



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 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 requires agencies 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 requires management's assessment of internal control over financial reporting.
- Section 4 requires agencies to assess nonconformance with governmentwide financial systems requirements.

Management Assurances

Department managers continue to take responsibility for establishing and maintaining effective internal controls over financial integrity and financial reporting, including safeguarding assets and complying with applicable laws and regulations. During 2008, the Secretary of Veterans Affairs maintained his leadership role in stressing that strong internal controls will enhance the Department's stewardship of taxpayers' assets and programs.

Management conducted its assessment of the effectiveness of internal controls over operations

and compliance with applicable laws and regulations in accordance with FMFIA and OMB Circular A-123, Management's Responsibility for Internal Control. After reviewing the results of the assessments outlined in the Statements of Written Assurance provided by the Under Secretaries, Assistant Secretaries, and other Key Officials, the Secretary of Veterans Affairs provided a statement of qualified assurance. The following three material weaknesses are identified under FMFIA: "Financial Management System Functionality," "Information Technology Security Controls," and "Financial Management Oversight."

VA assessed its internal control over financial reporting as of June 2008 for all 11 key business processes identified from FY 2006: Funds Management; Revenue Management; Property, Plant & Equipment; Budgetary Resources; Risk Management; Benefits Management (Part 1); Procurement Management; Benefits Management (Part 2); Financial Reporting; Grants Management; and Human Capital Management. Information Technology Management was also reviewed, as it relates to each of the key processes. During FY 2008, VA completed Benefits Management (Part 2); Financial Reporting; Grants Management; and Human Capital Management.

Management's assessment of internal control over financial reporting included an evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting and finance policies, and our overall control environment. Based on the results of VA's internal control assessment, no additional material weaknesses were identified in 2008.



November 17, 2008

Statement of Qualified Assurance

The Department of Veterans Affairs' (VA) management is responsible for establishing, maintaining, and assessing internal control to ensure the efficiency and effectiveness of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Based on the annual assessment of the Department's internal control program, VA provides a qualified statement of assurance, identifying three material weaknesses as they relate to internal control objectives of the Federal Managers' Financial Integrity Act (FMFIA), Sections 2 and 4, and the Federal Financial Management Improvement Act (FFMIA). The details of these material weaknesses and related corrective actions are provided within Part I, "Management Controls, Systems, and Compliance with Laws and Regulations," and the "Summary of Financial Statement Audit and Management Assurances" tables in the beginning of Part IV, "Other Accompanying Information," in this report. No new material weaknesses were identified during the fiscal year (FY).

In addition, VA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of revised OMB Circular A-123, "Management's Responsibility for Internal Control". Based on the results of the assessment of key business processes tested during FY 2008, VA's internal control over financial reporting is operating effectively and no new material weaknesses were identified as of June 30, 2008.

This evaluation was conducted in accordance with the revised OMB Circular A-123. As a result of this evaluation, the Department provides the following:

Effectiveness of Internal Control Over Operations (FMFIA § 2)

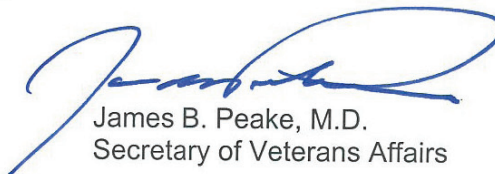
Based on information provided, VA provides reasonable assurance that internal control over operations is effective, with the exception of the known material weakness, Financial Management Oversight. No new material weaknesses were identified during FY 2008.

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)

In accordance with the Department's OMB approved plan for Appendix A of revised OMB Circular A-123, our efforts focused on assessment of the remaining key business processes tested during FY 2008. Based on information provided for the processes assessed, VA provides reasonable assurance that internal control over financial reporting meets the objective. No new material weaknesses were identified during FY 2008.

Conformance with Financial Management System Requirements (FMFIA § 4)

The Department faces challenges in building and maintaining financial management systems that comply with FFMIA. Under FFMIA, VA is substantially compliant with applicable Federal accounting standards and the U.S. Standard General Ledger (SGL) at the transaction level. However, VA is not compliant with Federal financial management system requirements. Two non-conformances, which are also material weaknesses, were identified prior to FY 2008 -- IT Security Controls and Financial Management System Functionality. No new material weaknesses were identified in this area during FY 2008.



James B. Peake, M.D.
Secretary of Veterans Affairs



Summary of Auditor's Internal Control Assessment

The auditors' report on internal controls reported three material weaknesses: "Financial Management System Functionality," "Information Technology (IT) Security Controls," and "Financial Management Oversight." Under "Financial Management System Functionality," the auditors identified continuing difficulties with the legacy systems related to the reliable, timely, and consistent preparation, processing, and analysis of financial information for VA's consolidated financial statements. In the IT material weakness, the auditors noted progress in certain areas, but reported that legacy IT infrastructure and longstanding security control weaknesses due to the lack of effective implementation and enforcement of an agency-wide information security program continue to place VA's program and financial data at risk and possibly occurring without detection. The third material weakness, "Financial Management Oversight," identified the need for enhanced management oversight in the following areas:

- Accrued Services Payable and Undelivered Orders
- Property, Plant, and Equipment
- Environmental and Disposal Liabilities
- Accrual for Unbilled Receivables and Allowance for Contractual Adjustments
- Benefit Expense Reconciliation
- Outsourced Portfolio Loan Servicing
- Compensation and Pension Actuarial Liability Calculation
- VA Housing Model
- Software

The previously-identified fourth material weakness, "Retention of Computer Generated Detail Records in Benefits Delivery Network (BDN) System – VBA," was resolved during 2008.

To address the Department's material weakness, Financial Management System Functionality, VA is continuing to develop the Financial and

Logistics Integrated Technology Enterprise (FLITE) program. The program has two primary components, a logistics and asset management component, referred to as the Strategic Asset Management (SAM) project, and a financial management component, referred to as the Integrated Financial Accounting System (IFAS). In 2008, VA completed initial planning and detailed business requirements for both components. Key foundational program management activities were also implemented, including a Risk Management Control Board; baselining the FLITE Program's 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 accomplishments included awarding the contract for SAM hardware, issuing the request for proposals (RFP) 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. VA utilized guidelines by OMB's Financial Management Line of Business (FMLoB) to prepare the draft RFP for the IFAS pilot. In 2009, VA expects to award the SAM Pilot implementation contract, the Program Management Office Support Services contract, and the IFAS Implementation Contract. The Department also continued enhancement of the Hyperion Financial Management System to improve the preparation, processing, and analysis of financial information, adding additional reports and features, and continued implementation of a data warehouse to assist in financial reporting. In addition, through the Financial Reporting Data Warehouse System, VA analyzed and improved the major interfaces to and from its core financial system, the Financial Management System (FMS).

VA developed and implemented a detailed remediation action plan to address the resolution of the Financial Management Oversight material weakness. VA financial management made



improvements throughout the year in providing additional and clarifying financial policies and procedures to VA’s fiscal community, particularly in the area of internal controls. VA’s efforts include implementing standardized guidance for estimating and recording environmental liabilities; centralizing and developing a national methodology for estimating an allowance for bad debt for non-health care accounts receivable; and a 3-year Financial Policy Improvement Initiative to ensure that financial policy and procedural information is standardized, accurate, clear, and readily available across the Department. These as well as other numerous efforts are continuing into 2009 to resolve this material weakness.

The auditors’ report on compliance with laws and regulations, also prepared as a result of the 2008 financial statement audit, determined that the Department’s financial management systems did not substantially comply with the Federal Financial Management Improvement Act (FFMIA) requirements. The remediation of this non-compliance is being addressed through corrective actions identified for the material weaknesses “Financial Management System Functionality,” and Information Technology (IT) Security Controls.” VA was also noncompliant with the Debt Collection Improvement Act and with records maintenance on individuals as required by USC Title 5, 552A. In October 2008, the Secretary reported a violation of the Anti-Deficiency Act (ADA), 31 U.S.C. 1341(a) in connection with activity related to fiscal year 2007 at VBA. The Department reported that the violation occurred on September 28, 2007, when

redemption of debt payments to the Treasury exceeded the available unobligated budgetary resources, and the remaining budgetary resources were less than unpaid obligations at the end of the fiscal year. VA has identified a number of steps to be taken to prevent a recurrence of the violation.

Progress on Material Weaknesses

VA managers continue to make progress in correcting existing material weaknesses. The 2008 *Independent Auditors’ Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based Upon the Audit Performed in Accordance With Government Accounting Standards* disclosed three material weaknesses. Management identified three of these same weaknesses: “Financial Management System Functionality,” “Information Technology Security Controls,” and “Financial Management Oversight,” as weaknesses under FMFIA. At the end of 2008, three audit-related material weaknesses¹ -- Financial Management System Functionality, Information Technology Security Controls, and Financial Management Oversight -- were carried forward into 2009. (Note: Material weaknesses identified under FMFIA are the same as the audit-related material weaknesses and will be corrected using the same remediation plan.)

¹The 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 or Weaknesses Identified by Management

Description	Status as of September 30, 2008	Resolution Target Date
<p>Financial Management System Functionality – (Audit/FMFIA Section 4 weakness)– Difficulties exist in the preparation, processing, and analysis of financial information to support the efficient and effective preparation of VA’s consolidated financial statements.</p> <p>– Components of certain feeder systems and financial applications are not fully integrated with the core Financial Management System.</p>	<p>The Department made substantial planning progress toward closing the gap on the material weakness of the Financial Management System Functionality in 2008. As a top priority VA initiative, the Financial and Logistics Integrated Technology Enterprise (FLITE) program was established to integrate VA disparate systems, standardize functional processes, and modernize the information technology environment across all VA offices and departments. The FLITE Program is following a multiple-year phased approach that is comprised of two major components: the Strategic Asset Management (SAM) project, which refers to the logistics and asset management system, and the Integrated Financial Accounting System (IFAS), which focuses on the financial management component.</p> <p>In 2008, VA completed initial planning and detailed business requirements for SAM and IFAS. Key foundational program management activities were also implemented, including a Risk Management Control Board; baselining the FLITE Program’s 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 completing the in-depth Milestone 1 review for the SAM project, 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 addition, VA utilized guidelines by the Office of Management and Budget’s Financial Management Line of Business (FMLoB) to prepare the draft request for proposal for the IFAS pilot project. In 2009, VA expects to award the SAM Pilot implementation contract, the Program Management Office Support Services contract, and the IFAS Implementation Contract. A major challenge for the FLITE Program will be the initiation of the SAM pilot at the Milwaukee VA Medical Center campus. SAM pilot implementation will attain Initial Operating Capability of the SAM system, and incorporate both the VBA regional office and the NCA national cemetery co-located on the Milwaukee VAMC campus.</p> <p>As an interim initiative, the Financial Reporting Data Warehouse System (FRDWS), completed in FY 2008, enabled VA to capture transaction details from targeted interface systems and reconcile data interfacing to the VA legacy Financial Management System (FMS). As a result, an enhanced reconciliation process between FMS and</p>	<p>2014</p>



Description	Status as of September 30, 2008	Resolution Target Date
	<p>legacy subsidiary systems was established. Completion of the FRDWS initiative established a data warehouse that met its objective of providing a single view of detailed data to reconcile source data to summary data in FMS. The final five interfaces include the Loan Guarantee Program Interfaces for the Centralized Property Tracking System, Countrywide Home Loans, Funding Fee Payment System, VistA Account Receivable interface, and the VistA FEE interface.</p> <p>In 2008, the Department also continued operation of the Hyperion Financial Management System which has significantly improved the process of preparing the consolidated financial statements.</p>	
<p>Information Technology Security Controls (Audit/FMFIA Section 4 weakness)– 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, segregation of duties, and service continuity.</p>	<p>The VA continued to make progress in addressing information technology (IT) security control weaknesses during 2008. The actions taken by the Office of Information and Technology (OI&T) to remediate elements of the IT Security Control material weakness included the following:</p> <ul style="list-style-type: none"> • Began the process of performing access reviews of financial management system duties to ensure adequate separation of duties. • Performing Certification and Accreditation (C&A) of over 600 major applications and general support systems to assess the adequacy of management, operational, and technical controls of the Department’s information systems. • Updating of financial management system contingency plans as part of the Department’s C&A effort. <p>In 2008, OI&T also revised information security directives and handbooks which included publication of Handbook 6500.2 regarding Incident Response and is in the process of developing other publications such as the VA IT Continuity of Operations Handbook. OI&T has also implemented Federal Information Processing Standards publication 140-2, encryption for specific storage devices, and has updated security awareness and privacy training. Additionally, OI&T is utilizing the Office of IT Oversight and Compliance to conduct IT security assessments across VA to assist in the centralized enforcement and remediation of IT security controls and deficiencies.</p>	2009
<p>Financial Management Oversight – (Audit/FMFIA Section 2 weakness)– Internal controls and reconciliation processes were not performed consistently or</p>	<p>In 2008, VA developed detailed remediation action plan to address the resolution of this material weakness. VA made improvements in financial management through the year in providing additional and clarifying financial policies and procedures to VA’s fiscal community, particularly in the area of internal controls. VHA efforts to improve financial performance included the following:</p> <ul style="list-style-type: none"> • Conducting a national conference to provide training and emphasize the important of proper management of non-health care accounts receivable; • Implementing standardized guidance for estimating and 	2009



Description	Status as of September 30, 2008	Resolution Target Date
completely.	recording environmental liabilities; <ul style="list-style-type: none"> • Beginning development of a national training conference for FY 2009 to address operational oversight of all areas contributing to the material weakness; • Centralizing and developing a national methodology for estimating an allowance for bad debt for non-health care accounts receivable; • Developing, testing, and refining standardized reconciliation requirements and processes for financial reports; and • Developing a quick reference Desk Guide pertaining to management and processing of refunds, offsets, overpayments, and underpayments that impact health care accounts receivables. These, as well as other numerous efforts, are continuing into 2009 to resolve this material weakness.	

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, reliability of financial reporting, and compliance with laws and regulations. As a result of their assessments, three material weaknesses are being reported and are shown in the “Summary of Auditors’ Internal Control Assessment” section.

Management Control Weaknesses

One material weakness, “Financial Management Oversight,” identified under Section 2 was carried forward from 2007 by management. As a result of management’s 2008 assessment, remediation action continues in the correction of this material weakness. Remediation also continues in the correction of two material non-conformances under Section 4 of FMFIA, “IT Security Controls,” and “Financial Management System Functionality.” Management’s assessment of internal controls for both Sections 2 and 4 identified no new material weaknesses.

OMB Circular A-123, Appendix A titled, Management’s Responsibility for Internal Control, defines the requirements for conducting management’s assessment of internal control over financial reporting in Federal agencies.

In 2006, VA identified 11 key business processes that impact the internal control over financial reporting. VA performed its assessment of these processes over a 3-year cycle. VA engaged an independent public accounting firm to assist in an internal control assessment pursuant to OMB Circular A-123 Appendix A, *Management’s Responsibility for Internal Control*. As of June 30, 2008, VA completed its assessment of internal control for all 11 key business processes. During the final year (2008) of the 3-year cycle, VA tested the remaining four business processes: Benefits Management (Part 2); Financial Reporting; Grants Management; and Human Capital. Information Technology Management was also reviewed specifically as it relates to the four key business processes.

As a result of testing these four key business processes, the accounting firm identified approximately 33 findings in their seven “Findings and Recommendations for Internal Controls Improvements Reports” for each of the processes.

The findings regarding Grants Management, Medical Research, Environmental Liabilities, and quarterly user access reviews were identified as new significant deficiencies. These findings and the findings regarding Capitalized



equipment and Intra-governmental Transactions are further described in the chart below.

Corrective actions have begun to address each finding. Verification work will commence once corrective action activities are completed.

VA is currently working to resolve the six deficiencies shown in the following table.

FY 2008 Significant Deficiencies Identified in the Findings and Recommendations for Internal Controls Improvements Reports

Findings	Recommendations	Planned Corrective Action Date
Opportunities to improve financial oversight and standard procedures exist for the State Cemetery Grant Program and State Home Grant and Per Diem Programs.	Develop comprehensive policy, oversight, and procedural guidance tailored to the State Cemetery Grant Program and State Home Grants and Per Diem Programs for the financial administration of grant awards.	FY 2009
No comprehensive financial management guidance exists at the Medical Research Field Offices.	Update financial management guidance and send to Medical Research Field Offices.	FY 2009 System was developed and entered testing during 2008 and is scheduled for full implementation in the first quarter of 2009.
No consistent methodology exists for developing Environmental Liability estimates.	Develop policy, methodology, and guidance that address the requirements for developing an accurate estimate of the hazardous materials clean-up costs.	FY 2009
Quarterly user access appropriateness reviews are not being performed for major financial systems.	Communicate and enforce the existing user access appropriateness review policies and procedures to all regional office facilities and staff. Monitor and oversee the execution of quarterly user access appropriateness reviews.	FY 2009
Capitalized equipment could not be located.	Develop a process to monitor Property, Plant & Equipment at the medical centers to ensure it is being properly accounted for and inventoried. Provide training to end-users on the current and revised policies and procedures.	FY 2009; Completion date deferred from FY 2008 due to acquisition of a new asset management system.



Findings	Recommendations	Planned Corrective Action Date
Intra-governmental transactions	Take the appropriate measures to implement a process to extract trading partner data from VA’s Financial Management System (FMS), including an improved query capability that enables meaningful analysis of VA’s trading partner data. Also, VA needs to implement a process to sample its transactions to ensure trading partner “identifiers” are being entered into FMS correctly when a transaction originates, reducing the likelihood that trading partner variances are being caused by VA.	FY 2009; Completion date deferred from FY 2008

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 remediation program in 2005 to eliminate the existing material weakness-- Financial Management System Functionality. The FLITE goal is to correct financial and logistics deficiencies throughout the Department. In 2008, VA completed the prerequisite program planning, which included establishing and implementing the FLITE Risk Management Control Board, developing the FLITE program baseline cost estimates and integrated master schedule, documenting business requirements and processes, establishing an acquisition strategy, releasing the requests for proposal for the SAM Pilot implementation and Program Management Office Support services, and successfully exiting milestone 1 for the SAM project. In 2009, VA expects to award the SAM Pilot implementation, the Program Management Office Support service and IFAS implementation contracts, obtain milestone 1 approval for the IFAS

project, and start the SAM pilot at the Milwaukee VAMC campus. The pilot will attain Initial Operating Capability of the SAM system. In addition, IFAS (the financial component of the FLITE program) will follow the FMLoB guidance to award the IFAS contract and take steps to launch the IFAS pilot in FY 2009. The pilot will validate the business requirements, test any applicable interfaces, and ensure proper security and accessibility of data. This effort is being led by the Chief Financial Officer (business requirements) and the Chief Information Officer (technical solution). The multi-year initiative is highly complex and impacts VA-wide financial reporting systems.

In 2008, the FLITE program completed the FRDWS warehouse by implementing the last remaining interfaces into the production environment. These interfaces included the Loan Guarantee Program Interfaces for the Centralized Property Tracking System, Countrywide Home Loans, Funding Fee Payment System, VistA Account Receivable interface, and the VistA FEE interface.

In 2008, the Department also continued operation of the Hyperion Financial Management System, which has significantly improved the process of preparing the consolidated financial statements.



Federal Information Security Management Act (FISMA)

VA's FISMA performance and overall information security posture has improved during the last fiscal year. The Department has established organization elements to lay the foundation for strong FISMA and security program implementation well into the future. The Information Protection and Risk Management (IPRM) organization was formed to centralize security and privacy staff and business functions, increase accountability, and standardize security processes. Within VA IPRM, VA appointed a full time Chief Information Security Officer to improve security performance and oversight throughout the agency and nearly 70 VA Privacy Officers became certified in this field. VA continued to implement the comprehensive Data Security - Assessment and Strengthening of Controls Program to govern the multiple, concurrent security activities already underway including the remediation of material weaknesses.

Additionally, VA completed major security and privacy milestones such as the implementation of the Department's Information Technology (IT) Handbook 6500, titled Information Security Program, and 6502, titled VA Enterprise Privacy Program. Other achievements include the inventory of all VA IT assets and 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 secure remote access, port security and device control, portable device encryption, and enterprise network monitoring were implemented to enhance the protection of information and improve VA's overall information security posture.

VA's fiscal year 2009 initiatives include more standardized desktop configurations and additional tape and file system encryption technologies.

IG Act Amendments of 1988

The Inspector General Act requires reporting of all recommendations that have not been implemented within 1 year of the date of the Inspector General's final report. As of September 30, 2008, Departmentwide, 11 reports have been pending implementation for over 1 year, with a monetary value of the open recommendations of \$22.0 million. (Source: Office of Inspector General)

Audit Follow-Up

VA is making progress towards improving and routinely assessing its programs, financial management, and financial systems. In addition, VA implemented a number of corrective actions during the fiscal year and continues to improve its efforts in resolution of findings and recommendations identified by VA management, Office of Business Oversight, Office of Inspector General (OIG), the Government Accountability Office, and other external auditors.

Accordingly, management at every level has been tasked to maintain the momentum in accomplishing Corrective Action Plans (CAPs) designed to resolve program and financial related weaknesses as well as implement sound solutions for all audit recommendations. While efforts were made in this regard, VA has considerably more work to do. Specifically, VA must provide timely and accurate performance that addresses the implementation of CAP schedules. VA must also effectively integrate the results of those actions more fully into management decision-making processes. To this end, VA has recently contracted with an Independent Public Accounting firm to provide audit support and financial improvement services designed to resolve material weaknesses and other significant findings. As part of this process, more precise cost estimates will be identified to accomplish varied missions and develop ways to improve overall performance. This will require communication and coordination with various VA Administrations and staff offices involved in strategic planning,



budget formulation, budget execution, performance, and financial management.

Prompt Payment Act

In 2008, VA Financial Services Center (FSC) continued to serve as VHA's centralized payment office for certified and matched invoices for purchased goods and services as well as construction payments. Performance results reflect improvements in payment processing timeliness, accuracy, and cost savings. Continued reductions in interest penalties for late payments were realized along with consistently strong performance in maximizing vendor discounts earned.

VA improved its vendor payment processes throughout 2008. Interest payments VA-wide improved by \$48,300 (from \$833,100 to \$784,800) – a 6 percent improvement over 2007 levels, largely attributable to the centralization of VHA payments at the VA Financial Services Center (FSC) in Austin, Texas. Further, 2008 interest paid per million dollars disbursed improved almost 18 percent from \$84 per million in 2007 to \$69 per million in 2008. At the same time, VA earned nearly 93 percent (\$6.4 million) of its available discounts. VA also continued to gain efficiencies and improve performance through an initiative started in 2004 to centralize VHA vendor payment activities at the FSC. At the end of 2008, 99 percent of invoices were centralized to the FSC. Through this centralization, 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 duplicate incentive award payments, erroneous interest penalties, service charges, and sales taxes. This initiative recovered over \$55,000 during 2008 for reuse by VA entities. Overall, collections of improper payments and the recovery of unapplied vendor statement credits totaled nearly \$2.6 million. Improved payment oversight also enabled VA to identify and cancel nearly \$15.3 million in potential improper payments prior to disbursement. Since inception of the FSC audit recovery effort in 2001, VA has recovered \$23.9 million in improper payments and prevented the improper payment of another \$48.2 million.

The FSC successfully implemented a technological solution to facilitate the transition from paper to electronic invoice submission using the e-Invoice format. The FSC e-Invoicing initiative is being performed in partnership with A&T Systems, Inc., and OB10 Inc. (OB10). The FSC e-Invoicing initiative goes beyond traditional electronic data interchange methods by offering a solution that does not require vendors to purchase any additional software or hardware. Additionally, all vendors can easily participate without changing existing invoicing formats. OB10 has the capability to accept any invoice format or layout directly from the vendor's existing billing system and utilize the electronic communication method of the vendor's choice. The electronic invoice data are then passed to the FSC to automatically populate the appropriate payment applications. The errors, expense, and time delays associated with traditional paper invoice submission are eliminated, resulting in improved cost effectiveness, payment accuracy, and timeliness for VA and the vendor. FSC has initially targeted 2,700 vendors representing approximately 70 percent of the FSC's total payments. There are over 700 vendors currently participating in e-Invoicing.

During 2008, the Department aggressively used the governmentwide commercial purchase card



program. Over 4.3 million transactions were processed, representing \$2.8 billion in purchases. As a result of VA's daily electronic billing and payment process for centrally billed accounts, VA earned over \$49 million in refunds, compared to \$42 million during 2007. These refunds are returned to VA entities for use in veterans programs.

VA's Fee Basis purchase card program automates Health Care Fee Basis payments, eliminates processing of paper checks, and earns VA additional purchase card refunds. In FY 2008, VA's Fee Basis credit card processed over 420,000 transactions representing over \$130 million in payments and generated over \$2.1 million in refunds. The growth of this program was attributed to additional Fee Basis medical providers agreeing to receive payment via the Fee Basis Purchase Card and more VA medical centers joining the program.

VA's Prime Vendor Payment System automates payments under a nationwide prime vendor centralized purchasing contract. During 2008, 135 VA medical centers used the Prime Vendor Payment System to electronically process over 445,000 transactions worth over \$3.4 billion. The FSC ensures vendors who participate in VA's multi-billion dollar Prime Vendor procurement program are paid on time. These vendors provide VA medical centers with an efficient way to order supplies at low, negotiated contract prices and guarantee delivery within 24 hours, eliminating the need for warehousing large volumes of supplies.

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 2008, the travel management program processed over 261,000 transactions, disbursed payments of over \$44 million, and earned over \$536,000 in refunds.

The FSC staff continued to provide vendor payment history on the Internet. The Vendor Inquiry System (VIS) Internet application stores over 4 years of information. Once vendors complete an authentication process, they can access a secure Web site to view payment information for their company. Currently there are over 17,520 active registered vendors who made over 552,115 requests in 2008 and over 2.3 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. The VIS has also improved customer service efficiency of FSC staff by handling many routine inquiries and freeing staff to work the more difficult issues for customers.

Registered users of VIS 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 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. In 2008, invoices submitted via VIS increased by 22,360 and \$340 million from the previous year. Since our initial opening of VIS, 44,732 invoices totaling \$895 million have been submitted via this system.

Improper Payments Information Act of 2002 (Summary of Implementation Efforts for FY 2008 and Agency Plans for FY 2009 through 2011)

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



programs. Statistical samplings were performed on all required programs to estimate improper payments.

OMB Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments, requires agencies to report programs under the IPIA with annual erroneous payments exceeding both \$10 million and 2.5 percent, as well as programs previously identified in the former Section 57 of OMB Circular A-11, Preparation and Submission of Budget Estimates. Four VA programs are included under Section 57 of OMB Circular A-11, and they are the Compensation, Dependency and Indemnity Compensation (DIC), Pension, and Insurance Programs. DIC is included in the Compensation Program. Although the Insurance and Vocational Rehabilitation & Employment (VR&E) programs were reported under the IPIA, the risk assessments for the programs were low. Because the Insurance and VR&E programs did not meet the \$10 million threshold in annual erroneous payments for two consecutive years, OMB granted VA's requests for relief from annual improper payment reporting in the PAR for the Insurance program until 2009 and the VR&E program until 2010. In 2008, VA is reporting 6 programs under the IPIA which include the Compensation, Pension, Education, Loan Guaranty, Non-VA Care Fee, and Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA). This is CHAMPVA's first reporting year. 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 programs identified for review completed the risk assessment and/or completed statistical samplings in 2008 for 2007 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 the IPIA.

VA met the improper payment reduction and recovery targets for Education, Loan Guaranty, and Non-VA Care Fee programs. VA did not meet the reduction and recovery targets for the Compensation and Pension programs.

Plans to Accomplish

VA aims to reduce the amount of erroneous payments in all programs. In early 2009, the Pension program will complete the consolidation of the pension review process from its 57 regional offices to 3 Pension Management Centers. The consolidation will improve the accuracy and timeliness of pension processing.

The National Defense Authorization Acts (NDAA) of 2003, 2004, and 2008 mandated retroactive benefit payments to certain Military retirees. As a result of the NDAA, two new DoD programs, Combat Related Special Compensation (CRSC), and Concurrent Retirement and Disability Pay (CRDP), were created to permit partial to total restoration of reduced benefits due to receipt of VA compensation for certain disabled retirees. These programs, which allow concurrent receipt of VA Compensation and DoD military retired pay, have negatively affected the accuracy of VA's Compensation payments. The Compensation program is in transition from the Benefits Delivery Network (BDN) information system to Veterans Service Network (VETSNET). VETSNET allows enhanced reporting capability, eliminates batch processing, and substantially reduces errors with a single entry for rating decisions. Programming modifications to VETSNET are planned to allow automatic calculations of CRDP and CRSC



payments. Real time processing through VETSNET will enable VA to discontinue incorrect payments as late as the day before payment issue, which will greatly improve the accuracy of our payments.

The Loan Guaranty (LGY) program will continue to conduct 100 percent post-payment reviews of all Specially Adapted Housing (SAH) grant payments. In addition, LGY has developed a statistical quality control schedule for the SAH process, which will provide additional opportunity for review of the grant process, including grant payments.

Education Service is implementing the Training Performance Support System (TPSS) in phases. TPSS is a new online delivery and record keeping system for training, which will help improve claims processors' performance. To help reduce payment errors, Education Service is implementing the Education Expert System (TEES), a new automated claims processing system. TEES is scheduled to be fully implemented in 2012.

In 2009, the Non-VA Card Fee program will staff a financial specialist to prepare risk mitigation guidance and direction to reduce improper payments and increase collection actions for improper Fee payments.

VHA will implement the Medicare Crossover by 2009, which will enable its Denver Health Administration Center to receive electronic claim submissions through the Centers for Medicare and Medicaid contractor for reimbursement to the medical provider for CHAMPVA's payment responsibility as a secondary payer. This will significantly reduce the requirement for manual input of claim data and, as a result, reduce the potential for error in CHAMPVA 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 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 Office of Business Oversight's Internal Controls Service (ICS) provides the CFO with independent review and advisory services designed to add value and improve the acquisition, development, maintenance, and management of VA financial systems. The Department's scope of work is to oversee the compliance with regulatory requirements such as those prescribed by OMB Circular A-123, Appendix A and OMB Circular A-127.

ICS has the responsibility for planning and conducting the Department-wide reviews of internal controls over financial reporting in accordance with OMB Circular A-123, Appendix A and financial management system reviews in accordance with OMB Circular A-127 requirements. ICS also engages in 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 2008, ICS completed nine A-127 limited compliance reviews in conjunction with the Department's OMB Circular A-123, Appendix A program. VA 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.
- VA continued its multi-year initiative to eliminate the material weakness—Financial Management System Functionality. Referred to as FLITE, the program goal is to implement an agency-wide integrated financial management system (core and mixed feeders) and to correct financial and logistics deficiencies throughout the Department.
- VA continues to move forward in the consolidation of payroll services to the Defense Finance Accounting Service (DFAS), which is included in the President's Management Agenda for Improving Internal Efficiencies and Effectiveness. Following the success of the first migration of Title 5 employees to DFAS in August 2006, the second migration occurred in October 2007 and included additional Title 5 employees. Extensive system changes were made to VA's legacy system as well as DFAS' in preparation for additional migrations

to accommodate the special pay provisions that apply only to Title 38 employees. During 2008, the first group of Title 38 employees was successfully migrated to DFAS. Complete migration of VA's payroll services to DFAS is scheduled for September 2009.

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 2008. VA will need to continue operation of FMS as the core accounting system until a suitable replacement is available.

In 2008, the Department also continued operation of the Hyperion Financial Management System which has significantly improved the process of preparing the consolidated financial statements. 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 Financial Management System Functionality 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

Addressing the Department's material weakness, Financial Management System Functionality, VA established the FLITE program. FLITE will integrate many disparate systems, standardize functional processes and modernize the information technology environment supporting financial and logistics management within VA. The program has two primary components, a logistics and asset management component referred to as the SAM project, and a financial



management system component, referred to as the IFAS.

In 2008, VA completed the prerequisite program planning, which included establishing and implementing the FLITE Risk Management Control Board, developing the FLITE program baseline cost estimates and integrated master schedule, documenting business requirements and processes, establishing an acquisition strategy, releasing the requests for proposal for the SAM Pilot implementation and the Program Management Office Support services, and successfully exiting milestone 1 for the SAM project. In 2009, VA expects to award the SAM Pilot implementation and the Program Management Office Support services contracts, obtain milestone 1 approval for the IFAS project, and start the SAM pilot at the Milwaukee VAMC. The pilot will attain Initial Operating Capability of the SAM system. In addition, IFAS (the financial component of the FLITE program) will follow the FMLoB guidance to award the IFAS implementation contract and take steps to initiate the IFAS pilot in FY 2009.

VA implemented FRDWS as an interim initiative to mitigate the material weakness by capturing transaction details from selected interfacing systems throughout the Department and the corresponding core FMS transactions. This resulted in an enhanced process by which financial transactions interfacing with FMS could be reconciled. In 2008, the FRDWS successfully completed implementing the last five interfacing systems into a production environment for the data warehouse.

PAID Accomplishments and Plans

VA continued production support and maintenance of PAID during 2007 in support of Federal-wide programs such as Health Savings Allotments, and changing child support payments from paper to electronic payments.

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.

e-Payroll Accomplishments and Plans

VA continues to make system changes needed to support VA's migration to DFAS. 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. The second group, which included additional Title 5 employees, migrated in October 2007. During 2008, the first group of Title 38 employees was successfully migrated to DFAS. The remaining VA payroll facilities began migration in 2008 with the last migration scheduled for September 2009.

E-Gov Travel Accomplishments and Plans

The FSC, VA's E-Government Travel Service (ETS) Project Office, led VA's implementation of ETS. In the first quarter of 2008, VA met its December 2007 deadline for agency-wide implementation, fulfilling a mandate of the President's Management Agenda. The VA ETS, also known as FedTraveler.com, gives approximately 70,000 VA frequent travelers as well as VA managers a much more efficient and accountable way to plan, book, and track travel arrangements as well as request and approve expense reimbursement. The new service eliminated four separate older travel systems with its one-stop, self-service, Web-based site. One of the key performance measurements the General Services Administration (GSA) monitors is the online adoption rate, which measures the percentage of travel plans with air reservations made using the online booking engine. VA's online adoption rate through the fourth quarter of 2008 averaged 82 percent, above VA's 75 percent goal, and leads all of the Electronic Data System's government deployments.

The FSC will continue to provide VA-wide support for the VA E-Gov Travel initiative. The FSC will provide the following services for



program sustainment: Global System Administration; support for Local System Administrators; sponsor for Super User conference calls; user acceptance testing of new software releases; training on new software releases; serving as Contracting Officer's Technical Representative; and participation in meetings hosted by GSA such as EDS User Group meetings, Program Change Control Board meetings, and Executive Change Control Board meetings.

Other Systems Accomplishments and Plans

Electronic Commerce (EC)/Electronic Data Interchange (EDI). Using COTS software and national standards, the FSC moves mission-critical information between VA and each of its trading partners, which includes vendors, mortgage service providers, and health care entities. EC/EDI also provides for internal exchange of information among VA application systems. Electronic data transfers enable program offices to restructure their work processes, take advantage of the accuracy and timeliness of electronic data, and concentrate on service objectives. 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 of 1996 (HIPAA).

In addition to providing EC/EDI to VHA, the FSC provides these services to VA's Denver Acquisition and Logistics Center for invoices and payment vouchers. Commercial invoices, Financial Management System payments, and the subsistence prime vendor program services are also provided to VA nationwide. VBA benefits from EC services in FSC's accepting and processing status of loan default transactions. EDI services are also provided by the FSC to assist the Veterans Canteen Service in receiving and processing invoices.

The FSC continues to provide support to the U.S. Department of Agriculture (USDA). 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 compliance and reduces processing costs for USDA.

The FSC provides the Department of Homeland Security's Division of Immigration Health Services (DIHS) with an integrated, end-to-end medical claims payment-processing application in conjunction with document processing through an Optical Character Recognition and Electronic Data Interchange (EDI) technology. This application is Web-enabled to support managed care remotely. This application truly represents a full life-cycle, automated service from the time an invoice reaches FSC through generation of payment and is in full compliance with the "Prompt Payment Act" (PPA) and HIPAA.

The Customer Support Help Desk (CSHD) offers a comprehensive one-stop response team to support inquiries from VA stations and vendors. CSHD is organized to provide timely and accurate responses to questions ranging from how to navigate in FMS to assisting a veteran with benefits information. The e-Travel Help Desk assists travelers and stations in processing travel requirements in the new ETS system.

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 and improve VHA's revenue



cycle. The FSC continues to use the latest versions of software to electronically ensure the validity of data with regard to HIPAA electronic transaction requirements.

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.

In our efforts to provide VHA with e-Claims reports, the FSC has created a portal for

Electronic Commerce (EC)/Electronic Data Interchange (EDI) Planned Improvement Initiatives

Tasks	Target Dates
Migrate customers to server-based translation software.	2009-2010
Support MCCR lockbox receipt of payments.	2009-2013
Support (by providing both development and production support services) VHA’s revenue cycle and HIPAA compliance efforts.	2009-2013
Support EDI production projects on a continuing basis.	2009-2013
Support reports portal.	2009-2013

On Line Certification System (OLCS) (payment certification). The FSC’s OLCS application 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. Field stations can elect to certify all invoices via OLCS or allow automatic payment for those invoices under \$2,500 with appropriate post-payment audits. For invoices to be certified online, the OLCS system 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 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.

OLCS was an essential enabler in centralizing 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.

Document Management System (DMS). The FSC uses a document imaging system, referred to as DMS, to provide a paperless work environment, reduce physical storage needs, and process high volumes of documents. Documents are stored on electronic media, with backups stored offsite, and can be retrieved in seconds.



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 Standard Form-224 report, storing grant and schedule

documents for other government agency customers, storing payroll folder data for VA employees who receive local payroll services from the FSC, and the storage of fee basis medical claims.

Planned DMS Expansion and Support

Tasks	Target Dates
Provide program support for DMS.	FY 2009-FY 2013