

A Letter from the Chief Financial Officer



I am pleased to report that the Department of Veterans Affairs continued to improve its fiscal management and accountability in many areas this past year. I am particularly proud of the unqualified opinion VA received on its financial statements from the external auditors, Deloitte & Touche. This success – VA’s fourth consecutive year with an unqualified opinion – gives our internal stakeholders, Members of Congress, and the American public greater confidence that VA is maintaining strong and effective stewardship of its resources.

We have taken major steps during FY 2002 to enhance our internal controls and to correct material weaknesses identified in last year’s audit. As of the end of FY 2002, the Department corrected three of six material weaknesses. These include Management Legal Representations, Management Ownership of Financial Data, and Reliance on Independent Specialists. A fourth material weakness, Loan Guaranty Application Systems, is being consolidated under a separate material weakness, IT Security Controls. The remaining material weakness is the Lack of an Integrated Financial Management System. Both IT Security Controls and Lack of an Integrated Financial Management System are being corrected through multi-year remediation plans that are scheduled for full completion in FY 2005 and FY 2006, respectively.

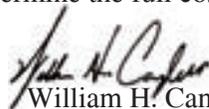
In addition, we corrected another material weakness, Inadequate Controls Over Addictive Drugs, which is one of five material weaknesses identified under the Federal Managers’ Financial Integrity Act (FMFIA). The other four FMFIA material weaknesses include Personnel Accounting Integrated Data (PAID) System - Mission Performance, Housing Credit Assistance Program, Inadequate Controls/Weaknesses in the Compensation and Pension Payment Process, and Compensation and Pension System - Lack of Adaptability and Documentation.

We took the following major steps to correct the remaining material weaknesses:

- Continued migrating the core accounting functions from mixed systems to the departmental Financial Management System, pending implementation of the Core Financial and Logistics System (CoreFLS). Upon its implementation, VA will be in full compliance with the Federal Financial Management Integrity Act.
- Took proactive steps to improve security controls related to IT.
- Began updating the PAID system to bring it current with deferred functionality.
- Determined the amount of overpayments in each area of the Compensation and Pension program to ascertain the nature and causes of the overpayments, and implemented necessary corrective actions.

Continuing weaknesses underscore the importance of our effort to implement CoreFLS. When fully implemented in 2006, it will provide consolidation of financial and logistics processes and eliminate current inefficiencies, redundancies, and manual reconciliations. The new system will also mitigate the risk of material misstatement in our financial reporting.

We realize that successful compliance with the Government Performance and Results Act requires complete and accurate data. As a result, we have improved our data collection processes and we continue to scrutinize performance data and enhance our data validation. In addition, with the implementation of our new budget structure in FY 2004, we will be better positioned to determine the full cost of VA’s major programs.


William H. Campbell