Management Controls, Systems, and Compliance With Laws and Regulations

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish management controls over their programs and financial systems. Throughout the fiscal year, VA managers monitor and improve the effectiveness of management controls associated with their programs and financial systems. The results of monitoring and conducting other periodic evaluations provide the basis for the Secretary's annual assessment of and report on management controls. VA managers are required to identify material weaknesses relating to their programs and operations pursuant to sections 2 and 4 of the FMFIA as defined:

- Section 2 seeks to assess internal controls necessary to ensure compliance with applicable laws and regulations; protect against loss from waste, fraud, and abuse; and ensure receivables and expenditures are properly recorded.
- Section 2 also seeks management's assessment of internal control over financial reporting.
- Section 4 seeks to assess nonconformance with governmentwide financial systems requirements.

Management Assurances

The Secretary of Veterans Affairs stressed in his memorandum to key VA officials "the need for strong internal controls" in the Department. He further states, "It is extremely important to me and to our constituents that we have effective internal controls in place to enhance the stewardship of taxpayers' assets and programs. It is imperative that we approach this responsibility as a Departmentwide initiative, and I will count on you to assume an active leadership role to accomplish this task." Department managers took their responsibility seriously for establishing and maintaining effective internal controls over financial integrity and financial reporting, which includes safeguarding assets and compliance with applicable laws and regulations.

Based on the Statements of Written Assurance provided by the Under Secretaries, Assistant Secretaries, and other Key officials, the Secretary of Veterans Affairs can provide reasonable assurance that internal controls as described in the Federal Managers' Financial Integrity Act and Revisions to OMB Circular A-123, Management's Responsibility for Internal Control were operating effectively, and no material weaknesses were found.

In addition, the Secretary provided a qualified assurance statement reflecting the status of internal controls over financial reporting for 2 of 11 key business processes as of June 30, 2006. VA conducted a limited scope assessment as of June 30, 2006, on the effectiveness of internal controls over financial reporting for two key business processes: Financial Reporting and Funds Management (and Information Technology Management as it relates to these two processes). Based on the results of VA's limited scope assessment, no material weaknesses were identified. VA can provide a qualified statement of assurance that internal controls over financial reporting were operating effectively.

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

November 15, 2006

Statement of Qualified Assurance

The Department of Veterans Affairs' (VA) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). VA conducted its assessment of the effectiveness of internal controls and financial management systems and it is determined that the results meet the objectives of FMFIA (section 2 and 4). However, I must provide a qualified statement of assurance because VA has three audit-related material weaknesses, two of which are systems non-conformances and are identified under the Federal Financial Management Improvement Act. The details on the audit-related material weaknesses are provided in the chart on pages 83-84.

VA conducted an assessment of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Other than the audit-related material weaknesses noted above, the results of VA's assessment indicated that VA's internal controls were operating effectively and no material weaknesses were found in the effectiveness and efficiency of operations and compliance with applicable laws and regulations, as of September 30, 2006.

In addition, VA conducted a limited scope assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of the evaluation of the limited key business processes, VA's internal controls over financial reporting are operating effectively and no material weaknesses were found as of June 30, 2006.

R. James Nicholson

Summary of Auditor's Internal Control Assessment

The auditors' report on internal controls, prepared at the completion of VA's 2006 financial statement audit, includes three material weaknesses: "Information Technology (IT) Security Controls," "Integrated Financial Management System," and "Operational Oversight." In the IT material weakness, the auditors reported that VA's program and financial data continue to be at risk due to serious weaknesses related to access control, segregation of duties, service continuity, and change control. In the second material weakness, the auditors reported continuing difficulties related to the preparation, processing, and analysis of financial information to support the efficient and effective preparation of VA's consolidated financial statements. The third material weakness, "Operational Oversight," is where VA continues to have difficulty assuring key internal controls and reconciliation processes are performed consistently and completely, and at times, fails to assure appropriate management review of the detail in support for the financial statements.

The Department has made progress in correcting the IT Security Controls material weakness, including achieving compliance with HIPAA security rules. Resources have been maximized to improve the overall security posture, and work will continue in the next fiscal year. Also, VA has made progress on its plans to correct the Integrated Financial Management System material weakness. The Department has implemented the Hyperion Financial Management reporting system to improve the preparation, processing, and analysis of financial information. This system is now completely producing VA consolidated financial statements using a standardized and repeatable process. The cumbersome legacy process to produce the statements has been retired. In addition, VA continues to analyze and improve the major interfaces to and from its core financial system,

and is implementing a data warehouse to assist with monitoring interface functions and status. Final resolution of this weakness is a multi-year effort.

VHA took steps to address the Operational Oversight material weakness this past year by pursuing a root cause analysis to make improvements in seven key areas: Leadership Accountability and Alignment; Ethical Issues; Internal Control Monitoring Process; Directive, Policies and Procedures; Human Resource Issues; Medical Care Collections Fund Receivables; and Non-MCCF Receivables. Internal management performance and policy improvements have been developed and a new VHA National Leadership Board subcommittee has been established to enhance business operations. The elevation of this prior reportable condition has prompted a more concerted effort to monitor compliance and enhance control over financial processes and procedures.

The auditors' report on compliance with laws and regulations, also prepared as a result of the 2006 financial statement audit, discusses Departmental non-compliance with the Federal Financial Management Improvement Act requirements concerning Lack of Integrated Financial Management System, Information Technology (IT) Security Controls, and Operational Oversight. Except for these instances of non-compliance, the report concludes that for the items tested, VA complied with those laws and regulations materially affecting the financial statements.

Progress on Material Weaknesses

VA managers continue to make progress in correcting existing material weaknesses and non-conformances. The 2006 Consolidated Financial Statements Audit Report disclosed three material weaknesses. There are no new management control material weaknesses disclosed or reported under FMFIA. At the end of 2005, three audit-related material weaknesses[1] (Information Technology Security Controls, Lack of Integrated Financial

Management System, and Operational Oversight) and one management control weakness were carried forward in 2006.

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[1] The use of the term "material weakness" should not be confused with use of the same term by government auditors to identify management control weaknesses, which, in their opinion, pose a risk or threat to the internal control systems of an audited entity, such as a program or operation. Auditors are required to identify and report those types of weaknesses at any level of operation or organization, even if management of the audited entity would not report the weaknesses outside the agency.

The three audit-related material weaknesses are shown in the table below, which provides the current status of the Department's material weaknesses.

Audit Material Weaknesses

Description	Current Status	Resolution Target Date
Information Technology Security Controls – VA's assets and financial data are vulnerable to error or fraud because of weaknesses in information security management, access to controls and monitoring, and physical access controls.	The Data Security—Assessment and Strengthening of Controls Program was established to correct deficiencies and eliminate vulnerabilities in the area of information security. This over-arching program is a cross-cutting effort to complete hundreds of tasks that are necessary to remediate long-standing security weaknesses.	2009
Lack of Integrated Financial Management System – Difficulties exist in the preparation, processing, and analysis of financial information to support the efficient and effective preparation of VA's consolidated financial statements.	VA is analyzing potential software and provider options to replace the legacy Financial Management and Logistics Systems. This project is identified as FLITE – Financial and Logistics Integrated Technology Enterprise. Under the FLITE umbrella as an interim initiative, VA is aggressively pursuing standardization and centralization to produce financial statements using an industry standard commercial off-the-shelf software product, Hyperion. The software was successfully implemented during 2006 and was used to produce the 2006 consolidated financial statements. VA is also developing and implementing a data warehouse to capture financial data from a myriad of systems throughout the Department. Under this initiative, VA is analyzing financial system interfaces to identify weaknesses and deficiencies and define corrective requirements. This	2009

Description	Current Status	Resolution Target Date
	initiative will ensure that a clear audit trail exists for financial transactions that interface with the core financial system and ensure all interfacing systems to the data warehouse are A-127 compliant. VA is continuing efforts to review and standardize financial and logistics processes, complete the Strategic Asset Management program pilot, and analyze potential software/provider options.	
Operational Oversight – Internal controls and reconciliation processes were not performed consistently or completely.	During 2006, VHA formed a task force to perform a root cause analysis of issues that contributed to this material weakness. Seven areas were identified and work groups are now in place to address them. A new committee to VHA's National Leadership Board, the Business Process Improvement Committee, has been formed and tasked with tracking not only the issues raised by the root cause analysis task force and work groups, but also all business operations to ensure that best business practices, internal controls are in place at all VHA facilities and that ethical decisions are made. Additionally, VHA is conducting a national training conference targeted for VHA field accounting and fiscal staff. The conference will exclusively address the issues contributing to the material weakness and actions to continue corrections.	2009

Summary of Management's Assessment of Internal Controls

Managers assessed the programs for which they are responsible to ensure internal controls are in place over the effectiveness and efficiency of operations and compliance with laws and regulations. As a result of their assessments in this area, no new material weaknesses were identified.

Management Control Weaknesses

During FY 2006, management successfully implemented corrective actions and received closure approval for the Section 2 material weakness – Internal Control Weaknesses in the Compensation and Pension Payment Process.

Description	Current Status	Resolution Target Date	Section 2	Section 4
Internal Control Weaknesses in the Compensation and Pension Payment Process – Erroneous and fraudulent payments were found.	Closed	December 2005 Closed	X	

Management's assessment of internal controls over non-conformances did not identify any new material non-conformances under Section 4. System-related material weaknesses are identified under the "Summary of Auditors' Internal Control Assessment" section. The revised OMB Circular A-123 titled Management's Responsibility for Internal Control, Appendix A, reflects policy recommendations that are intended to strengthen the requirements for conducting management's assessment of internal control over financial reporting. Implementation of the revised Circular began October 1, 2005.

VA secured contract support from Grant Thornton in December 2005 to assist in the development and implementation of internal control over financial reporting. VA established program governance by establishing a Senior Assessment Team, developing an implementation plan, evaluating the internal controls over financial reporting to determine the key business processes, testing those controls, and developing a corrective action plan to remediate the 12 findings based on the recommendations.

In FY 2006, VA identified 11 key business processes that impact the internal controls over financial reporting. VA plans to perform an assessment of internal controls over a 3-year cycle using a risk-based approach. During the first-year cycle, VA selected the Financial Reporting and Funds Management key business processes for testing. Information Technology Management was also reviewed specifically as it relates to Financial Reporting and Funds Management.

As a result of the testing of these two key business processes, 12 findings were identified in the "FY 2006 Findings and Recommendations for Internal Controls Improvements Report" issued by Grant Thornton in September 2006. Two of the findings were identified as reportable conditions. Each reportable condition, recommendation to correct each condition, and the anticipated remediation date are identified in the chart below.

FY 2006 Reportable Conditions Identified in the Findings and Recommendations for Internal Control Improvements Report

Findings	Recommendations	Remediation Date
Transactions Rejected by VA's Financial Management System (FMS)	Establish policies and procedures to identify, reconcile, and resolve transactions sitting in the reject file, at a minimum, on a quarterly basis. Also, VA needs to stratify these transactions by dollar value and transaction type in order to properly identify and resolve rejected transactions that may be material to the financial statements.	FY 2007

Findings	Recommendations	Remediation Date
Intragovernmental Transactions	Take the appropriate measures to implement a process to extract trading partner data from its FMS, including an improved query capability that enables meaningful analysis of its trading partner data. Also, VA needs to implement a process to sample its transactions to ensure trading partner "identifiers" are being entered into VA's FMS correctly when a transaction originates, reducing the likelihood that trading partner variances are being caused by VA.	FY 2007

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) requires agencies to have systems that generate timely, accurate, and useful information with which to make informed decisions and to ensure accountability on an ongoing basis. The Department faces challenges in building and maintaining financial management systems that comply with FFMIA. Under FFMIA, VA is substantially compliant -- with the exception of federal financial management systems requirements. VA initiated a 4-year remediation program in 2005 to eliminate the existing material weakness-- Lack of an Integrated Financial Management System. This new program is referred to as VA's Financial and Logistics Integrated Technology Enterprise (FLITE)--the goal of which is to correct financial and logistics deficiencies throughout the Department. For FY 2006 and 2007, the work associated with FLITE is primarily "functional" in nature, that is, oriented on planning and the standardization of financial and logistics processes and data. This effort is being led by the Chief Financial Officer with support from the Chief Information Officer and will be very labor intensive involving both contractor and Government personnel.

During those fiscal years, a detailed review and analysis of software options will also occur and will include "pilot programs" as needed.

In 2006 the Department also implemented the Hyperion Financial Management reporting system to improve the preparation, processing, and analysis of financial information and began implementation of a data warehouse to assist in financial reporting.

In 2006 the VA Systems Quality Assurance Service within the Office of Business Oversight initiated a series of reviews to examine the interfaces between VA's core FMS and its material feeder systems. The reviews were conducted to identify the systems' compliance with the requirements of FFMIA, as implemented by OMB Circular A-127, Financial Management Systems. VA's Personnel and Accounting Integrated Data (PAID) and Veterans Health Information Systems and Technology Architecture Accounts Receivable (VistA AR) interfaces were found to be *Substantially Compliant*. The review of the Insurance General Ledger system interface identified opportunities to enhance the functionality of the system to better address requirements for internal control and effective financial management.

Federal Information Security Management Act

The Federal Information Security Management Act (FISMA) provides the framework for securing the federal government's information technology. All agencies covered by the Paperwork Reduction Act must implement the requirements of FISMA and report annually to

the Office of Management and Budget and Congress on the effectiveness of the agency's security programs. The reports must also include independent evaluations by the agency Inspector General. VA is aware of the vulnerability of its assets and financial data to error and/or fraud and is in the process of correcting the Information Technology Security Controls material weakness. VA has now implemented a cycle of continuous monitoring, testing, and remediation of vulnerabilities. Staff uses a database tool to help ensure that all vulnerabilities are addressed. In 2006 new systems were certified and accredited prior to implementation. Systems that were certified and accredited in 2003 – 2004 are undergoing recertification and accreditation. VA is institutionalizing both processes.

In addition, VA has developed the Data Security – Assessment and Strengthening Controls Program, a plan to correct deficiencies and eliminate vulnerabilities in information security. The plan places emphasis in the four areas that make up VA's IT Security Controls material weakness: Access Controls, Segregation of Duties, Service Continuity, and Change Controls.

The establishment of the IT appropriation and the realignment of IT, including the information security staff, creates the centralized environment that promotes the command and control necessary to rectify longstanding problems. The Secretary has also provided the delegation of authority that makes clear the authority of the Assistant Secretary for Information and Technology (CIO) to direct the remediation of IT security deficiencies.

IG Act Amendments of 1988
The Inspector General (IG) Act requires management to complete all final actions on recommendations within 1 year of the date of the IG's final report. Departmentwide, there are 20 reports that have been pending final action for over 1 year. Per the IG Act reporting requirements, the following table is a summary of the Office of Inspector General reports with the management dollar value of "Questioned Costs and Funds to Be Put to Better Use."

Questioned Costs and Funds to Be Put to Better Use Reporting Period October 1, 2005—September 30, 2006 *(dollars in millions)*				
	Questioned Costs		Funds to Be Put to Better Use	
	Reports	Value	Reports	Value
Balance 9/30/05	0	$0	58*	$1,233.1*
New Reports	2	$0.9	41	$548.0
Total	2	$0.9	99	$1,781.1
Completed	2	$0.9	40	$239.2
Balance 9/30/06	0	$0	59	$1,541.9

* Note: These figures include contract review reports issued prior to 10/01/05. Contract review reports issued subsequent to 10/01/05 are not included and will not be included in future reports.
Source: *Compliance with the IG Act Amendments of 1988* section reported by the Office of Inspector General, Operational Support Division.

Prompt Payment Act

VA continued to enhance its vendor payment processes throughout 2006. The Department processed over 5.6 million Prompt Payment Act-eligible invoices worth over $9.9 billion, with over 99 percent paid on time. In 2006, interest payments VA-wide increased by $113,000 (from $746,000 to $858,000) – a 15.2 percent increase over 2005 levels, largely attributable to an increase in interest on payments for the delivery of goods during the second quarter of 2006, subsequently corrected through a process improvement. Further, 2006 interest paid as a percentage of total payments remained virtually unchanged from 2005 levels, increasing less than 1 percent. At the same time, the dollar value of discounts earned declined by nearly $1.4 million to $4.8 million, a 22.7 percent decrease over 2005 levels, due to fewer available discounts. VA's percentage of discounts actually earned improved from 91.1 percent in 2005 to 93.3 percent in 2006. The improvement in discount processing saved VA $116,000 in 2006. VA also continued to gain efficiencies and improve performance through an initiative to centralize vendor payment activities at the VA Financial Services Center (FSC) in Austin, Texas. By centralizing vendor payment activities, VA strengthened its focus on identifying and preventing vendor payment errors. The FSC also enhanced audit recovery efforts over improper/duplicate vendor payments. The FSC reviews VA vendor payments daily to systematically identify, prevent, and recover improper payments made to commercial vendors. Current payment files are matched to identify and, where possible, prevent duplicates prior to payment. Also, payments from prior fiscal years are matched to identify potential duplicate payments for further analysis, assessment, and, as appropriate, collection.

The FSC staff also reviews vendor payments to identify and collect improper payments resulting from payment processing such as erroneous interest penalties, service charges, and sales taxes. This initiative recovered over $277,000 during 2006 for reuse by VA entities.

Overall, collections of improper payments and the recovery of unapplied vendor statement credits totaled nearly $5.1 million. Improved payment oversight also enabled VA to identify and cancel nearly $7.9 million in potential improper payments prior to disbursement. Since the FSC audit recovery effort's inception in 2001, VA has recovered $18.3 million in improper payments and prevented the improper payment of another $21.1 million.

During 2006 the Department aggressively used the governmentwide commercial purchase card program. Over 3.7 million transactions were processed, representing over $2.1 billion in purchases. The electronic billing and payment process for centrally billed accounts earned VA over $37 million in refunds, compared to $35 million during the same period in 2005. These refunds are returned to VA entities for use in veterans programs. The increase in refunds is attributed to expanded use of the card and normal increases in the cost of products purchased.

VA's fee basis credit card program electronically automates Health Care Fee Basis payments, eliminates processing of paper checks, and earns VA additional purchase card refunds. During 2006 the number of Fee Basis purchase card transactions exceeded 200,000 and were valued at $50 million in payments, earning VA over $824,000 in additional refunds compared to $414,000 during 2005.

VA's Prime Vendor Payment System automates payments under a nationwide prime vendor centralized purchasing contract. During 2006, 126 VA medical centers used the Prime Vendor System to electronically process over 430,000 transactions worth over $3.6 billion.

VA's Travel Management Centers (TMC) serve veterans and employees who travel frequently. The billings are transmitted electronically from each TMC, and payment is sent daily through the Department of the Treasury's Electronic Certification System. During 2006 the travel

management program processed over 127,000 transactions, disbursed payments of over $22 million, and earned over $274,000 in refunds.

VA's FSC staff continued to provide vendor payment history on the Internet. Currently, the Vendor Inquiry System (VIS) Internet application stores over 3 years of information on invoices. Once vendors complete an authentication process, they can access a secure Web site to view payment information for their company. Currently there are over 22,000 registered vendors who have made over 400,000 requests in 2006 and over 1.5 million requests since VIS's inception in April 2003. The VIS provides FSC vendors an easy-to-use tool for immediate access to their payment information 24 hours a day without having to call and wait for a person to provide payment information. The VIS has also improved customer service efficiency of the FSC staff by handling many routine inquiries and freeing staff to work the more difficult issues for customers.

Registered users of the VIS now have the ability to submit electronic invoices directly to the FSC. Vendors complete easy-to-use forms to create their invoices and can manage and track them. This online system provides the vendors with a list of valid purchase orders, virtually eliminating the number one error that causes payment delays. Errors identified by the online system are immediately returned to the VIS user, who can instantly correct them prior to submission. This prevents payment delays and results in quicker and more accurate vendor payments. Since our "soft" opening on VIS, we have processed over 4,000 invoices (an average of 50 invoices per business day).

The FSC also continued to improve the Intranet online invoice certification process that allows invoices to be certified electronically by VA facilities and scheduled for payment. VA's On Line Certification System (OLCS) allows the FSC to notify certifying officials via e-mail of any invoice requiring payment certification.

Through the Intranet, the certifying official can view, certify, and forward the invoice to the FSC for payment processing, reducing the processing time to hours rather than days. The FSC completed the centralization of certified and matched payments throughout VA in 2006 and implemented OLCS at all facilities as part of the VHA payment centralization initiative.

Improper Payments Information Act of 2002 (Summary of Implementation Efforts for FY 2006 and Agency Plans for FY 2007 through 2009)

Overview
VA reviewed the requirements of the Improper Payments Information Act (IPIA) of 2002 to identify those programs that are susceptible to significant erroneous payments. After completing the review, VA performed risk assessments for all 19 programs, which account for approximately the entire VA budget. Statistical samplings were performed on all required programs to estimate improper payments.

Our review revealed that 13 of the programs had estimated improper payments of less than $10 million; thus, no report was required for these programs. Dependency and Indemnity Compensation (DIC) is one of the programs previously identified in the former Section 57 of OMB Circular A-11, Preparation and Submission of Budget Estimates, but is reported here as part of Compensation & Pension. The remaining five programs either had estimated improper payments exceeding $10 million and/or were programs previously identified in the former Section 57 of OMB Circular A-11. These include the Compensation & Pension, Education, Insurance, Loan Guaranty, and Vocational Rehabilitation & Employment programs. Although the Insurance program was one of the programs identified in Section 57 of OMB Circular A-11, the risk assessment for the program is low. Because the Insurance program does not meet the 2.5 percent or $10 million threshold in annual erroneous payments, OMB granted reporting relief in the PAR for this

program until FY 2009. Further details are provided in Part IV of this report.

Accomplishments

VA's Assistant Secretary for Management/Chief Financial Officer (CFO) is the designated senior official responsible for implementing IPIA. The CFO is responsible for establishing policies and procedures to assess VA program risks of improper payments, taking actions to reduce those payments, and reporting the results of those actions to VA management. Managers of all programs identified for review are aware of the importance of the IPIA.

All 19 programs identified for review completed the risk assessment or completed statistical samplings in 2006 for 2005 data in accordance with VA's IPIA plan. VA also identified under- and over-payments by program, and provided program assessments and corresponding steps to prevent future erroneous payments in accordance with IPIA. Acceleration in identifying fugitive felons and the agreement between VA and many states allowed VA to identify errors and assisted in identifying erroneous payments.

VA met the improper payment reduction targets in four programs: Compensation, Education, Vocational Rehabilitation, and Loan Guaranty. VA did not meet the reduction target in the Pension program. All programs met or exceeded the recovery targets used for 2006.

Plans to Accomplish

VA aims to reduce the amount of erroneous payments in all programs. Efforts are still ongoing to rewrite regulations into clear and understandable language, as well as to develop and automate claims processing for the Education program. The Pension program has aggressively pursued processing improvements in the Income Verification Match. The Vocational Rehabilitation & Employment program continues to move forward in developing and implementing plans to reduce the estimated rate of improper payments. The Loan Guaranty program

will continue to conduct 100 percent post-payment reviews of all Specially Adapted Housing grant payments.

Financial Management Systems Framework

Overview

The Department's strategy, defined about 13 years ago, is based on goals to replace outdated and noncompliant systems with more modern, commercial off-the-shelf (COTS) systems which meet Office of Federal Financial Management (OFFM) core financial system requirements. This strategy was enhanced to incorporate business process reengineering in the requirements, acquisition, and development and implementation phases of projects.

The Systems Quality Assurance Service, through its financial systems review program (FSRP), provides the CFO with independent review and advisory services designed to add value and improve the acquisition, development, maintenance, and retirement of VA financial systems. The scope of this work is to determine whether the Department's financial systems comply with the FFMIA, as implemented by OMB Circular A-127.

FSRP staff conducts reviews of financial systems and processes to determine compliance with OMB Circular A-127, conducts management-directed program activities and system management reviews of project management processes and results, and monitors corrective action to address deficiencies identified in reviews.

In 2006 FSRP staff conducted three OMB Circular A-127 compliance reviews as part of a coordinated effort with the Office of Financial Systems & Operations to develop a plan to remediate specific weaknesses associated with integrated financial reporting capability and data quality and timeliness provided by legacy systems. The Department is addressing findings and implementing recommendations from these reviews.

VA's updated financial systems inventory provides details on all major financial and mixed systems. The major financial system initiatives funded by the Department over the last 14 years to achieve VA's strategic goals have included the following:

- The Financial Management System (FMS) was designed to replace VA's 1970's central accounting system. In the FMS initiative, completed in 1995, VA successfully met its stated objectives and implemented FMS as its single, core accounting system based on a certified COTS, Joint Financial Management Improvement Program (JFMIP)-compliant system with interfaces to all other VA payment and accounting systems. In the succeeding, post-implementation years, VA completed several studies and determined there were remaining inefficiencies in the overall financial management processes, areas of noncompliance in our mixed systems, and new mission business requirements that could not be supported economically in the current systems. Difficulties were also cited by auditors related to the preparation, processing, and analysis of financial information in the preparation of VA's consolidated financial statements. Efforts are ongoing to address this weakness.

- VA's prior initiative to replace VA's FMS, the Integrated Funds distribution, Control point activity, Accounting and Procurement (IFCAP) system, and other financial and logistics systems interfacing to FMS with a fully integrated system comprised of commercial, off-the-shelf software has been terminated. Although piloted at three sites during 2004, pilot activities were phased out. Subsequent to the pilot phase-out, a board of directors chaired by VA's Chief Information Officer examined the results of the pilot program and presented recommendations to the Secretary on the program's future. Based upon this evaluation, which highlighted the criticality of addressing fundamental organizational

and business standardization issues prior to a system implementation, the prior initiative was terminated. VA initiated a 4-year remediation program in 2005 to eliminate the existing material weakness—Lack of an Integrated Financial Management System. This new program is referred to as VA's Financial and Logistics Integrated Technology Enterprise (FLITE)—the goal of which is to correct financial and logistics deficiencies throughout the Department.

- VA is participating in the governmentwide plan to consolidate federal payroll services and processes, which is included in the President's Management Agenda for Improving Internal Efficiencies and Effectiveness. VA has been aligned with the Defense Finance and Accounting Service (DFAS) as its payroll provider. System changes to VA's legacy systems and applicable interfaces necessary to migrate VA payroll services to DFAS have been completed as related to Title 5 employees, the first set of VA employees to migrate to DFAS. VA's first migration commenced in August 2006.

VA's financial system recent accomplishments as well as plans for the next 5 years are detailed as follows.

Financial Management System (FMS) Accomplishments and Plans
VA continued production support and maintenance of FMS during 2006. Due to the suspension of the prior initiative, VA will need to continue operation of FMS as the core accounting system until a suitable replacement is available.

The Department has implemented the Hyperion Financial Management reporting system to improve the preparation, processing, and analysis of financial information. As the source of data for this system, FMS played a crucial role in its implementation. The new system is now completely producing VA consolidated

financial statements using a standardized and repeatable process.

Additionally, VA continues to analyze and improve the major interfaces to and from FMS in an effort to improve integration among the various financial and mixed systems. This effort will assist with the remediation of the Lack of an Integrated Financial Management System material weakness, as well as improve the overall system architecture in preparation for the next generation financial system being planned for in the FLITE effort.

FLITE Accomplishments and Plans
A board of directors chaired by VA's CIO examined the results of the prior initiative and presented recommendations to the Secretary on the program's future. Activities completed to support the recommendation include assessing lessons learned, analysis of "As Is" and development of "To Be" business processes, identification of VA-wide standardization opportunities, and product analysis and evaluation. Based upon the need to address fundamental organizational and business standardization issues, it was determined that a system implementation was premature and the initiative was terminated. VA initiated a 4-year remediation program in 2005, in concert with the FM Line of Business (FMLOB) objectives, to eliminate the existing material weakness— Lack of an Integrated Financial Management System. This new program is referred to as VA's Financial and Logistics Integrated Technology Enterprise (FLITE)—the goal of which is to implement an agency-wide integrated financial management system (core and mixed feeders) compliant with the CFO Act and FFMIA, and correct financial and logistics deficiencies throughout the Department. VA efforts will support the FMLOB goals for efficiency and focus on eliminating the material weakness.

The FLITE program will effectively integrate and standardize financial and logistical data and processes across the Department and provide

management with access to timely and accurate financial, logistics, budget, asset, and related information on an enterprise-wide basis. Activities currently underway to support FLITE include the establishment of a Program Management Office that will provide administrative and managerial support. Another activity within the FLITE program is the Strategic Asset Management (SAM) pilot, which is being conducted at the VAMC in Milwaukee. The SAM project, using the Maximo asset management software, will establish a VA Enterprise Asset Management System capable of managing all classes of physical assets, supply inventories, and related workforce management in a single integrated database accessible throughout VA. Additionally, the Financial Reports/Data Warehouse team is performing analyses of VA's legacy system interfaces to correct the inherent deficiencies and ensure that an audit trail exists to the source document. The final effort and one of the most critical is the creation and validation of functional requirements and standard business processes being led by VHA.

PAID Accomplishments and Plans
VA continued production support and maintenance of PAID during 2006 in support of Federal-wide programs such as the Thrift Savings Plan and Electronic Human Resources Information. System changes were also completed to implement legislative changes affecting Title 38 employee pay and leave benefits in 2006.

VA will continue production support and maintenance of PAID during the Department's migration to the new payroll provider, DFAS, and the eHR Line of Business providers and systems. As a result of continued operations, accreditation and the authority to operate the PAID system must be maintained. Efforts are currently underway to complete the activities needed to maintain this status.

e-Payroll Accomplishments and Plans

VA completed 60 system changes needed to support the migration of the first group of employees to DFAS. The system changes were tested internally and externally by completing payroll cycles in both VA and DFAS and comparing results.

The first group of VA employees was successfully migrated to DFAS in 2006. Planning for the migration of the remaining 230,000 VA employees is underway. The second group, which will include Title 38 employees, will migrate in 2007. VA will need to complete additional system changes to support the migration initiative.

VA had planned to complete changes to the legacy time and attendance system to support the migration to DFAS; however, it was determined that the current output from the legacy time and attendance system will support the migration to DFAS until a replacement system can be implemented. VA is completing the planning and analysis of system changes needed to the National Institutes of Health (NIH) time and attendance system, which interfaces with DFAS. The NIH system will be implemented in VA, using a phased approach, during the migration to DFAS.

e-Travel Accomplishments and Plans

The FSC continues to be challenged by one of the President's 24 E-Gov initiatives, E-Gov Travel Services (ETS). This initiative continues to have a significant impact on one of our major product lines. The FSC, working with EDS as the prime contractor, continues to lead the ETS Fedtraveler.com effort for VA. In 2005 and 2006, slippage occurred due to delays by the vendor. The FSC continued to adjust the ETS budget and resources as a result of these delays. Use of VA's existing travel systems continued in 2006, including PCTravel, Gelco, and Zegato. VA submitted a request for extension to the September 30, 2006, deployment deadline. GSA approved the request. During the fourth quarter of 2006, VA resumed testing of gap items and the accounting interface. Upon acceptance of the interface and gap items, VA plans to conduct a load test to ensure FedTraveler.com can support VA requirements. After a successful completion of the load test, implementation will proceed in 2007 and through the first quarter of 2008.

Other Systems Accomplishments and Plans

<u>Electronic Commerce (EC)/Electronic Data Interchange (EDI)</u>. Using COTS software and national standards, the FSC processes transactions such as invoices, purchase orders, and payments for customers, including the Veterans Canteen Service, Denver Distribution Center, and VA Subsistence Prime Vendor program. The FSC continues its support of the VHA Chief Business Office e-Business initiatives (e-Claims enhancements, e-Insurance Verification, e-Medicare Remittance Advice, e-Payments, and e-Pharmacy), as well as the National Provider Identifier and Patient Financial Services System projects.

The FSC began work on behalf of their first non-VA EC/EDI customer -- the U.S. Department of Agriculture (USDA) -- in 2006. Under a franchise agreement, the FSC accepts invoices from USDA Utility and Telecommunications providers, translates them to a USDA-approved file format, and transfers these invoices to USDA via a secure connection. USDA inputs these invoices into its legacy systems for processing and payment. This processing takes place using FSC-owned translator software rather than the mainframe translator, which ensures license compliancy and reduces processing cost for USDA.

The FSC will continue to support VA's efforts to increase cost savings and program efficiencies through the expansion of electronic data transfers in VA applications. The FSC will also continue to support VHA's efforts to comply with EC/EDI mandates identified in the Health Insurance Portability and Accountability Act (HIPAA) of 1996. The FSC continues to use the latest versions of software to electronically

ensure the validity of data with regard to HIPAA compliance.

In our efforts to provide VHA with e-Claims reports, the FSC has created a portal for management reports. This portal allows managers to access up-to-date statistics of their data. The portal will be updated to include new reports as requested.

Major EC/EDI Initiatives Planned
Commercial invoices, FMS payments, and the subsistence prime vendor program services are also provided to VA nationwide. Furthermore, VBA benefits from FSC EC services in the FSC's handling of loan processing, identifying the status of loan defaults, and processing of loan guaranty certificates.

Tasks	Target Dates
Support MCCR lockbox receipt of payments.	2007-2011
Support (by providing both development and production support services) VHA's HIPAA compliance efforts.	2007 – 2011
Support EDI production projects on a continuing basis.	2007 – 2011
Support reports portal.	2007 – 2011
Implement the Trusted Link Enterprise translation software.	2007

On Line Certification System (OLCS) (payment certification). The FSC's OLCS application, an *e-GOV 2000 Trailblazer* award winner, allows certifying officials to view and certify invoices electronically. Vendors send invoices directly to the FSC where they are scanned into the FSC's document management optical imaging system and electronically stored with the information required to process the invoice. The OLCS system then sends an e-mail notification to certifying officials with information on how to access and certify the pending invoice(s) online. Over 10,000 employees currently use the OLCS within VA.

The OLCS was an essential enabler in creating the capability to centralize VHA certified invoice payment processing to the FSC. Certified invoices sent to the FSC for processing are managed by certifying officials through the OLCS and paid by the FSC. As a result, VA has realized a tremendous increase in the efficiency of the payment process. At the same time, the OLCS and centralization have substantially reduced interest penalties and increased discounts earned.

The FSC's certified payments process represents a full life cycle of services performed from receipt of the invoice until the Department of the

Treasury (Treasury) renders payment. The services include processing cancelled checks, check tracers, vendor re-certifications, rejects and adjustments, inquiries, vendor reclaims, bills of collection, Treasury offsets, and tax levies that comply with applicable VA regulations and directives and the Prompt Payment Act. During 2006 the FSC enhanced system functionality by providing field stations the option to certify all invoices via OLCS or allow automatic payment for those invoices under $2,500 with appropriate post-payment audits.

Document Management System (DMS). The FSC implemented an imaging system, referred to as DMS, in May 1994. DMS allows the FSC to provide a paperless work environment, reduce physical storage needs, and process high volumes of documents. Documents are stored both magnetically and on optical platters and can be retrieved in seconds. Backups are stored offsite.

Initially, DMS was used to process commercial payments and inquiries. Subsequently, the FSC's use of DMS has been expanded to include other functions such as vendorizing requests, federal accounts, preparation of the SF-224 report, storing grant and schedule documents for other government agency (OGA) customers, storing payroll folder data for VA employees who receive local payroll services from the FSC, and OLCS. Additionally, DMS has shown potential in storing and retrieving other financial records; OGA telephone, utility, and acquisition invoice documents; payroll folder data; and legal documents.

Planned DMS Expansion and Support

Tasks	Target Dates
Add new OGA and VA customers.	FY 2007 – FY 2011
Provide program support for DMS.	FY 2007 – FY 2011