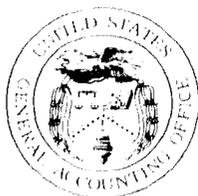


July 1991

FINANCIAL MANAGEMENT

Factors VA Needs to Consider in Implementing the Chief Financial Officers Act of 1990



144428

Accounting and Financial
Management Division

B-243836

July 23, 1991

The Honorable Edward J. Derwinski
The Secretary of Veterans Affairs

Dear Mr. Secretary:

An important phase of our general management review at the Department of Veterans Affairs (VA) involved the Department's management of its financial operations. This report discusses factors VA needs to consider in implementing financial management requirements in the Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576). This legislation, which superseded the section of the Department of Veterans Affairs Act that had established a CFO for VA in 1988, broadened the CFO's duties and responsibilities. The factors discussed in the CFO Act are relevant to VA's efforts to address its long-standing financial management systems weaknesses and the difficulties it has encountered in enhancing its financial management systems.

This report is one of several that have been issued as part of our general management review of VA. In our report, Information Resources: Management Commitment Needed to Meet Information Challenges (GAO/IMTEC-90-27, April 19, 1990), we discussed the effectiveness of VA's information resource management practices. In another report, Management of VA: Implementing Strategic Management Process Would Improve Services to Veterans (GAO/HRD-90-109, August 31, 1990), we discussed VA's efforts to implement a departmentwide strategic management process.

Results in Brief

To help address financial management problems at VA, the Congress enacted the Department of Veterans Affairs Act in October 1988, which established the position of CFO to manage VA's financial management operations. More recently, the Chief Financial Officers Act of 1990 was enacted to improve financial management operations in the federal government. The act strengthened the CFO position at VA and included VA in a pilot program for developing audited financial statements.

With the legislative framework for improved financial management now in place, VA needs to consider several factors in implementing these laws. For instance, VA must consolidate responsibility for all financial management functions under the CFO. This would help eliminate problems arising from its various components autonomously developing and operating financial management systems.

Also, VA must establish financial management systems that comply with applicable requirements and develop cost data and performance measures. These activities are pertinent to resolving VA's long-standing financial systems deficiencies and developing adequate hospital cost information, problems which we have described in previous reports.

Further, VA should prepare a departmentwide plan to guide financial management systems development and operations. This could help reduce lengthy delays and increased costs that have plagued VA's past financial management systems development efforts and facilitate preparation of auditable financial statements.

Other factors to be considered include the need to (1) improve asset management systems, (2) integrate accounting and budget information, and (3) attract and retain financial staff. These considerations are important for VA to better manage receivables and property, link financial information for management control and planning purposes, and ensure a cadre of high quality financial management professionals.

Background

On March 15, 1989, VA was elevated to cabinet-level status to better fulfill its overall mission of meeting the financial, educational, and health-care needs of the nation's 27 million veterans and their dependents. VA has over 219,000 full-time employees and an annual budget of about \$30 billion. It operates three major components—the Veterans Health Administration, the Veterans Benefits Administration, and the National Cemetery System.

The Veterans Health Administration has an annual budget of over \$11 billion, has over 90 percent of VA's employees, and is responsible for operating 172 medical centers, over 300 outpatient community and outreach clinics, and 126 nursing home-care units. The Veterans Benefit Administration provides financial and other assistance to veterans and their dependents and survivors. In fiscal year 1989, the Veterans Benefit Administration provided about \$17 billion in compensation, pension, education, and housing guaranty benefits. In addition, it is responsible for overseeing VA's \$200-billion life insurance program. The National Cemetery System operates 113 national cemeteries at an annual cost of \$47 million.

VA's medical care, benefits, and cemetery programs are financed primarily through appropriated funds, while the life insurance program is financed primarily by revenues generated from operations. The housing

credit program is financed by income from its loan and guarantee operations and by appropriated funds.

Objectives, Scope, and Methodology

The objectives of our review were to (1) identify steps VA needs to take to implement the Chief Financial Officers Act of 1990 and (2) relate VA's problems in operating and enhancing financial management systems to the steps identified for implementing the CFO legislation.

We conducted our review between August 1989 and December 1990, in accordance with generally accepted government auditing standards. We performed our work at the following locations:

- VA headquarters, Washington, D.C.;
- VA data processing centers in Austin, Texas and Hines, Illinois;
- VA finance center, Austin;
- VA medical center, Hines; and
- VA supply depot, Hines.

To obtain a general understanding of VA's financial management environment, we reviewed policies and procedures pertaining to VA's programs and organizations and descriptions of VA's financial management systems. To identify problems VA has experienced with its financial management systems, we reviewed reports issued by GAO and VA's Inspector General and reports issued by VA under the Federal Managers' Financial Integrity Act of 1982 (FMFIA). In addition, we discussed with VA financial managers selected accounting system problems identified by these reports in order to obtain their views on progress in correcting them.

We identified financial management systems development projects from discussions with financial management officials. Also, we reviewed pertinent documents related to planning for these projects.

We examined the Department of Veterans Affairs Act and the Chief Financial Officers Act of 1990 to determine the specific duties and responsibilities expected of VA's CFO. We also interviewed program and financial management officials in VA's headquarters and at the field locations we visited to obtain their opinions on the challenges they face in managing VA's financial activities and their perceptions of VA financial management problems. Also, at the field locations we observed accounting operations and reviewed financial reports.

Recent Legislation Provides a Framework for Improving VA's Financial Management Systems

A wide array of financial management problems at VA has been reported for years by us and by VA itself under FMFIA. As a result of these problems, VA's financial management systems do not provide complete and accurate financial information on the results of its program and administrative operations. In addition, VA, in an effort to correct these problems, encountered delays and cost overruns due to inadequate planning and fragmented responsibility for financial management.

In the Department of Veterans Affairs Act and the Chief Financial Officers Act of 1990, requirements were established for central financial management leadership at VA. These laws have provided a framework for modernizing VA's financial systems so that they can produce reliable, useful information and have adequate internal controls.

CFO Position Legislatively Established in 1988

The Department of Veterans Affairs Act established a CFO for VA and mandated that, in addition to advising the Secretary of Veterans Affairs on financial management, the CFO develop and maintain a financial management system which (1) produces consistent, compatible, and useful data, (2) reports cost data, and (3) integrates accounting and budgeting information. Further, the act charged the CFO with supervising and coordinating all financial management systems activities and operations of the Department, including developing financial management budgets and approving and managing financial management systems design and enhancement projects.

VA has begun to centralize financial management responsibility under the CFO, who was confirmed by the Senate in October 1989. First, VA established the Senior Management Review Council consisting of key managers with the CFO as chairperson. The Council is responsible for overseeing VA's efforts to implement Office of Management and Budget (OMB) Circulars A-123 (internal control systems), A-127 (financial management systems), and A-130 (federal information resource management). In another major step toward consolidation of financial management responsibility, the Secretary transferred oversight of VA's Data Processing Center in Austin from VA's Assistant Secretary for Information Resources Management to the new CFO. This center operates and maintains VA's primary fiscal and central administrative accounting systems.

CFO Position Enhanced by 1990 Legislation

The CFO Act of 1990 superseded the section of the Department of Veterans Affairs Act that established a CFO at VA, and it broadened and strengthened the role of federal agency CFOs, including VA's CFO, by mandating that they be responsible for the following actions:

- organizing agency financial management functions to ensure that responsibility for accounting, budgeting, and other financial activities is consolidated under the CFO;
- establishing financial management systems that comply with applicable accounting principles, standards, and requirements, as well as internal control standards;
- preparing a plan to guide financial management systems development and operations;
- preparing an annual report which describes the agency's financial status and includes audited financial statements;
- developing and reporting cost data and performance measures;
- developing and implementing systems for reporting costs and managing assets, including those needed for credit management and property accounting;
- integrating accounting and budget information and operations; and
- directing and managing the recruitment, selection, and training of financial management personnel.

CFO Legislation Addresses Many Long-Standing Problems

Requirements first set out in the Department of Veterans Affairs Act and now in the CFO Act directly address many of VA's financial management problems and provide a framework for resolving them. However, implementation of these requirements will be a challenge. Serious financial system problems have persisted for years, and corrective actions have not resulted in a modern financial management structure. To advise and assist VA in achieving these improvements, we offer the following views on some of the factors VA should consider in implementing the CFO Act.

1. Organizing agency financial management functions to ensure that responsibility for accounting, budgeting, and other financial activities is consolidated under the CFO. Despite the establishment of the CFO pursuant to the Department of Veterans Affairs Act, VA has not consolidated responsibility for its financial management operations. Responsibility for 42 financial systems and related operations is presently dispersed among program managers and the CFO, who are independently striving to automate and improve financial systems. For example, the CFO is responsible for the administrative accounting systems,

whereas the Chief Medical Director, the Chief Benefits Director, the Director of the National Cemetery System, and the Assistant Secretary for Acquisition and Facilities are individually responsible for their respective program accounting systems. Because of this fragmentation, system development efforts and operational improvements have been delayed and poorly coordinated.

To change situations such as this, the CFO Act stipulates that "An agency Chief Financial Officer shall oversee all financial management activities relating to the programs and operations of the agency." Further, the act calls for "... consolidating [an agency's] accounting, budgeting, and other financial management activities under the agency Chief Financial Officer . . .," who is to "... report directly to the head of the agency on financial management matters." In this regard, on February 27, 1991, OMB issued guidance for preparing organization plans required by the CFO Act and provided criteria for setting CFO authorities. This guidance specifies the statutory authority and functions of agency CFOs, reemphasizes the importance of having CFOs report to agency heads, and reiterates the CFO's role as encompassing all financial management activities relating to an agency's programs and operations.

Implementing these requirements at VA would help eliminate problems arising from its various components' autonomously developing and operating financial management systems. Placing all of VA's financial management activities under the CFO, as specified in the CFO Act, would ensure that one person, who is part of top management, has overall authority for establishing effective financial management policies, internal controls, and financial management systems that provide reliable and timely information on the results of operations throughout VA. Such consolidation is needed to bring about financial systems improvement required by the CFO Act.

2. Establishing financial management systems that comply with applicable accounting principles, standards, and requirements, and internal control standards. Since 1983, when agencies first began to identify internal control and accounting system deficiencies under FMFIA, VA has reported problems involving its accounting and financial management systems. Recently, for example, VA's 1990 FMFIA report disclosed that (1) the decentralized funding process for the loan guarantee program failed to provide VA's central office with adequate fund control, (2) control over disbursements for VA's loan guarantees did not preclude duplicate payments, and (3) basic controls had not been developed in VA's benefit systems to ensure that payment transactions were properly

processed. Further, in an October 1990 letter to the Chairman of the House Committee on Government Operations, the Assistant Secretary for Finance and Planning, who is also VA's CFO, noted that there are many long-standing, material weaknesses in VA's financial management systems which prevent the systems from providing accurate, reliable, and timely information to VA managers.

In 1985, we reported¹ that VA's financial management systems did not have internal controls made possible by state-of-the-art automated data processing technology for data entry, telecommunications, and data base management. In addition, we reported that VA's managers were not receiving a full range of reliable financial information needed to effectively carry out and report on the financial aspects of VA's program and administrative operations.

Also, as part of an effort begun in October 1989 to identify and correct vulnerabilities in high-risk programs throughout government, OMB has identified several financial management and internal control problems at VA. For example, OMB has stated that VA needs to review medical inventory controls, correct internal control and accounting system weaknesses identified through FMFIA, reduce compensation and pension overpayments, and assess cost alternatives when planning construction projects.

The CFO Act specifically gives VA's CFO authority to (1) ensure that financial management systems comply with applicable accounting policies, standards, and requirements and (2) establish and enforce internal control policies, standards, and compliance guidelines. Such actions are the key to complete, reliable, consistent, and timely financial reports.

3. Preparing a plan to guide financial management systems development and operations. VA's past efforts to correct weaknesses in its financial systems have not been successful because VA (1) did not adhere to an overall, departmentwide approach for systems development and (2) included projects without clearly defining the accounting and financial management functions the new systems were to perform. These deficiencies have led to delays in new system development and resulted in increased costs. Some examples follow.

- In fiscal year 1990, OMB denied VA funding to continue the modernization of its compensation, pension, and education system because VA had not

¹Veterans Administration Financial Management Profile, (GAO/AFMD-85-34, September 20, 1985).

developed a structured approach to plan, rank, and implement all aspects of its near- and long-term needs.

- Implementation of VA's primary central accounting system, which was initially estimated to cost \$22 million, is now projected to cost \$35 million. VA attributes about \$9.4 million of this increase to functional requirements that were identified by a contractor and not previously considered by VA.
- VA's project to redesign its payroll system began in 1979, and is now scheduled to be completed in fiscal year 1993. The delay was due in part to VA's two major components' (the Veterans Benefits Administration and the Veterans Health Administration) disagreement on the type of data entry equipment to use for entering payroll data into VA's central payroll system. Ultimately, each component was permitted to use the data entry equipment it desired, and the central payroll system's software was redesigned to accept data entered from both types of data entry equipment.

Effective development of modern financial systems is an essential goal of the CFO Act, which provides agency CFOs with the authority to approve and manage financial management system design and enhancement projects. The act also requires OMB to prepare an annual governmentwide 5-year financial management plan and agency CFOs to prepare their own plans to implement OMB's 5-year plan. (Appendix II outlines the minimum elements of a plan, such as that specified by the CFO Act.)

OMB's guidelines state that a CFO should have authority to

"...manage directly, and/or monitor, evaluate and approve, the design, budget, development, implementation, operation and enhancement of agencywide and agency component accounting, financial and asset management systems."

OMB's guidance states that the agency organizational plans required by the CFO Act should specifically provide the CFO with broad authority and responsibilities for financial management systems, which extend to (1) clearing the design for information systems that provide financial and/or program performance data used in financial statements, (2) ensuring that program information systems provide financial and programmatic data reliably, consistently, and promptly to agency financial management systems, and (3) evaluating the installation and operation of such systems. In addition, the OMB guidance addresses CFO responsibilities relating to the development or operation of financial information systems by stating that CFOs are to be full participants in agency information resources management decisions. These authorities

provide for a structured approach to designing and maintaining systems from a departmentwide perspective, which is critical to the success of systems development projects.²

Over the next 5 years (fiscal years 1991-95), VA plans to spend about \$244 million in modernizing its financial management environment. Appendix I identifies the major financial management systems development efforts VA is undertaking and their importance to VA's mission. Its centralization of responsibility for these projects and planning, as required by the CFO Act and the OMB guidance, would (1) facilitate a unified approach for setting priorities and allocating resources, (2) provide continuity to systems development projects when VA's leadership changes, and (3) help ensure that system development efforts are coordinated and completed on schedule. Further, such actions would help ensure that VA's financial management systems are designed to (1) correct problems, (2) comply with applicable requirements, (3) report complete, reliable, consistent, and timely information, and (4) respond to the financial information needs of VA's managers.

4. Providing for annual audited financial statements and preparing annual reports on VA's financial condition. The CFO Act requires that VA prepare financial statements for fiscal years 1990, 1991, and 1992 and have them audited. The act also requires agencies, including VA, to prepare annual reports which disclose meaningful and useful information for assessing programs and provide a clear picture of their financial status. These reports are to include the audited financial statements, interpret and analyze them, and highlight critical aspects relevant to financial results, such as the cost of programs and services, the significance of liabilities, and relevant trends and comparisons. Further, the annual report should analyze the agency's appropriation activity and summarize its self-assessment of internal controls under FMFIA, as well as disclose other appropriate and pertinent information concerning financial management. Financial disclosure of this nature can (1) provide the Congress and the public with greater insight into and understanding of VA's financial affairs, (2) improve accountability for VA programs and resources, and (3) be useful for oversight and decision-making when assessing VA programs.

VA is in a better position to implement these provisions than some other agencies because it has previously developed financial statements that

²General Accounting Office, Critical Factors in Developing Automated Accounting and Financial Management Systems (January 1987).

have been audited. With the Department's cooperation, we audited VA's financial statements for fiscal years 1986 through 1989. This required VA to assemble information on its financial position and on the financial results of its operations that could withstand the scrutiny of being subjected to audit and could therefore be relied upon by users of the financial statements. Also, our November 1990 report, Financial Audit: Department of Veterans Affairs Financial Statements for Fiscal Years 1989 and 1988 (GAO/AFMD-91-6, November 14, 1990), demonstrates how the type of information described in the prior paragraph can be presented by an agency in its annual report under the CFO Act.

However, improvements are needed to facilitate VA's future preparation of auditable financial statements. For example, as we reported in 1985, VA does not maintain a consolidated agencywide general ledger or produce prompt, accurate, and complete information needed to develop effective medical facility and construction plans and budgets. (See footnote 1.) Also, our opinion on VA's fiscal year 1989 and 1988 financial statements was qualified because (1) property and equipment values were not adequately documented and (2) VA personnel did not consistently follow capitalization and depreciation policies.

5. Developing and reporting cost data and performance measures. Management control in a hospital environment requires a cost accounting system which collects and reports costs in a way that will help managers accomplish their responsibilities. In 1986, we reported³ that VA lacked reliable cost and work load data. We recommended that VA develop a system to capture the per patient clinical and cost data necessary to effectively manage its health-care program. Until this is done, VA cannot readily determine the cost of treating individuals or specific diagnoses.

While VA collects some performance data, it is not always useful. For example, a VA Medical Center director told us that VA collects vast amounts of data, of which little, if any, enables decisionmakers at the hospital level to examine patterns and trends in health care provided to VA patients. Properly designed and reported, performance indicators can be valuable tools to VA managers, identifying developing problems before they reach critical proportions. Further, measures of performance can be useful to VA decisionmakers in assessing alternative choices and fostering economy and efficiency. Performance measures also can be used

³Financial Management: An Assessment of the Veterans Administration's Major Processes (GAO/AFMD-86-7, June 27, 1986).

to objectively evaluate VA's stewardship of the resources with which it is entrusted.

The CFO Act requires that agency financial management systems provide for the systematic measurement of performance. To comply with the act, VA's financial management systems should be designed to collect data needed to report cost trends and other performance indicators. By working as partners, the CFO and VA managers can better ensure that performance measures are useful and relevant.

6. Improving credit management and accounting for property. In an April 1990 report⁴ and our November 1990 report on VA's financial statements for fiscal years 1989 and 1988, we disclosed serious problems related to VA's credit management programs. Our financial statement audit report also discussed problems related to VA's accounting for property.

The CFO Act specifically charges agency CFOs with responsibility for implementing asset management systems, such as those for credit management and property control. This would involve the (1) authority to set and monitor policies for credit management and debt collection and guidelines for physical property, equipment, and inventory control and (2) ability to monitor the application of these policies and guidelines. Hence, these difficult issues deserve the CFO's earliest attention so that (1) lending programs can have adequate internal controls and reporting requirements, (2) amounts owed the government through VA credit programs can be adequately accounted for and collected, and (3) property can be accurately accounted for and controlled.

7. Integrating accounting and budget information and operations. In 1985, we reported⁵ that a major weakness in federal financial management is that the accounting and budgeting processes have not been integrated to a point where they are fully useful for management control and planning purposes. Integrated budgeting and accounting requires that the principles used for program cost accounting be consistent with those used in developing the program budgets. In previous reports, we have demonstrated the importance of a clear linkage between budgeting

⁴Credit Management: Deteriorating Credit Picture Emphasizes Importance of OMB's Nine-Point Program (GAO/AFMD-90-12, April 16, 1990).

⁵Managing the Cost of Government: Building an Effective Financial Management Structure (GAO/AFMD-85-35 and 35-A, February 1985).

and accounting information as it relates to VA's various programs. (See footnotes 1 and 3.)

To provide this linkage, the CFO Act directs agency CFOs to develop financial management systems which provide for the integration of accounting and budgeting information. To satisfy this requirement, VA's CFO could (1) determine the extent to which, if at all, VA's accounting and budgeting information is presently integrated, (2) ascertain whether such integration can be achieved using existing accounting and budgeting systems, and (3) ensure that financial management system development projects specifically include this feature.

Although VA's CFO currently has responsibility for the Department's budget operations (formulating VA's budget and reporting on budget execution), the CFO Act expands this responsibility. In order to carry out the expanded responsibilities that are implicit in the act, the OMB guidance states that the agency organization plans should provide the CFO with authority to do the following.

- Ensure that VA's spending complies with legislative mandates and policies through control over budget execution activities (such as, apportionment, fund allocations, obligations, and expenditures of appropriations), including tracking and reporting of these activities.
- Direct input into the requirements for the budget process and review the validity of budget estimates based on historical data and the reliability of assumptions used in preparing the estimates.
- Identify and provide recommendations on the costs and benefits of major program initiatives, as well as on alternatives for major investments, such as for computers, equipment, and other capital acquisitions. This aspect of a CFO's authority, as prescribed in OMB's guidelines, encompasses the review of all major legislative and programmatic proposals, including major procurements, in order to provide advice to the head of the agency on cost and program benefit estimates.

8. Recruiting and retaining financial management personnel. VA faces the challenge of attracting and retaining an adequate number of people with the necessary skills to staff financial management operations. In this regard, the CFO Act specifically places with the CFO responsibility for the recruitment, selection, and training of personnel to carry out VA's financial management functions.

The need for a cadre of highly qualified financial management professionals is also acknowledged in OMB's guidelines under the act. OMB's

guidance specifically states that agency CFOs should have authority to provide agencywide policy advice on the qualifications, recruitment, performance, training, and retention of all financial management personnel. With regard to the heads of agencies' component financial management activities, OMB's guidelines indicate that agencies should provide CFOs with authority to (1) approve job descriptions and skills requirements for these positions, (2) approve the people selected to fill them, and (3) participate, along with agency component heads, in annual performance evaluations of those who fill the positions.

An overall financial management plan for VA should provide a framework for identifying and addressing potential staffing resource problems. Supporting a continuing education policy for VA's financial managers is also important in maintaining a well-trained and high caliber financial management work force. Such a policy is recommended by the Joint Financial Management Improvement Program⁶ in its December 1990 report, Continuing Professional Education: Federal GS-510 Accountants.

Conclusions

Requirements set forth in the Chief Financial Officers Act of 1990 provide a broad foundation to strengthen VA's financial management operations. The key is for VA to establish an organization to carry out the mandates of the law. To do this, VA's CFO must be given authorities and responsibilities called for in the CFO Act and set out by OMB in its guidance to agencies for preparing organization plans under the CFO Act. A strong centralized financial management organization can help ensure that VA's planned system development efforts result in a financial system structure that provides VA's managers with accurate, timely, and useful information.

We are making no recommendations in this report because VA is currently developing its plan for addressing the requirements of the CFO Act.

Agency Comments

We requested agency comments on a draft of this report after briefing VA's Director of Operations and Policy staff on May 14, 1991. However,

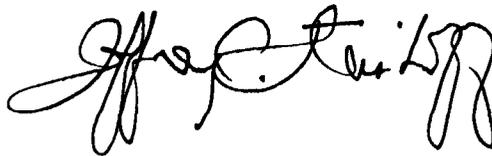
⁶The Joint Financial Management Improvement Program is a cooperative undertaking among OMB, the Department of the Treasury, GAO, and the Office of Personnel Management to improve financial management practices throughout government.

no comments were provided. We also briefed VA's CFO on the results of our review on May 7, 1991.

We are sending copies of this report to the chairmen of interested congressional committees and subcommittees and the Director of the Office of Management and Budget. Copies will be made available to others upon request.

Please call me at (202) 275-9454, if you or your staff have any questions. Major contributors to this report are listed in appendix III.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Jeffrey C. Steinhoff". The signature is fluid and cursive, with a large initial "J" and "S".

Jeffrey C. Steinhoff
Director, Civil Audits

Contents

Letter		1
Appendix I VA's Key Financial System Modernization Efforts		18
Appendix II Elements of a Financial Management Plan		20
Appendix III Major Contributors to This Report		21
Table	Table I.1: VA's Financial Management Improvement Projects	19

Abbreviations

CFO	Chief Financial Officer
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
OMB	Office of Management and Budget
VA	Department of Veterans Affairs

VA's Key Financial System Modernization Efforts

VA operates 42 financial management systems. These include one primary accounting system now under development, 22 subsidiary/administrative systems, and 19 programmatic accounting systems.

A department's primary system is the financial system that provides the required general ledger control over all financial transactions, resource balances, and subsidiary financial systems. Subsidiary financial systems are those agency financial management systems that carry out common administrative functions, such as payroll, purchasing, inventory, property, and administrative payments. Program financial systems are those financial systems that carry out unique program and operating functions, as well as financial management. VA has program financial systems to support its pensions, disability, education, home loan guaranty, and insurance programs.

Table I.1 identifies key systems undergoing modernization and provides information on their costs, estimated completion data, and importance to VA's mission.

**Appendix I
VA's Key Financial System
Modernization Efforts**

Table I.1: VA's Financial Management Improvement Projects

Dollars in millions

System	Estimated dollars	Estimated completion date	Importance to VA's Purpose
Financial management	\$27.1	September 1996	Improve VA financial systems by installing a primary accounting system supported by electronically linked subsidiary and program systems and bring VA's accounting system into compliance with governmentwide requirements.
Personnel/ payroll	7.9	September 1993	Replace VA's existing 25-year-old payroll system and reduce overall costs of providing payroll and personnel services to employees.
Integrated supply management	4.1	September 1993	Allow the Department to become more efficient in procuring supplies for the hospitals and to reduce the cost of inventory and purchases of supplies by ordering drugs and other items in economical quantities.
Compensation, pension, and education	174.2	September 1994	Modernize VA's 30-year-old benefit payment system and improve the quality and usefulness of information for program managers.
Insurance	29.8	September 1994	Modernize VA's insurance system, which was designed in the early 1960s, by upgrading computer facilities and software and reducing risk of operating an undocumented system.
Loan guaranty	1.2	September 1992	Modernize the Loan Guaranty System to improve fund control, management information, and automated manual processes.
Total	\$244.3		

Elements of a Financial Management Plan

The planning process for financial management system improvement efforts should (1) produce a long-range plan that outlines major goals and objectives, with policies and strategies for accomplishing them, (2) detail how the long-range plan will be implemented in the short term, such as establishing milestones, determining resource needs, and ensuring that these needs are clearly identified in agency budgets submitted to OMB and the Congress, and (3) provide a basis for annually reporting to the Congress on progress made and impediments to progress. We believe that a long-range, financial management systems plan should, at a minimum, do the following.

- Describe the existing financial management structure of the agency and the changes needed to establish an integrated financial management system.
- Require that financial management systems be consistent with the accounting and financial reporting principles, standards, and requirements prescribed by the Comptroller General, Treasury, and OMB.
- Provide a strategy for developing and integrating the agency's accounting, financial information, and other financial management systems to ensure adequacy and consistency of information.
- Identify duplicative and unnecessary systems and provide a strategy for eliminating such systems.
- Identify projects to bring existing systems into compliance with the applicable standards and requirements.
- Contain milestones for equipment acquisitions and other actions necessary to implement the plan consistent with the aforementioned requirements.
- Estimate the costs and resources needed to implement the plan.
- Provide a strategy for assuring that VA's financial statements are prepared in accordance with generally accepted accounting principles and standards and are independently audited.
- Identify present and future financial management staffing needs and the actions that will be taken to ensure that these needs are met.

Major Contributors to This Report

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