General Management

VA *Closed* *Four* Material Weaknesses

Federal Managers' Financial Integrity Act (FMFIA)

In FY 1996, VA completed all required actions and closed four material weaknesses.

- Utilization Management
- Central Office Finance Service
- Personal Property Accounting
- Real Property Accounting

VA continued to progressively implement important milestones affecting the remainder of VA's eleven material weaknesses. Descriptions of management's actions can be found in the Lines of Business sections. One additional material weakness, Loan Sale Program Management, was disclosed in FY 1997.

New Material Weakness Loan Sale Program Management

Pending FMFIA Material Weaknesses	*Reported*	*Correction*
Aging, Antiquated, and Proprietary Hardware and Software Systems	1983	1997
Lack of Adequate Contingency Plans	1984	1997
Insurance-Adaptability and Documentation	1985	1997
Controls Over Prescription Drugs	1990	1997
Education System - Chapter 1606	1993	1997
C&P-Adaptability and Documentation	1985	1998
Credit Reform	1990	1998
Loan Guaranty - Loan Service and Claims	1989	1999
Inadequate Controls Over Addictive Drugs	1991	1999
PAID-Mission Performance	1993	2000
LGY Financial Systems Modernization	1986	TBD
Loan Sale Program Management	1997	TBD

At the direction of the Secretary, progress on the following management areas is being carefully monitored by VA's top management: Integration of VBA's Small PC Applications with FMS, Year 2000 Computer Compliance, Resource Allocation in VHA, Security of VA Internet Gateways, Space Acquisition Process, Veterans Benefits Claims Processing—Remands and Backlogs and Workers' Compensation. Although sufficient action was taken to remove Real and Personal Property Accounting as material weaknesses, VA will continue to monitor them.

IG Amendments Act of 1988
Management Report on Final Action

In FY 1996, as shown below, management carried over a total of 53 reports with Disallowed costs and Funds Put To Better Use. During the year, management and IG agreed to implement recommendations on an additional 36 reports. These had a monetary value of $105.2 million. By year end, action was completed on 46 of 89 audits. Going into FY 1997, 43 reports with an associated value of $126.5 million remain unimplemented.

Perpetual Inventory
October 1, 1995 - September 30, 1996

	Disallowed Costs		Funds to be Put to Better Use	
10/1/95	36	$14.2M	17	$ 68.8M
New	24	$28.5M	12	$ 76.7M
Total	60	$42.7M	29	$145.5M
Completed	30	$34.2M	16	$ 27.5M
09/30/96	30	$ 8.5M	13	$118.0M

Departmentwide, 80 IG audit reports, down from 86 in both FYs 1994 and 1995, had one or more unimplemented recommendations pending final action over one year. Reason for delay included implementation of complex automated data systems changes, collection and/or write-off activities, development and implementation of regulations or directives, training initiatives, legislative initiatives and lack of resources. A summary by accountable office is provided below:

OIG Reports Pending Final Action One Year After Management Decisions Have Been Made

Organizations	FY1994	FY1995	FY1996
National Cemetery System	0	0	1
Staff Offices	17	20	20
Veterans Benefits Administration	20	21	21
Veterans Health Administration	49	45	38
Totals	86	86	80

Debt Management

VA has long been regarded as a leader in the federal debt management community. Our Debt Management Center (DMC) oversees a centralized, automated collection system that utilizes every collection tool available to federal agencies in an efficient, cost-effective operation that emphasizes both the prevention and

Carried Over 10 Fewer Reports with Disallowed Costs/Funds to be Put to Better Use

Annual Inventory of Reports Pending Final Action Over 0ne Year Reduced by Six.

Leader in Federal Debt Management

collection of debt. As evidence of the Department's continued excellence in this field, collection rates for newly-established education (87%) and home loan debts (78%) again reached all-time highs in FY 1996. The rate for compensation and pension (68%) fell slightly short of the record established the previous year. In FY 1996, the cost of operating the DMC totaled $5.48 million (including ADP support provided by other offices), while DMC collections totaled $306 million resulting in a collection to cost ratio of almost $56 collected for every dollar spent.

In order to maintain VA's leadership position in the federal debt collection community, over the past year we have been moving closer to our goal of consolidating all significant VA debt programs into one centralized, automated collection system. Historically, the management of VA's major debt programs was divided into two categories—Medical Care Cost Recovery (MCCR), and the recovery of VA benefit debts. Most benefit debts have been housed in an automated system and managed by the DMC for many years. During 1996, we have made significant progress toward automating the billing and payment processing of first-party medical receivables, and we have laid the groundwork for consolidating the debt collection management of these debts under the DMC.

Debt Programs Consolidated

The results of our efforts in 1996 will be felt in 1997 when the generation of medical bills will be completely automated at a centralized site at our Automation Center in Austin, Texas. The processing of mailed payments will also be automated and centralized at the Veterans Benefits Administration's lock-box operation in St. Paul, Minnesota. The automation of these functions will save on postage costs and will free MCCR resources from these time-consuming clerical tasks so that they can be deployed on other MCCR initiatives.

Also in 1997, delinquent medical care debts that are more than 90 days old will be referred to the DMC for limited collection management activity. This referral will implement a recommendation by the National Performance Review and is consistent with the Department's strategy of achieving maximum consolidation of debt. By referring these medical debts to the DMC, we should increase the collection rate while significantly lowering the cost of collection since the centralized operation at the DMC is more efficient than spreading the operation out among the individual medical centers. Among the collection tools to be used by the DMC will be offsets from VA benefit payments and from federal salary and retirement payments. During 1997, we will be developing and modifying the systems that will allow for the

***DMC* to Manage 1st Party Medical Receivables.**

DMC to manage all first-party medical care receivables (including nondelinquent receivables).

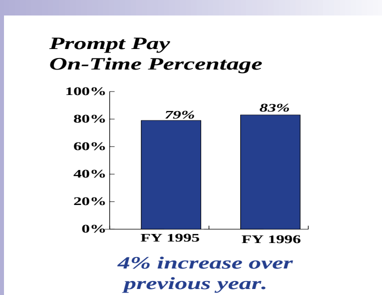
During 1996, VA reviewed all of its regulations governing the management of VA benefit and medical care debt. New regulations have been drafted which will reduce the volume in this area of 38 C.F.R. by more than 50 percent. These revised regulations are currently under review by the General Counsel and should be published in 1997.

Taking steps to service other agencies debt.

The enactment of the Debt Collection Improvement Act of 1996 legislated the most sweeping changes for federal collection management since the Debt Collection Act of 1982. This legislation provides federal collection officials with some new collection tools (e.g., expanded authority to offset federal payments), and it also imposes upon these officials some new requirements (e.g., new reporting and EFT requirements). We have been working with the Treasury Department to implement the requirements of the legislation and to take advantage of the expanded debt collection authority. One element of the legislation that is of particular interest to VA is the amendment of Section 3711 of title 31, U.S.C. to allow for agency cross-servicing of federal debt. This part of the legislation allows the Secretary of the Treasury to designate collection centers operated by individual agencies as federal collection centers which will service debts for other agencies. The Treasury Department's Financial Management Service has expressed interest in designating our DMC as a federal collection center, and the DMC has already begun making the changes to its automated system that will allow for the servicing of other-agency debt.

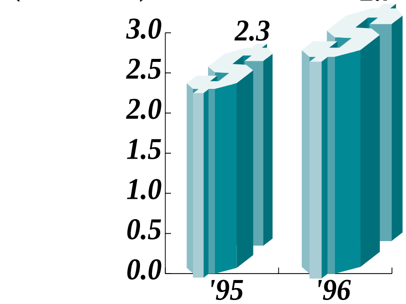
Prompt Pay Act

In FY 1996, the Department began processing payments under the new VA payment and accounting database system, the Financial Management System (FMS). The FMS combined with our electronic commerce initiatives provide state-of-the-art computer program design and processing consistent with Office of Management and Budget Circular A-127, "Financial Management Systems" and Joint Financial Management Improvement Program (JFMIP) "Core Financial Systems Requirements." This year VA processed more than 4 million invoices representing over $6.3 billion. Eighty-three percent of these invoices were paid on time.



4% increase over previous year.

Electronic commerce technology continues to grow and is a significant aspect of our payment systems. Our electronic vendor payments increased to $2.7 billion in FY 1996 as compared to



Electronic commerce continuing to expand.

IMPAC Card disbursements totaled $273 million

$2.3 billion in FY 1995. Electronic Funds Transfer (EFT) participation increased from 4,889 vendors in 1995 to 6,370 in FY 1996. The volume of EFT participation during FY 1996 resulted in the transmission of over 1.1 million payments for a total of approximately $2.7 billion. VA was able to meet many electronic commerce initiatives of the National Performance Review.

In addition to the major overhaul of our accounting system and electronic commerce initiatives, the Department undertook an aggressive approach with implementation of the Governmentwide commercial purchase card program. The Department's Purchase Card disbursements for FY 1996 was approximately $273 million for over 628,000 transactions.

We continue to place special emphasis on Prompt Payment throughout the Department and have initiated efforts to improve payment performance. For instance, we have:

- Developed an application to provide vendors access to our vendor inquiry system through the Internet;
- Implemented a new automated Credit Card System (CCS) for making credit card invoice payments and for updating accounting data for purchases listed on the invoice; and
- Expanded our fast payment procedures to field facilities consequently reducing interest penalties and lost discount payments.

Amounts regarding invoices paid under the Prompt Pay Act which have been reported to Treasury and OMB since FY 1992 are as follows:

Invoices Paid

FY	Total Payments	Invoices	Electronic Payments	Invoices
1996	$6.3B	4.0M	$2.7B	1.1M
1995	$5.9B	4.1M	$2.3B	1.3M
1994	$5.2B	3.8M	$1.6B	1.3M
1993	$5.0B	3.6M	$1.2B	1.1M
1992	$5.1B	4.6M	$0.8B	0.8M

Civil Monetary Penalties Report to Treasury

VA pursues the assessment of civil monetary penalties under two statutes: 38 U.S.C. 3710, for false housing loan certification, and 31 U.S.C. 3801-3812, the Program Fraud Civil Remedies Act of 1986. The Office of General Counsel has advised us that no penalties were assessed in FY 1996. However, in FY 1995, VA assessed a $16,000 penalty under the Program Fraud Civil Remedies Act and collected $7,000 of the penalty. The remaining $9,000 was collected in FY 1996.

Financial Data