

**VA Financial Policies and Procedures, Volume I, Chapter 4
Financial Management Systems**

CHAPTER 4

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0401 OVERVIEW

This chapter establishes the Department of Veterans Affairs' (VA) financial policies and procedures for maintaining and updating the recognized financial management system, to include but not limited to, the internal controls, the system functionality and integration of subsidiary systems, the accounting and finance standards, and the data standards in accordance with the [Federal Financial Management Improvement Act \(FFMIA\) of 1996](#), the Office of Management and Budget (OMB) [Circular A-127, Financial Management Systems](#), and the Financial Systems Integration Office's (FSIO) Core Financial Systems Requirements. The objective of financial management systems is to generate complete, reliable, consistent, and timely information, to include standard Federal financial statements and VA-specific reports, and to be responsive to the various requests of the VA's financial and performance management.

The financial management system comprises the automated and manual processes, the interfaced and integrated applications, procedures, controls, data hardware, software, and support personnel dedicated to the operation and the maintenance of the total system. It also includes other applications that are necessary to meet defined data and processing requirements.

0402 POLICIES

040201 VA's financial management system will underlie financial and program managers' accountability for financial results, control over the Federal Government's financial resources, and protection of Federal assets.

040202 VA's financial management system will be in place to process and record financial events effectively and efficiently, and to provide complete, timely, consistent, and reliable financial information for decision making, reports, and financial statements.

040203 VA's financial management system will support standardized information and electronic data exchange to meet the requirements of sound financial management.

040204 VA's financial management systems must provide reliable and useful financial information on VA operations to enable VA to carry out its fiduciary responsibilities; to deter fraud, waste, and abuse of VA resources; and to facilitate efficient and effective delivery of programs through relating financial results to program performance.

040205 VA must establish and maintain a single, integrated financial management system that complies with:

- A. Accounting principles, standards, and related requirements, as defined by Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB), and the Department of the Treasury (Treasury).
- B. Internal control standards, as defined in [OMB Circular A-123, *Management's Responsibility for Internal Control*](#), and its appendices.
- C. Information resources management policy, as defined in [OMB Circular A-130, *Management of Federal Information Systems*](#), and any successor documents.
- D. Operational policies and related requirements, as prescribed by OMB, the Treasury, and VA.

040206 VA's financial management system will comply with and support the following Government-wide financial management system requirements:

A. Agency-wide Financial Information Classification Structure. The design of the financial management system shall reflect a VA-wide financial information classification structure that is consistent with the [U.S. Standard General Ledger \(USSGL\)](#)¹, provide for tracking specific program expenditures, and cover financial and financially related information. This structure will minimize data redundancy, ensure that consistent information is collected for similar transactions throughout the agency, dictate consistent formats for entering data directly into the financial management system, and ensure that consistent information is readily available and provided to internal managers at all levels within the organization. The system design shall support the budget, accounting, and financial management reporting processes by providing consistent information for budget formulation, budget execution, programmatic and financial management, performance management, and financial statement preparation.

B. Integrated Financial Management System. Financial management systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. In doing so, they shall have the following characteristics:

1. Common Data Elements. Standard data classifications (definitions and formats) shall be established and used for recording financial events. Common data elements shall be used to meet reporting requirements and, to the extent possible, used throughout the agency for collection, storage, and retrieval of financial information. Government-wide information standards such as the

¹ Additional information on the USSGL is contained within Volume I, Chapter 2, *Standard General Ledger*, and Chapter 3, *Maintenance of the Standard General Ledger*.

USSGL and other external reporting requirements shall be incorporated into VA's standard data classification requirements.

2. Common Transaction Processing. Common processes shall be used for processing similar kinds of transactions throughout the system to enable these transactions to be reported in a consistent manner.

3. Consistent Internal Controls. Internal controls over data entry, transaction processing, user security (to include profiles/separation of duties) and reporting shall be applied consistently throughout the system to ensure the validity of information and protection of Federal Government resources.

4. Efficient Transaction Entry. Financial system designs shall eliminate unnecessary duplication of transaction entry. Wherever appropriate, data needed by the systems to support financial functions shall be entered only once and other parts of the systems shall be updated through electronic means consistent with the timing requirements of normal business transaction cycles.

C. Application of the USSGL at the Transaction Level. Financial events shall be recorded by VA throughout the financial management system, applying the requirements of the USSGL at the transaction level. These requirements mean that the financial management systems will process transactions following the definitions and defined uses of the general ledger accounts. Compliance with this standard requires:

1. Data in Financial Reports Consistent with the USSGL. Reports produced by the financial management system, whether used internally or externally, shall provide financial data that can be traced directly to the USSGL accounts.

2. Transactions Recorded Consistent with USSGL Rules. The criteria for recording financial events in any component of the financial management system (e.g., timing, processing rules/conditions) shall be consistent with accounting transaction definitions and processing rules defined in the USSGL.

3. Supporting Transaction Detail for USSGL Accounts Readily Available. Transaction detail supporting USSGL accounts shall be available in the financial management system and directly traceable to specific USSGL account codes.

D. Federal Accounting Standards. VA's financial management system shall maintain accounting data to permit reporting in accordance with accounting standards, recommended by the FASAB and issued by the OMB Director, and reporting requirements, issued by the OMB Director and the Secretary of Treasury. Where no accounting standards have been recommended, the system shall maintain data in accordance with the applicable accounting standards used for preparation of its financial statements. VA's financial management system shall be designed with flexibility to adapt to changes in accounting standards.

E. VA Financial Management Reporting. VA's financial management systems shall provide information in a timely and useful fashion to: (1) support management's fiduciary role; (2) support the legal, regulatory, and other special management requirements; (3) support budget formulation and execution functions; (4) support fiscal management of program delivery and program decision making; (5) comply with internal and external reporting requirements, including, as necessary, the requirements for financial statements, prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury; and (6) monitor the financial management system to ensure the integrity of financial data.

F. Performance Measures. VA's financial management system shall capture and produce financial information required to measure program performance, financial performance, and financial management performance, as needed, to support budgeting, program management, and financial statement presentation. As new performance measures are established, VA shall incorporate the necessary information and reporting requirements, as appropriate, into its financial management systems.

G. Budget Reporting. VA's financial management system shall facilitate the preparation, execution, and reporting of its budget in accordance with the requirements of [OMB Circular A-11, Preparation and Submission of Budget Estimates](#), and other circulars and bulletins issued by the OMB.

H. Functional Requirements. VA's financial management system shall conform to existing applicable functional requirements for the design, development, operation, and maintenance of financial management systems. Functional requirements are defined in a series of publications entitled [Federal Financial Management Systems Requirements](#), issued by FSIO. Additional functional requirements may be established through OMB circulars and bulletins and the Treasury Financial Manual (TFM). VA must implement new functional requirements, as they are established and when they become effective.

I. Federal Information Security Management Act Requirements. The VA shall plan for and incorporate security controls in accordance with the [Federal Information Security Management Act \(FISMA\) of 2002](#) and Circular A-130 for financial management systems to ensure the adequacy and effectiveness of information security controls.

J. Documentation. VA's financial management system and processing instructions shall be clearly documented in hard copy or soft copy in accordance with the requirements contained in the [Federal Financial Management Systems Requirements](#) or other applicable guidance. All documentation (e.g., software, system, operations, user manuals, operating procedures) shall be kept up-to-date and be readily available for examination. System user documentation shall be in sufficient detail to permit a person, knowledgeable of VA's programs and of

systems, to obtain a comprehensive understanding of the entire operation of each system. Technical systems documentation, such as requirements documents, systems specifications, and operating instructions, shall be adequate to enable technical personnel to operate the system in an effective and efficient manner.

K. Internal Controls. The financial management system shall include a system of internal controls to ensure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and disclosed in reports. Appropriate internal controls shall be applied to all system inputs, processing, and outputs. Such system-related controls form a portion of the management control structure required by [OMB Circular A-123, *Management's Responsibility for Internal Control*](#), including its three current appendices.

L. Training and User Support. Adequate training and appropriate user support, based on the user's level of responsibility and roles, shall be provided to enable the users to understand, operate, and maintain the system as required by their roles.

M. Maintenance. Continuous maintenance of the financial management system shall be performed to enable the system to operate effectively and efficiently. VA shall evaluate how well the financial management system supports any of VA's business practices that may have changed, and make appropriate system modifications as necessary.

0403 AUTHORITY AND REFERENCES

040301 [Federal Financial Management Improvement Act \(FFMIA\) of 1996](#)

040302 [Federal Information Security Management Act \(FISMA\) of 2002](#)

040303 [Financial Systems Integration Office \(FSIO\) Core Financial Systems Requirements](#)

040304 [Office of Management and Budget \(OMB\) Circular A-123, Management's Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting](#)

040305 [Revision to OMB Circular A-123, Management's Responsibility for Internal Control, Appendix B, Improving the Management of Government Charge Card Program](#)

040306 [OMB Circular A-123 Management's Responsibility for Internal Control, Appendix C, Requirements for Effective Measurement and Remediation of](#)

Improper Payments

040307 [OMB Circular A-127, Financial Management Systems](#)

040308 [OMB Circular A-130, Management of Federal Information Systems](#)

0404 ROLES AND RESPONSIBILITIES

040401 The Assistant Secretary for Management/Chief Financial Officer (CFO), as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309, oversees all financial management activities relating to the Department's programs and operations. Specific responsibilities include the direction, management, and provision of policy guidance and oversight of VA's financial management personnel, activities, and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities, provides guidance on all aspects of financial management, and directs and manages the Department's financial operations and systems support.

In addition, the CFO shall take the following actions:

A. Develop and maintain an Agency-wide inventory of the financial management systems components and processes.

1. Provide OMB with financial management system information annually in compliance with the financial system planning guidance issued by OMB for its annual *Performance and Accountability Report (PAR)*. The financial management system shall be included in the agency's information systems inventory, as required by policies established in OMB Circular A-130.

B. Develop and maintain an Agency-wide financial management system plan.

1. Prepare an annual financial management system plan developed in accordance with OMB annual guidance.
2. Incorporate the financial management system strategies and tactical initiatives into the Agency's five-year information systems plan, prepared in compliance with OMB Circular A-130, and in addition to the annual PAR.

C. Review the Agency-wide financial management system.

1. Ensure that appropriate reviews of its financial management system are conducted. The results of these reviews shall be considered when developing financial management system plans. OMB encourages agencies to coordinate and, where appropriate, combine required reviews. Reviews must comply with policies relating to: (1) internal controls evaluations undertaken and reported in

accordance with OMB Circular A-123 guidance; (2) reviews undertaken to ensure that financial management systems conform with the principles, standards, and related requirements in accordance with OMB guidance to comply with requirements of the FMFIA; and (3) reviews of systems and security, as required under provisions of OMB Circular A-130.

D. Develop and maintain Agency financial management system directives.

1. Issue, update, and maintain agency-wide financial management system directives to reflect current policy and changes to the financial management system.

040402. All VA management Heads in Administrations, staff offices, staff organizations, and other key officials have the responsibility to implement financial policies and procedures established by the CFO, including compliance with the policies and procedures set forth in this chapter.

0405 PROCEDURES

040501 Improving Financial Management Systems

A. The VA will follow the information technology management policies presented in OMB Circular A-130. In addition, the VA will comply with the following policies in designing, developing, implementing, operating, and maintaining financial management systems:

1. Improving VA Work Processes. Designs for financial systems and mixed systems shall be based on the financial and programmatic information and processing needs of the VA. As part of any financial management system design effort, the VA must analyze how system improvements, new technology supporting financial management systems, and modifications to work processes can together enhance agency operations and improve program and financial management. The reassessment of information and processing needs shall be an integral part of the determination of system requirements. Process redesign shall be considered an essential step toward meeting user needs in program management, financial management, and budgeting. Concurrent with developing and implementing integrated financial management systems, agencies shall consider program operations, roles, and responsibilities, and policies/practices to identify related changes necessary to facilitate management systems' operations efficiency and effectiveness.

2. Developing Cost-Effective and Efficient Operation of Financial Management Systems. Financial management system development and implementation efforts shall seek cost-effective and efficient solutions, as required by OMB Circular A-130. A custom software development approach for financial management systems shall be used as a last resort and only after consideration

of all appropriate software options, including the following:

- Use of the agency's existing system with enhancements
- Use of another system within the VA
- Use of an existing system at another department/agency
- Use of a commercial "off-the-shelf" software package
- Use of a system under development at another department
- Use of a private vendor's service.

The cost effectiveness of developing custom software shall be clear and documented in a cost-benefit analysis that includes the explanation of the unique nature of the system's functions that justifies the use of alternative approaches. This analysis shall be made available to OMB for review upon request.

040502 Implementing Cross or Private Servicing

Cross-servicing of financial system support, where one agency or a division within an agency provides financial management software and processing support to another agency or division within an agency, or private servicing through commercial vendors shall be used, whenever feasible and cost-effective, as a solution to meet Federal government financial management system needs.

040503 Using "Off-the-Shelf" Software

The General Services Administration (GSA) shall maintain the Financial Management System Software (FMSS) Multiple Award Schedule for vendors providing acceptable software that meets the financial system requirements, as defined in the *Core Financial System Requirements* document and other applicable accounting principles, standards, and related requirements, as defined by OMB for Government-wide use. Such software packages should be "benchmarked," as appropriate, by an independent team approved by the OMB's Office of Federal Financial Management (OFFM) or its designee, to ensure that the software complies with such requirements. Periodic recertification should be required to ensure that software continues to support financial system requirements.

Should VA decide to replace software to meet core financial system requirements, it will use "off-the-shelf" software from the GSA FMSS Multiple Award Schedule, unless a waiver is granted under the [Federal Information Resources Management Regulations \(FIRMR\)](#). Upon obtaining such a waiver, VA will be required to ensure that the system, whether resulting from a custom

software development approach or from software existing within or external to the VA, is “benchmarked” by an independent team approved by OFFM or its designee.

040504 Developing Software Jointly

Agencies with similar financial management functions, after considering “off-the-shelf” software solutions, are encouraged to undertake joint development efforts by pooling resources and developing common approaches for meeting similar financial functions. The designs for jointly developed software shall contain the flexibility and other features needed for transportability of the system to other agencies and/or cross-servicing.

040505 Transferring of Agency Financial Management Software

In cases where the VA determines that it is more efficient and effective to use or adopt the software of another agency to meet its financial management system requirements, it shall ensure the following:

The software meets the financial management system requirements in 040206, [Financial Management System Requirements](#), above.

A formal written agreement on the transfer of software is prepared and approved by all parties. The agreement shall cover the full scope of support services to be provided, including system modifications, maintenance, and related costs.

Any necessary support requirements not covered in the agreement shall be provided by VA. Such support, including implementation and training, shall be assessed and determined to be adequate.

An ongoing relationship for determining future enhancements shall be established between the parties involved.

0406 DEFINITIONS

040601 Financial System. An information system comprising one or more applications used for any of the following:

1. Collecting, processing, maintaining, transmitting, and reporting data about financial events
2. Supporting financial planning or budgeting activities
3. Accumulating and reporting cost information

4. Supporting the preparation of financial statements.

040602 Financial Management System. The electronic financial systems and the financial portions of mixed systems necessary to support financial management.

040603 Information System. The organized collection, processing, transmission, and dissemination of information in accordance with defined procedures, whether automated or manual. Information systems include non-financial, financial, and mixed systems.

040604 Mixed System. An information system that supports both financial and non-financial functions of the Federal Government or components thereof.

040605 Non-financial System. An information system that supports non-financial functions of the Federal Government or components thereof and any financial data included in the system that is significant to agency financial management and/or not required for the preparation of financial statements.

040606 Single Integrated Financial Management System. A unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to carry out financial management functions, manage financial operations of the agency, and report on the agency's financial status to central agencies, Congress, and the Public.

040607 Unified. "Unified" means that the systems are planned for and managed together, operated in an integrated fashion, and linked together electronically in an efficient and effective manner to provide the agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

0407 RESCISSIONS

This Chapter rescinds VA Directive 4510, *Financial Management Systems*, dated March 11, 1998.

0408 QUESTIONS

Questions concerning these policies and procedures should be directed as shown below:

VHA
VBA
All Others

VHA Accounting Policy (Outlook)
VAVBAWAS/CO/FINREP (Outlook)
OFP Accounting Policy (Outlook)