



Letter from the Chief Financial Officer

The Department of Veterans Affairs (VA) completed another successful year by receiving an unqualified audit opinion for the 8th consecutive year. VA worked tirelessly to address emerging audit findings to ensure no new reportable conditions or material weaknesses. Those persistent efforts helped lead to our unqualified opinion from our external auditors, Deloitte & Touche. We are extremely proud of this accomplishment.

Throughout FY 2006, VA made improvements and progress in remediating our three audit material weaknesses – *Lack of an Integrated Financial Management System*, *Information Technology Security Controls*, and *Operational Oversight*. VA continues to move forward with the Financial & Logistics Integrated Technology Enterprise (FLITE) initiative to assist in correcting financial and logistics deficiencies throughout the Department. This initiative will standardize our financial and logistical processes and data across VA and provide management with access to timely and accurate financial, logistics, budget, asset, and related information.

As related to the *Lack of an Integrated Financial Management System* material weakness, VA successfully completed a project this year to automate the preparation of our financial statements using commercial off-the-shelf software. VA used this software to prepare both our 3rd and 4th quarter financial statements. In addition, we began implementation of a Financial Reporting Data Warehouse for our major systems. The warehouse is used to perform reconciliation activities between the core financial system and feeder systems. This will ultimately ensure that these interfaces are working correctly, and that the data in the core financial system accurately reflects financial events as they occurred in feeder systems. This initiative will ensure all interfacing systems to the data warehouse are A-127 compliant. We are proud that as a result of our successful



efforts in improving the preparation of VA's financial statements, as well as our progress with the Financial Reporting Data Warehouse, VA's President's Management Agenda scorecard on Financial Performance improved from "yellow" to "green" for progress.

To further address the material weakness in *Information Technology Security Controls*, VA established an over-arching and cross-cutting remediation plan, the Data Security-Assessment and Strengthening of Controls Program, to correct deficiencies and eliminate vulnerabilities in information security. This program will enable completion of hundreds of tasks required to remediate long-standing security weaknesses. VA continued progress toward resolving this outstanding audit material weakness by validating that VA was compliant with the Health Insurance Portability and Accountability Act, and certifying and accrediting over 600 information technology systems.

During 2006, work began on the *Operational Oversight* material weakness, including forming a VHA task force to perform a root cause analysis to identify issues that contributed to the weakness. Progress was made by VHA's Business Process Improvement Committee to track issues raised in the analysis as well as all business processes to ensure that best business practices and internal controls are in place. During FY 2007, increased focus will be placed



on remediating this material weakness in light of the auditors' additional findings in the FY 2006 audit report.

Although each of these three weaknesses involves corrective action over multiple years, VA continues to work diligently and proactively on action plans that address these weaknesses.

The Department closed its sole remaining material weakness under the Federal Managers' Financial Integrity Act (FMFIA), *Internal Control Weaknesses in the Compensation and Pension Payment Process*, and no new FMFIA material weaknesses were identified during 2006.

We also pursued efforts to ensure VA's compliance with OMB Circular A-123, Appendix A, Internal Controls over Financial Reporting. Based on an approved implementation plan, VA completed action items identified for the first year of a 3-year plan. As a result of the completion of the limited-scope assessment on the effectiveness of internal controls for 2 of 11 business processes (Financial Reporting; Funds Management), no material weaknesses were identified. VA developed a remediation plan to address findings identified in the first year, and planning for the second year is underway. VA also continued to meet existing and new requirements under OMB Circular A-123, including travel card requirements under Appendix B, and new requirements for the Improper Payments Information Act (IPIA) under Appendix C.

VA successfully completed risk assessments, statistical sampling, and all requirements for programs under the IPIA. VA achieved all audit recovery targets for improper payments and met four out of five reduction targets. VA also received approval from OMB to remove VA's Insurance program from IPIA reporting requirements until FY 2009. VA also made progress by simplifying agency regulations for disability determinations to further decrease improper payments through improved accuracy

of the payment amounts to appropriate beneficiaries. VA is a leader in the federal government for the implementation of IPIA. This year, VA achieved a "green" score for status on the President's Management Agenda scorecard on Eliminating Improper Payments by meeting our targets on improper payment reduction and recovery. VA is one of only four departments/agencies to have a "green" score in both progress and status.

VA continued to advance Presidential e-Gov initiatives and aggressively worked with the E-Gov Travel Services prime contractor to lay the foundation for implementing an electronic travel solution beginning in FY 2007. In the e-Payroll arena, VA successfully migrated 1,250 employees to the Defense Finance and Accounting Service for payroll servicing in September 2006. Work will continue in FY 2007-2008 on subsequent efforts associated with migrating the remaining VA locations.

VA's Franchise Fund, established as a pilot in FY 1997, continued its successful operation and performance at the highest level of financial stewardship. As a result of providing excellent performance in a wide variety of administrative support services throughout VA and with other government agencies, permanent status was conveyed to VA's Franchise Fund under P.L. 109-114, the Military Quality of Life and Veterans Affairs Appropriation Act, 2006.

We are proud that in FY 2006, VHA collected over \$1.95 billion in Medical Care Collection Funds -- the largest amount ever collected during a fiscal year. Additionally, VA began developing a Departmental managerial cost accounting (MCA) system to enable managers at all levels to review and analyze cost data at the detail and programmatic levels. We expect all MCA processes within VA's Administrations to be operational during FY 2008.

Under the Government Performance and Results Act, we continuously assessed and refined our performance measures, quality of data, and



compilation procedures. We developed procedures to assure our stakeholders that we have the most useful and accurate performance data available.

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

A handwritten signature in black ink, appearing to read "R. Henke".

Robert J. Henke