in Note 9.

Capital Lease Assets (dollars in millions)
As of September 30, 2019

	Cost	Accumulated Amortization	Net Book Value
Buildings	$ 13	$ (13)	$ -
Equipment	22	(21)	1
Leased Property Under Capital Lease	**$ 35**	**$ (34)**	**$ 1**
Amortization Expense		**$ -**	

Capital Lease Assets (dollars in millions)
As of September 30, 2018

	Cost	Accumulated Amortization	Net Book Value
Buildings	$ 13	$ (13)	$ -
Equipment	24	(21)	3
Leased Property Under Capital Lease	**$ 37**	**$ (34)**	**$ 3**
Amortization Expense		**$ 1**	

Operating leases consist of equipment and real property leases that are funded annually and expensed as incurred. Operating equipment leases generally consist of medical and office equipment with terms of five years or less and have equal payments over the lease term. Operating real property leases generally consist of Veterans medical facilities and clinics, regional and district benefits offices, and administrative facilities.

For the period ended September 30, 2019, VA had 1,977 real property leases in effect consisting of approximately 27 million square feet and base annual minimum rental obligations of approximately $902 million. Of the operating real property leases, VHA accounts for 85 percent, VBA accounts for 10 percent, and Indirect Administrative Program offices account for 5 percent. These real property leases generally have lease terms ranging from 1 to 50 years and all operating leases are funded annually by appropriation of funds by Congress. Approximately 61 percent of the real property leases have an initial lease term of 5 years or less; approximately 31 percent have initial lease terms of 6 to 10 years; approximately 4 percent have initial lease terms of 11 to 15 years; and approximately 4 percent have initial lease terms of 16 years and more. Certain leases contain renewal, termination, and cancellation options.

Approximately 83 percent of VA leases are executed directly with third-party commercial property owners (public third-party direct leases) with the balance of the leases executed by the General Services Administration (GSA) (intragovernmental leases) on behalf of VA. GSA charges rental rates for space that approximates commercial rental rates for similar properties. The terms of Occupancy Agreements (OA) with GSA vary according to whether the underlying assets are owned directly by the Federal Government or rented by GSA from third-party commercial property owners. VA executes cancellable and non-cancellable OAs with GSA. GSA OAs can be cancellable with varying periods of notice required (generally 4 to 6 months). For OAs executed after October 2011, periods of occupancy are generally one year. GSA OAs that are canceled require a payment of all unamortized tenant improvements and rent concessions not yet earned. GSA OAs may also be noncancellable, where VA would be financially responsible for rent payments on vacated space until the expiration of the OA, the termination of the OA permitted under the lease terms, or until the occupancy by a replacement tenant covers the total rent obligation of VA. However, VA normally occupies the leased properties for an extended period of time without exercising cancellation or termination clauses in the leases.

Annual base rent for operating real property leases is generally flat over the lease term; however, certain GSA OAs and third-party direct leases contain rent abatement and rent escalation clauses. For certain GSA OAs, the base rent is set for periods up to but not beyond five years. For certain GSA OAs with occupancy terms in excess of five years or that incur capitalized building improvement or replacement costs, the base rental rate is reassessed every five years to reflect current market rental rates and additional real property investments. The GSA OAs and third-party direct leases also require VA to reimburse increases in common area maintenance costs and operating costs over base year amounts annually based on increases in the CPI. Additionally, these GSA OAs and third-party direct leases require VA to reimburse increases in real estate taxes over a base year amount at least annually and, in certain cases, VA may pay the common area maintenance costs, operating costs, and real estate taxes directly.

Future commitments for real property and equipment operating leases are based on leases in effect as of September 30, 2019. VA normally occupies leased real property for the entire initial lease term without exercising cancellation and termination options. As a result, the operating lease commitment table that follows includes real property leases over the noncancellable initial lease term. Real property lease data is maintained in a centralized database and does not capture future fixed rent increases, which are considered immaterial to the financial statements taken as a whole and are therefore excluded from the operating lease commitment table that follows.

Due to the number of equipment operating leases and the decentralization of equipment lease records, VA does not present information on noncancellable equipment leases.

VA's FY 2019 operating lease rental costs are $259 million for real property rentals and $183 million for equipment rentals. The FY 2018 operating lease costs are $189 million for real property rentals and $180 million for equipment rentals.

Excluded from the following table are leases of properties that have expired as of September 30, 2019, and prior, but are still occupied by VA. On occasion, VA will retain occupancy of properties once the full term of the lease has expired and continue to remit rent on a monthly basis in accordance with the holdover provisions of the expired lease agreement. In other instances, VA enters into a standstill agreement that simply preserves the terms and conditions of the lease, providing continuation of required rent payments to maintain occupancy. These commitments are excluded from the five-year lease commitment table pending a long-term lease renewal contract or the vacancy of the space by VA. The rent expense associated with standstill and holdover leases is considered immaterial and is included in the FY 2019 Statement of Net Costs. The following table represents VA's projected future noncancellable operating lease commitments.

Future Payments Due for Non-cancellable Real Property Operating Leases (dollars in millions)

For the Years Ending:	GSA OAs	Third-Party Direct Leases	Total Real Property
2020	$ 210	$ 439	$ 649
2021	153	408	561
2022	94	366	460
2023	86	339	425
2024	73	307	380
2025 and Thereafter (in total)	261	2,360	2,621
Total Future Lease Payments	**$ 877**	**$ 4,219**	**$ 5,096**

VA is a lessor of certain underutilized real estate properties within the Department under its Enhanced-Use Lease (EUL) program authorized by Congress. Title 38, U.S.C. Section 8161-8169, Enhanced-Use Leases of Real Property, authorizes VA to lease real property under VA's control or jurisdiction to other public and private entities on a long-term basis (up to 75 years) only for the provision of supportive housing, in return for cash at fair value if receiving consideration. VA's previous EUL authority expired on December 31, 2011, and was reauthorized on August 6, 2012, effective January 1, 2012, under P.L. 112-154, Section 211, limited to supportive housing, and set to expire on December 31, 2023. The previous authority under which all current operational leases were executed allowed VA to enter into EULs for receipt of rental income or in-kind consideration, such as facilities, space, services, or other forms of consideration. All such VA consideration for these leases is intended to further its mission to effectively serve Veterans and is not limited to supportive housing. Additional information on EULs is available in Note 24.

The leases related to NCA's leasing of excess land and buildings at cemeteries are more fully described in Note 20 under the caption, Public Exchange Transactions. The EUL program consists of 77 operational leases of land and/or buildings to the public and private sector. The rental income recognized from the EUL program and the NCA leasing program is $2 million for each of the periods ended September 30, 2019, and 2018. The future rental income to be recognized over the next five years and thereafter from the EUL program and NCA leasing program described above approximates $70 million.

NOTE 17. LIFE INSURANCE LIABILITIES

VA administers six life insurance programs: USGLI, NSLI, VSLI, VRI, S-DVI, and VMLI, which are described in Note 1.N. In addition, VA supervises the SGLI and the VGLI programs, which provide coverage to members of the uniformed armed services, reservists, and post-Vietnam Veterans and their families. All SGLI-insured Veterans are automatically covered under the Traumatic Injury Protection (TSGLI) program, which provides for insurance payments to Veterans who suffer a serious traumatic injury in service. VA has entered into a group policy with Prudential to administer these programs.

Premiums for the SGLI and VGLI programs are set by mutual agreement between VA and Prudential and are based on program experience. SGLI premiums for active duty personnel and their families are deducted from the Servicemember's pay by the Armed Services components through the DoD, which, 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 VA. Under title 38, U.S.C. Sections 1971(e) and 1977(f), VA is responsible for assessing the contingency reserve balance held by Prudential. Additionally, if and when the Secretary determines the contingency reserve balance held by Prudential is adequate and there are excess funds, Prudential will transfer the excess funds into VA's revolving fund for this program. VA is then responsible for investing the excess funds in Treasury securities.

SGLI and VGLI insurance liabilities are recorded in Prudential's accounting records and are not reflected in the VA's liabilities because the risk of loss on these programs is assumed by Prudential and its reinsurers through the terms and conditions of the group policy. DoD pays for any TSGLI claim costs in excess of premiums collected from Servicemembers in accordance with title 38, U.S.C. Sections 1980(e)(6) and (7).

The Secretary determines the claim 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 costs identified by the Secretary are paid by the uniformed services, not from the Servicemembers' premiums, as are all other programs costs.

For SGLI and VGLI, Prudential holds reserves needed for claims and administration while the group policy is in effect. Further, a contingency reserve is used to account for adverse fluctuations in claims under the policy, as required by law. These reserves are maintained in Prudential's financial records since the risk of loss is assumed by Prudential and its reinsurers. Within its revolving fund, VA holds excess funds that are not required to cover program liabilities held by Prudential but are available to support the SGLI and VGLI programs. In June 2019, the Secretary determined that $3.4 billion held by Prudential for VGLI were excess reserve funds that were no longer needed to sustain the adverse fluctuations of the program. As a result, Prudential and VA signed an agreement to transfer the $3.4 billion to VA over a period of five years. VA received the first installment in August 2019 for $300 million. As of June 30, 2019, Prudential also held a contingency reserve for SGLI in the amount of $1.19 billion. VA's assessment of the target level of the SGLI contingency reserve indicated that a range of $600 million to $900 million was optimal. VA determined that the excess SGLI contingency reserve funds should be transferred from Prudential to VA. Since there are several factors influencing the level of the contingency reserve, VA is examining various options for the timing and amount of the transfer.

The insurance reserves for USGLI, NSLI, VSLI, and VRI are reported as liabilities covered by budgetary resources, while part of the S-DVI and VMLI reserves are reported as liabilities not covered by budgetary resources. A downward trend in reserve liabilities will continue for programs that cover World War II and Korean War Era Veterans due to the declining numbers of policyholders. The USGLI program, established to manage World War I Veteran policies, was closed to new issues in 1951. The liability reserve remaining on this program is $1 million.

Insurance Liability (Reserve) Balances (dollars in millions) As of September 30, 2019				
Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	$ 1,821	$ 26	$ 7	$ 1,854
USGLI	-	1	-	1
VSLI	983	3	4	990
S-DVI	740	5	762	1,507
VRI	59	-	-	59
VMLI	246	-	-	246
Subtotal	$ 3,849	$ 35	$ 773	$ 4,657
Unearned Premiums				27
Insurance Dividends Left on Credit or Deposit and Related Interest Payable				810
Dividend Payable to Policy Holders				24
Unpaid Policy Claims				185
Insurance Liabilities Reported on the Balance Sheet				5,703
Less Liability not Covered by Budgetary Resources (Note 12)				(1,620)
Liability Covered by Budgetary Resources				**$ 4,083**

Insurance Liability (Reserve) Balances (dollars in millions) As of September 30, 2018				
Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	$ 2,276	$ 30	$ 10	$ 2,316
USGLI	-	1	-	1
VSLI	1,088	3	5	1,096
S-DVI	711	6	770	1,487
VRI	73	-	1	74
VMLI	243	-	-	243
Subtotal	$ 4,391	$ 40	$ 786	$ 5,217
Unearned Premiums				31
Insurance Dividends Left on Credit or Deposit and Related Interest Payable				921
Dividend Payable to Policy Holders				28
Unpaid Policy Claims				199
Insurance Liabilities Reported on the Balance Sheet				6,396
Less Liability not Covered by Budgetary Resources (Note 12)				(1,603)
Liability Covered by Budgetary Resources				**$ 4,793**

Unpaid Policy Claims consist of insurance claims that are pending at the end of the reporting period, an estimate of claims that have been incurred but not yet reported, and a liability for disbursements in transit. These amounts represent insurance liabilities that have been incurred prior to the end of the reporting period and are payable from the insurance funds.

Schedule for Reconciling Life Insurance Unpaid Policy Claim Liability Balance (dollars in millions) As of September 30, 2019				
Program	Unpaid Claim Liability Balance as of October 1, 2018	Claims Expenses	Less Payments to Settle Claims	Ending Balance of the Unpaid Policy Claim Liability
NSLI	$ 132	$ 509	$ (526)	$ 115
USGLI	1	-	(1)	-
VSLI	27	147	(142)	32
S-DVI	27	118	(116)	29
VRI	5	16	(17)	4
VMLI	7	37	(39)	5
Total	**$ 199**	**$ 827**	**$ (841)**	**$ 185**

A. CASH SURRENDER VALUE

The cash surrender value represents the amount that is contractually available to a policyholder upon voluntary termination of their life insurance policy. The likelihood that all policies will terminate in the same time period is remote.

Cash Surrender Value (dollars in millions) As of September 30, 2019	
Program*	Values
NSLI	$ 1,754
VSLI	956
S-DVI	690
VRI	57
Total	**$ 3,457**

*Under VMLI, since the insured homeowner has no equity in the policy, claims are payable to mortgage companies.

B. PROGRAM COSTS AND FUNDING SOURCES

Premiums for the administered life insurance programs are based on mortality and interest assumptions that are set by law. They vary by fund, type of policy, and type of benefit. The mortality tables that were used include the American Experience Table, 1958 CSO Basic Table, the X-18 Table, the 1941 CSO table, and the 2001 CSO Male Composite Ultimate Mortality Table. The interest rates that were applied ranged from 2.25 percent to 4.5 percent.

The NSLI, VSLI, and VRI programs are self-supporting through the collection of premiums, which are used to fund current operations. The USGLI program is also self-supporting, but was declared paid-up in 1983, and no longer collects premiums. Interest income and the release of investment reserves are used to cover funding shortfalls in these programs. In addition, interest income from insurance policy loans may be used.

The S-DVI and VMLI programs are designed to provide insurance coverage to disabled Veterans at standard premium rates. Therefore, premiums do not cover the operating costs of those programs and appropriations are used to cover the funding shortfalls.

In the NSLI, VSLI, VRI, and S-DVI programs, qualifying insureds who have incurred a disability that prevents them from engaging in substantially gainful employment can have their premiums on their policies waived.

Insurance Program Costs, Premiums Collected, and Appropriations Used (dollars in millions)
For the Period Ended September 30, 2019

Program	Program Costs	Premiums Collected	Appropriations Used
NSLI	$ 629	$ 51	$ -
VSLI	199	20	-
S-DVI	143	68	75
VRI	20	1	-
VMLI	41	6	34
Total	**$ 1,032**	**$ 146**	**$ 109**

C. INVESTMENTS

In accordance with SFFAS No. 51, investment activities related to insurance programs must be disclosed. Although investments related to life insurance programs are disclosed in the Special Bonds line of Note 5 at a summary level, the following presentation provides the break out of investment activity by insurance programs.

Purchases represent new investments and reinvestment of interest payments received from Treasury. Investments are redeemed when needed to cover funding shortfalls.

Schedule for Reconciling Investments in Treasury Securities for Life Insurance Reserves (dollars in millions)
As of September 30, 2019

Adminstered Programs*	Investments in Treasury Securities for Life Insurance Reserves, October 1, 2018	Purchases	Redemptions	Ending Balance of Investments in Treasury Securities for Life Insurance Reserves
NSLI	$ 3,016	$ 97	$ (656)	$ 2,457
USGLI	2	-	-	2
VSLI	1,486	58	(187)	1,357
VRI	100	3	(21)	82
Total Adminstered	**4,604**	**158**	**(864)**	**3,898**
Supervised Programs	**1**	**300**	**-**	301
Total Adminstered and Supervised Programs	**$ 4,605**	**$ 458**	**$ (864)**	**$ 4,199**

* S-DVI and VMLI are not self supporting, and therefore, have no assets available for investment.

D. 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 at the end of the fiscal year. It includes any paid-up additional coverage provided under these policies. Due to the nature of life insurance coverage, the possibility that claims filed in any time period will equal the entire insurance in-force amount is remote.

The supervised programs' policies and face value are not included in VA's liabilities because the risk of loss on these programs is assumed by Prudential and its reinsurers through the terms and conditions of the group policy. As a result, the following information provided under the supervised programs is for informational purposes only and is unaudited.

The face value of the insurance provided by Prudential and its reinsurers represents 99 percent of the total insurance in-force for both FY 2019 and 2018.

	2019 Policies	2018 Policies	2019 Face Value	2018 Face Value
	(# of policies)		(dollars in millions)	
Supervised Programs (UNAUDITED)				
SGLI Active Duty	1,423,000	1,427,000	$ 543,043	$ 545,317
SGLI Ready Reservists	632,500	711,500	201,269	228,737
SGLI Post Separation	82,000	83,000	29,640	30,241
SGLI Family - Spouse	945,000	979,000	93,074	96,316
SGLI Family - Children	1,680,000	1,773,000	16,800	17,730
TSGLI*	-	-	205,550	213,850
VGLI	432,940	432,120	77,897	75,636
Total Supervised	**5,195,440**	**5,405,620**	**1,167,273**	**1,207,827**
Administered Programs				
NSLI	160,992	203,807	2,056	2,597
VSLI	80,504	90,488	1,189	1,335
S-DVI	279,112	277,063	2,934	2,911
VRI	6,299	7,902	66	84
USGLI**	6	20	-	-
VMLI	2,592	2,614	358	354
Total Administered	**529,505**	**581,894**	**6,603**	**7,281**
Total Supervised and Administered Programs	**5,724,945**	**5,987,514**	**$ 1,173,876**	**$ 1,215,108**

* TSGLI is an automatic rider for all SGLI-insured Servicemembers and the policies are included in the SGLI policy counts.

**USGLI has only six active policies remaining with a face value of less than $500,000.

E. POLICY DIVIDENDS

The Secretary determines annually the excess funds available for dividend payment. Policy dividends for FY 2019 and 2018 were $52 million and $60 million, respectively.

NOTE 18. COMMITMENTS AND CONTINGENCIES

VA is a party in administrative proceedings, legal actions, and tort claims arising from various sources including disputes with contractors, challenges to compensation and education award decisions, loan guarantee indemnity debt cases, and allegations of medical malpractice. Certain legal matters to which VA may be a named party are administered by and, in some instances, litigated by the Department of Justice. Some of these instances may ultimately result in decisions, settlements, or awards adverse to the Federal Government. In some cases, the loss amount that occurs may be paid from the

Judgment Fund, which is maintained by Treasury.

VA records a contingent liability for pending legal claims where losses are determined to be probable and the amounts can be estimated. This liability is $1.1 billion for both FY 2019 and FY 2018. As shown in the table below, this figure comprises the liability for cases and claims not brought under the Federal Tort Claims Act and an estimated liability for medical malpractice and other tort claims. The liability from existing medical malpractice and other tort claims is estimated using generally accepted actuarial standards and procedures. Estimates of future claim payments are discounted using Treasury spot rates as of August 2019, and 2018, respectively.

Contingent Legal Liability (dollars in millions)
For the Periods Ended September 30, 2019 and 2018

	Accrued Liabilities	Estimated Range of Loss Low	Estimated Range of Loss High
FY 2019			
Legal Contingencies			
Probable - Medical Malpractice and Other Torts	$ 774	$ 774	$ 774
Probable - Non-Tort	348	348	362
Reasonably Possible - Non-Tort		33	85
Total	**$ 1,122**	**$ 1,155**	**$ 1,221**
FY 2018			
Legal Contingencies			
Probable - Medical Malpractice and Other Torts	$ 756	$ 756	$ 756
Probable - Non-Tort	347	347	367
Reasonably Possible - Non-Tort		153	184
Total	**$ 1,103**	**$ 1,256**	**$ 1,307**

Additionally, as of September 30, 2019, and 2018, there are cases and claims not brought under the Federal Tort Claims Act, where there is at least a reasonable possibility that a loss may occur, for which the potential range of loss cannot be determined.

In 2019 the Court of Appeals for Veterans Claims (CAVC) issued a precedential Order in a case concerning reimbursement of non-VA emergency treatment for non-service-connected conditions. The court certified a class of claimants in the matter and also invalidated the related VA regulation on payment limitations. VA must readjudicate claims denied under the invalidated regulation and may have to pay or reimburse claimants for co-insurance and deductibles associated with their health-plan contract's coverage of the non-VA emergency treatment. VA has not previously paid or reimbursed for these expenses. This will also impact VA's treatment of future claims for reimbursement of certain emergency treatment. It has not yet been determined whether there will be an appeal of this decision.

Also, in 2019, the CAVC rendered a decision on a case that, if it stands, could grant certain Veterans who qualify for both MGIB and Post-9/11GI Bill benefits an extra 12 months of eligibility. VA is awaiting a decision on VA's motion for full Court review.

VA is currently working to develop estimates of the potential cost impact associated with each of these decisions.

VA is also required to record an expense and imputed financing source for the Judgment Fund's pending claims and settlements. The Judgment Fund accounting is shown in the following table.

Judgment Fund (dollars in millions)
For the Periods Ended September 30, 2019 and 2018

	2019	2018
Fiscal Year Settlement Payments	$ 119	$ 126
Less Contract Dispute and “No Fear” Payments	(5)	(11)
Imputed Financing - Paid by Other Entities*	**$ 114**	**$ 115**

* The Imputed Financing - Paid by Other Entities in the table above, when combined with the Total Imputed Expenses – Employee Benefits reported in Note 13, reconciles to Total Imputed Financing costs reported in the Statement of Changes in Net Position.

It is the opinion of management that resolution of pending legal actions as of September 30, 2019, will not materially affect operations or the financial position when consideration is given to the availability of the Judgment Fund appropriation to pay some court-settled legal cases.

Any payments due that may arise relating to canceled appropriations will be paid out of the current year's appropriations in accordance with the provisions of the Expired Funds Control Act of 1990. The amount of unobligated and obligated authority relating to appropriations canceled is $690 million and $992 million for September 30, 2019, and 2018, respectively.

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), the Secretary makes an annual enrollment decision that identifies which Veterans, by priority, 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 FY 2015 through FY 2019, the average medical care cost per year is $68.5 billion.

NOTE 19. FUNDS FROM DEDICATED COLLECTIONS

SFFAS No. 43, *Funds from Dedicated Collections*: *Amending SFFAS No. 27, Identifying and Reporting Funds from Dedicated Collections*, defines funds from dedicated collections as an individual fund with explicit authority to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes and to account for and report on the receipt, use, and retention of the revenues, and/or other financing sources that distinguishes the fund from the Federal Government's general revenues.

The source of revenue and other financing sources is a material public source that requires disclosure and program management responsibility. VA's funds from dedicated collections consist of trust, special, and revolving funds that remain available over time. Trust funds do not involve a fiduciary relationship with an individual or group but are designated exclusively for a specific activity, benefit, or purpose.

Treasury does not set aside assets to pay future expenditures associated with these funds. The cash receipts collected from the public for funds from dedicated collections are deposited in the Treasury and are used for general Government purposes.

Treasury security investments, discussed in Note 1 and presented in Note 5, are assets of funds from dedicated collections that provide the fund the authority to draw upon the Treasury for future authorized expenditures.

Treasury securities held by a fund from dedicated collections are an asset of the fund and a liability of the Treasury, so they are eliminated in the consolidation of the Financial Report (FR) of the U.S. Government.

VA's funds are grouped as insurance, medical care, benefits, and burial in the following tables.

Dedicated Collections Fund Name	Authority	Purpose of Fund	Financing Source
Servicemembers and Veterans Group Life Insurance	38 U.S.C. 1965	Insurance to active duty, ready and retired reservists and cadets attending service academies and ROTC.	Public, Veterans
Veterans Reopened Insurance Fund	38 U.S.C. 1925	Insurance to World War II and Korean Veterans.	Public, Veterans
Service-Disabled Veterans Insurance Fund	38 U.S.C. 1922	Insurance to Veterans with service-connected disabilities.	Public, Veterans
National Service Life Insurance Fund	38 U.S.C. 1920	Insurance - Premiums insure WWII Veterans.	Public, Veterans
U.S. Government Life Insurance	38 U.S.C. 1955	Insurance - Premiums insure WWI Veterans.	Public, Veterans
Veterans Special Life Insurance Fund	38 U.S.C. 1923 101-228	Insurance - Premiums insure Korean conflict Veterans.	Public, Veterans
Canteen Service Revolving Fund	38 U.S.C. 78	Medical Care - Operates the canteen services at hospitals.	Revenue from product sales
Medical Care Collections Fund	P.L. 105-33 111 Stat 665	Medical Care - Third-party and patient co-payments for medical services.	Public, primarily insurance carriers
General Post Fund, National Homes	38 U.S.C. 8301	Medical Care - Donations for patient benefits.	Public, mostly Veterans
Post-Vietnam Era Education Assistance	38 U.S.C. 3222	Benefits - Subsidizes the cost of education to Veterans.	Veterans, DoD
Cemetery Gift Fund	38 U.S.C. 2407	Burial - Donations for Veterans cemeteries.	Public donors
National Cemetery Administration Facilities Operation Fund	P.L. 108-454	Burial - Proceeds benefit land and buildings.	Proceeds from buildings/land leases

SECTION II: FINANCIAL SECTION

The following tables provide consolidated information on assets, liabilities, cumulative results of operations, net cost of operations, and changes in net positions related to funds from dedicated collections.

Balance Sheet – Funds from Dedicated Collections (dollars in millions)
As of September 30, 2019

	Insurance	Medical Care	Benefits	Burial	Funds from Dedicated Collections
Assets:					
Fund Balance with Treasury	$ 69	$ 373	$ 63	$ 2	$ 507
Investments with Treasury (Note 5)	4,237	121	-	-	4,358
Accounts Receivable*	3,114	1,527	-	-	4,641
Other Assets	211	112	-	9	332
Total Assets	**$ 7,631**	**$ 2,133**	**$ 63**	**$ 11**	**$ 9,838**
Liabilities and Net Position:					
Payables to Beneficiaries	$ 10	$ 49	$ 1	$ -	$ 60
Other Liabilities	5,457	28	-	-	5,485
Total Liabilities	**5,467**	**77**	**1**	**-**	**5,545**
Cumulative Results of Operations	2,164	2,056	62	11	4,293
Total Liabilities and Net Position	**$ 7,631**	**$ 2,133**	**$ 63**	**$ 11**	**$ 9,838**

*A significant component of Accounts Receivable includes the excess contingency reserve funds from Prudential.

Statement of Net Cost – Funds from Dedicated Collections (dollars in millions)
For the Period Ended September 30, 2019

	Insurance	Medical Care	Benefits	Burial	Funds from Dedicated Collections
Gross Program Costs	$ 415	$ 599	$ -	$ 1	$ 1,015
Less Earned Revenues	311	4,514	-	-	4,825
Net Cost/(Benefit) of Operations	**$ 104**	**$ (3,915)**	**$ -**	**$ 1**	**$ (3,810)**

Statement of Changes in Net Position – Funds from Dedicated Collections (dollars in millions)
For the Period Ended September 30, 2019

	Insurance	Medical Care	Benefits	Burial	Funds from Dedicated Collections
Net Position Beginning of Period	**$ (1,219)**	**$ 2,013**	**$ 62**	**$ 12**	**$ 868**
Budgetary and Other Financing Sources	3,487	(3,872)	-	-	(385)
Net (Cost)/Benefit of Operations	(104)	3,915	-	(1)	3,810
Change in Net Position	**3,383**	**43**	**-**	**(1)**	**3,425**
Net Position End of Period	**$ 2,164**	**$ 2,056**	**$ 62**	**$ 11**	**$ 4,293**

Balance Sheet – Funds from Dedicated Collections (dollars in millions) As of September 30, 2018	Insurance	Medical Care	Benefits	Burial	Funds from Dedicated Collections
Assets:					
Fund Balance with Treasury	$ 54	$ 363	$ 63	$ 2	$ 482
Investments with Treasury (Note 5)	4,651	91	-	-	4,742
Accounts Receivable	2	1,505	-	-	1,507
Other Assets	230	106	-	10	346
Total Assets	**$ 4,937**	**$ 2,065**	**$ 63**	**$ 12**	**$ 7,077**
Liabilities and Net Position:					
Payables to Beneficiaries	$ 10	$ 22	$ 1	$ -	$ 33
Other Liabilities	6,146	30	-	-	6,176
Total Liabilities	**6,156**	**52**	**1**	**-**	**6,209**
Cumulative Results of Operations	(1,219)	2,013	62	12	868
Total Liabilities and Net Position	**$ 4,937**	**$ 2,065**	**$ 63**	**$ 12**	**$ 7,077**

Statement of Net Cost – Funds from Dedicated Collections (dollars in millions) For the Period Ended September 30, 2018					
Gross Program Costs	$ 534	$ 627	$ -	$ 2	$ 1,163
Less Earned Revenues	447	4,155	-	-	4,602
Net Cost/(Benefit) of Operations	**$ 87**	**$ (3,528)**	**$ -**	**$ 2**	**$ (3,439)**

Statement of Changes in Net Position – Funds from Dedicated Collections (dollars in millions) For the Period Ended September 30, 2018					
Net Position Beginning of Period	$ (1,220)	$ 1,967	$ 62	$ 14	$ 823
Budgetary and Other Financing Sources	88	(3,482)	-	-	(3,394)
Net (Cost)/Benefit of Operations	(87)	3,528	-	(2)	3,439
Change in Net Position	**1**	**46**	**-**	**(2)**	**45**
Net Position End of Period	**$ (1,219)**	**$ 2,013**	**$ 62**	**$ 12**	**$ 868**

NOTE 20. EXCHANGE TRANSACTIONS

A. EXCHANGE REVENUES

Exchange revenue consists primarily of medical revenue recognized when earned from other Federal agencies or the public as a result of costs incurred or services performed on their behalf; revenue from Servicemember contributions for the reimbursement of education benefit programs, insurance revenue from insurance policy premiums paid by policyholders; excess contingency reserve funds from Prudential for the VGLI and

SGLI programs, and housing revenue from interest earned on direct loans.

Exchange revenue is usually based on the full cost associated with the goods exchanged or services performed. Although VA recognizes full cost per SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, 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 for sharing facilities, contracts for services, and contracts for use of equipment where reimbursement rates are negotiated in the best interest of the Federal Government.

B. PUBLIC EXCHANGE TRANSACTIONS

VA's Loan Guarantee Program collects certain fees that are set by law. Rental fees are collected on a small number of properties during the period when the property is titled to VA.

The loan guarantee funding fees collected for September 30, 2019, and 2018, are $2.1 billion and $2.0 billion, respectively. The loan guarantee lender participation fees collected for September 30, 2019, and 2018, are $3 million and $2 million, respectively.

NCA leases lodges at seven cemeteries to not-for-profit groups, four for historic preservation, and four for office space at no cost. These groups are required to provide the upkeep and pay the costs for utilities, insurance, minor repairs, maintenance, and any other costs associated with the lodges.

NCA has agricultural licenses at 15 cemeteries with private sector entities, for which it receives rental payments and one with a not-for-profit group at no cost. One permit is licensed to the Federal Aviation Administration. Two easements are leased to commercial entities, which are required to pay annual fees for access to the land. NCA also leases vacant land at three cemeteries to local community-based entities at negligible cost.

Under 38 CFR 17.101, reasonable costs are used to bill for reimbursable health care services, public workers' compensation, and tort and no-fault or uninsured motorists' insurance cases.

Reasonable costs are based on provider costs in the market area of each VA facility. Under regulations issued pursuant to Section 38 U.S.C. 1729 and published at 38 CFR 17.101, third-party payers may elect to pay VA's billed costs (less applicable deductible or copayment amounts) for the care and services provided to Veterans. Alternatively, third-party payers may elect to pay VA an amount, generally known as usual and customary, that it would pay to other providers for care and services in the same geographic area.

Per 38 CFR 17.102, cost-based and inter-agency per diems are calculated annually to produce rates used to bill for medical care or services provided by VA that are:

(a) Furnished in error or based on tentative eligibility;

(b) For a medical emergency, workers' compensation (Intragovernmental only), humanitarian emergency;

(c) To pensioners of allied nations;

(d) For research purposes in circumstances under which VA medical care appropriation is to be reimbursed by VA research appropriation; and

(e) To beneficiaries of the DoD or other Federal agencies, when the care or service provided is not covered by an applicable sharing agreement.

These per diem costs are derived primarily from cost and workload data from the VHA Office of Finance Cost Reports.

NOTE 21. NET PROGRAM COSTS BY ADMINISTRATION

Schedule of Net Program Costs by Administration (dollars in millions)
For the Period Ended September 30, 2019

	Veterans Health Administration	Veterans Benefits Administration	National Cemetery Administration	Indirect Administrative Program Costs	Total
Intragovernmental Costs					
Program Costs	$ 12,496	$ 864	$ 58	$ 473	$ 13,891
Less Earned Revenues	(68)	(375)	-	(258)	(701)
Net Intragovernmental Program Costs	**12,428**	**489**	**58**	**215**	**13,190**
Program Costs	80,922	114,706	333	1,821	197,782
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	-	155,685	-	-	155,685
Less Earned Revenues	(4,580)	(298)	-	(198)	(5,076)
Net Program Costs	**76,342**	**270,093**	**333**	**1,623**	**348,391**
Net Program Cost by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions	88,770	270,582	391	1,838	361,581
Net (Gain)/Loss from Actuarial Liability Assumptions (Note 13)	-	58,033	-	-	58,033
Net Cost of Operations	**$ 88,770**	**$ 328,615**	**$ 391**	**$ 1,838**	**$ 419,614**

Schedule of Net Program Costs by Administration (dollars in millions) For the Period Ended September 30, 2018	Veterans Health Administration	Veterans Benefits Administration	National Cemetery Administration	Indirect Administrative Program Costs	Total
Intragovernmental Costs					
Program Costs	$ 11,427	$ 795	$ 53	$ 459	$ 12,734
Less Earned Revenues	(58)	(459)	-	(223)	(740)
Net Intragovernmental Program Costs	**11,369**	**336**	**53**	**236**	**11,994**
Program Costs	73,059	104,966	279	1,648	179,952
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	-	82,102	-	-	82,102
Less Earned Revenues	(4,230)	(388)	-	(149)	(4,767)
Net Program Costs	**68,829**	**186,680**	**279**	**1,499**	**257,287**
Net Program Cost by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions	80,198	187,016	332	1,735	269,281
Net (Gain)/Loss from Actuarial Liability Assumptions (Note 13)	-	79,153	-	-	79,153
Net Cost of Operations	**$ 80,198**	**$ 266,169**	**$ 332**	**$ 1,735**	**$ 348,434**

NOTE 22. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

A. BORROWING AUTHORITY

The Loan Guarantee Program principal repayment is expected over a 30-year period from the date of issuance of debt. Borrowing is repaid to Treasury through the proceeds of portfolio loan collections, funding fees, and the sale of loans to housing trusts. The Vocational Rehabilitation Program principal repayment is expected within 10 months from the date of issuance of debt. Loans generally have a duration of one year, and repayment is made from offsetting collections.

Borrowing Authority For the Periods Ended September 30, 2019 and 2018	2019	2018	2019	2018
	Dollars In Millions		Interest Rate	
Home Loan Guarantee Program	**$ 110**	**$ 107**	**2.9%**	**2.9% to 3.1%**
Vocational Rehabilitation Program Direct Loans	**$ -**	**$ 1**	**2.2%**	**1.4%**

B. PERMANENT INDEFINITE APPROPRIATIONS

VA has three permanent and indefinite appropriations to cover unexpected housing losses. The Veterans Home Loan Program account 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 eligible Veterans and their families for the purchase, construction, or improvement of homes they occupy. The Native American Housing Loan Program 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. The Veterans Housing Benefit Program Liquidating account is a Loan Guarantee Revolving Fund that contains all of VA's pre-credit reform direct and guaranteed loans. It holds fund balances received from reimbursements from financing accounts for loan modifications and rentals of foreclosed properties not yet transferred to VA. This account is also used to maintain property management expenses prior to the sale of foreclosed properties.

C. EXPLANATIONS OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

The table below documents the material differences between the FY 2018 Statement of Budgetary Resources and the actual amounts reported in the FY 2020 Budget of the U.S. Government. The FY 2021 Budget of the United States with the actual FY 2019 Statement of Budgetary Resources amounts will not be available until February 2020. Once published, the FY 2019 actual data will be available on the OMB website, http://www.whitehouse.gov/omb/budget.

Explanations of Differences Between the SBR and the Budget of the U.S. Government (dollars in millions) For the Period Ended September 30, 2018

	Budgetary Resources	New Obligations & Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Actual Balances per the 2020 Budget of the U.S. Government	**$ 241,322**	**$ 209,590**	**$ (2,663)**	**$ 184,808**
Reconciling Items: *			**-**	**-**
Expired Unobligated Funds	3,089	-	-	-
Expired Prior Year Budget Authority	456	-	-	-
Expired Upward Adjustments	-	(891)	-	-
Medical Care Collection Fund - Copayments	-	-	(3,528)	-
Special Funds not in the U.S. Budget but in the SBR	6	2	(1)	1
Offsetting Differences between the U.S. Budget and the SBR	-	-	(74)	-
Miscellaneous Differences	(3)	1	-	(5)
Per the 2018 Statement of Budgetary Resources	**$ 244,870**	**$ 208,702**	**$ (6,266)**	**$ 184,804**

*The material reconciling items are: expired unobligated balances, health care copayments, special and trust funds, and Distributed Offsetting Receipts. These items are included in the Statement of Budgetary Resources and the SF-133, Report on Budget Execution and Budgetary Resources, but are not in the Budget of the U.S. Government. Expired Upward Adjustments are reported in the Budget of the U.S. Government but not in the Statement of Budgetary Resources.

D. USE OF UNOBLIGATED BALANCES OF BUDGET AUTHORITY

Within the Status of Budgetary Resources of the Statement of Budgetary Resources, Unobligated Balances represents Apportioned and Unapportioned amounts of unexpired VA funds. The Unobligated Balances also include expired authority which remains available for five additional fiscal years for recording and adjusting previously recorded obligations but cannot be used to fund new obligations.

Unobligated VA funds are available for use as defined in the 2019 Appropriation Acts (P.L. 115-244) and the 2019 Additional Supplemental Appropriations for Disaster Relief Act (P.L. 116-20). These purposes include Veterans medical care, research, education, construction and maintenance of VA buildings, Veterans and dependents benefits, Veterans life insurance, loan guarantee programs, Veterans burial benefits, administrative functions, and disaster relief. Various obligation limitations are imposed on individual VA appropriations.

E. UNDELIVERED ORDERS AT THE END OF A PERIOD

Undelivered Orders (dollars in millions)
As of September 30, 2019 and 2018

	2019		2018	
	Paid	**Unpaid**	**Paid**	**Unpaid**
Intragovernmental Undelivered Orders	$ 1,765	$ 2,431	$ 1,251	$ 2,323
Undelivered Orders	35	13,312	59	13,785
Total Undelivered Orders	**$ 1,800**	**$ 15,743**	**$ 1,310**	**$ 16,108**

F. CONTRIBUTED CAPITAL

Contributed Capital (dollars in millions)
As of September 30, 2019 and 2018

	2019	2018
General Post Fund	$ 83	$ 46
Total Donations	**$ 83**	**$ 46**

G. LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

Legal Arrangements Affecting the Use of Unobligated Balances (dollars in millions)
As of September 30, 2019 and 2018

	2019	2018
Unapportioned Amounts Unavailable for Future Apportionments	$ 9,025	$ 11,233
Expired Authority	3,070	3,089
Total Unobligated Balances	**$ 12,095**	**$ 14,322**

NOTE 23. BUDGET AND ACCRUAL RECONCILIATION

The Budget and Accrual Reconciliation (BAR) presents the relationship between budgetary and financial (proprietary) accounting by reconciling budgetary outlays to the net cost of operations.

The following schedule begins with proprietary net cost of operations and is adjusted by components of net cost that are not part of budget outlays, and components of budget outlays that are not part of net cost, to reconcile with budgetary net outlays.

The components of net cost that are not part of the budget outlays section accounts for proprietary items that do not result in budgetary outlays during the current fiscal year. This includes depreciation, credit reform re-estimates, changes to assets and liabilities (including actuarial liabilities), transfers, and imputed financing.

The components of budget outlays that are not part of net cost section accounts for budgetary outlays that do not result in proprietary cost for the current fiscal year. This includes prior year credit reform subsidy re-estimates and acquisition of assets.

The net outlays section matches Net Agency Outlays on the Statement of Budgetary Resources and the sum of all prior BAR sections.

Budget and Accrual Reconciliation (dollars in millions)
For the Period Ended September 30, 2019

	Intragovernmental	With the Public	Total
Net Cost of Operations (SNC)	**$ 13,190**	**$ 406,424**	**$ 419,614**
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant, and Equipment Depreciation	-	(1,872)	(1,872)
Property, Plant, and Equipment Disposal and Reevaluation	-	(234)	(234)
Year-End Credit Reform Subsidy Re-Estimates	(2,538)	3,501	963
Other	-	(1,095)	(1,095)
Increase/(Decrease) in Assets:			
Accounts Receivable	(3,721)	3,513	(208)
Loans Receivable	-	(2)	(2)
Other Assets	515	(27)	488
(Increase)/Decrease in Liabilities not Affecting Budget Outlays:			
Accounts Payable	311	1,325	1,636
Salaries and Benefits	(54)	(212)	(266)
Insurance and Guarantee Program Liabilities	-	1,086	1,086
Environmental and Disposal Liabilities	-	(8)	(8)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	4,438	(218,133)	(213,695)
Other Financing Sources			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(3,043)	-	(3,043)
Transfers Out (In) Without Reimbursement	(198)	-	(198)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(4,290)**	**(212,158)**	**(216,448)**
Components of the Net Outlays That Are Not Part of Net Cost			
Effect of Prior Year Agencies Credit Reform Subsidy Re-Estimates	(957)	-	(957)
Acquisition of Capital Assets	197	2,534	2,731
Other	(160)	(3,056)	(3,216)
Total Components of Net Outlays That are Not Part of Net Cost	**(920)**	**(522)**	**(1,442)**
Net Outlays (Calculated Total)	**$ 7,980**	**$ 193,744**	**$ 201,724**
Related Amounts on the Statement of Budgetary Resources			
Outlays, Net (total)			$ 209,588
Distributed Offsetting Receipts			(7,864)
Agency Outlays, Net			**$ 201,724**

Budget and Accrual Reconciliation (dollars in millions)
For the Period Ended September 30, 2018

	Intragovernmental	With the Public	Total
Net Cost of Operations (SNC)	**$ 11,995**	**$ 336,439**	**$ 348,434**
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant, and Equipment Depreciation	-	(2,061)	(2,061)
Property, Plant, and Equipment Disposal and Reevaluation	-	(265)	(265)
Year-End Credit Reform Subsidy Re-Estimates	(94)	2,477	2,383
Other	(1,103)	1,897	794
Increase/(Decrease) in Assets:			
Accounts Receivable	1,268	(42)	1,226
Loans Receivable	-	(56)	(56)
Other Assets	646	29	675
Investments	(1)	-	(1)
(Increase)/Decrease in Liabilities not Affecting Budget Outlays:			
Accounts Payable	14	(9,909)	(9,895)
Salaries and Benefits	(17)	(74)	(91)
Insurance and Guarantee Program Liabilities	-	1,846	1,846
Environmental and Disposal Liabilities	-	17	17
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(2,555)	(160,052)	(162,607)
Other Financing Sources			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(2,752)	-	(2,752)
Transfers Out (In) Without Reimbursement	(221)	-	(221)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(4,815)**	**(166,193)**	**(171,008)**
Components of the Net Outlays That Are Not Part of Net Cost			
Effect of Prior Year Agencies Credit Reform Subsidy Re-Estimates	(1,479)	-	(1,479)
Acquisition of Capital Assets	409	2,198	2,607
Acquisition of Inventory	-	1	1
Other	(132)	115	(17)
Total Components of Net Outlays That are Not Part of Net Cost	**(1,202)**	**2,314**	**1,112**
Net Outlays (Calculated Total)	**$ 5,978**	**$ 172,560**	**$ 178,538**
Related Amounts on the Statement of Budgetary Resources			
Outlays, Net (total)			$ 184,804
Distributed Offsetting Receipts			(6,266)
Agency Outlays, Net			**$ 178,538**

NOTE 24. PUBLIC-PRIVATE PARTNERSHIPS

VA is engaged in various collaborative relationships with private sector entities in which the goals, structures, governance, roles, and responsibilities were mutually determined to produce a risk-sharing arrangement. These relationships are referred to as public-private partnerships (P3), which must be reported beginning in FY 2019 in accordance with SFFAS No. 49, *Public-Private Partnerships: Disclosure Requirements*. While many of VA's relationships are classified as and may be referred to as a P3, only those meeting the disclosure requirements outlined in SFFAS No. 49 are disclosed. EULs, Energy Saving Performance Contracts (ESPC), and Utility Energy Service Contracts (UESC) meet the disclosure requirements outlined in SFFAS No. 49 and, accordingly, are disclosed below.

ENHANCED USE LEASES

VA has entered into public-private partnerships as part of its EUL program. This program allows VA to manage underutilized property through leasing arrangements with state or local governments or private sector organizations, which may include both nonprofit and for-profit organizations.

As described in Note 16, Under title 38, U.S.C. section 8161-8169, Enhanced-Use Leases of Real Property, VA is authorized to lease real property under VA's control or jurisdiction to private entities on a long-term basis (up to 75 years). Under current authority, the leased property may be developed for Supportive Housing that will enhance the property and support the mission of VA. VA may only receive cash at fair value if receiving consideration for the lease. In previous versions of the EUL authority, the project could also include other forms of reuse, such as office buildings, parking, energy generation, or other mixed-use development. Under this previous authority, VA could obtain cash, facilities, space, services, or other forms of consideration.

Each EUL is memorialized in an enforceable lease agreement that fully documents the rights and responsibilities of the parties. The EUL provides for the resolution of disputes and risk management.

The EUL program consists of 77 operational leases of land and/or buildings to the public and private sector. There are also four active projects with signed leases that are not yet operational as buildings are still under construction. EULs are located on VA sites throughout the nation.

The majority of the EUL projects serve to provide safe, affordable transitional as well as permanent supportive housing for Veterans and their families. In these arrangements, the properties are leased to commercial real estate developers who then finance, design, develop, construct, operate, and maintain the property. Under these types of arrangements, VA does not assume any risk or make any guarantees to finance the commercial developments. The partner assumes all financial obligations and risks associated with the private development.

In some instances, the developer must finance the development with public issue bonds.

There are instances where the VA leases back space or services from its EUL lessees as authorized under the previous statute. In these types of arrangements, VA obtains the space or services under favorable terms or at reduced costs.

VA will not participate in, or allow its underlying interest in, the land or properties to be used as security for financing an EUL project. VA does not provide any kind of guaranty for the purpose of private-party financing. VA will not approve any project-related financing that includes requirements that might deny, restrict, or subordinate VA's right to terminate the EUL where the lessee has breached the contract and failed to cure.

In accordance with the terms and conditions outlined in each EUL, VA may not unilaterally terminate an EUL for convenience as is common in many Government contracts. VA may agree to a mutual termination of the lease in certain contexts.

VA will only pursue termination of an EUL prior to the end of the lease term in the event of default, noncompliance, or nonperformance by the lessee. In the instance where termination for one of these events occurs, VA does not owe or pay any fees, costs, expenses, or penalties. The lessee bears all risk in such cases.

Upon the expiration of an EUL lease term, the property additions, improvements, or enhancements revert to VA ownership unless the Secretary decides to transfer ownership to the developer.

Benefits to VA from the EUL program include:

- Revenue in the form of lease payments;
- Cost avoidance, i.e., the value of goods or services provided by the lessees that would have otherwise been paid by VA; and
- Cost savings, i.e., discounts realized on necessary VA purchases, such as energy, office space, or parking.

The following information pertains to VA EUL agreements:

Enhanced Use Leases (dollars in millions)
As of September 30, 2019

Capital Contribution by VA	Funding by Private Sector	Revenue during FY 2019	Est Revenue over the Remaining Life of the Project	Est Annual Cost Avoidance	Est Cost Avoidance over the Life of the Project	Est Annual Cost Savings	Est Cost Savings over the Life of the Project
$ 64	$ 1,484	$ 2	$ 70	$ 100	$ 3,028	$ 8	$ 764

ENERGY SAVINGS PERFORMANCE CONTRACTS AND UTILITY ENERGY SERVICE CONTRACTS

VA has entered into several ESPCs and UESCs to procure energy savings and facility improvements. These contract vehicles do not require up-front capital costs or special appropriations from Congress.

Federal agencies are authorized to enter into ESPCs under National Energy Conservation Policy Act (42 U.S.C. § 8287), as amended. The regulations implementing the ESPC statutory authority is 10 CFR Part 436, subpart B. An ESPC is a partnership between an agency and an energy service company (ESCO) to reduce energy, water, and/or related operating costs and to assist agencies with upgrading aging infrastructure, systems, and equipment. After being selected for a potential award, the ESCO conducts a comprehensive audit to assess energy and water improvements that have been identified by VA. In consultation with VA, the ESCO designs and constructs a project that meets the agency's needs and arranges financing to pay for the project. The ESCO guarantees that the improvements will generate sufficient energy cost savings to pay for the project over the term of the contract.

By statute, ESPCs cannot exceed 25 years. After a contract ends, all additional cost savings accrue to VA, and title to installed capital goods, equipment, and improvements are typically retained by VA. VA is responsible for contract administration over the term of the contracts.

Authorized by the Energy Policy Act of 1992, P.L. 102-486 (codified as 42 U.S.C. 8256), UESC is a limited-source contract between a Federal agency and its serving utility for energy- and water-efficiency improvements and demand-reduction services. UESCs can provide energy, water, or sewage services, as well as provision of technical services and/or up-front project financing for energy efficiency, water conservation, and renewable energy investments, allowing Federal agencies to pay for the services over time, either on their utility bill or through a separate agreement.

UESCs also are not to exceed 25 years in duration. After a contract ends, all additional cost savings accrue to VA. Under UESCs, VA retains title to all installed capital goods, equipment, and improvements.

Under OMB Memorandum M-98-13, and M-12-21, ESPC and UESC repayments can be funded on an annual basis. Contracts can be terminated for convenience in part or in full. In the case of a termination, VA may be responsible for outstanding loan balances and early termination or payment fees. Measurement and verification of energy savings is required under ESPCs and UESCs.

The benefits of ESPCs and UESCs include the following:

- Infrastructure improvements that pay for themselves over time;
- Ability to install longer payback energy and water conservation measures by bundling savings with shorter payback measures;

- Reduced vulnerability to budget impacts from utility rate hikes and extreme weather; and
- Enhanced ability to plan and budget accounts.

The following information pertains to VA ESPCs and UESCs:

ESPC and UESC Accepted (dollars in millions)
As of September 30, 2019

Type of Contract	# of Projects	Capital Contribution by VA	Funding by Private Sector	Cost Savings Over the Life of the Project	Payments During FY 2019	VA Liability as of 9/30/2019
ESPCs Completed	13	$ 48	$ 273	$ 541	$ 39	$ 253
UESCs Completed	7	31	64	108	10	46
Total	**20**	**$ 79**	**$ 337**	**$ 649**	**$ 49**	**$ 299**

ESPC and UESC In-Process (dollars in millions)
As of September 30, 2019

Type of Contract	# of Projects	Capital Contribution by VA	Funding by Private Sector	Cost Savings Over the Life of the Project	Payments During FY 2019	VA Liability Upon Acceptance
ESPCs Under Construction	4	$ 16	$ 187	$ 370	$ 16	$ 211
UESCs Under Contruction	4	39	23	31	27	23
Total	**8**	**$ 55**	**$ 210**	**$ 401**	**$ 43**	**$ 234**

NOTE 25. RECLASSIFICATION OF BALANCE SHEET, STATEMENT OF NET COST, AND STATEMENT OF CHANGES IN NET POSITION FOR THE FINANCIAL REPORT COMPILATION PROCESS

To prepare the FR of the U.S. Government, the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows VA's financial statements and VA's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2018 FR can be found here: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2019 FR will be posted to this site as soon as it is released, generally in January.

The term "non-Federal" is used to designate amounts that result from transactions with the public. These include transactions with Veterans; businesses; nonprofit entities; and state, local, and foreign governments.

VA's Balance Sheet is presented at the combined level, while the Reclassified Balance Sheet is presented at a consolidated level. A change in presentation is necessary to eliminate activity between the Funds From Dedicated Collections (detailed in Note 19) and All Other Funds. This is presented in the Net Position section of the schedule below.

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet (dollars in millions)
As of September 30, 2019

FY 2019 VA Balance Sheet		Line Items Used to Prepare FY 2019 Government-wide Balance Sheet	
Financial Statement Line	**Amount**	**Amount**	**Reclassified Financial Statement Line**
ASSETS			**ASSETS**
Intra-Governmental Assets			**Intra-Governmental Assets**
FBWT	$ 58,306	$ 58,306	FBWT
Investments, Net	4,358	4,319	Federal Investments
		39	Interest Receivable – Investments
Total Investments, Net	4,358	4,358	*Total Reclassified Investments, Net*
Accounts Receivable	9	8	Accounts Receivable
		1	Transfers Receivable
Total Accounts Receivable	9	9	*Total Reclassified A/R*
Other	1,762	1,762	Advances to Others and Prepayments
Total Intra-Governmental Assets	**$ 64,435**	**$ 64,435**	**Total Intra-Governmental Assets**
Cash and Other Monetary Assets	4	4	Cash and Other Monetary Assets
Investments, Net	140	140	Debt and Equity Securities
Accounts Receivable, Net	6,078	6,078	Accounts and Taxes Receivable, Net
Direct Loan and Loan Guarantees, Net	1,397	1,397	Loans Receivable, Net
Inventory and Related Property, Net	49	49	Inventory and Related Property, Net
General PP&E, Net	27,164	27,164	PP&E, Net
Other	38	38	Other Assets
Total Assets	**$ 99,305**	**$ 99,305**	**Total Assets**
LIABILITIES			**LIABILITIES**
Intra-Governmental Liabilities			**Intra-Governmental Liabilities**
Accounts Payable	126	126	Accounts Payable
Total Accounts Payable	126	126	*Total Reclassified Accounts Payable*
Debt	569	569	Loans Payable
Other Liabilities	3,540	206	Accounts Payable
		750	Benefit Program Contributions Payable
		23	Advances from Others and Deferred Credits
		2,460	Liability to General Fund for Custodial and Other Non-Entity Assets
		101	Other liabilities (Without Reciprocals)
Total Other Liabilities	3,540	3,540	*Total Reclassified Other Liabilities*
Total Intra-Governmental Liabilities	**4,235**	**4,235**	**Total Intra-Governmental Liabilities**
Accounts Payable	12,161	12,161	Accounts Payable
Loan Guarantee Liability	7,636	7,636	Loan Guarantee Liabilities
Federal Employee and Veteran Benefits	3,242,812	3,242,812	Federal Employee and Veteran Benefits Payable
Insurance Liabilities	5,703	16	Accounts payable
		5,660	Federal employee and veteran benefits payable
		27	Other liabilities
Total Insurance Liabilities	5,703	5,703	*Total Reclassified Insurance Liabilities*
Environmental and Disposal Liabilities	934	934	Environmental and Disposal Liabilities
Other Liabilities	5,774	5,774	Other Liabilities
Total Liabilities	**$ 3,279,255**	**$ 3,279,255**	**Total Liabilities**

NET POSITION			
Unexpended Appropriations – All Other Funds	33,486	33,486	Net Position – Funds Other than those from Dedicated Collections
Cumulative Results of Operations – All Other Funds	(3,217,729)	(3,217,729)	Net Position – Funds Other than those from Dedicated Collections
		(3,875)	Elimination of Internal Transfers
Cumulative Results of Operations – Funds from Dedicated Collections	4,293	4,293	Net Position – Funds from Dedicated Collections
		3,875	Elimination of Internal Transfers
Total Cumulative Results	(3,213,436)	(3,213,436)	*Total Cumulative Results*
Total Net Position	**(3,179,950)**	**(3,179,950)**	**Total Net Position**
Total Liabilities & Net Position	**$ 99,305**	**$ 99,305**	**Total Liabilities & Net Position**

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost (dollars in millions) For the Period Ended September 30, 2019

FY 2019 VA SNC		Line Items Used to Prepare FY 2019 Government-wide SNC	
Financial Statement Line	**Amount**	**Amount**	**Reclassified Financial Statement Line**
Gross Costs	$ 367,358	**$ 353,467**	**Non-Federal Gross Cost**
		7,150	Benefit Program Costs
		3,043	Imputed Costs
		1,402	Buy/Sell Costs
		45	Purchase of Assets
		24	Borrowing and Other Interest Expense
		2,272	Other Expenses (w/o Reciprocals)
		(45)	Purchase of Assets Offset
		$ 13,891	**Total Intragovernmental Costs**
Total Gross Costs	**$ 367,358**	**$ 367,358**	**Total Reclassified Gross Costs**
Earned Revenue	(5,777)	(5,076)	**Non-Federal Earned Revenue**
		(347)	Buy/Sell Revenue
		(167)	Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange)
		(187)	Borrowing and Other Interest Revenue
		(701)	**Total Intragovernmental Earned Revenue**
Total Earned Revenue	**$ (5,777)**	**$ (5,777)**	**Total Reclassified Earned Revenue**
Gain/Loss-Pension/ORB/OPEB Assumptions	58,033	58,033	Gain/Loss on Changes in Actuarial Assumptions (Non-Federal)
Net Cost	**$ 419,614**	**$ 419,614**	**Net Cost**

Reclassification of Statement of Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position (dollars in millions)
For the Period Ended September 30, 2019

FY 2019 VA SCNP		Line Items Used to Prepare FY 2019 Government-wide SCNP	
Financial Statement Line	**Amount**	**Amounts**	**Reclassified Financial Statement Line**
UNEXPENDED APPROPRIATIONS			
Unexpended Appropriations, Beginning Balance	$ 37,780	$ 37,780	Net Position, Beginning of Period
Appropriations Received	197,963	197,963	Appropriations Received as Adjusted
Other Adjustments	(908)	(908)	Appropriations Received as Adjusted
Appropriations Transferred In/Out	128	143	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources (Federal)
		(15)	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources (Federal)
Total Appropriations Transferred In/Out	128	128	Total Reclassified Appropriations Transferred In/Out
Appropriations Used	(201,477)	(201,477)	Appropriations Used (Federal)
Total Unexpended Appropriations	**$ 33,486**	**$ 33,486**	**Total Unexpended Appropriations**
CUMULATIVE RESULTS OF OPERATIONS			
Cumulative Results, Beginning Balance	$(2,999,330)	$(2,999,330)	Net Position, Beginning of Period
Other Adjustments	(6)	(6)	Other Budgetary Financing Sources
Appropriations Used	201,477	201,477	Appropriations Expended
Non-Exchange Revenues	133	133	Accruals for Agency Amounts to be Collected in a TAS other than the General Fund
Total Non-Exchange Revenues	**133**	**133**	**Total Reclassified Non-Exchange Revenue**
Donations and Forfeitures of Property	24	24	Other Taxes and Receipts (Non-Federal)
Transfers In/Out w/o Reimbursement – Budgetary	198	198	Expenditure Transfers-In of Financing Sources
Other	580		**Non-Federal Other**
		3,412	Miscellaneous Earned Revenues
		3,412	**Total Non-Federal Other**
			Intragovernmental Other
		(3,790)	Non-Entity Collections Transferred to the General Fund
		958	Accrual for Non-Entity Custodial Collections Transferred to the General Fund
		(2,832)	**Total Intragovernmental Other**
Total Other	**580**	**580**	**Total Reclassified Other**
Donations and Forfeitures of Cash and Cash Equivalents	59	59	Other Taxes and Receipts (Non-Federal)
Imputed Financing	3,043	3,043	Imputed Financing Sources (Federal)
Total Financing Sources	**205,508**	**205,508**	**Total Financing Sources**
Net Cost of Operations	**(419,614)**	**(419,614)**	**Reclassified Net Cost of Operations**
Ending Balance – Cumulative Results of Operations	**(3,213,436)**	**(3,213,436)**	**Net Position – Ending Balance**
Total Net Position	**$(3,179,950)**	**$(3,179,950)**	**Total Net Position**

SECTION II: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

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.

Non-Federal Physical Property Investments (dollars in millions)
For the Periods Ended September 30, 2015 - 2019

	2019	2018	2017	2016	2015
State Extended Care Facilities	$ 150	$ 90	$ 90	$ 140	$ 105
State and Tribal Veterans Cemeteries	45	45	52	49	47
Total Grant Program Costs	**$ 195**	**$ 135**	**$ 142**	**$ 189**	**$ 152**

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, and day health care for Veterans in state homes. VA participates in two grant-in-aid programs for states. Under title 38 CFR Part 59, 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. VA also provides per diem payment for the care of eligible Veterans in state homes.

The Veterans Cemetery Grants Program was established in 1978. The program assists states, territories, and Federally recognized tribal governments in providing gravesites for Veterans in those areas where VA's national cemeteries cannot fully satisfy their burial needs. VA can now provide up to 100 percent of the development cost for an approved project. For establishment of new cemeteries, VA can provide the operating equipment. State or Tribal organizations provide the land and agree to operate the cemeteries in accordance with the operational standards and measures of VA's NCA. VA has awarded grants totaling more than $817 million to establish, expand, improve, operate, and maintain 114 Veterans cemeteries in 48 states and territories including tribal trust lands, Guam, Saipan, and Puerto Rico. NCA-supported state cemeteries provided more than 39,450 interments in 2019.

SECTION II: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

HUMAN CAPITAL

Investment in Human Capital through the Post-9/11 GI Bill programs and the VR&E program is comprised of expenses for educational resources to supplement opportunities for Veterans, reservists, and certain family members of Veterans.

The VR&E program also assists Veterans to achieve maximum independence in daily living when the severity of their disability prohibits suitable employment. Spouses and family member may also be eligible for education and training assistance. In fact, 25 percent of those benefitting from VA's education programs are non-Veterans. VA's investment in Human Capital does not include expenses for internal Federal education and training of civilian employees.

PROGRAM OUTCOME

Human Capital Investments (dollars in millions)
For the Periods Ended September 30, 2015 - 2019

	2019	2018	2017	2016	2015
Program Expenses					
Education and Training-Dependents of Veterans	$ 836	$ 584	$ 537	$ 526	$ 493
Vocational Rehabilitation and Education Assistance	10,960	13,975	13,960	14,503	13,543
Administrative Program Costs	456	537	536	533	512
Total Program Expenses	**$ 12,252**	**$ 15,096**	**$ 15,033**	**$ 15,562**	**$ 14,548**
Program Outputs (Participants)					
Dependent Education	116,507	103,644	99,265	95,477	91,755
Veterans Rehabilitation	95,427	132,189	117,742	107,491	86,928
Veterans Education	628,260	851,157	898,633	931,097	922,497

SECTION II: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

HEALTH PROFESSIONALS EDUCATION

VA assists in the training of health professionals for its own needs and those of the Nation. 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 partnerships between VA and the Nation's academic institutions, VA plays a leadership role in defining the education of future professionals to meet the changing needs of the Nation's health care delivery system.

VA's education mission contributes to high-quality health care of Veterans by providing a climate of scientific inquiry and evidence-based practice, rapid application of medical advances, supervised trainees in clinical care, and the recruitment of highly qualified health care professionals.

PROGRAM OUTCOMES

Health Professionals Education Investments
For the Periods Ended September 30, 2015-2019

	2019	2018	2017	2016	2015
Program Expenses (dollars in millions)					
Physician Residents and Fellows	$ 795	$ 767	$ 746	$ 715	$ 689
Associated Health Residents and Students	177	167	162	171	168
Instructional and Administrative Support	995	935	892	903	851
Total Program Expenses	**$ 1,967**	**$ 1,869**	**$ 1,800**	**$ 1,789**	**$ 1,708**
Program Outputs (in units)					
Health Professions Rotating Through VA:					
Physician Residents and Fellows	46,027	44,028	43,100	43,400	41,534
Medical Students	26,894	24,683	24,683	24,283	22,931
Nursing Students	25,194	27,519	27,519	28,389	27,275
Associated Health Residents and Students	26,075	26,277	26,292	27,121	28,663

SECTION II: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

INVESTMENT IN RESEARCH AND DEVELOPMENT (R&D)

VA's R&D program is unique. It focuses entirely on health issues that affect the daily lives of Veterans and all Americans through health care discovery and innovation in helping Veterans regain their health, resume an active lifestyle, or reclaim their vital roles in family and community.

It is comprised of expenses incurred to support the programs that span the continuum from biomedical research through the translation of research into practice in the VA Health Care System. The R&D activities are presented in three major categories:

(1) Basic research, the systematic study to discover new knowledge or refined knowledge that advances health care for Veterans and the Nation;
(2) Applied research, the systematic work to apply scientific knowledge to develop effective individualized care solutions for Veterans; and
(3) Experimental development, the systematic use of the knowledge and understanding gained from research to deploy new materials, devices, systems, or methods, including the design and development of prototypes and processes.

Research & Development Investments (dollars in millions)
For the Periods Ended September 30, 2015-2019

	2019	2018	2017	2016	2015
Basic Research	$ 613	$ 514	$ 501	$ 368	$ 367
Applied Research	757	701	721	769	673
Experimental Development	29	28	24	30	29
Total Program Expenses	**$ 1,399**	**$ 1,243**	**$ 1,246**	**$ 1,167**	**$ 1,069**

SECTION II: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

PROGRAM OUTCOMES

VA's goal is to improve the health of nearly 3.5 million Veteran patients and lay the groundwork for improved patient care within VA. Nested within the VHA, VA R&D is viewed by many experts as a model for rigorous, impactful research. Its goal is to be the premier research organization leading four main services working together to address the full spectrum of Veterans' health care and to contribute to the Nation's knowledge about disease and disability. Investments are 100 percent funded through Research Projects that are relevant to VA's Health Care Mission and treated as expenses in determining the net cost of operations. R&D is divided between Basic, Applied, and Experimental Development on a percentage basis:

(1) **Biomedical Laboratory R&D Service:** 100 percent basic, conducting preclinical and clinical research to understand life processes from the molecular, genomic, and physiological level diseases and disabilities affecting Veterans. It includes research on animal models and investigations of tissues, blood, or other biologic specimens from humans.

(2) **Clinical Science R&D Service:** 100 percent applied conducting research that focuses on intact human beings as the unit of examination. Examples include interventional and effectiveness studies, clinical, epidemiological, and technological studies.

(3) **Health Services R&D Service:** 100 percent applied pursuing research at the interface of health care systems, patients, and health care outcomes. Health Service R&D underscores all aspects of VA health care such as quality, access, patient outcomes, and health care costs.

(4) **Rehabilitation R&D Service:** 85 percent applied, 15 percent experimental development, dedicated to the well-being of America's Veterans through a full spectrum of research: from approved rehabilitation research projects, through evaluation and technology transfer to final clinical application.

Research and Development Measures-Actual
For the Periods Ended September 30, 2015-2019

	2019	2018	2017	2016	2015
Number of Research and Development Projects	2,180	2,180	2,150	2,205	2,224

SECTION II: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

More than 60 percent of VA researchers are also clinicians who provide direct patient care. This allows VA Research to quickly move scientific discovery from the research setting to advancements in health care and to recruit the best and brightest health care professionals. The following are significant outcomes of the research and experimental development projects and their accomplishments in FY 2019:

Posttraumatic Stress Disorder (PTSD)

VA's investment in R&D funds efforts to understand, diagnose, assess, and treat PTSD. In 2019, researchers examined the records of more than 2,200 Veterans and conducted a literature review for studies on patients with mild traumatic brain injury and several other conditions: PTSD, depression, substance use disorders, suicidal thoughts or attempts, and anxiety disorders. VA uses two main psychotherapies to treat PTSD – prolonged exposure and cognitive processing therapy – and they are usually delivered in 8 to 12 weekly sessions.

Women's Health

VA researchers are looking at a broad range of health issues related to women Veterans, including gender differences in health status and health care; risk and resilience factors; mental and behavioral health; the impacts of military service, era of service, and combat; sexual trauma; gynecological and reproductive care; access to care; and women Veterans' experiences of and preferences for care. In 2019, VA's R&D conducted several studies. Reports of harassment were more common among women with histories of military sexual trauma; other trauma exposure; anxiety, depression, or PTSD; and poorer health. The results provide key insights that could improve planning care in VA related to women's health issues.

Hepatitis C

Hepatitis C is a bloodborne disease marked by inflammation of the liver. Veterans who served in the Vietnam War era, have alcohol or substance use disorders, or have psychiatric conditions are more likely to be infected with Hepatitis C. VA is the single largest care provider in the United States for Hepatitis C. As of March 2019, VA had treated more than 116,000 Veterans with oral hepatitis C medications and is on track to cure 100,000 Veterans.

Infectious Diseases

VA's ongoing research is advancing the understanding, prevention, and treatment of numerous infectious diseases. In 2019, VA developed several effective new preventive strategies, vaccines, and drugs for infectious diseases ranging from the common cold to major public health threats such as tuberculosis, Acquired Immunodeficiency Syndrome, hepatitis C, pneumonia, shingles, infectious lung disease, and influenza.

SECTION II: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

Genetics

In 2019, researchers from the VA San Diego and Connecticut health care systems, used genome mapping and survey data from more than 11,000 new recruits and deployed soldiers of European ancestry. VA's R&D focuses on research into the genetic basis of diseases and the development of precision medicine—the practice of using a person's genes, proteins, and other individual traits to identify the best treatments. New knowledge about the role of genes in health and disease holds the promise of developing safer, more effective, personalized treatments for many conditions.

Diabetes

Diabetes affects nearly 25 percent of VA's patient population. The disease is also the leading cause of blindness, end-stage renal disease, and amputation for VA patients. In 2019, according to the VA Diabetes Trial (Cooperative Study 465), patients who had intensively controlled their blood sugar levels during the trial had no better survival rates than those who did not. VA researchers are working to develop better ways to prevent or treat diabetes, especially in special populations such as the elderly, amputees, minorities, spinal cord injured patients, and those with kidney or heart disease.

SECTION II: REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

DEFERRED MAINTENANCE AND REPAIRS

Deferred maintenance and repairs are maintenance and repair activities not performed when they should have been or were scheduled to be and therefore, are put off or delayed for a future period. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain an asset. Maintenance and repair estimates are recorded for capitalized assets and are distinguished from capital improvements that expand the capacity of an asset or otherwise upgrade it to serve needs different from, or significantly greater than, its current use.

Management determines the level of service and condition that is acceptable to carry out VA's mission, which may vary by VA components that include VHA, VBA, NCA, and Indirect Administrative Program Costs. It is VA's policy to ensure that medical equipment and critical facility equipment systems are maintained, repaired, and managed in a safe and effective manner; therefore, deferred maintenance and repairs are not applicable to them.

VA facilities reported their cost estimates for deferred maintenance and repairs by performing periodic Facility Condition Assessment (FCA) Surveys, which are inspections of PP&E based on generally accepted methods and standards. These are consistently applied to assign condition ratings and estimate costs for each fixed asset to correct deficiencies. An independent interdisciplinary professional contractor team tours and evaluates approximately 6,000 VA buildings on a three-year cycle, assessing all components. Building components assessed include architectural structural, mechanical, plumbing, and electrical systems. Also included for assessment are capitalized, fully depreciated, and noncapitalized elements of general PP&E, heritage assets, and stewardship land. Each property, plant, or equipment component is given a description, an estimate of remaining useful life, and a grade from "A" to "F" based on VA's standard evaluation guidelines. Any building component graded "D" (poor) and "F" (critical) is given an estimated correction cost and recorded in Deferred Maintenance and Repairs, except where deficiencies will be replaced by capital expenditures. See Notes 1, 9, and 10 for additional information on general PP&E and heritage assets.

SECTION II: REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

VA is experiencing an upward trend in Deferred Maintenance and Repairs as a result of: (1) increased maintenance and repair costs as buildings age; (2) maintenance and repair budgets that have not grown in proportion with an increasing portfolio of owned space and inflation rates; and (3) expanded scope of FCA survey requirements, which significantly increase cost estimates when sites are reevaluated.

Schedule of Deferred Maintenance and Repairs (dollars in millions)
As of September 30, 2019

	2019 Beginning Balance	2019 Ending Balance
General PP&E	$ 11,330	$ 11,998
Heritage Assets	939	992
Total Deferred Maintenance and Repairs	**$ 12,269**	**$ 12,990**

SECTION II: REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF BUDGETARY ACTIVITY

Schedule of Budgetary Activity (dollars in millions)
As of September 30, 2019

	Veterans Health Administration						
Budgetary Resources	**0140 Medical Community Care**	**0152 Medical Support**	**0160 Medical Services**	**0162 Medical Facilities**	**0172 Veterans Choice Fund**	**All Other Funds**	**VHA Total**
Unobligated balance from prior year budget authority, net	$ 1,397	$ 422	$ 3,962	$ 1,501	$ 5,836	$ 4,146	$ 17,264
Appropriations	9,681	7,098	52,951	6,894	-	10,027	86,651
Borrowing authority	-	-	-	-	-	-	-
Spending authority from offsetting collections	-	50	124	21	-	492	687
Total Budgetary Resources	**$ 11,078**	**$ 7,570**	**$ 57,037**	**$ 8,416**	**$ 5,836**	**$ 14,665**	**$ 104,602**
Status of Budgetary Resources							
New obligations and upward adjustments	$ 10,852	$ 7,302	$ 52,852	$ 6,858	$ 3,304	$ 9,809	$ 90,977
Apportioned, unexpired accounts	143	38	2,113	1,407	2,532	4,519	10,752
Unapportioned, unexpired accounts	-	-	-	-	-	2	2
Unexpired unobligated balance, end of year	143	38	2,113	1,407	2,532	4,521	10,754
Expired unobligated balance, end of year	83	230	2,072	151	-	335	2,871
Unobligated balance, end of year	226	268	4,185	1,558	2,532	4,856	13,625
Total Status of Budgetary Resources	**$ 11,078**	**$ 7,570**	**$ 57,037**	**$ 8,416**	**$ 5,836**	**$ 14,665**	**$ 104,602**
Outlays, net							
Outlays, net	$ 11,896	$ 6,939	$ 52,388	$ 6,045	$ 3,906	$ 7,814	$ 88,988
Distributed offsetting receipts	-	-	-	-	-	(3,995)	(3,995)
Agency Outlays, net	**$ 11,896**	**$ 6,939**	**$ 52,388**	**$ 6,045**	**$ 3,906**	**$ 3,819**	**$ 84,993**

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SECTION II: REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule of Budgetary Activity (dollars in millions)
As of September 30, 2019

	Veterans Benefits Administration						
Budgetary Resources	**0102 Compensat-ion and Pensions**	**0137 Readjust-ment Benefits**	**4129 Veteran Housing Program**	**8132 Life Insurance Fund**	**0151 General Operating Expenses**	**All Other Funds**	**VBA Total**
Unobligated balance from prior year budget authority, net	$ 2,473	$ 7,063	$ 10,929	$ 6	$ 234	$ 1,510	$ 22,215
Appropriations	100,763	9,832	-	591	2,956	532	114,674
Borrowing authority	-	-	-	-	-	110	110
Spending authority from offsetting collections	-	198	3,807	33	1,433	1,419	6,890
Total Budgetary Resources	**$ 103,236**	**$ 17,093**	**$ 14,736**	**$ 630**	**$ 4,623**	**$ 3,571**	**$ 143,889**
Status of Budgetary Resources							
New obligations and upward adjustments	$ 101,515	$ 13,679	$ 5,984	$ 630	$ 4,446	$ 1,794	$ 128,048
Apportioned, unexpired accounts	1,721	3,414	-	-	83	1,497	6,715
Unapportioned, unexpired accounts	-	-	8,752	-	-	235	8,987
Unexpired unobligated balance, end of year	1,721	3,414	8,752	-	83	1,732	15,702
Expired unobligated balance, end of year	-	-	-	-	94	45	139
Unobligated balance, end of year	1,721	3,414	8,752	-	177	1,777	15,841
Total Status of Budgetary Resources	**$ 103,236**	**$ 17,093**	**$ 14,736**	**$ 630**	**$ 4,623**	**$ 3,571**	**$ 143,889**
Outlays, net							
Outlays, net	$ 100,451	$ 13,205	$ 2,125	$ 693	$ 2,862	$ 361	$ 119,697
Distributed offsetting receipts	-	-	-	(35)	-	(3,648)	(3,683)
Agency Outlays, net	**$ 100,451**	**$ 13,205**	**$ 2,125**	**$ 658**	**$ 2,862**	**$ (3,287)**	**$ 116,014**

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SECTION II: REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule of Budgetary Activity (dollars in millions)
As of September 30, 2019

	NCA	Indirect Administrative Programs					VA
Budgetary Resources	**Total**	**0142 General Admin**	**1122 Board of Veterans Appeals**	**4537 Supply Fund**	**All Other Funds**	**Total**	**TOTAL**
Unobligated balance from prior year budget authority, net	$ 29	$ 72	$ 25	$ 299	$ 93	$ 489	$ 39,997
Appropriations	361	356	167	-	193	716	202,402
Borrowing authority	-	-	-	-	-	-	110
Spending authority from offsetting collections	1	308	-	1,478	1,015	2,801	10,379
Total Budgetary Resources	**$ 391**	**$ 736**	**$ 192**	**$ 1,777**	**$ 1,301**	**$ 4,006**	**$ 252,888**
Status of Budgetary Resources							
New obligations and upward adjustments	$ 371	$ 686	$ 168	$ 1,399	$ 1,247	$ 3,500	$ 222,896
Unobligated Balance, end of year:							
Apportioned, unexpired accounts	12	5	1	378	34	418	17,897
2304 - Exempt from apportionment, unexpired accounts	-	-	-	-	-	-	-
Unapportioned, unexpired accounts	2	5	16	-	13	34	9,025
Unexpired unobligated balance, end of year	14	10	17	378	47	452	26,922
Expired unobligated balance, end of year	6	40	7	-	7	54	3,070
Unobligated balance, end of year	20	50	24	378	54	506	29,992
Total Status of Budgetary Resources	**$ 391**	**$ 736**	**$ 192**	**$ 1,777**	**$ 1,301**	**$ 4,006**	**$ 252,888**
Outlays, net							
Outlays, net	$ 371	$ 300	$ 170	$ (97)	$ 159	$ 532	$ 209,588
Distributed offsetting receipts	-	-	-	-	(186)	(186)	(7,864)
Agency Outlays, net	**$ 371**	**$ 300**	**$ 170**	**$ (97)**	**$ (27)**	**$ 346**	**$ 201,724**

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