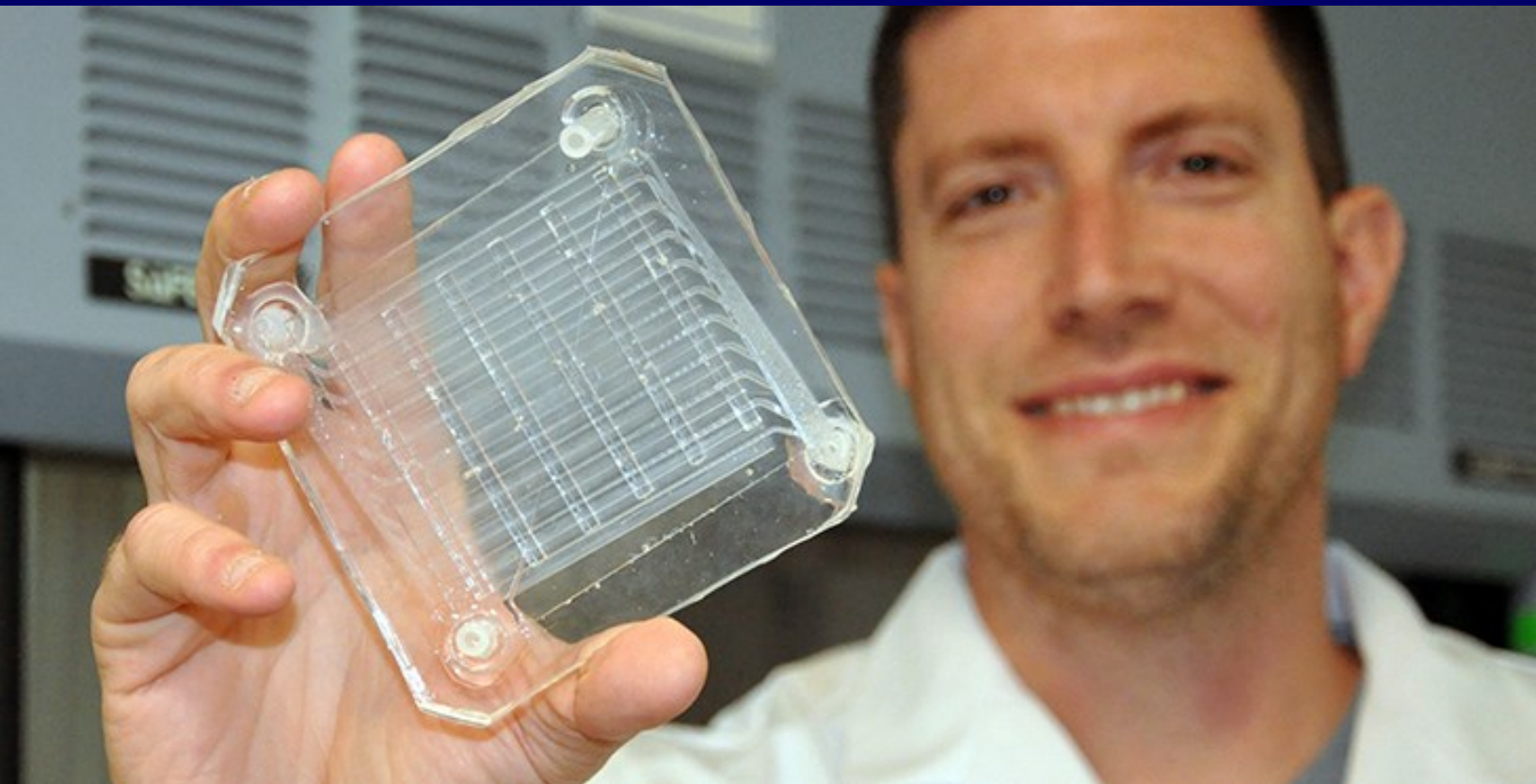


MANAGEMENT'S DISCUSSION AND ANALYSIS



Researchers strive to make 3D-printed artificial lung to help Vets with respiratory disease

VA scientists are working to create a 3D-printed artificial lung that they tout as having the potential to revolutionize the treatment of Veterans affected by lung disease.

One such lung disorder—chronic obstructive pulmonary disease (COPD)—is one of the most prevalent and costliest ailments in the Veteran population.

Dr. Joseph Potkay, a biomedical engineer at the VA Ann Arbor Health Care System in Michigan, is leading the VA-funded research. It calls for making a prototype of the 3D-printed artificial lung. Potkay and his team hope to build what they call the first wearable artificial lung that is compatible with living tissue and is capable of short- and long-term respiratory support.

The lung is seen initially as a temporary measure, a bridge to help patients awaiting a lung transplant or an aid for those whose lungs are healing. Future versions could have longer-term applications, the researchers say.

Potkay says this is the first time high-resolution 3D polymer printing is being used to create microfluidic lungs with three-dimensional blood flow networks.

Microfluidic artificial lungs, a new class of artificial lungs, mimic the structure of the natural lung better than conventional artificial lungs. Tiny blood channels, some thinner than a human hair, are closer in shape and dimension to those in a person, allowing for blood flow similar to that in the human body.

The biocompatible coatings on the lung's surface are equally important. Anytime blood comes in contact with an artificial surface, an immune response leads to hardening of the blood and clotting. Biocompatible coatings will help curtail that immune reaction.

“We hope that these microfluidic flow paths and biocompatible coatings will be more compatible with living tissue, thereby reducing the body's immune response and increasing the lifetime of the device,” says Potkay, who is also a researcher at the University of Michigan. “The flexibility in design afforded by 3D printing gives us more freedom and thus the ease to build artificial lungs with a small size and pressure drops that are compatible for operation with the body's natural pressures.”

Picture previous page: Biomedical engineer Dr. Joseph Potkay, with the VA Ann Arbor Health Care System, displays a 2D prototype of an artificial lung. A 3D version is in production.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSION AND ORGANIZATIONAL STRUCTURE

MISSION

President Lincoln's immortal words, delivered in his Second Inaugural Address more than 140 years ago, best describe VA's mission. *"To care for him who shall have borne the battle and for his widow, and his orphan."* We care for Veterans, their families, and survivors – men and women who have responded when their Nation needed help. VA's mission is clear-cut, direct, and historically significant. It is a mission that every employee is proud to fulfill.

VA fulfills these words by providing world-class benefits, medical, and burial services to the millions of men and women who have served this country with honor. President Lincoln's words guide all VA employees in their commitment to providing the best medical care, benefits, social support, and lasting memorials that Veterans and their dependents deserve in recognition of Veterans' service to this Nation.

ORGANIZATION

VA is comprised of three Administrations, Veterans Benefits Administration (VBA), Veterans Health Administration (VHA), and the National Cemetery Administration (NCA) that deliver services to Veterans and Staff Offices that support the Department:

VBA provides a variety of benefits to Veterans and their families. These benefits include transition assistance services, disability compensation, pension, fiduciary services, educational opportunities, vocational rehabilitation and employment (VR&E) services, home ownership promotion, and life insurance benefits.



VBA representatives taking questions from Servicemembers and Veterans at an Association of the U.S. Army event.

VHA provides a broad range of primary care, specialized care, and related medical and social support services that are uniquely related to Veterans' health or special needs. VHA advances medical research and development in ways that support Veterans' needs by pursuing medical research in areas that most directly address the diseases and conditions that affect Veterans.



Veterans at the John D. Dingell VA Medical Center, Detroit, Michigan had a blast at this year's annual Ride for Hospitalized Veterans.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

NCA provides burial and memorial benefits to Veterans and their eligible family members. These benefits include burial at national cemeteries, cemetery grants for state and tribal cemeteries, headstones and markers, presidential memorial certificates, outer burial receptacles, and medallions.



Fort Gibson National Cemetery hosted the burial service of Seaman 1st Class Eugene W. Wicker Saturday, August 4, 2018. Wicker was killed in action onboard the USS Oklahoma during the Japanese attack on Pearl Harbor on December 7, 1941. Wicker's remains were identified by the Defense POW/MIA Accounting Agency. After more than 76 years, Wicker's remains returned to Oklahoma.

VA Staff Offices provide a variety of services to the Department, including information technology (IT), human resources management, strategic planning, Veteran outreach and education, financial management, acquisition, and facilities management.



Harry Ivy was the first customer service agent to receive a call at the White House VA Hotline, which began taking callers on October 15, 2017. Veterans can reach the hotline at (855) 948-2311.

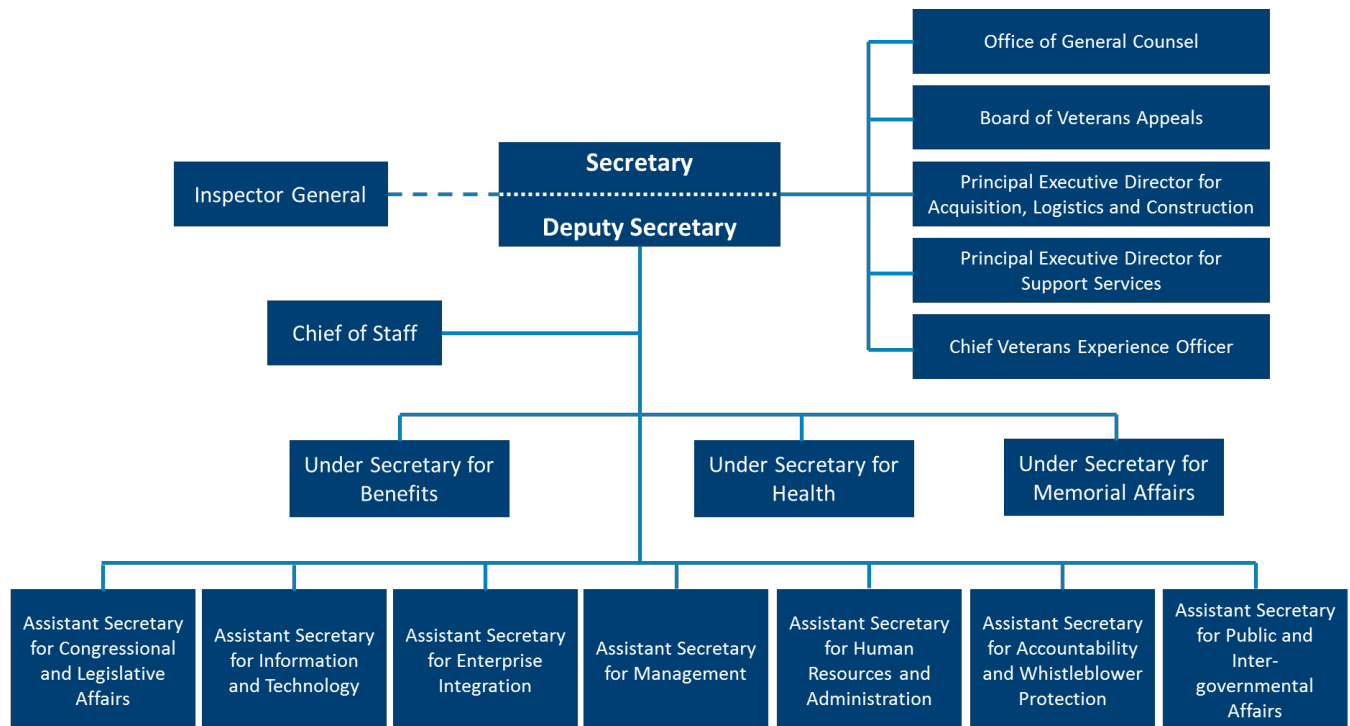
DID YOU KNOW?

VA DoD Veteran Link is a new social networking app just for Veterans and current Servicemembers. The app creates a secure, closed community where users can connect and feel comfortable talking about common interests and life circumstances, including any health concerns they may have.

VA DoD Veteran Link is available through VA's App Store. Veterans can access it from Internet-connected desktops, laptops, and mobile devices.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

DEPARTMENT OF VETERANS AFFAIRS ORGANIZATIONAL STRUCTURE



Robert L. Wilkie was sworn in as Secretary of the U.S. Department of Veterans Affairs on July 30, 2018.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

VA performance goals and objectives are captured in the new VA Strategic Plan, published in February 2018. This Strategic Plan presents the Department's five to seven year objectives it will achieve for Veterans and emphasizes performance based on Veteran outcomes. Each Secretary articulates the focus issues they want the Department to prioritize in support of strategic plan outcomes. The previous Secretary's priorities are incorporated into this Strategic Plan. The plan will be refreshed in 2019 to reflect the current Secretary's priorities.

As shown in the 2018 VA Strategic Plan poster below, the VA Strategic Plan goals align directly with the previous Secretarial Priorities: **Greater Choice for Veterans**, **Improve Timeliness of Service**, **Suicide Prevention**, **Focus Resources More Efficiently**, and **Modernize Our Systems**. For ease of tracking VA's performance progress, in the discussion and analysis sections that follow, we will explicitly demonstrate that connection and provide partial year performance results where available, along with some examples of performance measures we will adopt in FY 2019.

2018 – 2024 VETERANS AFFAIRS STRATEGIC PLAN

WHERE WE ARE NOW...

The President, Vice President, Congress, & veteran services organizations all share this goal to help modernize the VA. And that's why I'm confident that we can turn VA into the type of organization that Veterans and families deserve, and all of us want to see. - Secretary Shulkin

| MISSION STATEMENT | VALUES | SECVA PRIORITIES |
|---|--|--|
| <p>To fulfill President Lincoln's promise "To care for him who shall have borne the battle, and for his widow, and his orphan."</p> | <p>VA core values (I-CARE) define who we are and our culture. They serve as a guide in providing care and services to Veterans, their families, and beneficiaries.</p> <p>Integrity Commitment Advocacy Respect Excellence</p> | <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  <p>Greater Choice</p> </div> <div style="text-align: center;">  <p>Improve Timeliness</p> </div> <div style="text-align: center;">  <p>Suicide Prevention</p> </div> <div style="text-align: center;">  <p>Focus Resources</p> </div> <div style="text-align: center;">  <p>Modernize Systems</p> </div> </div> |





Memorial Day 2018 was commemorated at Arlington National Cemetery with the 150th Presidential Armed Forces Full Honor Wreath-laying Ceremony and DoD National Memorial Day Observance.

VA Photo by Robert Turtill

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

2018 VA STRATEGIC PLAN GOALS

GOAL 1 VETERANS CHOOSE VA FOR EASY ACCESS, GREATER CHOICES, AND CLEAR INFORMATION TO MAKE INFORMED DECISIONS

Crosswalk to 2017
Priority Goal



Greater Choice for Veterans

To provide Veterans with better choices and better access to the benefits, care, and services they need, we have to enhance our understanding of what they are experiencing in their lives. VA will combine understanding of the Veteran with continuous market analyses of availability and quality of provider options to provide a better range of choices for our Veterans. This is what we mean by greater choice. Further, VA must compete for our Veteran customers or risk losing them. We welcome the challenge; we believe competing with the private sector to serve our Veterans will make us stronger. In this goal, we also expand easy access beyond making an appointment. It also applies to Veterans being able to use any benefit, care, or service they need no matter where they are. VA, in its quest to better serve Veterans in the manner they wish to be served, has identified three major elements pertaining to enhanced access for Veterans:

- VA understands the benefits, care, and services the Veteran needs because they have communicated with the Veteran, and VA knows what exists in the Veteran's community.
- Veterans are informed of benefits, care, and services available to them that are offered by VA and/or other providers.
- Veterans can avail themselves of the benefits, care, and services they need in the manner they desire.

In last year's MD&A, VA highlighted three aspects of greater choice and access for Veterans: reducing wait times, same-day services, and integrated network for care. These issues remain important.

DID YOU KNOW?

*The **Veterans Legacy Program** is NCA's educational initiative. The mission is to memorialize our Nation's Veterans through sharing their stories. We partner with schools, teachers, professors, and students to research Veterans interred in our cemeteries. <https://www.cem.va.gov/legacy/>*

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

| | Reducing Wait Times | Same-Day Services | Integrated Network for Care |
|----------------------------|--|--|--|
| Reported in FY 2017 | At just over 1 percent of our locations across the country, Veterans are waiting more than 60 days for new appointments. | We are committed to providing, by year's end, same-day services at all our Community-Based Outpatient Clinics. | We are working with Congress on new Choice legislation that will streamline our processes, focus our resources, and provide Veterans a high-performing, integrated network for care. |
| FY 2018 Update | 93.99 percent of new primary care patients completed an appointment within 30 days or less from their preferred date. | On January 12, 2018, VA announced that 100 percent of its more than 1,000 medical facilities across the country offer same-day services for urgent primary and mental health care needs. | Congress passed the MISSION Act, which will streamline VA's community care programs and strengthen health care options for Veterans, whether in VA or in the community. |

VETERAN CUSTOMER EXPERIENCE

Goal: VA will increase Veteran trust in VA. By September 30, 2019, Veterans' positive responses to the statement "I trust VA to fulfill our country's commitment to Veterans" will increase from 67 percent at the end of FY 2017 to 90 percent.

Update as of 3rd Quarter, 4th Quarter Results Will Be Published in the Annual Performance Plan and Report:

VA's initial focus is on Veterans' experiences of outpatient care. There are three primary drivers of customer experience: ease (measured by the statement: "It was easy to get the care I needed"), effectiveness ("I got the care I needed"), and emotion ("I felt like a valued customer"). In a VA-wide survey at the end of June 2018, results for each of the three drivers had increased 1 percent from the previous quarter. Together, the increases have resulted in an overall trust score of 69 percent.

SECTION I: MANAGEMENT’S DISCUSSION AND ANALYSIS

Reporting on Results

VA will manage performance against this goal by monitoring how Veterans report access to health care, specifically the average percentage of respondents saying they “Always” and “Usually” were able to get an appointment for care when they needed it.

Second quarter FY 2018 results: 81 percent

Plan for Performance Measurement

- Veterans surveyed are satisfied (or better) with the available choices for Veteran care, benefits, and services.
- Eligible Veterans choose VA as their provider of choice for their care.
- Veterans agree that they received timely, relevant, and easy-to-understand information from VA that empowered them to make informed choices about their benefits, services, and care.
- Veterans agree that the statement “I felt like a valued customer” is true.



VA scientists descended on the Nation’s capital to showcase their medical research advances that are aimed at improving the lives of Veterans. More than 20 scientists attended the VA research fair on Tuesday, June 19, 2018, exhibiting a myriad of innovations in the foyer of the Rayburn House Office Building in Washington, DC. The exhibitions touched on topics that are critical to Veterans: the chronic effects of neurotrauma; VA’s Million Veteran Program (genomics); pain and opioid research; posttraumatic stress disorder (PTSD); prosthetics; rehabilitation engineering; spinal cord injury; suicide prevention; technology transfer for VA discoveries; translating research into practice; traumatic brain injury (TBI); VA clinical trials; Vietnam Veterans’ research; and female Veterans’ research.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

GOAL 2

VETERANS RECEIVE TIMELY AND INTEGRATED CARE AND SUPPORT THAT EMPHASIZES THEIR WELL-BEING AND INDEPENDENCE THROUGHOUT THEIR LIFE JOURNEY

Crosswalk to 2017
Priority Goal



Improve Timeliness of Service



Suicide Prevention

VA will deliver integrated and seamless benefits, care, and support resulting in increased quality of life for Veterans and their families, caregivers, and supporters. Improved quality of life means Veterans are independent, economically secure, and socially engaged however they choose and enjoy enhanced well-being.

Preventing suicide among Veterans and improving the timeliness of the services we provide remain priorities from year to year. The following information demonstrates some of the progress that has been made on those issues in the past year.



Every week, volunteers gather at the Vietnam Veterans Memorial in Washington, DC and spend time cleaning the monument. In June, senior VA leaders joined with Vietnam Veterans of America Chapter 641 members to take part in this tradition.

SECTION I: MANAGEMENT’S DISCUSSION AND ANALYSIS

| | Suicide Prevention | Improving the Disability Claim Timeline | Creating Transparency in Claim Status |
|----------------------------|--|---|--|
| Reported in FY 2017 | We are now offering former Servicemembers with other-than-honorable discharges – a high-risk population – access to emergent mental health services in our medical centers. | The average time a disability claim is awaiting a decision is just over 90 days. VA’s goal is to cut this time to 60 days over the next 2 years. | There is little information available to Veterans on the status of their disability claim appeals. This lack of transparency is a major hindrance to providing timely decisions. |
| FY 2018 Update | VA and the Department of Health and Human Services (HHS) are working directly with states and communities to address suicide among those Veterans not receiving health care through VA. The initiative is called the Mayor’s Challenge. As of third quarter FY 2018, seven cities have been recruited to this project and will begin developing local action plans focused on ending Veteran suicide. VA and HHS are in discussions with 17 additional communities to recruit them to this effort. | The average time a disability claim is awaiting a decision is just over 90 days. We are providing faster decisions to Veterans through process enhancements and national workload distribution and will continue to focus on policy changes and automation to make additional improvements. | VA is implementing the Veterans Appeals Improvement and Modernization Act of 2017, which streamlines the appeals process significantly. Third quarter FY 2018 results of a test program showed that VBA provided decisions to Veterans within an average of 66 days. The new processes will be fully implemented by September 30, 2019 (specifically, implementation will occur in February 2019). |

Three of VA’s four Agency Priority Goals (APG) support “Goal 2” and are discussed below. APGs are focused, 2-year initiatives aimed at producing outcomes that reflect the agency’s top priorities.

APPEALS IMPROVEMENT AND MODERNIZATION ACT IMPLEMENTATION

Goal: VA will improve the claims and appeals process for benefits by implementing the new, streamlined framework authorized by the Veterans Appeals Improvement and Modernization Act of 2017 (the Act). The Act transforms VA’s appeals process from a complex, frustrating process into one that is simple, timely, and transparent.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

Update as of 3rd Quarter, 4th Quarter Results Will Be Published in the Annual Performance Plan and Report:

In addition to implementing the Act, VA has launched the Rapid Appeals Modernization Program (RAMP), which provides eligible Veterans the opportunity to enter the new, more efficient appeals process outlined in the Act prior to February 2019. In the third quarter of FY 2018, over 30,129 appellants with more than 36,729 unique appeals had opted into RAMP. In the third quarter, VBA was able to provide decisions on RAMP cases within an average of 66 days.

VETERAN SUICIDE PREVENTION

VHA will proactively identify and provide interventions for at-risk Veterans, both those using VHA care and those using other care systems, to prevent suicide and overdose death. VHA will increase the use of interventions for Veterans at risk for suicide using predictive modeling and enhanced engagement strategies.

Goals: By September 30, 2019, the percent of Veterans targeted through predictive modeling algorithms within the VHA system that receive core recommended interventions will increase to 90 percent from the baseline of 57 percent. By September 30, 2019, VA will partner with HHS/Substance Abuse and Mental Health Services Administration and 17 cities in a “Mayor’s Challenge” to develop community plans to end Veteran suicide outside the VHA system.

Update as of 3rd Quarter, 4th Quarter Results Will Be Published in the Annual Performance Plan and Report:

- VA continues to expand suicide prevention programming to benefit all Veterans.
- The Mayor’s Challenge has been launched in seven initial cities, and recruiting is in progress for a second wave of cities.
- VA is hiring additional mental health clinicians to serve Veterans in need.

COMMUNITY CARE

Goal: Improve Veterans’ health experiences by consolidating all VA-purchased care programs into one modernized community care program. By September 30, 2019, the percent of Veterans who are satisfied with the community care they received will increase from 73 percent at the end of FY 2017 to 79 percent.

Update as of 3rd Quarter, 4th Quarter Results Will Be Published in the Annual Performance Plan and Report:

Congress passed legislation for community care reform. The VA MISSION Act was signed into law on June 6, 2018. VA has started to develop and implement Title I MISSION provisions related to the community care program.

As of March 31, 2018, 78.2 percent of surveyed Veterans were either “satisfied” or “very satisfied” with their VA community care.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

Reporting on Results

Dependency Claims Processing: Timeliness (month-to-date average days to complete as of last month of the year).

Results as of August FY 2018: 80.2 days

Other measures supporting Goal 2:

- Average improvement in mental health symptoms in the 3-4 months after the start of mental health treatment as measured by the mental health component of the Short Form-12 (Under development for the FY 2020 Annual Performance Plan).
- Percentage of Veterans flagged as high risk for suicide who have received recommended interventions and follow-up (Under development for the FY 2020 Annual Performance Plan).

Plan for Performance Measurement

- Veterans are satisfied with the results of the Veteran benefits, care, and services they received.
- VA's organizational performance matches or exceeds industry standards for excellence in all its lines of business.
- Veterans have good quality of life (presence of positive emotions in daily activities, participation in society, satisfying relationships, and overall life satisfaction).
- Zero Veteran suicides.
- Zero Veterans are homeless.
- Veterans achieve independence and economic security.



Around the Nation, VA employees are taking the opportunity to thank and honor Vietnam War era Veterans and their families for their incredible service and sacrifices 50 years ago. March 29, 2018, marked the second celebration of National Vietnam War Veterans Day. This special day was added to our list of national observances when the President signed into law the Vietnam War Veterans Recognition Act of 2017. Led by DoD, VA sustains more than 465 commemorative partnerships in recognizing the 50th anniversary of the Vietnam War.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

GOAL 3 VETERANS TRUST VA TO BE CONSISTENTLY ACCOUNTABLE AND TRANSPARENT

Crosswalk to 2017 Priority Goal *This is a new area of focus for the Department; as such, it does not align to a previous Secretarial priority.*

VA's pledge to build lifelong, trusted relationships with our Veterans is the basis for delivering relevant and excellent benefits, care, and services to our Veterans that enhance their lives. VA understands that earning our Veterans' trust is the gold standard we aspire to achieve and is critical to our long-term success. How VA delivers on its promises is just as important as what it delivers. VA will earn trust and be the natural choice for Veterans by holding itself accountable, being transparent about how we are performing, and showing how we adhere to our core values with every single interaction. Specifically, VA will focus on accountability, transparency, and value.

Reporting on Results

In addition to tracking measures related to work conducted by the Office of the Inspector General (OIG) to address fraud, waste, and abuse, VA will measure Veterans' trust in VA.

VA has measured Veterans' overall trust in the Department since FY 2016, when we found that only 60 percent of Veterans could answer affirmatively a survey question regarding their level of trust. In FY 2017, that figure rose to 69 percent. Our goal is to reach 90 percent. We realized, however, that VA must incorporate Veteran experience data in all business processes to drive performance improvements in health care and benefits and thereby increase Veterans' overall trust in VA. We began by tracking our customers' experiences with outpatient services. We found Veterans' trust in outpatient services in the third quarter of FY 2018 was 86 percent. We plan to begin collecting data on customer experience for three additional service lines: Board of Veterans' Appeals, telehealth services, and the White House VA Hotline.

Plan for Performance Measurement

- Veterans say, "I trust VA to fulfill our country's commitment to Veterans."
- VA publishes health care benchmarks aligned with the private sector.
- VA publishes benefits and service delivery performance data.
- VA eliminates fraud, waste, and abuse.
- Performance based action will be initiated against all proven poor performers within 90 days of substantiation of poor performance.
- Appropriate disciplinary or adverse action will be initiated against all employees within 90 days of substantiation of misconduct.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

GOAL 4

VA WILL MODERNIZE SYSTEMS AND FOCUS RESOURCES MORE EFFICIENTLY TO BE COMPETITIVE AND TO PROVIDE WORLD CLASS CAPABILITIES TO VETERANS AND ITS EMPLOYEES

**Crosswalk to 2017
Priority Goal**



Modernize Our Systems



**Focus Resources More
Efficiently**

Two major forces are driving VA's continuing transformation:

- The emphasis on using the Veterans' perspective to shape its program delivery and business operations.
- The need to modernize our systems and focus resources to ensure VA is here for generations to come.

The cross-cutting objectives and strategies in this goal adapt the organization's behavior in four critical categories that will enable it to perform in an ever-changing business environment. It also addresses two critical functions, Human Resources (HR) and IT, that must be optimized for the Department to realize its modernization aim. The strategies will help the Department make future choices about its strategic footprint (capital assets and construction); rapidly deploy the right human capital capabilities as mission requirements evolve; put in place an IT infrastructure that supports its Veteran engagement and delivery goals; and emphasize value analytics so VA makes smart, implementable, and relevant business decisions every day. VA will either develop or avail itself of shared services to dramatically improve hiring, procurement, and IT to drive better service and delivery.

Modernizing our systems is critical to delivering the kind of service and the level of accountability that we strive to provide to Veterans. There are multiple modernization efforts underway in the Department, but the following provides an update to two areas referenced in last year's AFR.

DID YOU KNOW?

VA scientists at the VA Ann Arbor Healthcare System in Michigan recently announced that they are working to create a 3D-printed artificial lung that could potentially revolutionize treatment of Veterans affected by lung disease. Though still in its infancy, VA researchers hope to build what they call the first artificial lung that closely replicates the natural lung, resulting in compatibility with living cells and a very small size for portable or wearable short- and long-term respiratory support.

<https://t.co/SYxS76yn4e>

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

| | IT Budget | Outdated Systems |
|----------------------------|--|--|
| Reported in FY 2017 | <p>Over 75 percent of our IT budget is spent on legacy systems that are at risk of failing or need major enhancements.</p> <ul style="list-style-type: none"> The Secretary of Veterans Affairs (SECVA) recently announced that VA will use the same contractor and system for electronic health records (EHR) as DoD. This is a major step forward in creating a seamless transition for Veterans. | <p>VA's scheduling systems and our financial systems are outdated, preventing us from performing critical functions in a streamlined and efficient manner.</p> <ul style="list-style-type: none"> Both systems are in the process of being replaced, but it will take several years to complete. |
| FY 2018 Update | <p>VA established an Office of Electronic Health Record Modernization and began developing detailed plans to deploy the new system across the VA health care system, beginning with health care facilities in the Pacific Northwest.</p> | <p>VA has embarked on a Departmentwide initiative, called the Financial Management Business Transformation (FMBT), to replace the aging financial and acquisition system infrastructures. One of the first steps is the development of the integrated Financial and Acquisition Management System, which will transform our business processes and capabilities.</p> |

| | |
|-----------------------------|---|
| Reporting on Results | <p>The following measures will come on-line in FY 2019 to help VA track its efforts to modernize its systems:</p> <ul style="list-style-type: none"> Percentage of agency spending on cloud computing; and Number of data center closures. <p>The following measures will come on-line in FY 2019 to demonstrate the steps VA is taking to focus its resources:</p> <ul style="list-style-type: none"> The percentage of facility customers who are satisfied with services being provided; Percentage of lease projects accepted by VA as substantially complete in the quarter identified; and Percentage of construction projects accepted by VA as substantially complete in the quarter identified. |
|-----------------------------|---|

| | |
|---|---|
| Plan for Performance Measurement | <ul style="list-style-type: none"> Veterans say, "I trust VA to fulfill our country's commitment to Veterans." VA publishes health care benchmarks aligned with the private sector. VA publishes benefits and service delivery performance data. VA eliminates fraud, waste, and abuse. |
|---|---|

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

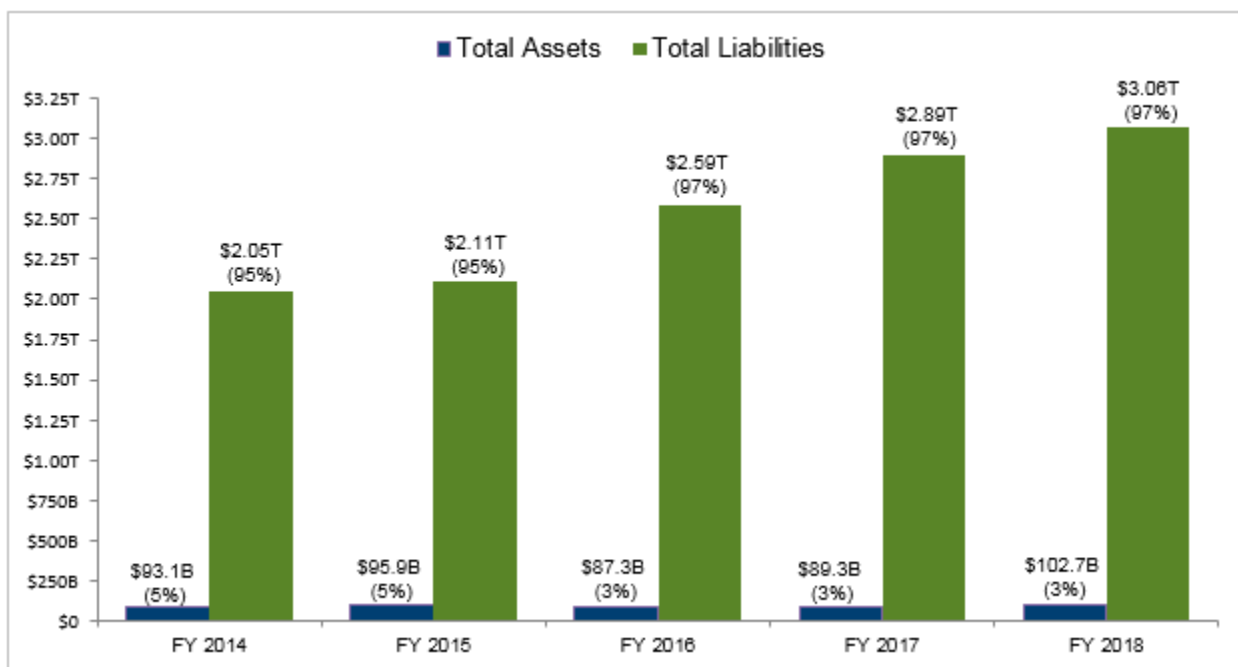
ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

BALANCE SHEET

The Balance Sheet provides a snapshot of the Department's financial position. It reports the balances of the Department's assets, liabilities and net position, at a fixed point in time. As shown in Chart 1, the

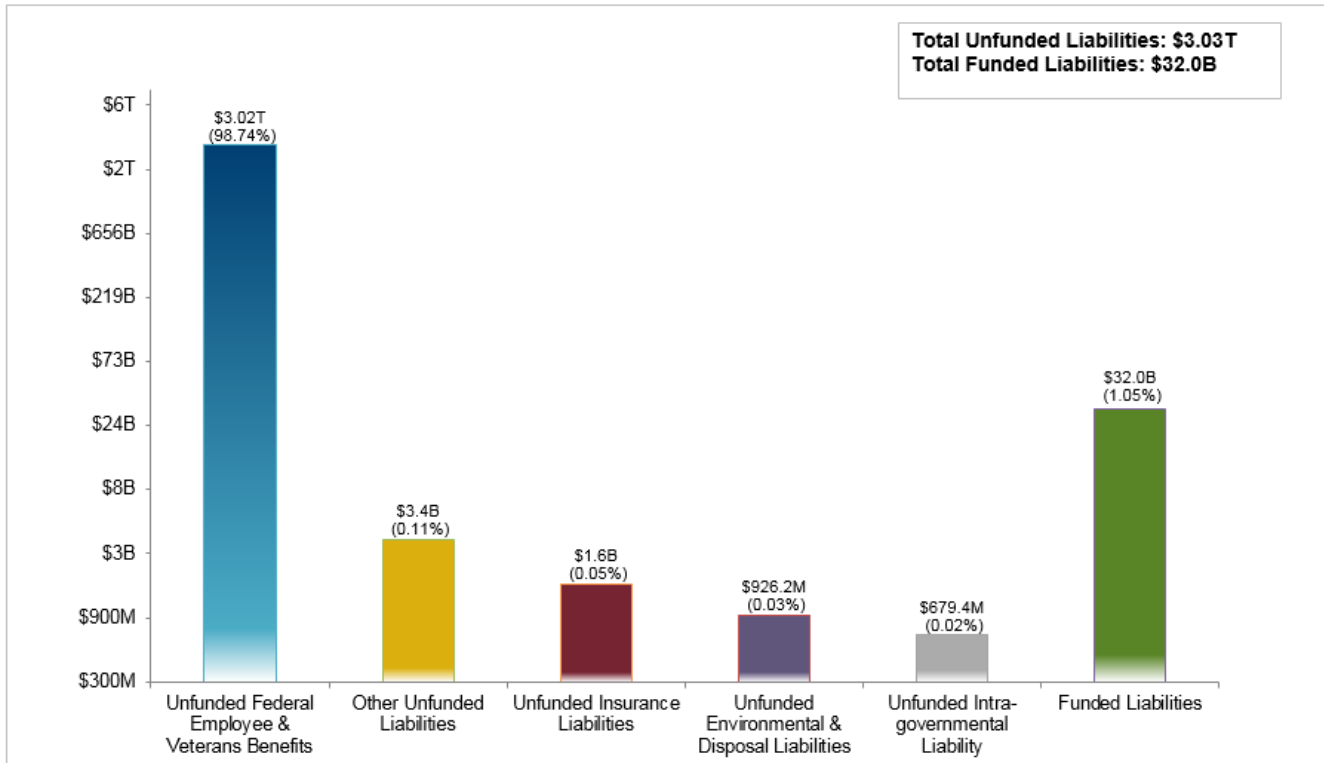
Department's total liabilities significantly exceed total assets. Chart 2 shows the components of the Department's liabilities, with the largest being Unfunded Federal Employee and Veterans Benefits.

Chart 1: Comparative Total Assets and Liabilities FY 2014 - FY 2018



SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

Chart 2: FY 2018 Breakdown of Funded and Unfunded Liabilities

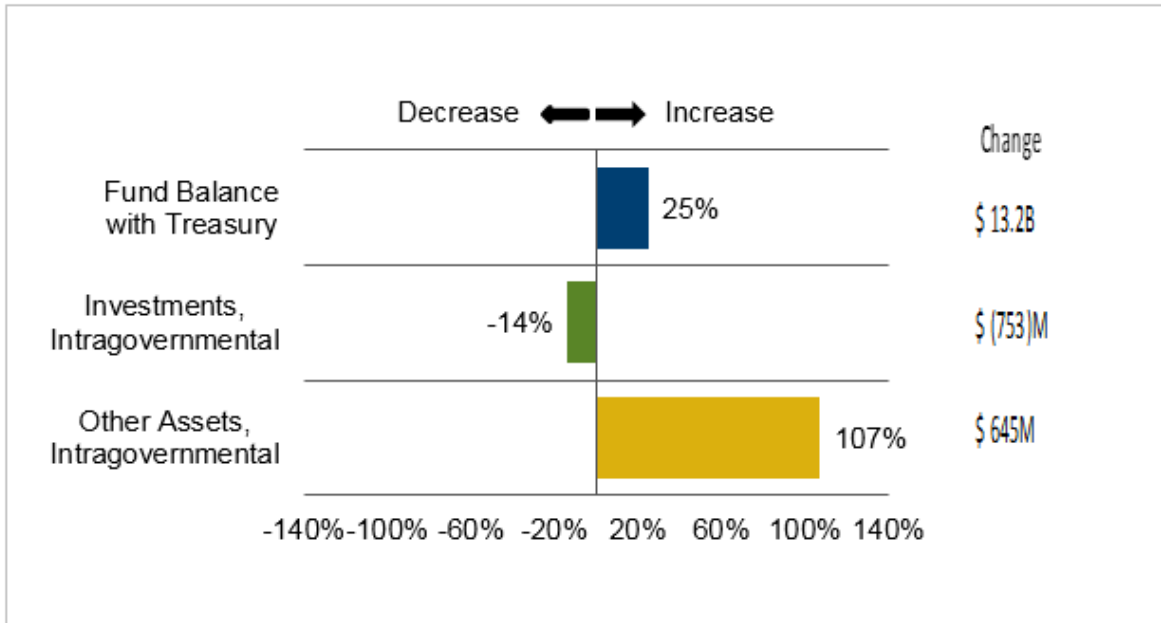


The scale in Chart 2 increases in incremental dollar value due to the wide range of liability component balances from \$679.4 million to \$3.01 trillion.

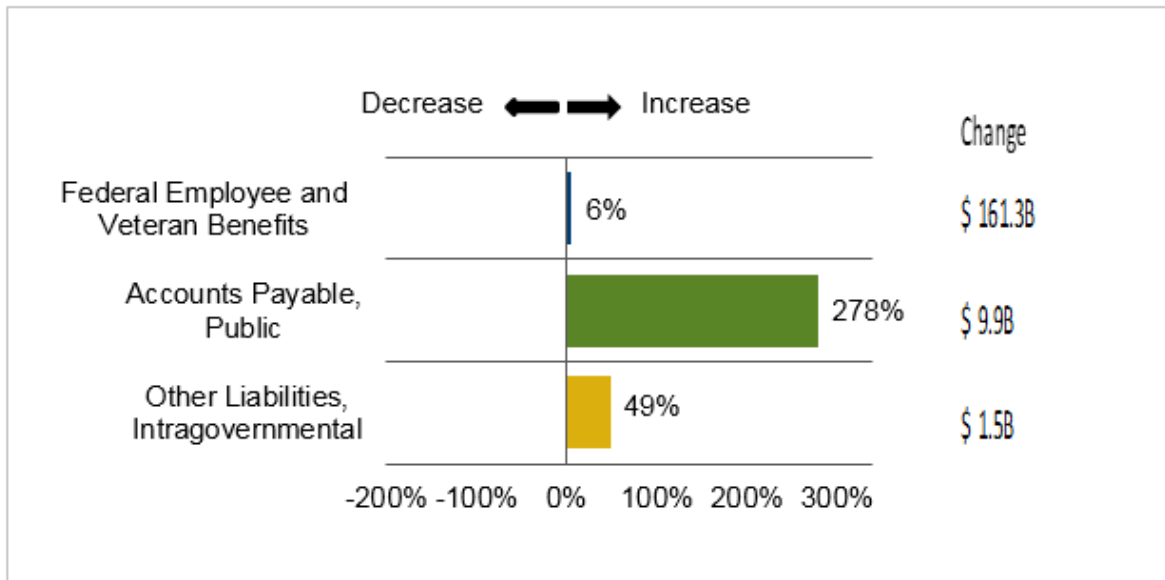
| Unfunded Federal Employee and Veterans Benefit Programs | |
|--|--|
| Compensation Benefits | Education Benefits |
| <p>\$2.95 Trillion</p> <p>Compensation benefits are the most significant component of Federal Employee and Veterans Benefit liabilities. VA delivers compensation benefits to:</p> <ul style="list-style-type: none"> Veterans with military service-related disabilities; and Beneficiaries of deceased Veterans. | <p>\$65.7 Billion</p> <p>VA delivers benefits through numerous education programs to eligible:</p> <ul style="list-style-type: none"> Veterans; Veteran dependents; Beneficiaries of deceased Veterans; and Active duty Servicemembers. |
| Burial Benefits | Federal Employee Compensation |
| <p>\$7.2 Billion</p> <p>VA provides burial-related benefits to recognize Veterans' sacrifices in service of the Nation. Benefits include:</p> <ul style="list-style-type: none"> Burials; Burial flags, headstones, markers, and medallions; Presidential Memorial Certificates; Outer burial receptacles; and Other internment needs. | <p>\$2.4 Billion</p> <p>The Federal Employee's Compensation Act (FECA) provides compensation benefits to Federal Employees for disability due to personal injury sustained while in performance of duty.</p> |

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

Chart 3: FY 2018 Significant Changes in Assets



| Fund Balance with Treasury | Investments, Intragovernmental | Other Assets, Intragovernmental |
|---|--|--|
| This increase is primarily due to additional appropriations received for an extension of the Veterans Choice program, implementation of the VA Mission Act of 2018, expansion of the Community Care program, medical facility improvements, and Veterans compensation benefits for new beneficiaries. | A decrease in investment reserve funds is a result of having certain insurance programs no longer open to new issues. Also contributing are payouts for policyholders, many of which are at an advanced age. | A significant increase in other assets is directly attributable to advances provided to the US Army Corps of Engineers for major construction projects throughout the country. |

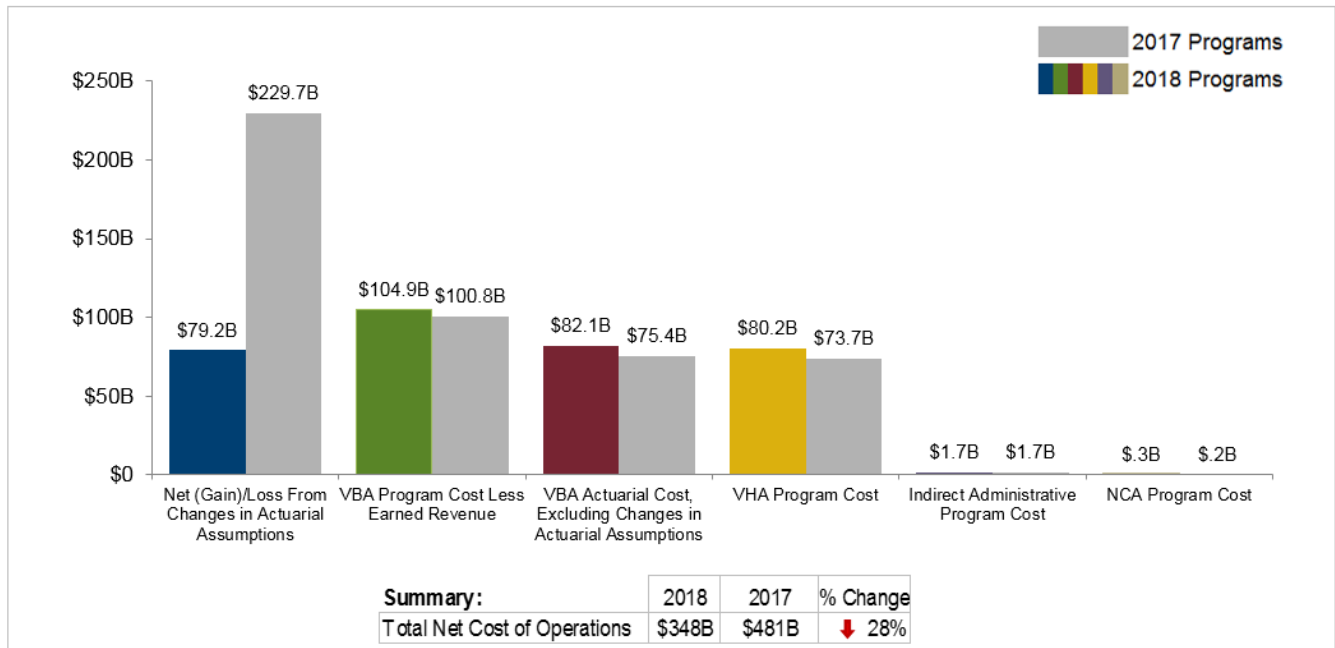
SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS**Chart 4: FY 2018 Significant Changes in Liabilities**

| Federal Employee and Veteran Benefits | Accounts Payable, Public | Other Liabilities, Intragovernmental |
|--|--|---|
| This benefit liability increase is due to actuarial computations for compensation benefits, relating primarily to an increase in the estimated interest on the liability, along with a change in the discount rate assumption. | The accounts payable liability increase is primarily due to the timing of payments for monthly compensation and pension benefits. FY 2018 payments were made on Monday, October 1 st ; whereas, FY 2017 payments were made on Friday, September 29 th . Also contributing to this increase are liabilities due to the VA Mission Act, along with expansion of the Veterans Choice and Community Care programs. | The increase in other liabilities is due to the overall improvement in the housing market, resulting in better loan performance and fewer claims on guaranteed housing loans than previously projected. This factor has resulted in substantial amounts due back to Treasury. |

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

NET COST OF OPERATIONS AND CHANGES IN NET POSITION

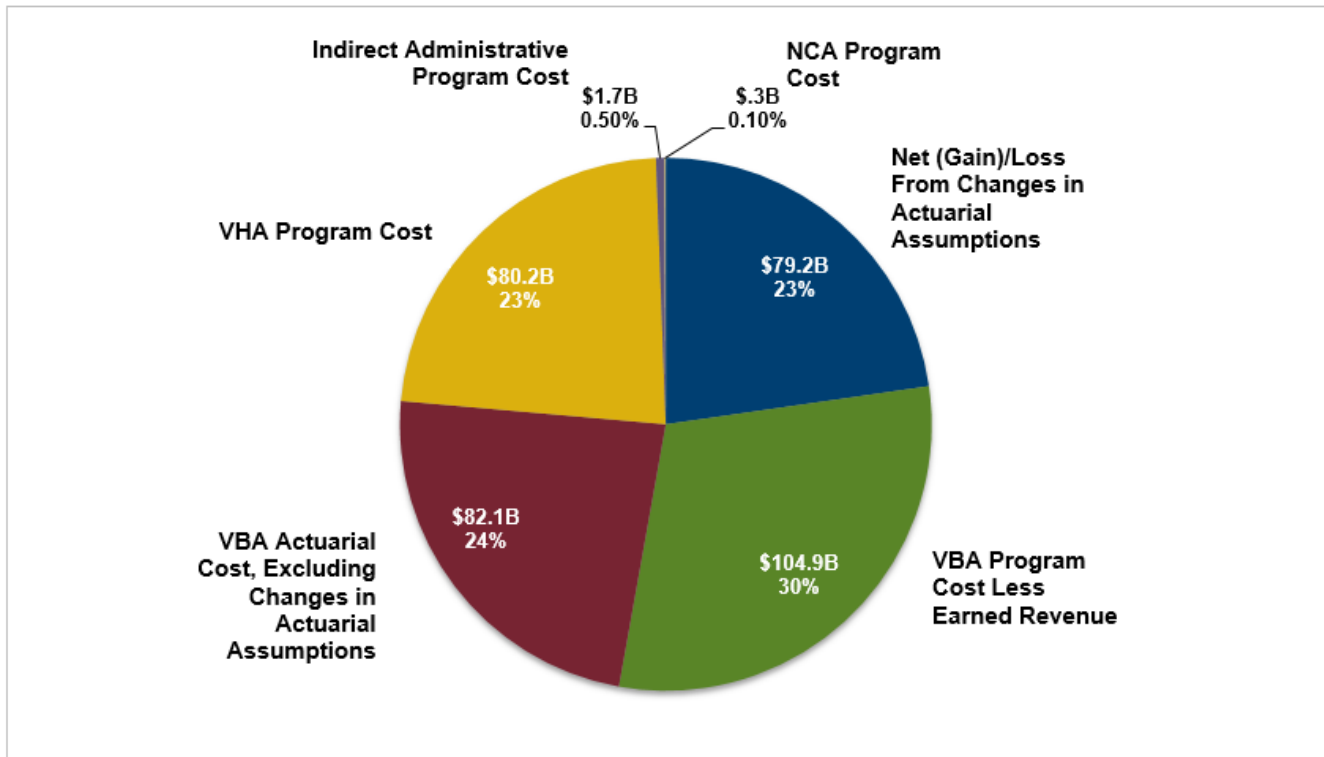
Chart 5: Comparative Statement of Net Cost, FY 2018 – FY 2017



| | |
|--|---|
| Net (Gain)/Loss From Changes in Actuarial Assumptions | VBA Program |
| <p>The majority of the decrease relates to changes in other assumptions for compensation and burial, which include revisions to new case rates for Veterans; new survivor assumptions; revised spot and cost of living adjustment (COLA) rates; and updated mortality assumptions. In addition, the remaining decrease was the result of changes in the discount rate.</p> | <p>Veterans benefit payments continue to increase due to efficiency gains from transformational process changes and IT advances, resulting in a higher number of beneficiaries accessing and receiving these benefits. Further, yearly cost of living increases resulted in higher Veterans benefit expenses.</p> |
| VBA Actuarial Cost, Excluding Changes in Actuarial Assumptions | VHA Program |
| <p>Increase in Compensation and Burial is a result of the new legislation and administrative changes for Camp Lejeune water contamination and Mental Health initiatives, which represent prior service costs. This was offset by a decrease in costs from experience changes resulting from population increases and benefit size.</p> | <p>The increase is primarily the result of expanding the VA Community Care program which increased costs for outpatient visits, amounts paid to hospitals and service providers, and contracts for education and research. The increase is also attributed to an increase in the number of full time equivalent employees needed to service the growing Veteran population and ensure Veterans receive quality healthcare in a timely manner.</p> |

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Chart 6: FY 2018 Gross Program Costs



The Statement of Changes in Net Position combines the net cost of operations with non-exchange sources of financing to arrive

at a net position. Net position changed 5% from a deficit of \$2.81 trillion in FY 2017 to a deficit of \$2.95 trillion in FY 2018.

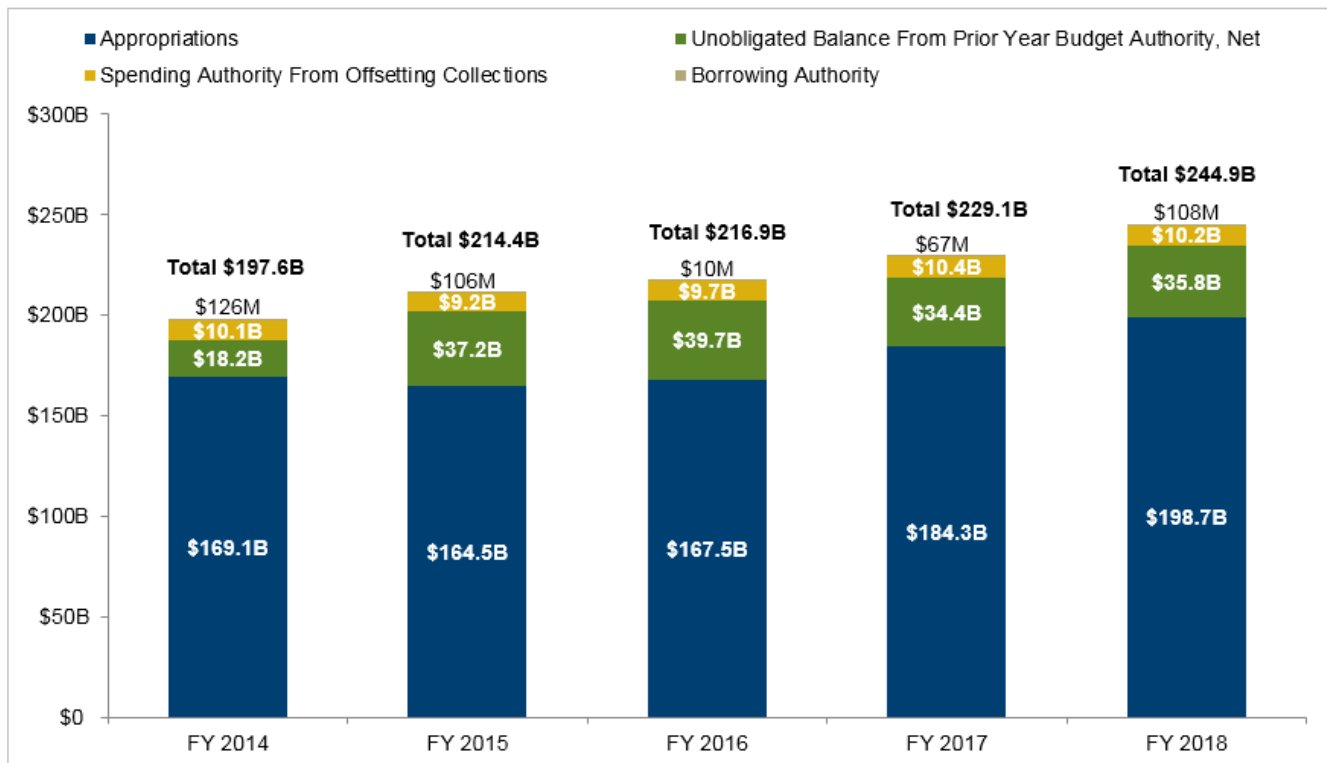
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BUDGETARY RESOURCES

VA expends a substantial amount of its budgetary resources on medical care for Veterans and Veteran's compensation and education benefit programs. The primary

sources of VA funding are appropriations from Congress and unobligated balances from prior year budget authority.

Chart 7: Comparative Budgetary Resources, FY 2014 – FY 2018



Budgetary Resources

The increase in overall budgetary resources is the result of increased appropriations for:

- Veterans Choice Program, which aims to improve Veterans access to healthcare outside the VA system.
- Medical Community Care, which furnishes hospital care and medical services to eligible Veterans through third party entities, as well as pay for care for eligible beneficiaries.
- Medical Facilities, which includes improvements and additions to medical facilities.
- Compensation and Pension Benefits, which provides compensation benefits to or on behalf of Veterans.

The increase in overall budgetary resources received in FY 2018 resulted in a \$12.7 billion (or 6.5%) increase in new obligations and upward adjustments between FY 2017

and FY 2018. Additionally, there was a \$3.1 billion (or 1.8%) increase in net outlays.

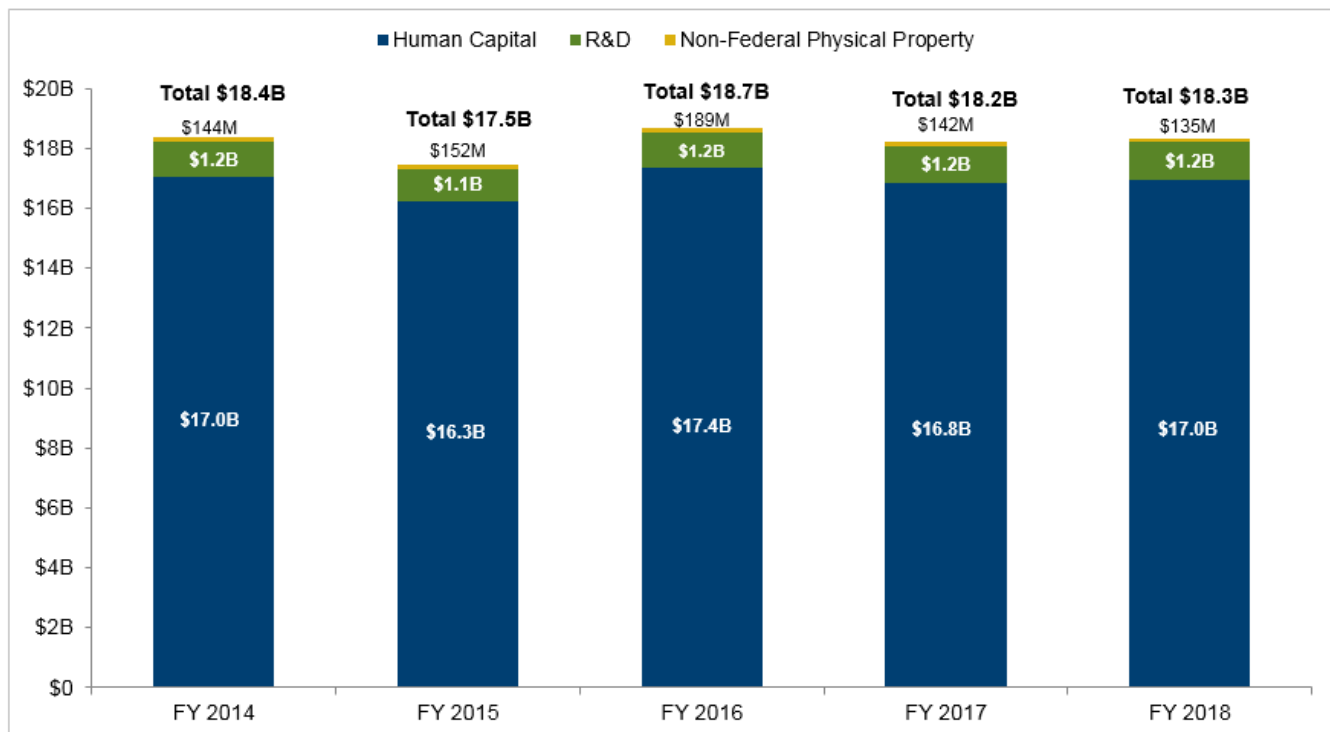
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STEWARDSHIP INVESTMENTS

Stewardship investments are substantial investments made by the Federal Government for the benefit of the Nation that are not physical assets owned by the Federal Government. When incurred, they

are treated as expenses in determining the net cost of operations. The following chart presents a trend comparison of VA's stewardship investments.

Chart 8: Comparative Stewardship Investments, FY 2014 – FY 2018



| Human Capital | Research and Development (R&D) | Non-Federal Physical Property |
|--|--|---|
| <p>Investment in human capital is comprised of education and training expenses for eligible:</p> <ul style="list-style-type: none"> • Servicemembers; • Reservists; • Veterans; • Family members; and • Healthcare professionals. | <p>Investment in R&D is comprised of expenses that are intended to increase or maintain national economic production capacity or to yield other benefits. VA R&D investment components include:</p> <ul style="list-style-type: none"> • Medical research service; • Rehabilitative R&D; • Health services R&D; • Cooperative studies research service; and • Medical research support. | <p>VA provides funding for the purchase, construction, or major renovation of:</p> <ul style="list-style-type: none"> • State extended care facilities; and • State and tribal Veterans cemeteries. |

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ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCES



THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

November 26, 2018

The Department of Veterans Affairs (VA) management is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). VA conducted its assessment of risks and internal controls in accordance with Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Department can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2018, except for the following reported material weaknesses:

Financial Reporting Material Weaknesses:

- (1) Financial Reporting:** VA's legacy financial management systems are outdated and driving a myriad of financial reporting deficiencies, including overuse of journal vouchers, an increased need for analytics, issues with inter- and intragovernmental activities, lack of reconciliation and timely clearing of deposit/clearing account activities, absence of Financial Management System reconciliations with subsidiary systems, insufficient budgetary to proprietary analysis, and deficient fluctuation analysis. VA is developing the Integrated Financial and Acquisition Management System (iFAMS), a modernized financial management system that will significantly reduce the need to input journal vouchers. The target year for full implementation is fiscal year (FY) 2025. All VA legacy system users have taken action to implement compensating controls until the new system is fully developed and deployed, including (a) implementing detailed guidance and instructions to assist with developing detailed flux analysis reviews and explanations; (b) working to research, explain, and resolve abnormal balances monthly; (c) working to implement additional Suspense account monitoring procedures; (d) initiating data cleansing efforts around Interagency Agreements; and (e) providing reports to the Veterans Integrated Service Networks (VISN)/Stations on potential late capitalization of assets to proactively remediate late-capitalization findings.
- (2) Veterans Benefit and Education Actuarial Liability:** VA's financial statement auditor identified internal control deficiencies in the control environment related to the Compensation, Pension, Burial, and Education (CP&E) actuarial estimates, along with quality control issues and errors in the analysis of the models. The Veterans Benefits Administration (VBA) lacks a permanent team to manage and take full responsibility for VA's CP&E modeling. VBA is recruiting additional actuarial staff, developing and implementing policies and procedures, identifying assumptions and performing Look-Back analyses, and engaging upper management by requiring sign off at key points in the process. The targeted correction year is FY 2019.

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- (3) Loan Guaranty Liability:** VA uses financial models to prepare accounting estimates for its mortgage guaranty liability for financial reporting purposes. A VA-initiated independent review and VA's financial statement auditor identified structural deficiencies, deficient internal controls, and a governance environment that have led to several years of misstatements of the mortgage guaranty liability. VBA is updating the portfolio-level model, developing and implementing formal policies and procedures, engaging upper management by requiring sign off at key points in the process, and pursuing the development of a loan-level model in FY 2019. The targeted correction year is FY 2020.

Operations Material Weaknesses:

- (4) Government Accountability Office (GAO) High-Risk List Areas:** Every 2 years, at the start of a new Congress, GAO calls attention to agencies and program areas that are high risk due to their vulnerabilities to fraud, waste, abuse, and mismanagement, or are most in need of transformation. GAO's 2017 High-Risk List added "Managing Risks and Improving VA Health Care." GAO highlighted five primary risk issues: (1) ambiguous policies and inconsistent processes; (2) inadequate oversight and accountability; (3) information technology (IT) challenges; (4) inadequate training of VA staff; and (5) unclear resources and allocation priorities. VA submitted its management strategy to GAO to address the five high-risk issues, including overarching goals and the desired outcomes for each GAO high-risk area. VA also responds to GAO recommendations on VA operations throughout the year. VA senior leadership is overseeing implementation of the strategy. The target correction date is to be determined.
- (5) Budget Constraints for Updates to VBA Critical IT Systems:** VBA is working to mitigate the impact of budget constraints that restrict updates to critical systems such as VBA's Payment System Benefit Delivery Network (BDN). No new development will be funded in the future, except to replace mission-critical legacy systems, which will reduce costs as systems that are no longer needed are phased out. VBA, the Office of Information and Technology, and the Office of Finance are working collaboratively to determine capabilities that will migrate into iFAMS. To ensure benefit payments are not impacted, the VBA Executive Governance Board continues to seek consensus on modifications to the IT infrastructure during VA's transition to IT modernization. Correction of this material weakness is ongoing.
- (6) Community Care:** The Veterans Health Administration (VHA) has weaknesses in its design and implementation of controls over the Community Care program, specifically regarding transaction authorization and obligation; cost estimation; payment processing; internal control monitoring; and timely liquidation of unfulfilled authorizations, reconciliations, and related accrued expenses. The VHA Office of Community Care (OCC) has taken corrective actions including (1) publishing the OCC Guidebook – Financial Standard Operating Procedures, (2) enhancing its quarterly Look-Back analyses to compare data estimates to actuals, (3) expanding the nationwide reconciliation dashboard, (4) publishing cost estimation procedures, and (5) developing a service organization control matrix to capture relevant and expected internal controls and support information covered in agreements with service organizations. The targeted correction year is FY 2019.

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- (7) Information Technology Security Controls:** VA continues to have an IT material weakness in (1) Agency-Wide Security Management Program, (2) Identity Management and Access Controls, (3) Configuration Management Controls, (4) System Development/Change Management Controls, (5) Contingency Planning, (6) Incident Response and Monitoring, (7) Continuous Monitoring, and (8) Contractor Systems Oversight. The Enterprise Cyber Security Team (ECST) implementation plans refer to the detailed actions required to fully address the material weakness findings. These actions are contained within 35 individual Plans of Action tailored to meet each of the specific Office of Inspector General findings. All plans are part of the larger VA ECST implementation plan designed to address the five distinct goals critical to evolving and maturing the overall VA cyber environment to achieve Federal Chief Information Officer priorities. The targeted correction year is FY 2019.
- (8) Chief Financial Officer (CFO) Organizational Structure:** VA's financial statement auditor reported a material weakness for the CFO organizational structure, noting that VA operates under a decentralized environment with a fragmented financial management and reporting structure. The auditor stated the organizational structure does not operate in a fully-integrated manner to enable effective financial reporting for internal and external purposes. In response to this material weakness, the Office of Management (OM) has established a formal CFO council to facilitate communication and control over Departmentwide CFO functions and is utilizing the CFO meeting to discuss remediation activity for the Financial Statement audit. The targeted correction year is FY 2020.

The Department noted noncompliance with:

- (1) FMFIA Sections 2 and 4:** OM developed a robust internal control assessment process to implement the new requirements for full compliance with FMFIA. Financial statement testing as required by Appendix A of OMB Circular A-123 is suspended pending full implementation of a new VA accounting system, which is projected for VA-wide deployment in FY 2025. OM continues to make significant progress integrating internal control functions with Enterprise Risk Management in the Office of Enterprise Integration. VA conducted its evaluation of financial management systems for compliance with the Federal Financial Management Improvement Act of 1996 in accordance with OMB Circular A-123, Appendix D. Based on the results, the VA financial management system does not substantially comply with Federal financial management systems requirements and application of the United States Standard General Ledger at the transaction level.
- (2) Anti-Deficiency Act (ADA):** VHA received legal authority to increase the Minor Construction project threshold up to \$20 million. VHA is also working to implement the following corrective actions: (a) Hire appropriate financial management support for Non-recurring Maintenance (NRM), Clinical Specific Initiative (CSI), and Minor Construction projects; (b) Provide and document annual, mandatory training for any employee involved in project management; (c) Ensure VISN capital asset managers and CFOs have a role in overseeing project management at VA medical centers, and ensure they have authority to make decisions; (d) Ensure handbooks and guidebooks are updated and that language is included to emphasize the consequences of violating Antideficiency Act and Purpose Statutes by exceeding the Major Construction threshold; and (e) Increase oversight and support for NRMs and CSIs. The target completion year has not been determined.

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- (3) **Human Resources Procurement Process — Federal Acquisition Regulation and VA Acquisition Regulation:** VA has implemented policy that provides the Human Resources and Administration (HR&A) Program Management Office (PMO) with an oversight role for all procurements within HR&A. Also, the PMO has continuously worked with the HR&A program offices to ensure that the project managers and Contracting Officer Representatives within these offices are trained and maintain current certifications. The targeted correction year is FY 2019.
- (4) **Improper Payments Information Act of 2002 (as amended by Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012):** VBA, VHA, and OM have taken proactive measures to help reduce improper payments. These measures include introducing legislation that redefines improper payments, continuously monitoring payments, developing innovative data analytics and improper payment risk assessment tools, and engaging VA Senior Leadership to prevent occurrences of improper payments in VA. Furthermore, the Improper Payments Remediation and Oversight Office was established in FY 2016 to oversee all improper payment remediation efforts in VA. The targeted correction year is FY 2020.
- (5) **Title 38 United States Code (U.S.C.) Section 5315, *Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts Due the United States*; and 31 U.S.C. Section 3717, *Interest and Penalty on Claims*:** VA leadership is pursuing a legislative solution to assess interest and administrative costs at the Secretary's discretion. To facilitate this effort, VA inserted the following language into the annual budget submission to Congress starting in FY 2017. "Clarify the Secretary's Authority on Interest and Administrative Costs Charged on Delinquent Debts: Amend Title 38 by changing the words "shall be charged, under regulations which the Secretary shall prescribe" to "may be charged, under regulations which the Secretary shall prescribe." To date, no Congressional action has been taken, and no correction year can be stated for Congressional action.
- (6) **38 U.S.C. Section 3733, *Property Management*:** The Loan Guaranty Service (LGY) published Vendee final rule in the Federal Register and approved Vendee Product Plan guidelines with the service provider. LGY has been working with the service provider on the logistics of underwriting, financing, and servicing of Vendee loans to make Vendee loan financing available to purchasers of real estate-owned properties. The targeted correction year is FY 2019.

VA has internal controls in place to provide reasonable assurance of the quality of data used for DATA Act reporting and is in the process of reviewing and strengthening the data quality assessment to increase trust and transparency in the data used.

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VA is responsible for providing an annual certification that management has appropriate policies, controls, and corrective actions to mitigate the risk of fraud and inappropriate use of charge cards as required by OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*. The Department can provide reasonable assurance that controls over charge cards are in place and effective with no material weaknesses.

Sincerely,



Robert L. Wilkie

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SUMMARY OF INTERNAL CONTROL ASSESSMENT

SUMMARY OF PROCESS FOR ASSESSING INTERNAL CONTROLS

The Office of Management's (OM) Office of Internal Controls (OIC) oversees the internal control program and assists VA's major organizations in completing an internal controls assessment to support their statements of assurance. OIC developed an entity-level internal controls assessment (ELICA) tool for evaluation of each of the 17 principles in the GAO Standards for Internal Control in the Federal Government (Green Book). The 17 principles fall into 5 components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. In 2018, VA assessed the three distinct but overlapping objectives of internal control: operations, compliance, and reporting.

In FY 2018, the Department required all Administrations and major Staff Offices to complete an ELICA, identifying how the entity met the control objectives of each Green Book principle and concluding on the overall effectiveness of the principle, the control component, and the system of internal controls. If deficiencies were identified, management of the Administration or Staff Office, in accordance with OMB Circular No. A-123, exercised judgment in determining the severity of the deficiency.

Each Administration and Staff Office signed a statement of assurance (SOA) based on the results of its ELICA. The SOA provides an informed judgment of the overall adequacy and effectiveness of internal control. OIC analyzed ELICA submissions and statements of assurance to ensure the statements appropriately captured material weaknesses identified during the internal controls assessment.

Due to ongoing financial system modernization, VA did not perform a comprehensive assessment over its internal controls over financial reporting as prescribed by OMB Circular A-123, Appendix A, in FY 2018. VA focused its efforts on developing business process narratives at an enterprise level, documenting actual operations, and identifying key financial controls or gaps in the design of controls for the target state. Through system modernization, VA will continue to mature its evaluation of internal control over reporting. Through FMBT, VA focuses on designing financial internal controls and creating an evaluation framework, which establishes timely testing of key controls and aligns evaluation results to key risks.

VA's internal controls governing body, the Chief Financial Officers (CFO) Council, reviewed the material weaknesses identified by the Administrations and major Staff Offices as well as those identified as part of the financial statement audit.

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FINANCIAL SYSTEMS FRAMEWORK

VA'S FINANCIAL MANAGEMENT SYSTEMS STRATEGY

VA's FMBT program will increase the transparency, accuracy, timeliness, and reliability of financial information, resulting in improved fiscal accountability to American taxpayers and offering a significant opportunity to improve care and services to our Veterans. The FMBT program goals capitalize on the opportunities for business process improvements to resolve systemic and procedural issues, including:

- Standardizing, integrating, and streamlining financial processes including budgeting, procurement, accounting, resource management, and financial reporting;
- Facilitating more effective management by providing stronger analytics and projections for planning purposes;
- Integrating finance and acquisition solutions;
- Improving customer service and support of goods, supplies, and services for Veterans; and
- Improving the speed and reliability of communicating financial information throughout the VA and providing timely, robust, and accurate financial reporting.

CURRENT FINANCIAL MANAGEMENT SYSTEM FRAMEWORK

VA's existing financial and acquisition management systems consist of the core financial system, known as FMS, and the



VA's FMBT program: migrating VA's financial and acquisition management systems to a modern, cloud-based solution.

acquisition system (eCMS), along with a number of interfacing systems:

- Integrated Funds Distribution, Control Point Activity, Accounting, and Procurement System (IFCAP);
- Veterans Health Information Systems and Technology Architecture (VistA);
- Management Information Exchange (MinX); and
- Centralized Automated Accounting Transaction System (CAATS).

Auditors have repeatedly identified a need for VA to fully integrate these applications and the detailed transactions they contain into the core financial and acquisition management systems.

FUTURE FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

The scope of the FMBT program is focused on migrating VA from its legacy core FMS to the Momentum commercial cloud solution, configured for VA as iFAMS, allowing VA to leverage the Software-as-a-Service (SaaS) model. This involves:

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- Migrating to a financial and acquisition management solution compliant with Federal regulations;
- Standardizing financial and acquisition management business processes across VA;
- Standardizing VA's accounting classification structure;
- Replacing the financial management functionality of IFCAP and CAATS and the procurement functionality of eCMS;
- Implementing a new business intelligence solution and data warehouse for financial reporting; and
- Interfacing iFAMS with designated VA systems.

The first delivery of iFAMS went live in March 2018. The second delivery will be full iFAMS implementation at NCA, which is targeted for FY 2020.

FMBT PROGRAM STATUS

VA initially selected the United States Department of Agriculture (USDA) to serve as a Federal Shared Service Provider (FSSP) in support of the FMBT program, in accordance with OMB Memorandum 13-08. In January 2018, VA began solely managing the FMBT program and started transferring USDA contracts, licenses, and

intellectual and real property; these actions were complete by the end of March. The FMBT program is leveraging an agile-like framework for project management with its SaaS provider.

FMBT KEY ACCOMPLISHMENTS

The FMBT program achieved several significant milestones during FY 2018, including:

- First delivery of iFAMS through deployment of a piece of the budget formulation environment;
- Completing business process reengineering workshop sessions for all nine of VA's designated end-to-end business processes;
- Establishing connectivity between VA and the Momentum prototype environment;
- Developing a standard line of accounting for VA;
- Developing a training curriculum to improve employee level of knowledge, skill, and proficiency in financial management core competencies; and
- Initializing data cleanse activities with automated tools.

DID YOU KNOW?

VA's *Strategic Analytics for Improving and Learning* report scorecard shows majority of VA medical centers have improved over past year in quality of services provided to Veterans.

<https://t.co/FvJDyZ8kIN>

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FORWARD-LOOKING INFORMATION

As VA looks to the future, there are circumstances both inside and outside the organization that will affect our operations and our service to Veterans. Some of these circumstances are risks or weaknesses that hinder our ability to deliver the kind of service we would like to provide.

Others are new approaches that challenge the organization to re-think its processes and ways of engaging the Veteran. Still others are aspirations VA leadership has set before the organization to operate at a level of excellence like the best of private sector entities.

RISKS

Like every organization, VA faces risks to its ability to function at its most effective and efficient levels. As VA develops its enterprise risk management (ERM) processes and begins formally and systematically surveying its environment, several risks have come to the fore. These are not the only risks that we have identified, but they are among those that stand out:

- VA's financial management system is 30 years old and continued reliance on it presents a risk to VA operations. The technical and functional ability to support legacy applications is more difficult with each passing year. In FY 2019, VA will focus on completing

critical business process reengineering projects as part of the FMBT initiative.

- VA's antiquated and unintegrated IT systems present a risk to VA operations. VA must modernize its IT systems to improve delivery of services and benefits to Veterans. Many of the 130 legacy IT systems that VA relies on to administer and deliver Veteran benefits are no longer supportable and do not meet security compliance standards or support new, more efficient business processes. Over the next 1 to 2 years, VA will assess its technology gaps and develop and implement strategies to close those gaps.

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CHALLENGES

Congress has passed two pieces of legislation that will have a significant effect on VA operations moving forward: The Veterans Appeals Improvement and Modernization Act of 2017 and the MISSION Act.

- The purpose of the Veterans Appeals Improvement and Modernization Act is to improve VA's claims and appeals process by transforming it from a complex, frustrating process into one that is simple, timely, and transparent. Implementing a new system will present its own set of unique challenges as VA adapts to new processes and rules associated with the system. VA has

launched a test program to test VA's processes and procedures prior to full implementation of the law in February 2019.

- The MISSION Act streamlines VA's community care programs, strengthens health care options for the Nation's Veterans, and significantly impacts how and where VA delivers care. In FY 2019, VA will begin intensive efforts to understand and implement the requirements of this complex new act, which challenges us to improve health care options for Veterans and provide adequate coverage and care delivery.

ASPIRATIONS

On August 22, 2018, Secretary Robert L. Wilkie signed a policy statement calling on VA to commit itself to providing an excellent customer service experience to all Veterans, Servicemembers, their families, caregivers, and survivors in our delivery of care, benefits, and memorial services. Implementation of this policy rests on three pillars: applying customer experience core capabilities and framework to service delivery and design across all elements of the Department; hardwiring customer insights into VA strategy and decision making; and improving accountability to

ensure that customer experience metrics are tied to individual performance and budget decision making.

As VA implements this policy inside the Department, it is also serving as the Lead Agency Partner for the Customer Experience Cross-Agency Priority Goal, working closely with OMB on the Cross-Agency Priority Goal Strategy of providing a modern, streamlined, and responsive customer experience across Government, comparable to leading private sector organizations.

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LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position and results of operations of the entity, pursuant to the requirements of Title 31 U.S.C. Section 3515 (b). These are prepared from the books and records of the entity in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by OMB, and 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 realization that they are for a component of the U.S. Government.



While in Cleveland, Ohio, Secretary Wilkie served as a keynote speaker for the unveiling of a Gold Star Families Memorial Monument and Medal of Honor ribbon-cutting ceremony alongside retired U.S. Marine Corps Warrant Officer and VA Veterans Service Representative Woody Williams. Williams received the Medal of Honor during the Battle of Iwo Jima in World War II. Secretary Wilkie also participated in several media interviews including Cleveland's Morning News in which he told the host "the Gold Star Families...have given the most of all of us, and they remind us every day why all of us sleep soundly at night."