DEPARTMENT OF VETERANS AFFAIRS

OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

DEPARTMENT OF VETERANS AFFAIRS

Results of Consulting Engagement Related to Selected Financial Reporting Controls for the Integrated Financial and Acquisition Management System at the National Cemetery Administration

MEMORANDUM | REPORT #21-02924-166 | JUNE 15, 2022

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Abbreviations

ALC	Agency Location Code
BI	business intelligence
CLA	CliftonLarsonAllen LLP
eCMS	Electronic Contract Management System
FMBT	Financial Management Business Transformation
FMS	Financial Management System
FSC	Financial Services Center
FY	fiscal year
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System
IDV	Indefinite Delivery Vehicle
iFAMS	Integrated Financial and Acquisition Management System
IPAC	Intra-Governmental Payment and Collection
JAE	Journal Adjusting Entry
JV	journal voucher
MinX	Management Information Exchange
NCA	National Cemetery Administration
OIG	Office of Inspector General
OMB	Office of Management and Budget
Treasury	U.S. Department of the Treasury
UDO	undelivered orders
VBA	Veterans Benefits Administration

DEPARTMENT OF VETERANS AFFAIRS

OFFICE OF INSPECTOR GENERAL

WASHINGTON, DC 20001

June 15, 2022

MEMORANDUM

TO: Chief Financial Officer
Department of Veterans Affairs (004)
Chief Financial Officer
National Cemetery Administration (42)

FROM: Assistant Inspector General
Office of Audits and Evaluations (52)

SUBJECT: Results of Consulting Engagement Related to Selected Financial Reporting Controls for the Integrated Financial and Acquisition Management System at the National Cemetery Administration

1. The VA Office of Inspector General (OIG) contracted with the independent public accounting firm CliftonLarsonAllen LLP (CLA) to provide consulting services to the OIG with respect to selected financial reporting controls for the Integrated Financial and Acquisition Management System (iFAMS) at the National Cemetery Administration (NCA). CLA's consulting letter to the OIG is attached to this memorandum. The OIG makes no conclusions concerning CLA's letter or financial reporting controls with respect to iFAMS. The OIG is sharing this letter for management's awareness of CLA's observations and associated potential risks.
2. The objective of this consulting engagement was to advise the OIG of risks associated with selected iFAMS financial reporting controls at NCA based on CLA's understanding of those controls. VA is implementing iFAMS using an incremental approach with the first deployment having occurred at NCA in November 2020.
3. This engagement was not a financial audit, for which the objective would be the expression of an opinion on the financial statements. CLA did not perform an audit of iFAMS. CLA performed this consulting engagement under the American Institute of Certified Public Accountants' *Statement on Standards for Consulting Services*. CLA expressed neither an opinion nor a conclusion on the effectiveness of any part of the internal controls of iFAMS. Had this engagement been an audit, CLA may have identified other matters.

4. The nature and scope of work for this consulting engagement was determined solely by agreement between the OIG and CLA. The procedures primarily consisted of virtual walkthroughs and inquiries with personnel at NCA and VA's Financial Services Center. The objectives did not include testing the design or operating effectiveness of the selected controls.
5. The OIG provided management at NCA and the Financial Management Business Transformation Service the opportunity to comment on CLA's consulting letter to the OIG. Management's signed response is on page 22 of this document. At the OIG's request, CLA included management's specific comments on the observations in the letter's Table of Observations and Potential Risks. The OIG considers management's comments to be integral to the presentation of the results of this consulting engagement. However, management is solely responsible for those comments. Except for the management comments discussed in this paragraph, CLA is responsible for the attached consulting letter dated June 6, 2022.

LARRY M. REINKEMEYER
Assistant Inspector General
for Audits and Evaluations

Attachment

Attachment 1: CLA's Consulting Letter

June 2022

Consulting Engagement Performed for the Office of Inspector General

US Department of Veterans Affairs
Washington, DC

June 6, 2022

Larry Reinkemeyer
Assistant Inspector General for Audits and Evaluations
U.S. Department of Veterans Affairs
801 I Street, NW
Washington, DC 20001

Dear Mr. Reinkemeyer:

This letter provides you and the U.S. Department of Veterans Affairs (VA) Office of Inspector General (OIG) with the results of the consulting engagement requested by the VA OIG with respect to selected financial reporting controls for the Integrated Financial and Acquisition Management System (iFAMS) at the National Cemetery Administration.

The work was performed in accordance with Statement on Standards for Consulting Services established by the American Institute of Certified Public Accountants. Engagements performed under these standards differ from the Certified Public Accountant's function of attesting to the assertions of other parties. In a consulting service, the Certified Public Accountant expresses no opinion or conclusion about the reliability of an assertion made by another party. The nature and scope of work for a consulting engagement is determined solely by the agreement between the practitioner and the client. Therefore, this engagement is not a financial audit, for which the objective would be the expression of an opinion on the financial statements, nor is it an audit of iFAMS. Had we been hired to perform an audit of financial statement information in accordance with U.S. generally accepted auditing standards or an audit of iFAMS according to those standards, other issues may have come to our attention that would have been reported to you. Therefore, we express no opinion or conclusion on the effectiveness of VA's controls over all or any part of its financial statements or the internal controls of iFAMS.

In addition, the procedures performed by CLA are not a substitution for management's responsibility to maintain a system of controls to mitigate risk. These consulting services were designed to provide the VA OIG with insight into selected financial reporting controls at the National Cemetery Administration related to VA's new general ledger system, iFAMS, and to document specific risks discovered during the engagement that require management's attention. Our procedures alone cannot identify errors, fraud, or irregularities related to the scope of this project.

We appreciate the opportunity to assist the VA OIG in performing this engagement. We also appreciate the cooperation from management and staff involved in the process who shared their knowledge and time. If you have any questions, please feel free to contact us for assistance.

Sincerely,

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD

CLA is an independent member of Nexia International, a leading, global network of independent accounting and consulting firms. See nexia.com/member-firm-disclaimer for details.

A member of Nexia International

Background

The VA Office of Inspector General (OIG) contracted with CliftonLarsonAllen LLP (CLA), an independent certified public accounting and consulting firm, to perform a consulting services engagement to (1) obtain an understanding of the design and implementation of selected financial reporting controls at the National Cemetery Administration (NCA) with respect to VA's new general ledger system, the Integrated Financial and Acquisition Management System (iFAMS), and (2) advise the OIG of risks discovered during the engagement that require management's attention and whether management identified those risks through its own monitoring process and had a description of its actions to address those risks. This consulting engagement provides the OIG with information about the new financial system to assist in planning for future financial statement audits when iFAMS may have a material effect on the VA financial statements.

VA's legacy Financial Management System (FMS), implemented in 1992, is complex and disjointed and has limited functionality, and therefore, no longer supports the stringent and demanding financial management and reporting requirements mandated by the U.S. Department of the Treasury (Treasury) and Office of Management and Budget (OMB). VA utilizes a system application, the Management Information Exchange (MinX) system, to consolidate general ledger activities from FMS and create financial statements for external financial reporting. Further, each accounting period in MinX is independent. Therefore, numerous manual journal vouchers (JVs), reconciliations, and analyses must be re-performed and re-entered in each period to produce VA's financial statements and trial balances. The significant manual intervention creates risks to the accuracy and completeness of financial reporting activities and reports. Many of these issues require extensive efforts to change the current business processes, research legacy differences, and implement workarounds to resolve them, and have existed for years.

To address the long-standing issues with FMS, VA began deploying a new financial system, iFAMS, in November 2020, using an incremental approach. The Financial Management Business Transformation (FMBT) program within VA's Office of Management is responsible for the roll-out that is expected to take place in phases over many years.

The first deployment was at NCA in November 2020 and the second deployment was at the Veterans Benefits Administration (VBA) for its General Operating Expense Fund in February 2021. The table[1] below show's VA's summarization of the drivers, transformative initiatives, and future environment impact of the iFAMS implementation:

Drivers	VA's legacy financial and acquisition management systems are over 30 years old. It becomes more challenging to support these legacy applications each year technically and functionally. VA is unable to meet federal financial regulations and mandates, including the Digital Accountability and Transparency Act of 2014 (DATA Act), due to its inability to update legacy code and the lack of integration between finance and acquisition systems.
Transformative Initiatives	FMBT: VA is implementing iFAMS, which will offer new features and capabilities that help users and stakeholders analyze data and ultimately improve the efficiency and effectiveness of financial and acquisition management. VA will benefit from real-

[1] https://www.ea.oit.va.gov/EAOIT/docs/Apr2020/FY-2018-2024-VA-Enterprise-Roadmap-Exe-Sum.pdf

	time integration of financials through a single consolidated system, which will provide VA with a consolidated view of all acquisition and financial transactions. Additionally, iFAMS will deliver unprecedented functionality to track undelivered orders and expenditures.
Future Environment	FMBT will deploy iFAMS—a streamlined, federally compliant, and Cloud-hosted financial and acquisition solution with transformative business processes and capabilities. Through the iFAMS implementation, FMBT will increase the transparency, accuracy, timeliness, and reliability of financial information across VA. FMBT will fully implement iFAMS by FY [fiscal year] 2027. This will result in improved fiscal accountability to American taxpayers and strengthen the Department's ability to provide care and services to Veterans. Additionally, iFAMS will enable VA to resolve a material weakness on its annual financial statements and increase the Department's operational efficiency, productivity, agility, and flexibility.

VA management believes that the implementation and completion of this new system is critical in remediating the control weaknesses associated with its financial system's reporting capabilities.

Consulting Objectives, Scope and Methodology

The objectives of this consulting engagement required us to:

- Obtain an understanding of the design and implementation of selected financial reporting controls at NCA with respect to VA's new general ledger system, iFAMS.
- Advise the VA OIG of risks discovered during the process that require management's attention and whether:
    - Management identified those risks through its own monitoring process
    - Management has provided a description of its actions to address those risks

These objectives did not include the testing of the design or operating effectiveness of controls. This consulting engagement provides the OIG with information about the new financial system to assist in planning for future financial statement audits when iFAMS is implemented at other larger components within VA.

The scope of work encompassed selected financial reporting controls associated with VA's new general ledger system, iFAMS, as implemented at NCA, and required us to focus on the following:

- The establishment of beginning balances and the related supporting documentation
- The summarization of transactional information from subsidiary systems to the iFAMS' trial balance to VA's MinX system, and to the following financial reports for the first and second quarters of fiscal year (FY) 2021:
    - SF 132, Apportionment and Reapportionment Schedule[2]
    - SF 133, Report on Budget Execution and Budgetary Resources[3]
    - Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS)[4] reports
- The use of JVs in the summarization and reporting process

The work was conducted virtually from Washington, DC. We performed the work from July 2021 to October 2021, in accordance with the terms of the engagement's statement of work.

We obtained an understanding of the design and implementation of selected controls using the following techniques:

- Inquiring of NCA and VA personnel
- Performing walkthroughs to observe the application of specific controls, including the tracing of transactions through the information system

[2] SF 132, Apportionment and Reapportionment Schedule - Agencies submit the SF 132 to obtain OMB's apportionment of funds. OMB uses apportionment to distribute budget authority by time periods (usually quarterly) or by activities.

[3] SF 133, Report on Budget Execution and Budgetary Resources - Agencies submit this report to OMB, which allows for the monitoring of the status of funds that were apportioned in the SF 132. It reports on unliquidated obligations, unobligated balances, canceled balances, and adjustments made to appropriation accounts.

[4] GTAS reports - Agencies submit reports to the U.S. Department of the Treasury's (Treasury) GTAS that provide proprietary financial reporting information (e.g., assets, liabilities, revenue, expenses) and information about budget execution (e.g., obligations) to the Treasury.

- Reading documents, memos, standard operating procedures (SOPs) and reports, etc.

We did not test the design or operating effectiveness of controls or perform any transactional testing.

Work Performed

Our procedures to gain an understanding of the design and implementation of certain controls were limited primarily to walkthroughs of various processes with management and follow-up questions. Those walkthroughs were limited to the following:

- The process for establishing opening balances in iFAMS, showing how the closing balances in FMS were brought forward as opening balances and including examples of partially converted balances that were accounted for by a conversion true-up JV
- iFAMS budget execution process, including SF-132 and SF-133 reports and reconciliation of the SF-132 to the SF-133 and to the general ledger
- Overviews of:
    - Various systems that interface with iFAMS
    - The procurement/contract management process for the recording of commitment and obligation balances in iFAMS
    - Vendor management that is important to the cash disbursements/payments process
    - Other components of the iFAMS financial reporting process: purchase cards, Intra-Governmental Payment and Collection (IPAC) process, tie points account analysis, and various reconciliations

We also met with NCA accounting personnel and obtained an understanding of the Hypercare tickets specific to the objectives of the engagement and used that information to assist us in planning this engagement.

Observations and Potential Risks

Based on the procedures and walkthroughs listed above, CLA made observations in various categories. The following tables present management's and our observations, the potential risks we identified, and management's responses. Please refer to the tables below for details of the observations and management's responses to the observations. We did not apply any procedures to management's responses, and we take no responsibility for management's responses.

Table of Observations and Potential Risks

#	Observations from Hypercare Tickets	Potential Risk
1.	**Payments**	
1.1	NCA reported two instances where payments were sent out twice for the same invoice which resulted in more than $98,000 in overpayments to one vendor. NCA further said that, "The funds for the invoice have been recouped but they were not applied back to the obligation, they were applied to the budget, so the funds are not on the obligation for future use."	Duplicate payments are overpayments and require additional efforts to recoup funds. In addition, those funds may not be available for re-obligation for other approved uses or to pay future invoices on the obligation, and may result in misrepresentation of transactions in the financial statements.
	Management's update as of April 20, 2022: *NCA response*: This ticket (1522) was resolved in September 2021, and risk is mitigated.	
1.2	NCA staff had difficulty posting some IPAC payments to the correct obligation because they were automatically posted to a default line of accounting. Further, staff had difficulty identifying the correct line of accounting to apply to those payments. NCA reported that $1.2M of VBA payments were applied to NCA obligations. This resulted in $1.7M in payments on the default line of accounting which could not be offset to its obligation as of July 2021.	The status of obligations may be misreported when IPAC payments are not applied to the correct obligation.
	Management's update as of April 20, 2022: *NCA response*: This ticket (512) was resolved in September 2021, and risk is partially mitigated. Residual risk could be further mitigated through training from the FSC [Financial Services Center] for users responsible for process requirements to prevent the posting of incorrect payments between administrations. *FMBT response*: Posting IPAC payments not automatically matched is centralized at the FSC, which significantly reduces the risk of applying payments to the wrong obligation. In this one instance cited, FSC made an error in applying the payment. Weekly meetings are held with FSC staff performing this function and CGI [systems integrator] to continuously address any questions staff may have and address any open tickets in this area.	
2.	**Deposits**	
2.1	NCA reported three deposits posted to Treasury's Collection Information Repository (CIR) report that were not picked up by the batch job used to bring the reports into iFAMS.	Deposits may not be recorded in VA's financial system (iFAMS) and reports.
	Management's update as of April 20, 2022: *NCA response*: This ticket (335) was resolved in August 2021, and risk is partially mitigated. Residual risk remains because automated batch jobs periodically fail which require manual intervention to resolve to include data feeds from Treasury's OTCNet [Over-the-Counter Channel Application] and Pay.gov. Impact	

#	Observations from Hypercare Tickets	Potential Risk
	of this risk is immaterial to NCA. Batch job failures are found upon manual reconciliation of Treasury's reports to iFAMS. *FMBT response*: FMBT will work with NCA to analyze any remaining open tickets on this issue. FMBT believes this risk is mitigated. The FSC Frontier matching process would catch this kind of issue if it occurred. Frontier matches Treasury source activity like deposits to iFAMS transactions and provides listings of unmatched items for follow-up action. CGI also tracks batch job success/failure with daily notifications and opens tickets for any failures.	
3.	**Obligations**	
3.1	NCA reported that a user received an error code when trying to de-obligate funds in iFAMS.	When unused funds are not properly de-obligated, management may not know that the funds are available for re-obligation for other uses.
	Management's update as of April 20, 2022: *NCA response*: This ticket (VAOM-3358) remains unresolved, awaiting automated reconciliation process, expected May 2022. The risk remains because the interface requires manual workarounds to process contract actions, to include de-obligations. *FMBT response*: This automation has reliance on a change to eCMS [Electronic Contract Management System], the legacy contract writing system, which is a separate contractor outside the control of FMBT. We expect this work to be completed May 2022, but we cannot control that timeline.	
3.2	NCA found a contract that was awarded and finalized in the Electronic Contract Management System (eCMS) but showed $0 in commitments and $0 in obligations in iFAMS, after being interfaced from eCMS to the iFAMS general ledger.	Contracts awarded may not be recorded in iFAMS or require inefficient re-entry of information.
	Management's update as of April 20, 2022: *NCA response*: This ticket (VAOM-3360) is resolved, and risk is partially mitigated. Residual risk remains because related contract discrepancies continue to be discovered through a manual reconciliation process. *FMBT response*: • A user in eCMS, the legacy contract writing system, must choose to explicitly allocate funds between an Accounting Line and a Contract Line Item (CLIN). If the user does not allocate funds, a user will still be able to process an award/order within eCMS with a $0 obligation in error, which will transmit to iFAMS as $0. • The systems cannot identify the appropriateness of a $0 award or $0 commitment. Both a $0 IPR [Integrated Purchase Request] (commitment) and a $0 QO/QA (obligation for an award/order) are valid scenarios within iFAMS and eCMS. The $0 amount can be due to a de-obligation, a no cost administrative modification, or a $0 award/order contracting award like an IDV [Indefinite Delivery Vehicle] or a continuing resolution base award/order. • It is the responsibility of the Awarding Official to review and validate the correctness of the data within the eCMS system prior to awarding the contracting action. • This will be resolved for new contracts beginning April 25, 2022, but could still impact existing	

#	Observations from Hypercare Tickets	Potential Risk
	converted contracts for two to three years.	
3.3	NCA staff noticed that an obligation's balance showed the same amount in iFAMS after a refund check was deposited and posted in iFAMS. Specifically, NCA staff identified a cash receipt/refund in the amount of $5,175 that was posted to an obligation, however the obligation balance of $1,017 did not change after the refund check was posted to the obligation.	Deposits and obligations may not be properly reflected in the iFAMS accounting records.
	Management's update as of April 20, 2022: *NCA response*: This ticket (2203) was resolved in August 2021, and risk is mitigated.	
4.	**Reconciliations**	
4.1	NCA staff identified differences between the iFAMS' F850 undelivered orders (UDO) report and the iFAMS' F889B Aged UDO report. For example, in one instance, the amount on the F889B aged UDO report was $236,100 and the undelivered order amount on the F850 report (UDO balance report) was $271,275, a net difference of $35,175. In another instance, the net difference between the two reports was $57,195.	NCA staff may not have reliable information to make decisions.
	Management's update as of April 20, 2022: *NCA response*: This ticket (405) was resolved in November 2021, and risk is partially mitigated. Residual risk remains because as enhancements or cycle improvements are released, out of balance conditions continue to be identified on reports. *FMBT response*: FMBT will continue to monitor production each time a release is made and respond to any identified concerns. This same process exists today in the current system when enhancements/releases are made to production.	
5.	**Status of Funds**	
5.1	NCA reported that not all NCA fund codes were transferred into iFAMS. As a result, NCA could not generate a stand-alone report showing the NCA-wide status of funds. NCA did not have a stand-alone report to display the total budget execution and performance of funds within iFAMS to include all organizational	Management may not have complete information to make decisions.

#	Observations from Hypercare Tickets	Potential Risk
	components which could be supported with detailed documentation.	
	Management's update as of April 20, 2022: *NCA response*: This ticket (164) was resolved in August 2021, and risk is partially mitigated. Residual risk remains because reports do not display the same balance consistently. For example, reviewing appropriation balances for the prior year yields inconsistent results. *FMBT response*: The All Funds Blotter report was added to production BI [business intelligence] in July 2021 to resolve the reporting requirement. The FMBT team worked to clearly specify the source of the data in iFAMS. We will work with NCA on any issues with report inconsistencies.	

#	Observations from Walkthroughs	Potential Risk
1.	**Opening Balances**	
1.1	Opening balances were transferred into iFAMS at a lump sum value instead of at the detailed transactional level. We learned that JVs were needed to correct account balance issues created when opening balances were imported into iFAMS at a lump sum level.	Opening balances not shown at a detailed transactional level could cause issues with reconciliations due to the lack of detailed transactional information in iFAMS. For example, information needed to correctly post subsequent events or transactions to their correct line of accounting in iFAMS. In addition, NCA accounting and contracts staff may have to expend more effort to reconcile the accounting for a contract award when it is tracked in two different systems. This could increase the risk of overpayments as some prior payments may be recorded in the old accounting system and may be overlooked. Further, transaction research to support audit requests may be less efficient and more challenging to retrieve.
	Management's update as of April 20, 2022: *NCA response*: The risk impact has decreased since then. As time progresses and activity is closed out, this risk will be further reduced. *FMBT response*: Agree, in addition, FMBT has established a BI report that captures the detailed posting information from FMS and iFAMS in a single report which will support future waves reconciliation and processing of transactions converted into iFAMS.	
2.	**Systems and Interface**	
2.1	Financial Services Center (FSC) management provided us with two travel card system interface rejection issues related to centrally billed accounts for the period December 2020 through July 2021.	Interface errors and rejections could increase the risk of inaccurate financial reporting and cause delays.
	Management's update as of April 20, 2022: *NCA response*: The specific issue observed was resolved. Residual risk remains because the process continues to create interface errors and rejections with minimal transparency of interface data expectations between the two systems (Concur and iFAMS). This is acutely problematic when managing travel advances. *FMBT response*: Rejects will happen with interfacing systems, as they do today, for numerous reasons. When they do, FSC staff will work with end users to resolve them.	
3.	**Procurement/Contract Management**	
3.1	We observed that the March 2021 F850 reconciliation to the general ledger had a large variance of approximately $79.5 million, which was related to document type "JAE" (i.e.,	Variations in report definitions for items such as "UDO" increase complexity and risk of not being able to reconcile financial balances to operational activity.

#	Observations from Walkthroughs	Potential Risk
	Journal Adjusting Entry or manual JV). Per management, it does not appear that the document type JAE can be selected in the business reporting application's F850 report; however, there was no explanation on the reconciliation as to what the JAEs represented. We also noted the same $79.5 million difference in the December 2020 F850 reconciliation to the general ledger.	
	Management's update as of April 20, 2022: *NCA response*: The specific issue observed was resolved. Residual risk remains because the definition of 'UDO' remains inconsistent in application across various reports. *FMBT response*: Report titles for UDO's are currently being evaluated to ensure consistency. This analysis is expected to be completed by May 16th.	
3.2	The reconciliation between iFAMS and FMS was limited to contracts that had open balances. Therefore, as part of the conversion process, the beginning balance for iFAMS contained only the ending balance in FMS for contracts with open balances. Although a reconciliation was performed for all contracts with open balances, there was no reconciliation done for contracts with a zero balance. Per management, contracts with a zero balance do not get reported in FMS and therefore do not convert into iFAMS.	Data from contracts with a zero balance that were not transmitted to iFAMS could lead to incomplete data in iFAMS and difficulty in recording subsequent transactions to the correct line of accounting. In addition, UDO reconciliations could be incomplete or inaccurate (i.e., contain unexplained variances), which could lead to inaccurate financial reporting.
	Management's update as of April 20, 2022: *NCA response*: The specific issue observed is partially resolved through the creation of report PE-13. This reconciliation issue focuses on IDV (Indefinite Delivery Vehicle) and BPA (Blank Purchase Agreement) type contracts. A residual risk remains for Bona-Fide Need violations. The reconciliation of obligations to the parent IDV is not consistently available. For example, performance expectations on one or more task orders exceeding quantity or dollars for the contract vehicle. *FMBT response*: The only place that the user can confirm the quantity and dollars ordered against the ceiling for an IDV contract vehicle is in FPDS [Federal Procurement Data System]. This information is not available in FMS or in iFAMS. The users will need to refer to FPDS to confirm the status of orders against the ceiling, so this is not a risk that is attributable to the contract implementation strategy.	
3.3	Per management, when funds (on a contract) are converted into iFAMS and changes are needed to adjust those amounts, the changes	The manual data entry to edit or remove funds from the eCMS and iFAMS systems increases the risk of human error, which could lead to discrepancies in reconciling data in the various systems as well as

#	Observations from Walkthroughs	Potential Risk
	must be done manually in both iFAMS and eCMS.	inaccurate financial reporting.
	Management's update as of April 20, 2022: *NCA response*: This issue remains open, and risks persist until all activity represented by these contracts have closed-out. *FMBT response*: Noted – This process was known and agreed to prior to go-live.	
4.	**Financial Reporting - Other Components**	
4.1	Management stated that NCA did not complete certain budgetary to proprietary tie-point reconciliations due to a beginning balance issue and the early stages of the iFAMS implementation. However, management stated that they had a plan to complete the tie-points.	NCA tie point reports could be incomplete and/or contain unexplained variances.
	Management's update as of April 20, 2022: *NCA response*: NCA discussed this issue with OIG during interviews conducted last year within the framework of 'tie-points.' Suggest this be rephrased to reflect a need for 'system assurance.' While NCA does not own the systems or interfaces, NCA is responsible to attest to the data integrity between systems and to accurately record and report transactions. To meet NCA's need, the 'SAGLBUD' (System Assurance General Ledger and Budget) report has been discussed as a possible path forward to be developed in Power BI. *FMBT response*: FSC has responsibility for the agency system assurance reports and will continue to do so. FMBT will work with OF [Office of Finance] policy to determine what could be provided to support the quarterly statement of assurance for the administrations.	
4.2	NCA uses various manual controls within the purchase card approval and reconciliation process. In addition, there were no automated controls within the system to prevent a user from circumventing the Federal Acquisition Regulation micro-purchase thresholds. The process resulted in a reliance on manual reviews in iFAMS to identify any discrepancies.	The lack of automated controls in place could potentially increase the risk of improper payments due to the inherent risk of human error. There is also a risk of inaccurate financial reporting.
	Management's update as of April 20, 2022: *NCA response*: The risk of improper payments remains as cardholders may exceed single or monthly purchase limits as authorized by policy. US Bank charge limits are not sufficient as the user requests approval prior to purchase in iFAMS with varying cardholder limits not known to approving officials in advance. NCA must rely on detective controls, rather than preventative controls to mitigate this risk. NCA has found historically that preventative controls are a best practice, being more efficient and transparent to operational users. *FMBT response*: The control limits are placed on the individual card itself for each cardholder consistent with the [VA Form] 0242 level of approval granted by the approving official. This control limit is contained	

#	Observations from Walkthroughs	Potential Risk
	in US Bank to preclude transactions from exceeding individual card limits. The system is used to record these financial transactions.	
4.3	Intra-Governmental Payment and Collection (IPACs) According to NCA management, issues with the auto matching feature and use of the default Agency Location Code (ALC) resulted in errors in the recording of transactions that required management to develop a complex manual correction process.	The identified manual process and the lack of fully functional system processes to automatically match IPAC transactions in iFAMs could increase the risk of posting transactions inaccurately (i.e., incorrect line of accounting).
	Management's update as of April 20, 2022: *NCA response*: This observation and risk remain an open challenge. The process remains inefficient with various manual components. NCA is unable to match payments systematically and must rely on email communication to the FSC on a transactional basis to match payments. Reliance on email communication to affect transactions is not efficient, timely, and contributes to the risk identified for this observation. *FMBT response*: Significant progress has been made in the IPAC processing area. We acknowledge further improvement is needed and are working closely with the systems integrator for additional improvements. In addition to the IPAC processing improvements noted in other responses to these observations, the systems integrator anticipates releasing the following enhancements between May and August of 2022: • Unmatched IPAC Extract to provide an Excel file of unmatched IPACs for the Administrations to match to appropriate obligation numbers. • Completed Reconciliation vs. Processed Documents Extract which will identify any out of balance conditions. • New Reimbursable Work Authority reconciliation rule to improve auto-matching those charges. • New Field to Identify Stations on a Suspense Collection which will document which stations should be concerned with unidentified collections.	
	4.3.a Matching process: The process to match IPAC transactions in iFAMS was not fully functional. Per management, there were errors in the process that caused some transactions to be matched automatically, while other transactions needed to be manually reconciled. Management could not provide an assessment of the magnitude of matched versus unmatched transactions during the engagement.	
	Management's update as of April 20, 2022 – Matching Process: *FMBT response*: CGI is continuing to work on improvements to the matching process. This includes CR-361 from December 2021 which created a custom table to allow for 75% auto match rate on FPS [Federal Protective Service] Security bills. FSC and the Administrations are continuing to provide requirements to CGI to enhance the process.	

#	Observations from Walkthroughs	Potential Risk
	4.3.b Auto matching: Further, the auto matching feature reconciled some charges to incorrect obligations. According to management, this was an issue found to involve a single ALC. The issue was corrected, and past IPACs that were affected were unreconciled from the incorrect obligation and reconciled to the proper obligation.	
	Management's update as of April 20, 2022 – Auto Matching: *FMBT response*: The reconciliation rule used to handle GSA [General Services Administration] rent reconciliation was initially configured incorrectly. It was corrected in July 2021 to ensure proper data value matching between IPAC and obligation.	
	4.3.c Default posting: Certain stations could not move charges from the default line to the correct obligations. According to management, FSC unreconciled these charges from the default line of accounting to the correct obligation on behalf of the stations. Management indicated that this may be addressed in FY 2022 to provide the stations with the ability to move these items themselves.	
	Management's update as of April 20, 2022 – Default Posting: *FMBT response*: The default process was updated with CR-369 in January 2022. The new process keeps unmatched IPACs on the unmatched IPAC query and instead uses a monthly transaction to record default postings for unmatched IPAC charges for monthly reporting. This transaction is reversed in the following month. This method maintains transparency on IPAC status while ensuring reporting reflects these IPAC charges. It also eliminates the concern with stations being unable to move charges from the default line to an actual obligation.	
	4.3.d Other initial issues arising from the iFAMS implementation: According to management: Other agencies billed the incorrect ALC of 36001200 when the IPAC was for a station/fund that was now in iFAMS with a different ALC (i.e., ALC 03600104). Per management, to correct the issue, all charges/payments that were identified as being for iFAMS were redirected to and recorded in iFAMS. Checks were returned to ALC 36001200 for amounts that were initially disbursed out of	

#	Observations from Walkthroughs	Potential Risk
	36001200, although the station/fund was now in iFAMS. Per management, they redirected those payments to and recorded them in iFAMS. We requested a listing of all items in the default expense state including the F859 report and iFAMS equivalent as of 6/30 and noted an unreconciled variance of approximately $133,000.	
	Management's update as of April 20, 2022 – Other Initial Issues: *FMBT response*: The items raised are not unexpected operational activities as VA transitions from FMS to iFAMS. IPAC is the method used to move funds between the two systems until each VA entity has been moved to iFAMS. Outreach is conducted prior to each implementation with trading partners to ask them to split IPAC charges between the ALCs based on organizations being charged. This helps, but there will always be some IPACs that come into the original FMS ALC. For canceled checks, the Treasury process is to send the funds to the ALC making the original payment. As noted, doing an IPAC to the iFAMS ALC and recording the transaction in iFAMS is the operational process. The F859 report (IPAC Default Control Report) is not a significant factor with the changes mentioned above to how default charges are recorded.	
4.4	Per NCA, there was a risk of double encumbrance of the budget when US Bank information was processed, until a reconciliation could be performed. When identified, FSC creates a JV to adjust for any double encumbrance noted.	Untimely reconciliation of US Bank data could lead to inaccurate financial reporting at the end of a period. Manual adjustments must be made to remove any double encumbrance, which increases the risk of error and inaccurate financial reporting.
	Management's update as of April 20, 2022: *NCA response*: The observation remains unresolved with an open ticket (570). Reconciling US Bank charges to expense transfers is not possible by end users due to both transactional volume and lack of reference integrity within iFAMS. Requested a reconciliation of year-end activity by FMBT and this remains an open request. *FMBT response*: FMBT is working with CGI to address this request.	
4.5	The JV population appeared to be incomplete (i.e., missing sequence numbers).	An incomplete JV population could result in inaccurate financial reporting of transactions and data, which could lead to misstatements in the financial statements.
	Management's update as of April 20, 2022: *NCA response*: This observation is partially resolved. The risk remains because the lack of user access to transactions may not be known until after a reconciliation is conducted with unexplained variances. To mitigate this risk, NCA needs early awareness prior to reconciliation through access to review transactions before and after posting.	

#	Observations from Walkthroughs	Potential Risk
	FMBT response: For FY 2022, FSC began providing an early draft of the SF 133 with proposed reporting entries to the NCA Finance Director each month. This provides NCA with an opportunity to provide feedback before the monthly SF 133 and GTAS submissions are finalized. This also gives visibility to NCA of reporting entries for the reconciliation work discussed in their response. NCA also expressed concern about the inability to review the automated iFAMS journal vouchers used for the annual close process. CGI indicates they are not viewable as documents in the online iFAMS application. There are iFAMS GL [general ledger] detail queries and BI Transaction Register reports which provide the ability to see these entries. FMBT will ensure NCA users know how to run these detail queries.	

VA Management Comments

Department of Veterans Affairs Memorandum

Date: May 19, 2022

From: Deputy Assistant Secretary for Financial Management Business Transformation Service (046)
Deputy Under Secretary for Finance and Planning/Chief Financial Officer (42)

Subj: Financial Management Business Transformation (FMBT) and National Cemetery Administration (NCA) Confirmation of Responses in the Consulting Letter from CliftonLarsonAllen LLP (CLA) to the Office of Inspector General (OIG), *Results of Consulting Engagement Related to Selected Financial Reporting Controls for the Integrated Financial and Acquisition Management System at the National Cemetery Administration*

To: Assistant Inspector General Audits and Evaluations (52)
Office of Audits and Evaluations

Cc: Assistant Secretary for Management and Chief Financial Officer (004)
Principal Deputy Assistant Secretary for Management and Deputy Chief Financial Officer (004)

1. The FMBT program and NCA appreciate the work performed by the OIG and CLA in the course of this consulting engagement.

2. During the consulting engagement, FMBT and NCA each provided responses to observations and potential risks brought up by CLA.

3. As requested by the OIG, the signatories of this memo confirm the accuracy of the FMBT and NCA responses in the Table of Observations and Potential Risks in the consulting letter, *Results of Consulting Engagement Related to Selected Financial Reporting Controls for the Integrated Financial and Acquisition Management System at the National Cemetery Administration*.

(Original signed by)

Terry Riffel
Deputy Assistant Secretary
Financial Management Business Transformation Service (FMBTS)

Matthew Sullivan
Deputy Under Secretary for Finance and Planning/CFO
National Cemetery Administration

For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended.

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