



US DEPARTMENT OF VETERANS AFFAIRS OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

DEPARTMENT OF VETERANS AFFAIRS

Results of Consulting Engagement on Potential Risks Related to the Integrated Financial and Acquisition Management System and Future VA Financial Statement Audits

Management Advisory
Memorandum

23-00891-166

August 24, 2023

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DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL
WASHINGTON, DC 20001



JULY 23, 2023*

MANAGEMENT ADVISORY MEMORANDUM

TO: Jon Rychalski, Assistant Secretary for Management/Chief Financial Officer
VA Office of Management (004)

FROM: Larry Reinkemeyer, Assistant Inspector General
VA Office of Inspector General's Office of Audits and Evaluations (52)

SUBJECT: Results of Consulting Engagement on Potential Risks Related to the
Integrated Financial and Acquisition Management System and Future VA
Financial Statement Audits

1. The VA Office of Inspector General (OIG) contracted with the independent public accounting firm CliftonLarsonAllen LLP (CLA) to provide consulting services related to the deployment of VA's new general ledger system known as the Integrated Financial and Acquisition Management System (iFAMS) and potential risks to the auditability of future VA financial statements. CLA performed its procedures from January 2023 to April 2023. This engagement provides the OIG with information to plan future audits of VA's financial statements.
2. The OIG contracted with CLA to identify potential risks in three areas relevant to future financial statement audits: (1) the roles and responsibilities of iFAMS contractors and the associated roles and responsibilities of VA's financial managers; (2) financial reporting tools used with iFAMS; and (3) management's risk assessment of the auditability of VA's financial statements using iFAMS.
3. CLA's consulting letter to the OIG is attached to this memorandum.[†] The OIG makes no conclusions concerning CLA's letter or the identified potential risks related to iFAMS and the financial statement audit. The OIG is sharing this letter for VA management's awareness of CLA's observations.

* This memorandum was sent to the Office of Management on July 21, 2023, to confirm the accuracy of management's responses included in the Table of Observations and Potential Risks in CLA's consulting letter.

[†] The Office of Inspector General (OIG) generally releases a management advisory memorandum to provide information on matters of concern that the OIG has gathered as part of its oversight mission. In this instance, the consulting engagement resulted in information that OIG leaders felt should be brought to VA's attention. Memoranda are published unless otherwise prohibited from release or to safeguard protected information.

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4. CLA did not perform an audit of iFAMS, and this engagement was not a financial statement audit. 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 VA's controls over any part of its financial statements or the internal controls of iFAMS. Had this engagement been an audit, CLA might have identified other matters.
 5. The nature and scope of work for this consulting engagement were determined solely by agreement between the OIG and CLA. The consulting activities were limited primarily to CLA personnel reading various documentation; obtaining presentations on certain processes; and making inquiries, including follow-up questions. CLA's scope did not include transactional testing or the testing of the design or operating effectiveness of any controls associated with iFAMS, the contractors, or VA management's oversight of the contractors. CLA did not include within its scope information technology controls or implementation activities for the new system except for data conversion.
 6. In its letter of results that follows, CLA provided specific comments in a Table of Observations and Potential Risks beginning on page 15 of this document. CLA made no recommendations given the nature and scope of this consulting engagement and is responsible for its letter dated August 11, 2023.
 7. The OIG provided CLA's draft letter for VA's review and comment prior to publication. VA's comments are included in the Table of Observations and Potential Risks and on page 19. VA's comments provide additional information and perspective. VA is solely responsible for those comments.
 8. As explained above, CLA's observations were the result of a consulting engagement for the OIG and were not part of an audit. The OIG will use the information gained from this engagement when planning future audits of VA's financial statements. OIG leaders felt the observations should be brought to VA's attention for its consideration. Memoranda are published unless otherwise prohibited from release or to safeguard protected information.

Attachments

Attachment 1: CLA's Consulting Letter

August 2023

Consulting Engagement Performed for the Office of Inspector General
US Department of Veterans Affairs
Washington, DC



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[CLAconnect.com](https://www.CLAconnect.com)



CliftonLarsonAllen LLP
CLAconnect.com

August 11, 2023

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 VA's new general ledger system, the Integrated Financial and Acquisition Management System (iFAMS) and selected potential risks related to it and VA's financial statement audit. This letter is being issued to the OIG to be used solely for the OIG's purposes and should not be used for any other purpose.

The work was performed in accordance with Statement on Standards for Consulting Services established by the American Institute of Certified Public Accountants (AICPA). 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 statement 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 potential risks related to VA's new general ledger system, iFAMS, that could impact the VA financial statement audit, 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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

Greenbelt, MD

CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAGlobal.com/disclaimer](https://www.claglobal.com/disclaimer).

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 a general understanding of the roles and responsibilities of the iFAMS contractors and the associated roles and responsibilities of VA's financial managers, (2) obtain an understanding of certain financial reporting tools that VA uses and are key to VA's financial statements, and (3) obtain an understanding of management's risk assessment regarding the auditability of VA's financial statements using iFAMS. 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 uses a system application, the Management Information Exchange (MinX) system, to consolidate general ledger activities from FMS and iFAMS to create financial statements for external financial reporting. Each accounting period in MinX is independent, which requires numerous manual journal vouchers (JVs) to be re-entered and reconciliations and analyses re-performed to produce VA's financial statements and trial balances. The FMS process requires significant manual intervention and creates risks to the accuracy and completeness of financial reporting. Many of these issues have existed for years and require extensive efforts to change the current business processes.

To address the long-standing issues with FMS, VA began deploying a new core financial system, iFAMS, in November 2020, using an incremental deployment, or wave, 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 wave was at the National Cemetery Administration (NCA) in November 2020 and the second wave was at the Veterans Benefits Administration (VBA) for its General Operating Expense Fund in February 2021. Several other funds have been converted to iFAMS since then, including General Administration, Board of Veterans Appeals, Supply Fund, and Franchise Fund. The table¹ below summarizes the drivers, transformative initiatives, and future environment impact of the iFAMS implementation according to VA:

Financial Management	
Drivers	VA's legacy financial and acquisition management system is over 30 years old. This poses operational risk, as it becomes more challenging to technically and functionally support these legacy applications each year. 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.

¹ https://www.ea.oit.va.gov/EAOIT/docs/Apr2021/FY-2020-2026-VA_OIT_Enterprise-Roadmap-20201211.pdf.

Financial Management	
Transformative Initiatives	FMBT: VA is implementing iFAMS to replace FMS. iFAMS will encompass a number of specialized modules. Each specialized module will have its own unique function and purpose and will integrate to operate seamlessly – from planning an investment; to acquiring, using, and disposing assets; to the final retirement reporting and beyond. Each functional group will see a different aspect of the iFAMS performance.
Future Environment	The system will increase the transparency, accuracy, and reliability of financial information across VA, resulting in improved fiscal accountability to American taxpayers and strengthening the Department's ability to provide care and services to Veterans.

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 pertained to VA's new general ledger system, iFAMS, and required us to:

- Obtain a general understanding of the roles and responsibilities of the iFAMS contractors and the associated roles and responsibilities of VA's financial managers (**Objective #1**).
- Obtain an understanding of certain financial reporting tools that VA uses and are key to VA's financial statements (**Objective #2**).
- Obtain an understanding of management's risk assessment regarding the auditability of VA's financial statements using iFAMS (**Objective #3**).

The scope of the engagement was limited to the financial reporting roles of iFAMS and its contractors and other selected potential risks related to iFAMS and VA's financial statement audit. The scope did not include transactional testing or the testing of the design or operating effectiveness of any controls associated with iFAMS or the contractors or management's oversight of them. We included data conversion within the scope because accurate converted balances are essential to financial reporting, but we did not focus on any other wave implementation activities. Further, the scope of this engagement did not include information technology controls that are covered by the Government Accountability Office's (GAO) Federal Information Systems Control Audit Manual (FISCAM).

The OIG required us to advise them of risks identified during the engagement that require management's attention. We conducted this engagement virtually from Washington, DC and performed the work from January 2023 to April 2023, in accordance with the terms of the engagement's statement of work.

We accomplished the objectives of this engagement using the following techniques:

- Inquiring of VA personnel
- Performing walkthroughs to observe the application of certain controls
- Reading various documents

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

This letter is being issued to the OIG to be used solely for the OIG's purposes and should not be used for any other purpose.

Work Performed

Our procedures to accomplish the objectives, as described in the previous section, were limited primarily to reading various documentation, performing walkthroughs of certain processes with management, and making inquiries including follow-up questions. The procedures were limited to obtaining an understanding of:

- The roles and responsibilities of iFAMS contractors and the associated roles and responsibilities of VA's financial managers performing contractor oversight. Our focus was on post-wave implementation responsibilities, except for data conversion, as noted below, and excluded information technology controls that are covered by FISCAM.
- VA management's use of selected financial reporting tools to perform functions using iFAMS such as:
 - Generating and reviewing a status of funds report, reconciling it to the SF-133, *Report on Budget Execution and Budgetary Resources*, and reviewing the SF-132, *Apportionment and Reapportionment Schedule*, by appropriate level personnel to ensure apportionment and allotment are posted to the correct budgetary accounts in iFAMS.
 - Monitoring obligations in iFAMS to ensure obligations do not exceed current authority.
 - Ensuring that transactions from subsidiary systems are complete, appropriately summarized, and accurately posted to the iFAMS general ledger and trial balance in the correct period, including use of JVs.
 - Ensuring that closing general ledger and trial balance balances in iFAMS are correctly rolled up to VA's consolidated trial balance, including use of JVs and VA's MinX system in the financial reporting process.
 - Ensuring that relevant information from the iFAMS general ledger and trial balance is complete and accurately reported to the U.S Department of the Treasury.
- Management's risk assessment process to identify and monitor risks in financial reporting that could affect the completeness, accuracy, and auditability of VA's financial statements.
- The procedures implemented by management over the conversion process to ensure the completeness and accuracy of financial reporting data; in particular, that closing balances from FMS have been correctly brought forward into iFAMS.

The work was performed for this engagement to achieve the objectives of the statement of work, and this letter is being issued to the OIG to be used solely for the OIG's purposes and should not be used for any other purpose.

Results of Work Performed

A summary of the results of work performed under each objective is presented below. As already noted, the objectives of this engagement did not include transactional testing, or the testing of the design or operating effectiveness of any controls. Further, the scope of this engagement did not include information technology (IT) controls.

Objective #1: Obtain a general understanding of the roles and responsibilities of the iFAMS contractors and the associated roles and responsibilities of VA's financial managers.

FMBT identified the following service provider technology or contractors that they considered to be integral to the implementation of iFAMS, summarized as follows:

- **Microsoft Azure** technology (identified by management as a service provider) provides the FedRAMP (Federal Risk and Authorization Management Program) High certified cloud hosting platform for iFAMS.² Microsoft also provides other online services such as Office 365, which includes Power BI tools used for generating reports and analyses for financial reporting purposes. Power BI is a key tool for generating reports summarizing detail transactions and transactions filtered by user criteria. An independent service auditors' report performed according to the AICPA's attestation standards was available for Microsoft Azure. Although Microsoft Azure is integral to the operation of iFAMS, further procedures were outside of the engagement's scope because of its IT role.
- **CGI Federal Inc.** (CGI) is the system integrator contractor for the implementation of iFAMS. Additionally, CGI owns the software that VA uses under license for its iFAMS system and plays a key role in the iFAMS wave implementation. According to its contract with VA, CGI also performs system maintenance after a wave implementation. CGI also implements iFAMS changes as requested and approved by the VA Change Control Board. Because maintenance and change control are part of an IT role, we did not perform procedures beyond reading the relevant sections of the contract and making related inquiries. According to the contract, CGI is also responsible for a variety of support activities such as:
 - Instituting methods of system assurances that validate the Business Intelligence solution is generating accurate and complete financial management reports
 - Providing subject matter expertise and accounting support for all Financial and Acquisitions modules and interfaces
- **CACI NSS, Inc.** (CACI) is the interface development and conversion contractor that performs system conversion and interface functions that support wave implementation, which was not the focus of this engagement, except for data conversion as discussed above under "Consulting Objectives, Scope, and Methodology."

² FedRAMP (Federal Risk and Authorization Management Program) is a government-wide program that promotes the adoption of secure cloud services across the federal government by providing a standardized approach to security and risk assessment for cloud technologies and federal agencies (<https://www.fedramp.gov/program-basics/>).

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- **Deloitte Consulting LLP** (Deloitte) is the contractor that supports the FMBT's program management office through a variety of activities described in the contract that include:
 - Assessing existing strategy and program management plans
 - Advising and supporting the government on audit readiness/internal audit requests and external auditor requests
 - Assisting in development of metrics for system and program performance
 - Supporting the policy team to create iFAMS financial policy
 - Developing enterprise-level internal controls documentation and detailed cycle memos

Management said that all VA financial data was hosted in the FedRAMP High certified VA Azure cloud and that VA data was not transferred to or among contractor systems. With respect to the roles of CGI, CACI, and Deloitte, management referred us to the respective contracts.

Management said that for CGI, CACI, and Deloitte, they approved contractor deliverables through an automated tool. Management also provided screen shots from the tool showing examples of approvals; however, no further description of the acceptance process was included. Management did not have readily available a description of how contractor personnel were deployed and management's controls over their work other than the automated tool. It was not within the scope of this engagement to examine the quality of management's oversight or determine the extent of the contractors' involvement in the contractually specified activities.

As of March 2023, management indicated that no other contractors were involved in the implementation or operation of iFAMS.

Objective #2: Obtain an understanding of financial reporting tools that VA uses and are key to VA's financial statements.

- **Microsoft Power BI:** Management indicated that Power BI, a platform/online tool powered by Microsoft Azure, is the main tool used by VA to summarize iFAMS data to generate certain financial reports such as reports on open obligations, open payables, work-in-progress, summary trial balance, etc. According to management, these reports are updated from the iFAMS database on about an hourly basis daily, and users can go in Power BI and run the reports at any time. Users can access the standard Power BI reports from a landing page in iFAMS that shows various reports by title.
- **MinX:** VA utilizes the MinX application to consolidate general ledger activities from FMS and iFAMS to create financial statements for external financial reporting.
- **Reconciliations:** In consultation with the OIG, CLA asked FMBT to demonstrate how the Open Obligations report reconciled to the general ledger for the Supply Fund (Treasury Account Symbol # 036X4537), which had implemented iFAMS for FY 2023. In response, management demonstrated the reconciliation of the Open Obligations report to the general ledger as of February 2023, for the Supply Fund.

Management stated that such reports were not being reconciled periodically to the iFAMS general ledger, and this report was generated and reconciled solely based on our request. During the demonstration, we noted a discrepancy of approximately \$4 million between various reports used

in the reconciliation that management could not explain. In addition, a JV totaling \$214 million, used to reconcile the Open Obligations report to the general ledger, was not explained, and management did not provide supporting documentation for the JV.

- **Data conversion process:** At our request, we received a high-level walkthrough of the conversion of data from FMS to iFAMS for the Supply Fund. FMBT used an open balance conversion approach where transaction details were only converted to iFAMS for obligation amounts that were open at the time of cutover. The other FMS trial balance amounts were posted directly to the iFAMS general ledger without full accounting details. According to management's presentation, this methodology caused duplication of some amounts in the iFAMS beginning balance, which were identified and then removed with the use of "true-up" JVs (i.e., adjustment entries made to the accounting records) to reflect the correct opening balance. During the "go-live" moment for an iFAMS implementation, we were told stakeholders performed an assessment of the converted balances and provided final approval via a communications channel.
- **Other walkthroughs:** Management provided a walkthrough for the Supply Fund of the preparation of the SF-133, *Report on Budget Execution and Budgetary Resources*, and the review of the SF-132, *Apportionment and Reapportionment Schedule*, by appropriate level personnel to ensure apportionment and allotment were posted to the correct budgetary accounts in iFAMS. Management also described the roll-up process from iFAMS and FMS to prepare VA's consolidated trial balance and submission to the U.S. Department of the Treasury.

Objective #3: Obtain an understanding of management's risk assessment regarding the auditability of VA's financial statements using iFAMS.

According to management, iFAMS based information should be similar to what is currently being produced from FMS and thus supportive of the financial statement audit. Management provided a cross-walked list showing how FMS based information correlated to certain selected iFAMS produced information. In addition, management indicated that they were working with all relevant offices responsible for financial reporting and had no concerns at the time of our inquiry. It was not within our scope to survey these offices for their independent views.

The Office of Management's Office of Business Oversight (OBO) provided us the draft results of a targeted review it performed on the conversion of FMS balances to iFAMS. OBO performs oversight of VA's financial management internal controls and plays a role in VA's financial statement audit readiness. OBO noted that the conversion process was complex and FMBT could make some improvements, but it also noted improvements that FMBT had already made. OBO management said it undertook this project at the request of the Office of Management's Office of Finance and that it does not generally engage directly with stakeholders for input into its risk assessment.

OBO also presented a walkthrough of a draft risk assessment document that showed its methodology for key business cycles tied to financial statement accounts. The risk assessment document included columns for relevant comments about the iFAMS implementation, in particular a column for operational challenges or considerations. Per management, there is an annual process to identify or determine if there are any updates to be made.

OBO also provided the results of an abbreviated risk assessment for the October 2022 wave implementation, called the Consolidated Wave Stack. Procedures were performed to identify new general ledger accounts or changes in areas such as roles or workflows.

We have documented above the results of the work performed for this consulting engagement. Our results are being provided to the OIG to be used solely for the OIG's purposes and should not be used for any other purpose.

In addition, this engagement is not a financial statement 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.

Responsibilities in Accordance with AICPA’s *Statement for Consulting Services*, revised as of January 2015

CLA conducted this consulting engagement as agreed with the VA OIG in accordance with AICPA’s *Statement for Consulting Services*, revised as of January 2015.

Our responsibilities under AICPA’s *Statement for Consulting Services* Section.06 requires us to perform the engagement with professional competence, due professional care, planning and supervision, and sufficient relevant data, which we have performed and exercised in the consulting engagement. In addition, we have developed procedures in accordance with Section.07 to serve the VA OIG’s best interest by accomplishing the three objectives as described in the statement of work; establishing an understanding with the VA OIG on the nature, scope, and limitations of services to be performed; and communicating with the VA OIG about any conflicts of interest, significant reservations concerning the scope or benefits of the engagement, or significant engagement observations or events.

Observations and Potential Risks

Based on the procedures and walkthroughs listed above, CLA made observations in various categories. The following table presents our observations, the potential risks we identified, and management's responses. 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 Walkthroughs	Potential Risk
1. Monitoring and oversight of iFAMS' contractors		
1.1	<p>With respect to the roles and responsibilities of two contractors, management referred us to the contracts without providing a description of how the contractors, in performing the various contract line items, fit into the control environment and management's control objectives.</p>	<p>Without a narrative describing how the different contractors' roles relate to management's control objectives, there could be unintended control gaps.</p>
<p>Office of Management Comments: Management has reviewed the definitions of contractor support provided within the document on pages 9-10 of the report under objective #1. The definitions relayed back to management within that section correctly list the description of the overall work provided by each contractor in support of FMBT and the implementation of iFAMS.</p> <p>Management monitors and controls the specific work for each contractor in several ways.</p> <ol style="list-style-type: none"> 1. Weekly and monthly contractor status meetings <ol style="list-style-type: none"> a. Weekly status meetings with each contractor that discuss the work that has been completed the previous week, and the work that is planned for the future. b. Monthly Program Management Review (PMR) status meetings replace the standard weekly meeting to plan longer term objectives. 2. Weekly joint schedule analysis meetings are conducted and led by FMBT management to consolidate the status of each vendor and guide the overall schedule that tracks tasks assigned to each contractor. 3. Workstream and Project Management (PM) leads are assigned to the contractor teams that perform work under each Contract Line Item (CLIN) to monitor and control the specific tasks assigned to each. 4. For contractually listed deliverables, management requires their submission through the FMBT deliverable submission tool. Each workstream lead is then also responsible for the government acceptance or rejection of those deliverables. 		
2. Financial reporting activities that are key to VA's financial statements		
2.1	<p>No formalized narrative or procedures have been documented that describe controls in place to ensure the completeness and accuracy of financial data transmitted from iFAMS to MinX.</p>	<p>Potential data security risk or errors may exist and not be identified, or audit trail documentation may be lacking.</p>
<p>Office of Management Comments: OBO drafted the Record to Report (R2R) cycle memo which included the financial reporting processes and acknowledge it currently does not capture to the level identified. The financial reporting process is on target to be updated by fiscal year (FY) 2025.</p>		

#	Observations from Walkthroughs	Potential Risk
	<p>FMBT began the development of the iFAMS to MinX interface in 2020 to support the agency’s overall reporting requirements to consolidate iFAMS with FMS data for financial reporting. The requirements for that development were implemented during the NCA go live and the interface was implemented in production at that time. Error handling was included in the requirements of the interface which sends notification to Operations and Maintenance (O&M) personnel if there is an error in the transmission. The interface also includes reconciliation reports along with the iFAMS data to ensure data accuracy and completeness of data creation and transmission. The interface has been in continuous daily use and has supported every successful month end, quarter end, and year end reporting effort since its implementation.</p>	
<p>2.2</p>	<p>Various iFAMS reports generated using Power BI are not being reconciled periodically to the iFAMS general ledger, for example:</p> <ul style="list-style-type: none"> • E-PE02-Open Obligations Report (formerly FMS F850) • E-PE02-Open Payables Report (formerly FMS F851) • E-FA04-Work-in-Process Report (formerly F876) <p>These iFAMS reports are detailed transactional reports that may not include entries made directly to the iFAMS general ledger, and a reconciliation would be necessary to determine the accuracy and propriety of the amounts recorded for financial reporting purposes. See also Observation 2.3.</p>	<p>The lack of periodic reconciliation could lead to inaccurate information reported in the financial statements.</p>
<p>2.3</p>	<p>Office of Management Comments:</p> <p>The BI reporting team will enhance the PE02 reports on Open Obligations and Open Payables to include a reconciliation worksheet tab. This will provide an automated reconciliation between the open documents and the general ledger available at any time a user reviews the report in the BI tool. A temporary solution should be in place for year end with the final version scheduled for the first quarter of FY 24.</p> <p>The Financial Services Center (FSC) is continuously monitoring to ensure that selection criteria in the iFAMS reporting solution pulls the correct subset of transactional data to facilitate management reporting.</p>	<p>Unreconciled and unexplained variances could lead to inaccurate and incomplete data for financial reporting. In addition, more efforts may be needed between program and staff offices to coordinate, investigate, and resolve differences.</p>

#	Observations from Walkthroughs	Potential Risk
	<p>In addition, a JV totaling \$214 million was used to reconcile the E-PE02 report to the iFAMS general ledger. Management subsequently indicated that the JV was related to the system conversion from FMS to iFAMS in FY 2022.</p> <p>Support was not provided for the above explanations.</p>	
<p>Office of Management Comments: VA informed CLA/OIG of the \$4 million-dollar (\$3.7M to be exact) difference that was linked to a known difference from VBA (Fund 0151) transactions within iFAMS. Entries were posted in iFAMS for annual close to cancel open undelivered order balances for the FY 2016 and 2017 years as those Treasury Account Symbols were canceled with Treasury. Canceled fund balances should not be included in open obligation reconciliations, so this VBA difference will be eliminated from future reconciliations. Additionally, the \$214 million JV was related to the system conversion from FMS to iFAMS in 2022. FMBT and FSC staff will work with the conversion team to understand the rationale for this JV and take appropriate action to account for it.</p> <p>During the walkthrough of the reconciliation, the iFAMS ATB matched directly with the MinX ATB.</p>		
<p>3. Management’s risk assessment for VA’s financial statement audit</p>		
<p>3.1</p>	<p>From our inquiries and walkthrough, we observed that management did not prepare a risk assessment of financial statement auditability specifically focusing on the iFAMS implementation. Instead, management included iFAMS into the overall OMB Circular A-123, <i>Management’s Responsibility for Enterprise Risk Management and Internal Control</i>, financial statement risk assessment process.</p>	<p>The implementation of a new general ledger system is inherently high risk, and without a specific focus on financial statement auditability risk, gaps in audit trails, documentation, or reconciliations that are important to the financial statement audit could exist.</p>
<p>Office of Management Comments: While OBO uses the traditional financial statement audit risk assessment framework, it includes considerations for operational challenges as well as impact to manual processes due to change in the new system (for each business process tab, refer to Columns “S” and “AG” submitted as part of Prepared by Client (PBC) number iFAMS-OBJ-305). The risk assessment is a mechanism to identify material transactions; however, recognizing the need to understand the impact of each iFAMS go-live, we have developed the abbreviated risk assessment to identify functionality and process changes that will have overall impact to VA’s financial statements. From there, we evaluate the traceability, auditability, sufficiency of documentation, and internal controls that are designed during test of design and effectiveness phases.</p> <p>Between the two risk assessments provided to OIG during the iFAMS review [consulting] engagement (OMB Circular A-123 and iFAMS abbreviated wave risk assessment), they currently address the risk as noted.</p>		

#	Observations from Walkthroughs	Potential Risk
4. iFAMS fund conversion process		
4.1	We observed a continued reliance on lump sum adjustments by financial personnel as an interim fix to correct balances in iFAMS. VA uses adjustments such as standard vouchers (document type 'SBL') and JVs (document type 'JAE') to adjust iFAMS general ledger balances. Refer to observation 2.3 above.	As funds and administrations that are material to the financial statements transition to iFAMS, reliance on the use of JVs – e.g., SBLs, and JAEs – could increase significantly. JVs add additional complexity and require analysis to ensure balances are accurately reflected in the financial statements.
<p>Office of Management Comments: FSC: Concur with the need for reporting entries. Adjusting entries for financial reporting are a standard practice across federal agencies to close out reporting periods and will continue to be needed in iFAMS for normal accrual and in-transit type activity. There is an expected increase in those issues as each new wave comes online, the team is documenting those issues and tracking resolution with service desk tickets.</p> <p>An enhanced capability over FMS is the ability to use standard vouchers more extensively (SBL and soon to be created SBP) to process correcting entries. Standard vouchers use posting logic that has been vetted against the Treasury standard general ledger (SGL) and approved by FSC and Office of Financial Reporting, within the Office of Finance, prior to usage. This significantly reduces risk of reporting errors and edit issues that can result from free form JVs where the user selects general ledger accounts to post for an entry.</p>		
4.2	Data conversions have high inherent risk due to complexity. The conversion methodology for the iFAMS implementation requires the removal of duplicate amounts, which were created as part of the conversion process, to achieve accurate beginning balances in iFAMS.	Processes that are complex have a higher inherent risk for error. Management may also have more difficulty in ensuring that proper documentation and audit trails are maintained to support the financial statement audit.
<p>Office of Management Comments: The conversion approach that includes loading budgets, open transactions, beginning balances, and true-up JVs are all part of the automated process of conversion.</p> <p>To explain the automated processes, FMBT demonstrated each of the components of the true-up process and its associated audit trail within the automation. First, the process converts and posts isolated beginning balances. Second, the process converts open transactions (e.g., obligations, accruals, receivables) from FMS subsidiary tables. In this moment, dollars associated with the open prior year transactions are also the same dollars present in the converted beginning balance. Through the conversion automation and calculations, the duplication is removed. This complexity is necessary in order to have an isolated beginning balance for purpose of external reporting fiscal month 00 as well as having proper open transactions converted for downstream activities in iFAMS.</p>		

VA Management Comments

Date: August 02, 2023

From: Deputy Assistant Secretary for Financial Management Business Transformation Service (046)

Subj: Financial Management Business Transformation (FMBT) Confirmation of Responses in the Consulting Letter from CliftonLarsonAllen LLP (CLA) to the Office of Inspector General (OIG), Results of Consulting Engagement on Potential Risks Related to the Integrated Financial and Acquisition Management System and Future VA Financial Statement Audits

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 other VA stakeholders appreciate the work performed by the OIG and CLA in the course of this consulting engagement.
2. During the consulting engagement, FMBT and other VA stakeholders provided responses to observations and potential risks brought up by CLA.
3. As requested by the OIG, the signer of this memo confirms the accuracy of the responses in the Table of Observations and Potential Risks in the consulting letter, Results of Consulting Engagement on Potential Risks Related to the Integrated Financial and Acquisition Management System and Future VA Financial Statements Audits.

(Avie Snow originally signed for)

Terry Riffel

Deputy Assistant Secretary

Financial Management Business Transformation Service (FMBTS)

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

OIG Contact and Staff Acknowledgments

Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
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Contract Oversight Team	Sue Schwendiman, Director Alex Biggs Eric Lugo Thomas Seluzicki
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Other Contributors	Allison Tarmann
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