Audit Material Weaknesses or Weaknesses Identified by Management

Information Technology Security Controls (Audit/FMFIA Section 4 weakness)

Description	VA's assets and financial data are vulnerable to error or fraud because of weaknesses in information security management, access to controls and monitoring, and physical access controls.
Current Status	The Data Security—Assessment and Strengthening of Controls Program was established to correct deficiencies and eliminate vulnerabilities in the area of information security. This over-arching program is a cross-cutting effort to complete hundreds of tasks that are necessary to remediate long-standing security weaknesses. In 2007, Handbook 6500, "Information Security Program," was published and will provide the foundation for a comprehensive information security program throughout VA. Tracking and reporting of audit finding remediation activities have been increased, and 145 security assessments were performed by the newly-created Office of IT Oversight and Compliance.
Resolution Target Date	2009

Financial Management System Functionality (Audit/FMFIA Section 4 weakness)

Description	Difficulties exist in the preparation, processing, and analysis of financial information to support the efficient and effective preparation of VA's consolidated financial statements. – Components of certain feeder systems and financial applications are not fully integrated with the core Financial Management System.
Current Status	To address the Department's material weakness, Financial Management System Functionality, VA is continuing its efforts to develop the Financial & Logistics Integrated Technology Enterprise (FLITE) program. FLITE will integrate many disparate systems, standardize functional processes, and modernize the information technology environment supporting financial and logistics management within VA. The program has two primary components, a logistics and asset management component, referred to as the Strategic Asset Management (SAM) project, and a financial management system component, referred to as the Integrated Financial Accounting System (IFAS). In 2007 VA continued the prerequisite planning for the FLITE program, which included establishing and implementing the FLITE governance framework, developing the FLITE program baseline cost estimates and integrated master schedule, documenting business requirements and business processes, establishing an acquisition

	strategy, determining the COTS solution for the SAM component of FLITE, conducting a stakeholder analysis and communications needs assessment for the Organizational Change Management Strategy, and performing a full analysis on lessons learned from CoreFLS to monitor during the FLITE project lifecycle. In 2008 VA expects to award the SAM Integration contract and initiate the SAM pilot at the Milwaukee VAMC. The pilot will attain Initial Operating Capability of the SAM system. In addition, IFAS will follow the financial management line of business (FMLoB) guidance to compete and award the IFAS contract and take steps to initiate the IFAS pilot in FY 2009. The pilot will validate the business requirements, test any applicable interfaces, and ensure proper security and accessibility of data. The pilot will attain Initial Operating Capability of the IFAS system. Under the FLITE umbrella as an interim initiative, VA is also continuing to implement a data warehouse to capture transaction details from selected interfacing systems throughout the Department and the corresponding core Financial Management System (FMS) transactions. Under this initiative, VA is analyzing financial system interfaces to identify weaknesses and deficiencies and define corrective requirements. This initiative will simplify the reconciliation between the interface and FMS. It will also ensure a clear audit trail exists for financial transactions that interface with the core financial system and ensure all interfacing systems to the core financial system are A-127 compliant. In 2007, the data warehouse for two of the targeted interfaces, PAID and Loan Service and Claims (LS&C), were implemented as scheduled. To address the weakness in the preparation of VA's financial statements, in 2006 the Department successfully implemented the Hyperion Financial Management reporting system, commercial off-the-shelf (COTS) software to improve the preparation, processing, and analysis of financial information. The system was used to produce the 2007 quarterly and consolidated financial statements. This system is now completely producing VA consolidated financial statements using a standardized and repeatable process. The cumbersome legacy process to produce the statements has been retired.
Resolution Target Date	2012

Financial Management Oversight (Audit/FMFIA Section 2 weakness)

Description	Internal controls and reconciliation processes were not performed consistently or completely.
Current Status	In 2007 VA placed additional focus on the Financial Management Oversight material weakness due to the expansion of this significant deficiency to other fiscal areas in VA (expanded beyond simply VHA as described in 2006). VA developed and implemented a detailed remediation action plan to address the resolution of this material weakness. VA financial management made improvements through the year in providing additional and clarifying financial policies and procedures to VA's fiscal community, particularly in the area of internal controls. VHA's Business Process Improvement Committee (BPIC) continued to work toward improving VHA's internal controls and reforming VHA business processes to improve financial performance. Examples of the actions taken in the past year include the following: • VHA developed and issued an extensive desk guide for processing non-MCCF accounts receivable; • VBA developed an Audit Management Directive and Reconciliation Directive; • VA's Office of Finance began a comprehensive initiative to rewrite and update all VA financial policies and procedures (3-year effort). These, as well as other numerous efforts, are continuing into 2008 to resolve this material weakness.
Resolution Target Date	2009

Retention of Computer Generated Detail Records in Benefits Delivery Network (BDN) System – VBA (Audit/FMFIA Section 4 weakness)

Description	Certain computer generated transaction details from the BDN system are only retained for approximately 60 to 90 days. –- Supporting detail is not available to substantiate amounts recorded on financial statements.
Current Status	Newly identified
Resolution Target Date	TBD