

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 weaknesses¹ (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
Information Technology Security Controls – 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
Lack of Integrated Financial Management System – 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

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.

Management Control Weaknesses

Description	Current Status	Resolution Target Date	Section 2	Section 4
PAID System–Mission Performance – 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
Internal Control Weaknesses in the Compensation and Pension Payment Process – 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.

Federal Information Security Management Act

The Federal Information Security Management Act (FISMA) provides the framework for securing the federal government's information technology. All agencies covered by the Paperwork Reduction Act must implement the requirements of FISMA and report annually to the Office of Management and Budget and Congress on the effectiveness of the agency's security programs. The reports must also include independent evaluations by the agency Inspector General.

VA is aware of the vulnerability of its assets and financial data to error or fraud and is in the process of correcting the information security controls material weakness. Implementation plans are in place to address this significant deficiency, as well as associated reportable conditions, which were identified in the FY 2004 Annual FISMA Report.

IG Act Amendments of 1988

VA collected \$16.7 million in disallowed costs from VA-contracted suppliers in 2004.

The Inspector General (IG) Act requires management to complete all final actions on recommendations within 1 year of the date of the IG's final report. Departmentwide, there are five reports that have been pending final action for over 1 year. Since 1997, there has been a reduction in the number of unimplemented reports pending final action. Delays were incurred in implementing recommendations as a result of the development and implementation of new regulations or directives, collection and/or write-off activities, and system changes. Per the IG Act reporting requirements, the following table is a summary of the Office of Inspector General reports with the management dollar value of Disallowed Costs and Funds to Be Put to Better Use.

Disallowed Costs and Funds to Be Put to Better Use Reporting Period October 1, 2003–September 30, 2004 (dollars in millions)				
	Disallowed Cost		Funds to Be Put to Better Use	
	Reports	Value	Reports	Value
Balance 9/30/03	5	\$0.1	11	\$176.3
New Reports	26	\$16.9	112	\$1,389.2
Total	31	\$17.0	123	\$1,565.5
Completed	26	\$16.7	104	\$822.2
Balance 9/30/04	5	\$0.3	19	\$743.3

Source: *Compliance with the IG Act Amendments of 1988* section reported by Office of Inspector General, Operational Support Division.

Prompt Payment Act

VA continued to enhance vendor payment processes throughout FY 2004. The Department processed over 5.3 million Prompt Payment Act-eligible invoices worth over \$8.4 billion, with nearly 99 percent paid on time. In FY 2004, interest payments VA-wide declined by \$45,000 to \$862,000—a 5 percent improvement over FY 2003 levels and an annual reduction of \$515,000, or 37 percent over the past 2 years. At the same time, discounts earned surged by \$469,000 to over \$2.7 million, a 21 percent improvement over FY 2003 levels. VA's percentage of discounts earned also improved from 82.0 percent in FY 2003 to 86.1 percent in FY 2004. Combined, payment processing improvements saved VA \$514,000 in FY 2004—savings the Department can use to improve veterans care. VA also continued to gain efficiencies and improved results through a completed initiative in FY 2004 to centralize vendor payment activities at the Financial Services Center (FSC) in Austin, Texas. By centralizing vendor payment activities at the FSC, 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 routinely 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 payment processing such as erroneous interest penalties, service charges, and sales taxes. This initiative, started in FY 2004, recovered over \$31,000 in erroneous interest penalties, service charges, and sales taxes for reuse by VA entities.

Overall, during FY 2004, collections of improper payments and the recovery of unapplied vendor statement credits totaled over \$3.7 million—a 22 percent increase over

FY 2003 collections. Improved payment oversight also enabled the VA to identify and cancel nearly \$3.9 million in potential improper payments prior to disbursement during FY 2004. Since the FSC audit recovery effort's inception in FY 2001, VA has recovered over \$10.5 million in improper payments and prevented the improper payment of another \$9.7 million.

Through September 2004, the Department aggressively used the government-wide commercial purchase card program. Over 3.6 million purchase card transactions were processed, representing over \$1.9 billion in purchases. The electronic billing and payment process for centrally billed card accounts earned VA \$30 million in credit card rebates—compared to \$18 million during the same period in FY 2003. These rebates are returned to VA entities for use in veterans programs. The increase in rebates can be mostly attributed to the increase in basis points VA receives as a result of the recompeted contract with the contract bank.

VA's fee basis credit card program went “live” in September 2003. This program electronically automates Health Care Fee Basis payments, eliminates processing of paper checks, and earns VA additional purchase card rebates. During FY 2003, the program generated 88 transactions and \$8,000 in payments. In FY 2004, the number of Fee Basis purchase card transactions exceeded 21,000 and were valued at \$5 million in payments, earning VA over \$81,000 in additional rebates.

VA's Prime Vendor Payment System automates payments under a nationwide prime vendor centralized purchasing contract. During FY 2004, 126 VA medical centers used the Prime Vendor System to electronically process over 454,000 transactions worth over \$3.5 billion compared to over \$3.1 billion during FY 2003.

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 FY 2004, the travel management program processed over 105,000 transactions, disbursed payments of over \$19 million and earned over \$300,000 in rebates compared to over \$223,000 during FY 2003.

VA's FSC staff continued to provide vendor payment history on the Internet. Currently, the Vendor Inquiry System (VIS) Internet application stores almost 2 years of information on invoices. Once vendors complete an authentication process, they can access a secure Web site to view payment information for their company. Currently, there are 6,270 registered vendors who have made over 319,000 requests in FY 2004 and a total of over 619,000 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 without having to call and wait for a person to provide payment information. The VIS has also improved customer service efficiency of the FSC staff by handling many routine inquiries and freeing staff to work the more difficult issues for customers.

The FSC also continued to improve the Intranet online invoice certification process that allows invoices to be certified electronically by VA facilities and schedule them for payment. VA's On Line Certification System (OLCS) allows the FSC to notify certifying officials via e-mail of any invoice requiring payment certification. Through the Intranet, the certifying official can view, certify, and forward the invoice to the FSC for payment processing, reducing the processing time to hours rather than days. During 2004, functionality was enhanced to add the Fund Control Point Clerk to the processing workflow as well as the capability to work rejected invoices at the station level. The FSC expanded the certified invoice service throughout the Veterans Health Administration (VHA) in 2004 and implemented OLCS at all facilities as part of the VHA payment centralization initiative. That brought the number of OLCS users to more than 9,000 VA employees. The FSC is currently working with the Veterans Benefits Administration to centralize their payments at the FSC.

Improper Payments Information Act of 2002

(Summary of Implementation Efforts for FY 2004 and Agency Plans for FY 2005 through 2007)

Overview

VA identified 19 programs, totaling \$58.214 billion, for review under the Improper Payments Information Act of 2002 (IPIA). Two programs, Housing and Vocational Rehabilitation and Employment, were not able to be reviewed during the FY 2004 cycle. These programs will be reviewed during FY 2005. A risk assessment of all 19 VA programs was accomplished, but it was decided that statistical sampling would be performed on all programs.

The statistical samples revealed that 12 of the programs had estimated improper payments less than \$10 million; thus, no report was required for these programs. The remaining five programs either had estimated improper payments exceeding \$10 million or were programs previously identified in the former Section 57 of Office of Management and Budget Circular A-11. The five programs include Compensation, Dependency and Indemnity Compensation (which is reported as part of Compensation), Pension, Insurance, and Education. Further details are provided in Part IV starting on page 270.

Accomplishments

Because of the importance of all programs identified for review relative to the IPIA, VA designated a senior official to be responsible for implementing IPIA. VA's Assistant Secretary for Management (Chief Financial Officer) is the VA official 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. Seventeen of the 19 programs identified for review completed the required statistical sampling during 2004, in accordance with VA's IPIA plan. In addition, VA also used quality reviews to correct systemic problems, identified reports needed and training needs, piloted a

prototype automated claims processing system, and identified accountability for the quality of claims processing.

Plans to Accomplish

Efforts are ongoing to rewrite regulations into clear and understandable language, develop an automated claims processing system for Education, consolidate pension workload processing, improve matching programs with other Government agencies, improve quality reviews to identify error trends and causes, and improve training programs for rating specialists. The goal is to reduce the amount of erroneous payments in all programs.

Financial Management Systems Framework

The Department's strategy, defined about 12 years ago, is based on goals to replace outdated and noncompliant systems with more modern, commercial off-the-shelf (COTS), Joint Financial Managers Improvement Program (JFMIP)-compliant systems based on new technology. In the last 7 years, the strategy was enhanced to incorporate business process reengineering in the requirements, acquisition, and development and implementation phases of projects.

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 12 years to achieve VA's strategic goals have included:

- The Financial Management System (FMS), a project 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, 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. As a result, in 1998, VA began another initiative, the Core Financial and Logistics System (CoreFLS), to determine how best to address these weaknesses while continuing VA's overall strategy.

- CoreFLS was a project to replace FMS and the Integrated Funds Distribution, Control Point activity, Accounting and Procurement system, and other financial and logistics systems interfacing to FMS with a fully integrated system comprised of COTS software. Although piloted at three sites during FY 2004, pilot

activities were phased out. Consequently, VA is proceeding with a plan to support an enhanced CoreFLS program moving forward to full deployment at VA facilities nationwide. For key early components of the plan, see page 38.

- VA is participating in the Federal-wide plan to consolidate Federal payroll services and processes that is included in the President's Management Agenda for Improving Internal Efficiencies and Effectiveness. VA has been aligned with the Defense Finance and Accounting Service as its future payroll provider.

VA's financial system recent accomplishments and plans for the next 5 years are detailed as follows.

Financial Management System (FMS) Accomplishments and Plans

As part of its financial systems strategy, VA is continuing migration of core accounting functions from mixed systems to the current core accounting system as opportunities arise. VA has already migrated small and manual benefit systems accounting to FMS. As the major benefit systems are replaced or modernized, the financial components of those systems will be made JFMIP- and Standard General Ledger-compliant or will be migrated to FMS.

A significant accomplishment in FY 2004 was the final accreditation of FMS by the VA Chief Information Officer on April 4, 2004. This accreditation provides full authorization for VA to operate FMS until April 1, 2007, unless a significant change warrants an earlier re-certification. Another major initiative planned for FMS and VA's other financial management systems was to implement the Department's proposed new budget structure. Although approval was not received from Congress to institute this new budget structure aligned with VA's major business lines effective for FY 2004, Congress did authorize a major restructure of the Veterans Health Administration

(VHA) budget. The successful realignment of the VHA budget structure was a significant accomplishment in FY 2004. FMS staff also completed work necessary to redefine various VHA funds in FMS (Nursing Home, Pershing Hall Extended Care, and Enhanced Use Lease Proceeds) to individual Medical Care Collection Fund collection accounts. VHA began using these new collection accounts effective October 2004. Following the decision to revert the Bay Pines VAMC and the two additional pilot sites that operated under CoreFLS during FY 2004 to FMS, substantial work was completed to successfully revert these sites in October 2004.

VA plans to continue operation of FMS as the Department's core financial management system through FY 2009, at which time CoreFLS will be fully operational.

CoreFLS Accomplishments and Plans

Although the Bay Pines VAMC and two other pilot sites began piloting the program in October 2003, the CoreFLS pilot was suspended in July 2004. The pilot was designed to test a new computerized financial management and logistics system and to highlight the strengths and weaknesses of certain commercial off-the-shelf technology programs in a complex medical environment. The target phase-out date of October 1 was established for the pilot program at Bay Pines and the two other pilot sites to return to VA's existing Financial Management System. An executive project committee, chaired by VA's Assistant Secretary for Information and Technology and made up of senior leaders of the Department, is examining the results of the CoreFLS pilot program at Bay Pines and the other two pilot sites and will make recommendations to the VA Secretary concerning the future of the program. CoreFLS was intended to comply with the Federal Financial Management Improvement Act of 1996, which required all governmental agencies to

integrate their financial management systems based on available commercial, off-the-shelf programs.

PAID Accomplishments and Plans

As part of VA's strategy to ensure the legacy payroll and HR systems (i.e., PAID and related systems) will still be useable for the next 5 to 10 years, VA has completed the following activities:

Following the successful implementation of Employee Express (EEX) in FY 2003, VA automated interfaces from EEX to PAID. This has allowed VHA to reassign staff at the VA Health Revenue Center (HRC) from duties relating to employee self service to cost recovery and revenue generation tasks. In May 2003 the HRC had 88 FTE supporting employee self service, and as of May 2004, only 8 FTE were supporting EEX. The recurring costs for VA's previous employee self-service system were approximately \$3.8 million in FY 2003; VA's FY 2004 costs for EEX were \$775,000, an annual savings of \$3.025 million.

PAID received final accreditation by the VA Chief Information Officer on January 13, 2004. This accreditation provides full authorization for VA to operate PAID until December 10, 2006, unless a significant change warrants an earlier recertification.

VA made substantial progress in completing the Web-enabling of its HR system user interface. Nationwide roll-out of the Web interface was scheduled to begin in mid-October 2004 with all sites implemented by the end of the calendar year. Seventy deferred requirements were successfully completed for PAID, including:

- Implementation of "labor distribution" and new VHA accounting structure.
- Expansion of garnishment fields.
- Addition of a "telework" indicator and report.

- Advance notice when mandatory retirement date is near for certain law enforcement officers and firefighters.
- Changes to allow additional report distribution options for integrated stations.

Nine of the deferred requirements remain to be implemented and will be incorporated into the e-Payroll initiative.

Extending the Service Life Initiatives

Commensurate with work on the e-Payroll initiative, VA has begun planning for the following three initiatives to be completed by September 2005 in an attempt to extend the service life of PAID and related systems for the next 5 to 10 years:

Web-Reports (design, development, and implementation of a Web-based reporting tool for extraction of data from PAID). This initiative will use a relational database to create reports. It will also acquire and deploy Web-based reports and tools to improve human resources and payroll reporting. A pilot was completed in March 2004. Because of the need to focus resources on the e-Payroll initiative, further development on the Web-Reports has been deferred and will be incorporated into the e-Payroll project plan.

Web-Time & Attendance (development of a Web-based time and attendance (T&A) system for VA employees). This initiative will improve customer access and usability, contain better cost distribution and reporting features, contain modern graphical user interfaces, and feature drop-down menus, radio buttons, and online help. In support of e-Payroll, VA is soliciting technical support to assist in defining the functional requirements that a modern time and attendance system for VA must support.

Modernize the OLDE Infrastructure (convert the OLDE database to a relational database and use this database for the Web-Reports and Web-T&A initiatives). This initiative will improve the ability of PAID customers to share data between systems (e.g., accounting systems) and improve VA's ability to meet reporting needs. Given the movement to DFAS as VA's e-Payroll provider and the planned future migration under the eHR Line of Business initiative, the database conversion portion has been abandoned.

e-Payroll Accomplishments and Plans

FY 2004 Accomplishments

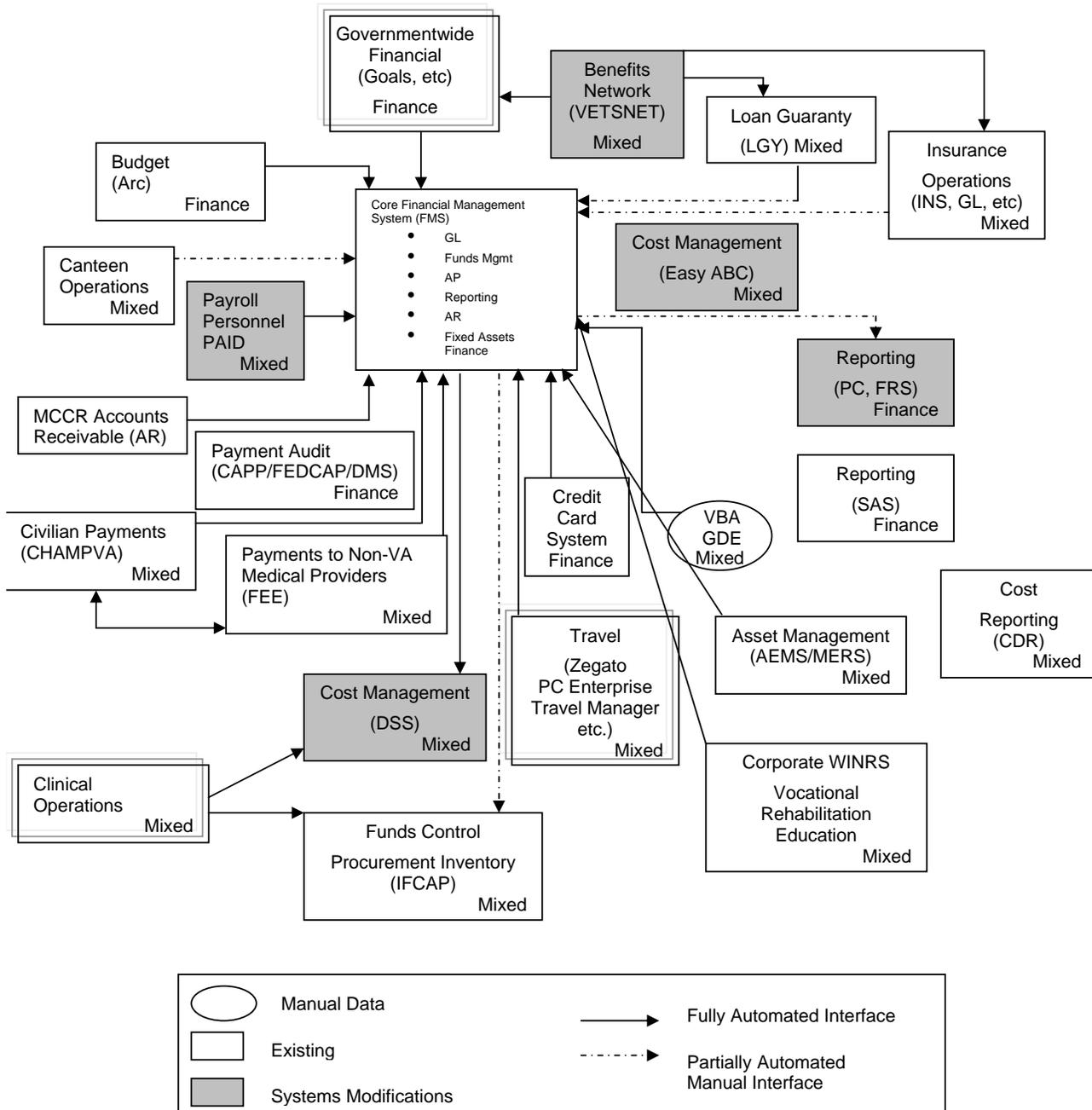
Following the decision to align VA with the Defense Finance and Accounting Service (DFAS), VA has provided DFAS with high-level VA requirements for payroll and related services. This has included detailed requirements of earnings and deductions for the diverse types of VA employees as well as the requirements for using VA appropriations to issue payments to/on behalf of these employees. VA also provided DFAS with business processes for payroll, benefits, and human resources along with the associated policies and procedures. VA and DFAS have identified differences/gaps in processes between the two agencies. This fit-gap analysis is being negotiated for final resolution in early FY 2005. Internally, VA will be analyzing its "time and attendance" processes, in conjunction with this initiative, in order to provide necessary interfaces to DFAS and to evaluate the long-term support options regarding VA's decentralized Electronic Time and Attendance system (ETA). VA has also begun work to finalize a migration schedule and overall milestone plan based on a phased approach. Subsequent to conversion, VA's PAID system will continue to be used for HR processes until VA and other agencies migrate to the integrated HR and payroll system that is expected to be available under the eHR Line of Business.

e-Travel Accomplishments and Plans

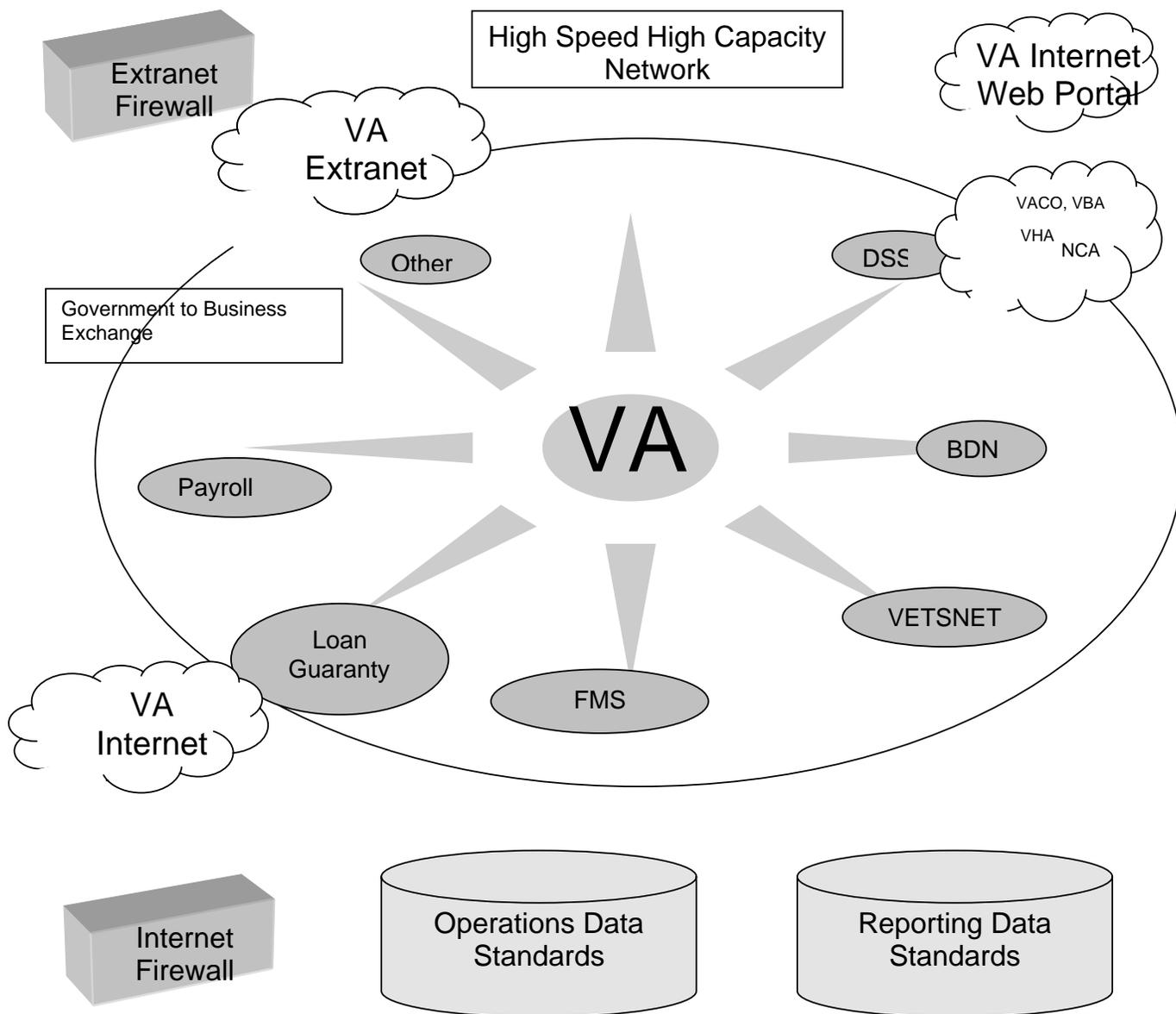
FY 2004 Accomplishments

Use of VA's existing travel systems continued in FY 2004, including PCTravel, Gelco, and Zegato. VA began working with the General Services Administration (GSA) in July 2004 on efforts to migrate to the government eTS travel solution. The GSA eTS system will allow travelers and/or travel arrangers to electronically prepare and submit travel information using a Web-based system and access an online booking engine for trip planning. VA is focusing efforts on evaluation and selection of one of the three GSA eTS vendors available on the GSA master contract. VA has established an e-Travel steering committee and evaluation panel to assist in this initiative. The steering committee will monitor project status, address issues presented by the evaluation panel, and recommend selection of a specific vendor to VA executives. The evaluation panel has completed the acquisition plan, test scenarios, and request for quote and will be involved in analyzing, reviewing, and testing the available vendor solutions. VA plans to complete the evaluation of eTS vendors in November and recommend a final award by December 31, 2004, in accordance with the GSA-mandated timeline. Final implementation of the approved vendor would proceed in FY 2005 and be completed by September 2006.

VA Financial Management Systems Current Functional Model FY 2004



FINANCIAL AND LOGISTICS MANAGEMENT SYSTEMS MODEL FY 2005
 Supporting
 Veterans Health Administration, Veterans Benefits
 Administration and National Cemetery Administration



VA is Building a High Capacity Network and Developing
 Corporate Standards for Architecture, Data and Security

Other Systems Accomplishments and Plans

Electronic Commerce (EC)/Electronic Data Interchange (EDI) System.

EC/EDI uses commercially available, off-the-shelf software and national standards to move 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.

VA's Financial Services Center (FSC) provides EDI services to process VHA Medical Care Cost Recovery (MCCR) health care billings. The FSC is also supporting VHA initiatives such as electronic Insurance Identification and Verification (e-IIV), electronic Pharmacy (e-Pharmacy), electronic Medicare Remittance Advice (e-MRA), and the MCCR lockbox initiative for recording receipt of payments for billed items. Additionally, the FSC provides EDI services to assist the Veterans Canteen Service in receiving and processing invoices.

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. The FSC recently procured software to electronically ensure the validity of data with regards to HIPAA compliancy.

In addition to VHA, the FSC provides EC services to VA's Denver Distribution Center for invoices and payment vouchers, and to VA's subsistence prime

vendor program. Furthermore, VBA benefits from FSC EC services in the FSC's handling of loan processing, identifying the status of loan defaults, and processing loan guaranty certificates.

Tasks	Target Dates
Support MCCR lockbox receipt of payments.	FY 2005
Support (by providing both development and production support services) VHA's HIPAA compliance efforts.	FY 2005
Support EDI production projects on a continuing basis.	FY 2005 - FY 2009

On-line Certification System (payment certification). The FSC developed the On-line Certification System (OLCS) in FY 2000. The OLCS application, based on input and suggestions from FSC customers, provides a simple, effective method for certifying officials to view and certify invoices without having to manually route paper invoices. Under OLCS, vendors send invoices directly to the FSC. Within 24 hours, an invoice is scanned into the FSC's document management system (DMS), given a document locator number, and indexed with the information required to process the invoice. The DMS is the FSC's optical imaging system used to route and process all documents in a paperless form. Once scanned, the invoice becomes an electronic image that can be stored for the remainder of its useful life. The OLCS allows officials in the field to have access to invoices requiring certification. When invoices are received at the FSC, the system sends an e-mail notification to certifying officials and provides information on how to access the invoices. This application received an *e-GOV 2000 Trailblazer* award. The OLCS was further improved in FY 2004 with system enhancements to allow VA activities to process rejected invoices online and by adding functionality to

permit review of invoices by fund control personnel at the VA activity. Approximately 11,700 employees currently use the OLCS within VA.

The OLCS was an essential enabler in permitting VA to successfully centralize VHA certified invoice payment processing to the FSC in FY 2004. Certified invoices sent to the FSC for processing are managed by certifying officials through the OLCS and then paid by the FSC. As a result, VA has realized a tremendous increase in the efficiency of the payment process resulting in significant savings in resources. At the same time, the OLCS and centralization has substantially reduced interest penalties and increased discounts earned.

The FSC's certified payments process represents a full life cycle of services performed from the time the FSC receives an invoice until the Department of the Treasury (Treasury) renders proper payment. The services include processing cancelled checks, check tracers, vendor re-certifications, rejects and adjustments, inquiries, vendor reclaims, bills of collection, Treasury offsets, tax levies, and fax-hold followups. The FSC provides these services in compliance with applicable VA regulations and directives and the Prompt Payment Act.

Tasks	Target Date
Implement programming enhancements based on customer feedback.	Ongoing

Document Management System (DMS). The FSC implemented an imaging system, referred to as the DMS, in May 1994. The DMS allows the FSC to provide a paperless work environment, reduce physical storage needs, and process

high volumes of documents. Documents are stored on optical platters and can be retrieved in seconds. Backups are stored offsite.

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 SF-224 report, and OLCS. Additionally, the DMS has shown potential in storing and retrieving finance records, official personnel folder data, contract files, and legal documents.

VA's Franchise Fund Board of Directors approved the FSC's FY 2005 business plan, which further refined the FSC's plan to offer DMS as a product line. The FSC currently provides storage and retrieval services via the Intranet to VA customers and provides the same types of services to other government agencies (OGA) via the Internet.

Tasks	Target Dates
Add new OGA and VA customers.	FY 2005 – FY 2009
Upgrade DMS.	FY 2005
Provide program support for DMS.	FY 2005 – FY 2009