Chairman Rosendale, Ranking Member Cherfilus-McCormick, and Subcommittee Members, thank you for the opportunity to discuss the Office of Inspector General’s (OIG) oversight of VA’s work to modernize its finance and accounting systems, and to address longstanding financial management challenges.

VA has faced significant challenges with improving its financial processes and systems—some of which result from deficiencies in information technology and lack of controls, while others are due to weaknesses in governance or the clarity of roles and responsibilities. More effective financial management is key to VA’s ability to better plan, direct, monitor, and control its resources. Advances could also enhance efforts to safeguard its assets and the timely payment of its obligations. Reliable and accurate financial information would help VA and Congress identify links between resources and results, and to understand and improve the value gained from appropriated funds.

As detailed below, since 2015, the audit of VA’s financial statements has reported a material weakness due to problematic financial management systems.¹ VA’s legacy core financial management and general ledger system, the Financial Management System (FMS), has limited functionality to meet VA’s current needs. After failed attempts to replace FMS in 2004 and 2010, VA established the Financial Management Business Transformation (FMBT) program. FMBT’s mission has been to increase the transparency, accuracy, timeliness, and reliability of financial information across VA, ultimately resulting in improved care and services for veterans and greater accountability to taxpayers.² Central to

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¹ The audit reports of VA’s annual financial statements can be found on the OIG’s reports webpage at www.va.gov/oig/apps/info/OversightReports.aspx.
² This modernization effort also affects in various ways VA’s work to modernize its supply chain infrastructure and information technology systems, including the electronic health record modernization program. The OIG has issued numerous reports and testified at congressional hearings on these endeavors (see the OIG website at www.va.gov/oig/).
the FMBT program is the multiyear deployment of the Integrated Financial and Acquisition Management System (iFAMS) that began with the National Cemetery Administration (NCA) and continued with the Veterans Benefits Administration’s (VBA) General Operating Expense Fund.

Prior modernization efforts failed, in part, because of poor planning and deficient execution of new information technology (IT) systems and challenges with transitioning from legacy systems. Decentralized oversight, unrealistic timelines, inadequate engagement of all stakeholders and end users, and minimal testing for some systems have plagued IT projects. The resulting delays, changes in direction and vendors, and user resistance all carry steep costs.

This testimony highlights (1) relevant financial management findings from the OIG’s audit of VA’s financial statements for fiscal years 2021 and 2022, (2) recent examples of how the lack of controls affected VA’s ability to track COVID-19 supplemental appropriated funds, and (3) initial findings and recommendations from OIG’s oversight of the iFAMS deployment. Taken together, these issues underscore the need for VA to address previously identified problems to successfully modernize its financial management system during this most recent effort.

FINANCIAL SYSTEMS AND REPORTING REMAIN A MATERIAL WEAKNESS IN THE AUDIT OF VA’S FINANCIAL STATEMENTS

The Chief Financial Officers Act of 1990, as amended, requires the OIG to conduct an audit of VA’s consolidated financial statements. This work helps ensure accountability for taxpayer-funded resources. Since 2000, the OIG has contracted with an independent public accounting firm to conduct the detailed and time-intensive audit.

VA’s consolidated financial statements are published in its mandated annual agency financial report. These statements summarize VA’s financial results, financial condition, and the status of budgetary resources. While VA has received an unmodified or “clean” opinion on its consolidated financial statements from the contract auditor, VA has continuously faced challenges in achieving those results. The contract auditor has regularly identified and reported on these “material weaknesses” and “significant deficiencies.”

In the audit for fiscal years 2021 and 2022, the auditor found three material weaknesses, all repeated in some manner since 2016, and two significant deficiencies. The first material weakness highlighted the need for further improvement in VBA’s processes for producing critical accounting estimates for

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3 VA’s consolidated financial statements can be found on their website at Agency Financial Report – U.S. Department of Veterans Affairs.
4 A “material weakness” is a deficiency, or a combination of deficiencies, in internal controls related to a reasonable possibility that a material misstatement of VA’s financial statements will not be prevented, or detected and corrected, on a timely basis. A “significant deficiency” is a deficiency, or combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by individuals charged with governance.
veteran benefit liabilities that are reported in the financial statements. The second material weakness, most pertinent to this testimony, focuses on the limited functionality of FMS to meet VA’s financial management and reporting needs. The third material weakness identifies IT security control weaknesses in configuration management, access controls, security management, and contingency planning.

The second material weakness addressing the limited functionality of FMS is manifested in several ways that affect VA’s ability to be strong stewards of taxpayer dollars. VA has several legacy subsidiary IT systems that no longer meet financial management system requirements and do not have a two-way interface with FMS. VA does not perform comprehensive reconciliations between these legacy systems and FMS. In addition, VA continues to record a large number of journal entries, which are manual adjustments to the accounting records, to produce a set of auditable financial statements. Manual adjustments carry an inherent risk of introducing errors into financial reports. VA also does not have a complete, centralized repository for all active agreements that it has with other federal agencies to support and facilitate reconciliation of account balances with those agencies.

Overall, VA’s financial management systems do not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996. Additionally, over time, VA’s complex, disjointed, and antiquated financial management system architecture has continued to deteriorate and no longer meets increasingly stringent and demanding financial management and reporting requirements mandated by the U.S. Department of the Treasury and the Office of Management and Budget (OMB). VA continues to struggle with consistently and proactively enforcing its policies and procedures for all legacy applications and systems. The most recent financial statement audit report made 25 recommendations pertaining to the three material weaknesses ranging from targeted actions to broad improvements in policies, processes, and systems—many repeated from prior years.

FINANCIAL MANAGEMENT SYSTEM INADEQUACIES HINDERED CONTROLS OVER COVID-19 SUPPLEMENTAL FUNDS

The deficiencies in VA’s financial management system are illustrated in a series of OIG reports finding that VA has lacked assurance that funds allocated specifically for COVID-19-related purposes had been spent as intended.6

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Following the issuance of OMB guidance for tracking and reporting supplemental funding, the OIG initiated a June 2021 review of VHA’s efforts to establish financial oversight mechanisms. The OIG found that VA did meet the Families First Coronavirus Response Act and the Coronavirus Aid, Relief, and Economic Security (CARES) Act requirements to submit reports to OMB and Congress. VA supplemented policies providing accounting structures to use during declared emergencies. However, the OIG identified concerns with the completeness and accuracy of VA’s reports. VHA’s reliance on several accounting subsystems for payroll and purchase card transactions required staff to manually identify and adjust COVID-19 obligations and expenditures to the proper accounts. VHA and VA’s Office of Management implemented the OIG’s recommendations to develop procedures to validate data to ensure that information in reports accurately represents the underlying source transactions.

To provide for greater oversight of VA’s spending of these supplemental funds, the VA Transparency & Trust Act of 2021 (Transparency Act) requires the OIG to report semiannually on VA’s actual obligations and expenditures of the supplemental funds compared to its plans. To date, the OIG has published three reports. The inaugural report concluded that VA only partially complied with the Transparency Act. The OIG found it was unclear whether all of the planned uses of America Rescue Plan (ARP) Act of 2021 funds were captured in the plan VA submitted to Congress, as the plan did not include a projected cost to support maintaining IT projects originally started with CARES Act funds. The OIG made two recommendations to the assistant secretary for management/chief financial officer, and both were closed after VA provided sufficient evidence of implementation progress.

In the second Transparency Act report, the OIG found VA generally complied with the act because justification was provided for spend plan programs, which were generally aligned with expenditures. However, VA relied on expenditure transfers (a manual adjustment process to transfer funds from one account to another) for nearly half of its ARP Act obligations and expenditures. The OIG found that VA’s manual process resulted in at least 53 potential reporting errors, which the department corrected.

While VA was again found to have generally complied in the OIG’s third Transparency Act review, it did not provide sufficient supporting documentation requested by the review team to assess line-level details needed to make a full assessment. Additionally, VA’s Office of Management acknowledged that “manual processes for expenditure transfers can lead to potential reporting errors and data reliability

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9 VA OIG, VA’s Compliance with the VA Transparency & Trust Act of 2021, March 22, 2022.
issues” and that replacing its “antiquated legacy financial management system by implementing a modern solution” will reduce these potential errors.

The use of manual expenditure transfers contributed to a lack of transparency and accountability for VHA’s purchases using CARES Act funds as well. In May 2023, the OIG published a proactive audit on the controls over VHA’s use of supplemental funds. The audit identified weaknesses involving the two methods used by VHA medical facility staff to process COVID-19-related transactions: (1) manual expenditure transfers and (2) the direct obligation of funds from the CARES Act medical services funds. First, manual expenditure transfers require staff to use journal vouchers to document the transfers in VA’s FMS. Staff were not always properly preparing the journal vouchers, providing supporting documentation, or having an authorizing official sign them. This happened, in part, because VHA’s Office of Finance did not ensure VA medical facilities were following VA financial policies. Essentially, VHA medical facility staff were left to determine what documentation would be sufficient to ensure the vouchers were supported without the benefit of proper guidance or internal controls.

Second, medical facility staff did not comply with key controls when they made pandemic-related purchases directly from CARES Act supplemental funds. In an estimated more than 10,000 transactions, medical facility staff did not always

- have documented purchase authority;
- segregate duties so the same employee making the request was not also approving the purchase;
- certify and pay invoices properly; and/or
- track the receipt of goods to ensure the quantities ordered were received.

These issues occurred because VHA did not develop accounting processes that outlined clear roles and expectations related to the oversight of purchases made with supplemental funds. As a result, the OIG reported an estimated $187 million in questioned costs related to VA’s use of CARES Act funds, and the OIG made nine recommendations to the Office of Management and VHA to resolve these problems. Notably, the OIG recommended that VA assess iFAMS to determine whether integration with payroll subsystems can be accomplished to resolve some of the payroll-related expenditure transfers. VA concurred, stating it would develop interfaces for an end-to-end automated solution by September 2030.

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12 VA OIG, *VHA Can Improve Controls Over Its Use of Supplemental Funds*, May 9, 2023.
13 The OIG considers all recommendations currently open pending the submission of sufficient documentation that would support that adequate progress has been made on implementation to close them. The OIG requests updates on the status of all open recommendations every 90 days. This is reflected on the recommendations dashboard found on the OIG website. For this report, the OIG will request the first update on or about August 9, 2023.
THE OIG FINDINGS ON IFAMS DEPLOYMENT HAS IDENTIFIED SEVERAL WAYS FOR FMIBTS TO IMPROVE ITS WORK

The fully successful deployment of iFAMS could help resolve a persistent material weakness and increase the system’s potential to increase the transparency, accuracy, timeliness, and reliability of financial information across VA. The OIG, therefore, began overseeing iFAMS implementation shortly after it went live at NCA in November 2020. VA’s Office of Management is administering the iFAMS deployment through its Financial Management Business Transformation Service (FMIBTS). Resolving or mitigating deployment issues at NCA, which is VA’s smallest administration with less than 1 percent of VBA’s and VHA’s budget, could help prevent those issues from compounding at the larger administrations and staff offices. To that end, the OIG alerted VA leaders to early implementation concerns by publishing two memoranda.

**OIG Memoranda Detailed iFAMS Reporting Issues Needing Early Resolution**

In September 2021, the OIG issued a management advisory memorandum on inadequate business intelligence (BI) reporting capabilities in iFAMS that hindered NCA’s ability to easily monitor its budget and operations.\(^{14}\) The findings were part of a broader audit to determine if the program office identified and addressed deficiencies from iFAMS’s first deployment. The reporting capabilities are critical to strengthening planning, analysis, and decision-making capabilities; however, the program office had not ensured NCA had the comprehensive BI reports needed to monitor budget and operations. Although FMIBTS was aware of these issues and attempted some corrective actions, as of July 2021, NCA was still experiencing significant challenges, such as not having a comprehensive report showing the total amount of funds available to the administration. Other high-priority reports used to track and forecast payroll and full-time equivalent employees were also not available for widespread NCA use. NCA staff spent considerable time trying to understand and validate reports by extracting data from other reports and queries and manipulating that data in spreadsheets. FMIBTS confirmed it knew of these issues, and the OIG recognized that FMIBTS was attempting to take positive steps toward resolution, and they deployed the needed capabilities to NCA during the broader audit.

In June 2022, the OIG published the results of a consult by its contracted independent public accounting firm related to iFAMS financial reporting controls at NCA.\(^{15}\) This consulting engagement provided the OIG with information about iFAMS to assist in planning for future financial statement audits. The consulting letter identified potential risks to accurate financial reporting and provided management’s comments on actions taken or planned to address those risks.


While the OIG used both memoranda to raise concerns and identify risks for FMBTS, the OIG did not make specific recommendations for follow-up in either document. The memoranda provide information to help VA decision-makers identify what additional corrective actions, if any, are needed.

**Improved Risk Management, System Testing, and Communication with Users Could Advance Implementation**

In March 2023, the OIG published its first audit on NCA’s deployment issues. Building on the September 2021 memorandum, the audit identified issues that should be addressed as VA moves forward with further deployments. While iFAMS provided much of the core financial functionality NCA needed, FMBTS did not fully address some barriers related to the program’s objectives of streamlining processes and improving information reliability. The OIG made the following findings:

- The iFAMS user interface initially increased the complexity of purchase card orders and contracting requests, which are high-volume transactions. To address the complexity of purchase card orders and contracting requests, FMBTS began rolling out a simplified user interface in late 2021, with generally positive user feedback. Even so, staff experienced inefficient processing for a significant portion of NCA's transactions for over one year after going live. The key principle that should be considered going forward is that FMBTS will need to prioritize user feedback in its risk management process to identify and develop other potential system enhancements. Specifically, ensuring iFAMS improves efficiency will become even more critical as implementation continues to VHA, which is expected to have about 115,000 users compared to fewer than 1,200 users at NCA.

- FMBTS did not establish comprehensive controls to reduce data reliability risks posed by a manual contracting process. NCA staff must still manually adjust the obligation amounts when reducing amounts available in iFAMS and eCMS, VA’s contract management system, on contracts that existed before iFAMS went live. These contracts are known as “converted contracts.” Obligation amounts need to be reduced, for example, when the needed quantity of goods or services has been received with funds remaining on the obligation or a contract is cancelled. Manual processes in legacy systems have been a long-standing risk to the accuracy and completeness of financial reporting, and these risks continue in iFAMS because FMBTS felt automating an interface between iFAMS and eCMS to automatically update these types of changes to converted contracts was not worth the costs. There are some process controls on these manual contracting processes, and the program office was working towards developing a reconciliation report, but as of February 2023, this risk remained active.

• Compliance with the FMBTS risk management process could enable the program office to better respond to all identified risks. A central repository called a risk register is part of the FMBTS risk management process enabling the documentation, categorization, and tracking of risks. FMBTS did not prioritize user feedback and did not use the risk register to document and assess manual obligation risks. Before NCA’s deployment, FMBTS acknowledged the risk of staff finding the iFAMS user interface to be difficult but categorized the probability and impact as low. Low user adoption was a recognized risk, and user feedback before going live should have led FMBTS to assess a higher probability and impact rating. While FMBTS has been taking steps to deal with issues such as the complex user interface, FMBTS must continually assess and prioritize user feedback in the future. The OIG also found that FMBTS did not formally identify and document the risk associated with a manual deobligation process, despite prior OIG audit findings that identified significant control deficiencies with manual processes in the legacy system. FMBTS felt the risk would decrease over time as the converted contracts ended. While FMBTS limited the number of users with manual adjustment permissions, this particular risk-mitigation strategy will be difficult to scale across the rest of VA. If FMBTS does not formally identify obvious risks in the register, the program cannot properly assess, prioritize, redress, and monitor them.

• iFAMS implementation initially complicated the process of paying some invoices, with a mitigation taking several months. Modifications to the converted contracts required NCA staff to review unnecessary information when paying invoices, which could lead to human error and unreliable data that inaccurately displays available funding amounts, the nature of the expense, or the correct fiscal year. In FY 2021, the NCA chief financial officer (CFO) expressed a lack of confidence in the accuracy of recorded amounts.

• FMBTS did not comprehensively test converted contracts and so was unaware of the above payment issue. Robust testing, including converted contracts and payments, could have prompted FMBTS to mitigate the impact before going live and is critical moving forward because converted contracts will be an issue for years while iFAMS is implemented.

• All of NCA’s priority BI reporting functionality was not available at go-live. This issue was addressed in the OIG’s September 2021 management advisory memorandum.

• NCA did not receive the BI reporting functions as expected because FMBTS did not communicate well regarding NCA’s high-priority requirements. During the development period, NCA worked with FMBTS to develop requirements and explanations of the reports’ functions. As the process went on, NCA staff, leaders, and product owners communicated requirements and prioritization goals. The OIG’s review made clear that NCA and FMBTS did not share the same understanding of the requirements. FMBTS could mitigate this by
formally acknowledging whether requests have been accepted as requirements. This step can help other VA administrations and offices determine whether requirements need to be revised so that critical BI reporting functionality is available at go-live.

The OIG made five recommendations to the deputy assistant secretary for FMBTS: (1) implement controls to mitigate the risk that data are unreliable and inconsistently recorded between the legacy system and iFAMS when staff deobligate funds for converted contracts; (2) implement a methodology to prioritize user feedback in the risk management process; (3) use the risk register to document and assess the risks associated with the manual deobligation process; (4) ensure that converted contracts are included in integrated system and user acceptance testing; and (5) implement a process to formally acknowledge whether high-priority business intelligence reports requests have been accepted as requirements. At the end of June 2023, the OIG will begin to follow up on VA’s implementation efforts.

**STRONG GOVERNANCE AND CLARITY OF ROLES AND RESPONSIBILITIES**

Finally, the decentralized nature of governance for VA’s financial management structure can contribute to problem identification and correction. Under the Chief Financial Officers Act, the VA CFO has the responsibility for establishing financial policy, systems, and operating procedures for all VA financial entities. VA administrations and other offices are responsible for implementing those policies and producing financial information, but they are not under the supervision of the VA CFO. This fragmented structure has been a consistent concern and finding in the audit of VA’s consolidated financial statements. Without active involvement from VA’s senior leaders to overcome organizational silos and ensure collaboration, problems at the administration level may not be elevated for resolution.

**CONCLUSION**

The OIG has repeatedly found that VA’s failure to effectively modernize its financial management systems leads to significant challenges in assuring accountability and transparency in how it obligates and expends funds; makes it difficult for VA staff to plan, order, and track expenditures for supplies and services; and hampers transparency and oversight of VA’s use of these funds. The transition to iFAMS has the potential to mitigate major issues in producing VA financial statements and improving VA operations. However, the transition is exceptionally complicated—requiring intensive and continuous attention from VA—and demands strong organizational leadership and coordination. The OIG urges VA to dedicate the time and resources to resolving the early opportunities for improvement in the iFAMS transition, being vigilant in identifying challenges that will arise in the forthcoming deployments, and developing processes for timely and effective responses. Chairman Rosendale, Ranking Member Cherfilus-McCormick, and members of the Subcommittee, this concludes my statement. I would be happy to answer any questions you may have.

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