

A Letter from the Chief Financial Officer

I am pleased to report that the Department of Veterans Affairs continued its tradition of financial excellence in FY 2003. For the fifth straight year, VA received an unqualified opinion on its financial statements from the external auditors, Deloitte & Touche. We continue to improve our fiscal management and accountability by enhancing internal controls, complying with financial management laws and regulations, and taking timely corrective actions on the auditors' recommendations concerning reportable conditions, material weaknesses, and nonconformances.

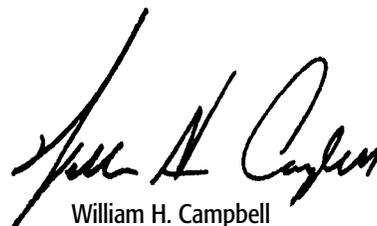
In FY 2003, we made significant progress on the two outstanding material weaknesses reported by Deloitte & Touche – Information Technology Security Controls and Lack of Integrated Financial Management System. We have maximized resources to make significant improvement in our overall security posture in the near term through prioritizing Federal Information Security Management Act remediation activities. Also, the Department has attained significant milestones in the implementation of our integrated Core Financial and Logistics System (CoreFLS). The system will go live for all phase-one operational test sites at the beginning of FY 2004, and we plan to conclude full implementation nationwide on schedule.

In addition, we corrected one material weakness, Housing Credit Assistance Program, and plan to close another, Personnel Accounting Integrated Data (PAID) System – Mission Performance, by October 2003. We are currently working on the remaining two material weaknesses, Inadequate Controls/Weaknesses in the Compensation and Pension Payment Process, and Compensation and Pension System – Lack of Adaptability and Documentation. We have begun efforts to address the requirements of the Improper Payments Information Act of 2002 and have initiated procedures to augment our internal controls in the area of erroneous payments. We continue to take measures to pinpoint overpayments in each program area and determine the nature and causes of the overpayments. Also, to address the Compensation and Pension System weakness, we have remediation plans in place for total conversion to the Veterans Services Network (VETSNET) to replace the current payment system. When implemented, VETSNET will enhance our responsiveness to veterans' needs.

The Department continues to make progress in implementing the Government Performance and Results Act. We continue to assess and refine our performance measures, the quality of data used to compute those measures, and procedures for compiling performance data. Also, procedures are being developed to enhance data validation to ensure that our stakeholders have useful and accurate performance data.

While we are proud of our accomplishments in FY 2003, we will continue to improve all aspects of our performance and strive to maintain higher financial management standards in FY 2004. We will also continue to promote effective management controls and focus on implementation of the President's Management Agenda initiatives.




William H. Campbell