



Letter from the Chief Financial Officer

The Department of Veterans Affairs (VA) completed another successful year by receiving an unqualified audit opinion for the 9th consecutive year from our external auditors, Deloitte & Touche. We are extremely proud of this accomplishment.

Throughout FY 2007, VA made improvements and progress in remediating our three audit material weaknesses – *Financial Management System Functionality* (previously identified as *Lack of an Integrated Financial Management System*), *Information Technology Security Controls*, and *Financial Management Oversight* (previously identified as *Operational Oversight*).

To address the Department's material weakness, *Financial Management System Functionality*, VA continues its efforts to develop the Financial & Logistics Integrated Technology Enterprise (FLITE) program. The FLITE initiative will integrate many disparate systems, standardize financial and logistics functional processes, and modernize the information technology environment supporting financial and logistics management within VA. In FY 2007, VA completed the prerequisite planning for the FLITE program. As a component of FLITE, VA is also continuing to implement a Financial Reporting Data Warehouse. This warehouse will improve the quality, timeliness and accuracy of feeder system data interfaced to VA's core Financial Management System (FMS) and simplify reconciliations. During 2007, VA completed system mapping for all of the nine major feeder system interfaces, and two of the interfaces, PAID and Loan Service and Claims, were implemented in the warehouse as scheduled.

In addition, the Hyperion Financial Management reporting system, initiated in 2006, was used to produce the 2007 quarterly and consolidated financial statements. This system is now completely producing VA's consolidated



financial statements using a standardized and repeatable process. The system was expanded in 2007 to provide for the automated generation of footnotes to the financial statements.

As a result of our successful efforts in improving the preparation of VA's financial statements and our progress with the Financial Reporting Data Warehouse, VA's President's Management Agenda scorecard on Financial Performance is "yellow" for progress.

To further address the material weakness in *Information Technology Security Controls*, VA developed the "Data Security – Assessment and Strengthening of Controls Program," which is an over-arching and cross-cutting remediation plan designed 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. Following the publication in 2006 of VA Directive 6500, "Information Security Program," the corresponding VA Handbook 6500 was published in 2007; they provide the foundation for a comprehensive information security program throughout VA.

During 2007, additional focus was placed on the *Financial Management Oversight* material weakness as a result of the expansion of this significant deficiency to other fiscal areas in the



Department. VA developed and continues implementation of a detailed remediation plan to address the resolution of this material weakness. Throughout the year, additional and clarifying financial policies and procedures were provided to VA's fiscal community, particularly in the area of internal control. During FY 2008, expanded focus will be placed on addressing the auditors' FY 2007 audit report findings.

VA is starting a 3-year Financial Policy Improvement Initiative to assist in the remediation of two material weaknesses: *Financial Management Oversight* and *Financial Management System Functionality*. The primary objective of this initiative is to ensure that financial policy and procedural information is standardized, accurate, clear, and readily available across the Department.

Each of these three weaknesses involves corrective action plans over multiple years and VA continues to work diligently and proactively to address these weaknesses. VA will develop a corrective action plan in FY 2008 to address the new material weakness, *Retention of Computer Generated Detail Records in Benefits Delivery Network (BDN) System - VBA*.

We also continued efforts to ensure VA's compliance with OMB Circular A-123, Appendix A, Internal Controls over Financial Reporting. Based on the approved implementation plan, VA completed actions identified for year two of a 3-year plan. As a result of the completion of the limited scope assessment on the effectiveness of internal controls for five of the remaining nine business processes, no material weaknesses were identified. Remediation actions were implemented during 2007 to address findings identified in year one for two key business processes, "Financial Reporting" and "Funds Management." In addition, remediation plans were developed to address findings identified in year two, and planning for the third 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 Improper Payments Information Act (IPIA) requirements 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 three out of five reduction targets. VA also received approval from OMB to remove VA's Insurance program from IPIA reporting requirements until FY 2009. In addition, because the Vocational Rehabilitation & Employment program does not meet the 2.5 percent or \$10 million threshold in annual erroneous payments, VA requested that this program be removed from future annual reporting. This year, VA achieved a "green" score for progress on the President's Management Agenda scorecard on Eliminating Improper Payments.

VA continued to advance Presidential e-Gov initiatives and aggressively worked with the General Services Administration and Electronic Data Systems, the e-Gov travel prime contractor, to implement an electronic travel solution for VA. VA will complete department-wide implementation of FedTraveler on schedule in December 2007. In the e-Payroll area, VA successfully migrated 1,250 employees to the Defense Finance and Accounting Service for payroll servicing in September 2006, and an additional migration of 259 employees was completed in October 2007. The remaining VA population will migrate in FY 2008 - 2009.

VA's Franchise Fund, which received permanent status in 2006, is expected to receive its 10th successive unqualified audit opinion on its FY 2007 consolidated financial statements.

We are proud that in FY 2007, medical care collections continued to improve. Collections totaled nearly \$2.2 billion. VA plans to continue to increase these collections, reaching \$2.3 billion in FY 2008. Additionally, VA has



developed 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", is positioned above the typed name.

Robert J. Henke
November 15, 2007