

# Management Controls, Systems, and Compliance with Laws and Regulations

*The auditors' report on internal controls, prepared at the completion of VA's FY 2004 financial statement audit, includes two repeat material weaknesses: "Information Technology (IT) Security Controls" and "Integrated Financial Management System." In the IT finding, 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, and service continuity. In the second finding, 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 Department has made progress in correcting the IT Security Controls material weakness. Resources have been maximized to make improvement in the overall security posture. Although work continued during FY 2004 on the Integrated Financial Management System material weakness, final resolution of this weakness is a multi-year effort. VA is proceeding with a plan to address this material weakness.

The auditors' report on compliance with laws and regulations, also prepared as a result of the FY 2004 financial statement audit, discusses Departmental non-compliance with the Federal Financial Management Improvement Act requirements concerning Lack of Integrated Financial Management System and Information Technology (IT) Security Controls. 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.

## 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 Act as defined:

- Section 2 seeks to assess internal controls necessary to ensure compliance with applicable laws; protect against loss from waste, fraud, and abuse; and ensure receivables and expenditures are properly recorded.
- Section 4 seeks to assess nonconformance with governmentwide financial systems requirements.

## Progress on Material Weaknesses

VA managers continue to make progress in correcting existing material weaknesses and non-conformances. The FY 2004 Consolidated Financial Statements Audit Report disclosed no new material weaknesses. In addition, there are no new management control material weaknesses disclosed or reported under FMFIA. At the end of 2003, two audit-related material weaknesses<sup>1</sup> (Information Technology Security Controls and Lack of Integrated Financial Management System) and three management control weaknesses consisting of two nonconformances were carried forward in FY 2004.

Corrective actions were implemented and closure approved during FY 2004 for one of the material weaknesses — Compensation and Pension System — Lack of Adaptability and Documentation. The remaining four material weaknesses (two audit-related material weaknesses and two management control material weaknesses) are scheduled for correction according to the timelines shown in the below tables, which provide the current status of the Department's material weaknesses.

Audit Material Weaknesses		
Description	Current Status	Resolution Target Date
<b>Information Technology Security Controls</b> – 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.	Plans are being implemented to address this weakness. The Department has maximized limited resources to make significant improvement in VA's overall security posture in the near term through prioritizing Federal Information Security Management Act remediation activities.	September 2005
<b>Lack of Integrated Financial Management System</b> – Difficulties exist in the preparation, processing, and analysis of financial information to support the efficient and effective preparation of VA's consolidated financial statements.	A board of directors, chaired by the Assistant Secretary for Information and Technology and including senior VA leadership, is examining the results of the CoreFLS pilot program at the Bay Pines VA Medical Center and the other two pilot sites and will make recommendations to the VA Secretary concerning the future of the program.	TBD

<sup>1</sup>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.

### Management Control Weaknesses

Description	Current Status	Resolution Target Date	Section 2	Section 4
<b>PAID System–Mission Performance</b> – VA’s central payroll and personnel system, PAID, lacked the ability to expand.	The PAID system has been modified to allow an employee’s pay/benefits to be allocated to four fund/cost center combinations and to pass this distribution labor cost to FMS. Final reports confirming this functionality were provided to the OIG in October 2004.	November 2004		X
<b>Internal Control Weaknesses in the Compensation and Pension Payment Process</b> – Erroneous and fraudulent payments were found.	Procedures are underway to augment internal controls in the area of erroneous payments. Measures are being taken to pinpoint the amount of overpayments in each program area and to determine the nature and causes of the overpayments.	December 2005	X	

## Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) encourages 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’s noncompliance in this area was to have been resolved with implementation of the Department’s Core Financial and Logistics System (CoreFLS) in 2006. Although the system was piloted at the Bay Pines VA Medical Center and two other VA sites, the results led to a decision to return these pilot sites to VA’s existing financial management system (FMS) at the beginning of FY 2005. Consequently, VA is

proceeding with a plan consisting of discreet activities to support an enhanced CoreFLS program moving forward to full deployment at VA facilities nationwide. Key early components of the plan include incorporation of lessons learned into our detailed project plan, analysis and re-evaluation of the "As Is" and the "To Be" business processes leading to department standardization of procedures, and validation of software alternatives. We plan to verify our activities using Independent Verification and Validation (IV&V). Other activities include resolution of gaps, implementation planning, pilot testing, and system deployment. Parallel planning for both evaluation and implementation activities will ensure VA can respond proactively to results of the analysis and validation. An executive project committee will make recommendations to the VA Secretary concerning the future of the program.