



Letter from the Chief Financial Officer

November 17, 2008

The Department of Veterans Affairs (VA) completed another successful year by receiving an unqualified audit opinion for the 10th consecutive year from our external auditors, Deloitte & Touche. We are extremely proud of this continued accomplishment.

VA continued to implement corrective actions to address the material weaknesses identified in the FY 2007 audit (Financial Management System Functionality, Information Technology Security Controls, Financial Management Oversight, and Retention of Computer Generated Detail Records in the Benefits Delivery Network (BDN) System). During this year, we successfully remediated and removed the Retention of Computer Generated Detail Records in the Benefits Delivery Network (BDN) System material weakness, reducing the total number of VA material weaknesses from four to three.

VA also made progress on the Financial Management System Functionality material weakness through our Financial & Logistics Integrated Technology Enterprise (FLITE) program. This important VA initiative is being developed to integrate disparate VA systems, standardize functional processes, and modernize the information technology environment across the entire VA. The FLITE program is following a multiple-year phased approach comprised of two major components: the logistics and asset management system component, referred to as Strategic Asset Management (SAM), and the financial management component, referred to as the Integrated Financial Accounting System (IFAS).

In 2008 VA completed initial planning and documentation of business requirements for SAM and IFAS. Key program management activities were also implemented, including establishment of a Risk Management Control Board, base lining the life cycle cost estimate,



schedule and milestones, initiating organizational change management communications targeted toward stakeholders, and continued engagement of the FLITE Governance Structure to provide senior level oversight and guidance. Major program accomplishments included awarding the contract for SAM hardware, issuing the request for proposals for the SAM Pilot implementation and program management office support services, and conducting a site selection survey to determine pilot sites for IFAS and beta sites for SAM and IFAS.

In 2008, the FLITE program also implemented the final planned interfaces into the Financial Reporting Data Warehouse (FRDW) production environment. These include the Loan Guarantee Program interfaces for the Centralized Property Tracking System (CPTS), Countrywide Home Loans (CHL), Funding Fee Payment System (FFPS), VistA Account Receivable (AR), and VistA FEE. This will substantially improve VA's ability to capture transaction details from targeted interface systems and reconcile data interfacing to the VA legacy Financial Management System (FMS) resulting in an enhanced reconciliation process between FMS and legacy subsidiary systems.

VA also made improvements to the intragovernmental accounting and reporting



process. A review of the intragovernmental vendor list was conducted and obsolete and redundant vendor IDs were removed. In addition, a Hyperion-based intragovernmental reporting tool was developed and tested. This reporting enhancement tool will be in production in the first quarter of FY 2009 and will significantly improve the accuracy of reporting VA's reciprocal intragovernmental accounts.

Progress has also been made in addressing the Information Technology (IT) Security Controls material weakness. The Department's overall information security posture has been improved with the establishment of the Information Protection and Risk Management (IPRM) organization to centralize security and privacy staff and business functions, increase accountability, and standardize security processes. With IPRM, VA has established the organizational foundation to ensure VA has a stronger security program well into the future. VA continues to implement the comprehensive Data Security - Assessment and Strengthening of Controls Program to govern the multiple, concurrent security activities already underway to remediate this material weakness. Other achievements include the certification and accreditation of over 600 VA operational systems including the testing of over 9,000 system security controls. As of September 2008, all of these systems have received full authorization to operate. Innovative technical solutions like portable device encryption, enterprise network monitoring, secure remote access, and port security and device control were implemented to enhance the protection of access to sensitive information and improve VA's overall information security posture.

During 2008, initiatives related to remediating the Financial Management Oversight material weakness were also implemented. VA procured contractor support to provide financial process improvement, audit readiness, and audit remediation services. VA also started the 3-year Financial Policy Improvement Initiative to ensure that financial policy and procedural

information is standardized, accurate, clear, and readily available across the Department.

Corrective action plans for each of the three material weaknesses guide VA's efforts as we continue to work diligently and proactively to address and remove them. However, these weaknesses are complex and involve corrective actions over several years. OMB recognized VA's improvements by upgrading our "progress" score on the President's Management Agenda Financial Performance scorecard from red to yellow.

We also continued efforts to ensure VA's compliance with OMB Circular A-123, Appendix A, Internal Control over Financial Reporting. Based on the approved implementation plan, VA completed the first full cycle of all actions identified for its 3-year plan. As a result of the completion of the assessment of VA's eleven key business processes, no material weaknesses were identified. Remediation actions were identified and implemented to address all findings.

VA continues to implement new strategies to meet existing and new requirements under OMB Circular A-123, Appendix B. We increased our ability to track and monitor training for the purchase and travel card programs through the implementation of specific training courses offered via VA's online Learning Management System. This training is required for Agency/Organization Program Coordinators (AOPCs) and all cardholders prior to being issued a card. AOPCs are also now required to complete GSA's online Purchase Card Training course in addition to VA's course. VA's Government Purchase Card Procedures Directive and Handbook were rewritten to enhance the administration of the program, strengthen internal controls and incorporate the latest guidance and recommendations from OMB, GSA and GAO. A 2008 OIG audit found that VHA purchase card controls were generally effective at preventing or detecting questionable, improper, or fraudulent medical facility



purchases, and that all 707 transactions reviewed were purchases for goods or services for valid medical facility needs. However, better documentation was needed. In response to OMB concerns about Premium Class Travel (PCT), we revised our PCT policy and strengthened internal controls.

VA successfully completed risk assessments, statistical sampling, and all requirements for programs under the Improper Payments Information Act (IPIA) of 2002. VA met improper payment reduction and audit recovery targets for three out of five programs. VA also received approval from OMB to remove VA's Insurance and the Vocational Rehabilitation & Employment programs from IPIA reporting requirements until FY 2009 and FY 2010, respectively. This year, VA maintained a green score for "progress" on the President's Management Agenda scorecard for Eliminating Improper Payments.

VA continued to advance e-Gov initiatives and aggressively worked with the General Services Administration and Electronic Data Systems, VA's selected e-Gov travel prime contractor, to implement an electronic travel solution for VA. VA completed Departmentwide implementation of FedTraveler on schedule in December 2007. VA's implementation (1) eliminated four separate travel systems previously in use in VA, providing a cost avoidance of \$1.9 million annually from maintaining these older legacy systems, and (2) exceeded a key performance measure of having 75% of travel plans with air reservations made using the online booking engine – VA's online adoption rate averaged 82 percent, and leads all of EDS's government deployments. For the e-Payroll e-Gov initiative, VA has successfully migrated 16,417 employees to the Defense Finance and Accounting Service for payroll servicing. The remaining VA population, 251,905, is scheduled to migrate in 2009.

VA's Franchise Fund is expected to receive its 11th successive unqualified audit opinion on its FY 2008 consolidated financial statements.

VA's Supply Fund received a clean opinion in 2007 on its balance sheet; this was the first independent audit by an outside audit firm on this component of their financial statements.

We are proud that in FY 2008, medical care collections continued to improve to over \$2.4 billion. VA plans to continue to increase these collections, reaching nearly \$2.5 billion in FY 2009. Additionally, VA has developed a Departmental managerial cost accounting (MCA) system to enable managers at all levels to review and analyze cost data at the detail and programmatic levels. All MCA processes within VA's Administrations became operational during FY 2008.

Under the Government Performance and Results Act, we continuously assessed and refined our performance measures, quality of data, and compilation procedures. We developed procedures to assure our stakeholders that we have the most useful and accurate performance data available.

We are proud of our many accomplishments, and know that a lot of work remains. We continually strive to improve our financial stewardship and have set new goals to improve our performance. We will continue to promote sound business practices and improve accountability while fulfilling our mission of service to our Nation's veterans.

Robert J. Henke