

**Department of Veterans Affairs
Washington, DC 20420**

**VA Directive 4510
Transmittal Sheet
March 11, 1998**

FINANCIAL MANAGEMENT SYSTEMS

1. REASON FOR ISSUE: This Directive establishes policy for financial management systems in the Department of Veterans Affairs. Financial management systems are both financial systems and mixed systems (other systems with financial components).

2. SUMMARY OF CONTENTS: This Directive sets forth the policies and responsibilities pertaining to financial management systems, such as internal controls, systems functionality, accounting standards, and data standards and the establishment and maintenance of a single, integrated, financial management system for the Department of Veterans Affairs.

3. RESPONSIBLE OFFICE: Accounting Policy Division (047GA1), Office of the Deputy Assistant Secretary for Financial Management.

4. RELATED HANDBOOK: None.

5. RESCISSION: None.

CERTIFIED BY:

Nada D. Harris

Deputy Assistant Secretary for

Information Resources Management

**BY DIRECTION OF THE SECRETARY
OF VETERANS AFFAIRS:**

D. Mark Catlett

Acting Assistant Secretary for Management

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FINANCIAL MANAGEMENT SYSTEMS

1. PURPOSE. This Directive sets forth the policies and standards of the Department of Veterans Affairs (VA) to follow in designing, developing, maintaining, operating, evaluating, and reporting on financial management systems. Financial management systems are both financial systems and mixed systems (other systems with financial components).

2. POLICY

a. VA policy is to establish and maintain a single, integrated, financial management system for the Department that is anchored by the core financial system. VA will establish a single, integrated financial system having standardized information data elements compatible with central management agency(s) requirements. This system will support federal and VA accounting standards and practices; employ federal and/or VA standard financial data elements and transactions; provide electronic data exchange to the maximum extent practical, internally and externally; and meet the requirements of effective Governmentwide financial management. This system shall also provide complete, reliable, consistent, timely and useful financial information to carry out VA's fiduciary responsibilities. All VA financial management systems must comply with the provisions of the Office of Management and Budget (OMB) Circular A-127, including compliance with the Joint Financial Management Improvement Program (JFMIP) Core Standards. Reporting on financial management systems is governed by the Federal Managers' Financial Integrity Act (FMFIA), the Chief Financial Officers Act (CFO Act), the Federal Financial Management Improvement Act of 1996 and OMB Circular A-11 that includes the requirement for the Financial Management Status Report and Five Year Plan. VA financial management systems are both financial systems and mixed systems. These systems must be linked together electronically to be effective and efficient. Financial management systems must comply with the Statements of Federal Financial Accounting Standards issued by OMB and the United States Standard General Ledger (SGL). Financial management systems must also comply with Governmentwide and VA Information Resources Management (IRM) policies and standards.

b. All financial management systems must comply with the agency Core Financial System requirements. The following sections describe the data requirements and the functional requirements of the Core Financial System.

(1) **Data Requirements.** The financial system stores, accesses and updates several types of data. Financial transactions will comply with the data standards established by the agency Core Financial System. The database stores information as follows:

(a) **General Ledger.** This refers to data summarized to the level of a trial balance for each fund by fiscal year, and includes control totals for all general ledger accounts.

(b) **Funds Availability.** This refers to data supporting the funds allocation and funds control processes.

(c) **Operating Data.** Subsidiary ledgers supporting data for general ledger accounts are tracked at the lowest level of the accounting classification structure.

(d) **Documents.** Data are contained on individual documents, such as requisitions, purchase orders, contracts, vouchers, bills of collection, advances, and similar items.

(e) **Posted Transactions.** This data comes from financial transactions that have been processed, accepted and posted to the system, and used to provide an audit trail of financial transactions.

(f) **Suspense Transactions.** Data are placed in a suspended status to be researched, and where appropriate, transferred within thirty days.

(g) **Reference Data.** This refers to accounting classification structure code tables, general ledger account definitions, transaction definitions, and security control tables.

(2) **Functional Requirements.** The major functions supported by the Core Financial System are the SGL, funds management, payment processing, receipt management, cost management, reporting functions, and internal control. These functions together provide the basic structure and control needed to carry out financial management functions.

(a) **Core Financial System Management Functions.** The financial system function consists of the processes necessary to maintain system processing rules consistent with established VA Core Financial Systems accounting policy. The function sets the framework in which all other Core Financial System functions operate. The Core Financial System management function consists of the following processes:

1. Accounting Classification Structure Management Process. VA financial management systems must use an agency-wide financial information classification structure that is consistent with the SGL. Financial system designs will support the agency budget, accounting, and reporting processes by providing consistent financial information for budget formulation, budget execution, programmatic and financial management, performance measurement, and financial statement preparation.

2. Standard General Ledger Process. The SGL process establishes the general ledger account structure for the VA in accordance with the SGL and the transaction edits and posting rules to record financial events. The central function of the Department's financial management system is the SGL. The SGL is the highest level of summarization of account balances. VA must maintain account balances by the fund structure and individual general ledger accounts established in the financial system. The SGL is supported by subsidiary ledgers at various levels of detail. All transactions to record financial events must post, either individually or in summary, to the SGL, regardless of the origin of the transaction. Account balances are summarized in a trial balance.

3. Transaction Control Process. There must be controls over all processing activity to ensure that all transactions are handled consistently, regardless of their point of origin.

a. Transactions are controlled to provide reasonable assurance that the recording, processing, and reporting of financial data are properly performed and that authorized transactions are completed and accurate.

b. Audit trails are critical to providing support for transactions and balances maintained by the financial system. While audit trails are essential to auditors and system evaluators, they are also necessary for the day-to-day operation of the system. For example, they allow for the detection and systematic correction of errors that arise.

4. Archiving and Purging Processes. The archiving and purging criteria should be jointly agreed to by the system administrator and users to balance user need with resource limitations. To support the archiving and purging processes the Core Financial System must remove data that is no longer needed for immediate access from the system data stores to a storage medium or delete the data altogether. Archived system records are retained in accordance with federal regulations established by the National Archives.

(b) General Ledger Management Function. The SGL is the highest level of summarization and the Core Financial System must maintain account balances by the fund structure and individual general ledger accounts. The General Ledger Management function consists of the following processes:

1. General Ledger Posting Process. This process records financial transactions in the SGL using double-entry-accounting. To support the posting process, the VA financial system must:

a. Post transactions to the SGL in accordance with the transaction definitions established by the VA Core Financial System.

b. Maintain historical data to produce comparative financial reports for management use.

2. Accruals. VA's Core Financial System will maintain its accounting system on an accrual basis. This accounting process creates accrual transactions and closing entries needed at the end of a period (month and fiscal year) for reporting purposes. It also controls and executes period-end system processes to open a new reporting period, i.e., rolling forward account balances.

3. Reconciliation Process. The Core Financial System provides information for accountants to use in determining that amounts posted to general ledger control accounts agree with more detailed subsidiary accounts and in reconciling account balances with reports generated by the system.

(c) **Funds Management Functions.** A system for ensuring that funds are not obligated or disbursed in excess of those appropriated and/or authorized must be established and maintained. The Funds Management functions consist of the following processes:

1. **Funds Allocation Process.** This process enables the recording of VA's budgetary resources and supports VA's establishment of budgetary limitations at each level.

2. **Funds Control Process.** This process records transactions impacting the resource usage accounts in our budgetary section of the SGL (e.g., commitments, undelivered orders, expenditures, reimbursements earned). It also provides appropriate warnings and controls to ensure that budgetary limitations are not exceeded.

(d) **Payment Management Function.** This function provides appropriate control over all payments made by VA under the Prompt Payment Act. The Payment Management function consists of the following processes:

1. **Payee Information Process.** The term "payee" is used to include any entity to whom a disbursement may be made, for example, individuals and organizations providing goods and services, employees, grant recipients, loan recipients, and other Government agencies.

2. **Payment Process.** The system supports the payment execution process. This process enables the recognition and recording of disbursements made to the payee as a result of receiving goods or services in accordance with contract terms, under a loan or grant agreement, as an advance payment for goods or services to be provided in the future, or as a progress payment under a construction contract.

3. **Payment Execution Process.** VA's financial system is able to identify and select payments to be disbursed in a particular payment cycle based on their due dates. The payment process provides for various forms of payment to be used, i.e., check, or electronic transfer of funds.

4. **Payment Confirmation and Follow-up Process.** This process confirms that disbursements were made as anticipated and supports inquiries from vendors regarding payments and reporting requirements relating to the Prompt Payment Act.

(e) **Receipt Management Function.** The Receipt Management function includes recording, billing, monitoring, and collecting amounts due VA whether previously established as a receivable or not. Receivables are accounted for as assets until funds are collected, converted into other resources, or determined to be uncollectible in whole or in part. The receivable functions consist of the following processes:

1. **Receivable Establishment Process.** The receivable establishment process supports activities to produce bills for amounts due VA and to record receivables in the system as they are recognized.

2. Receivable Management Process. The management process supports activities to maintain information on receivables owed to VA and to make every effort to collect amounts due on aged receivables. The process also involves maintaining proper allowances for uncollectible amounts and to record write-offs.

3. Collections Process. The collection process supports activities to record the receipt of funds and the deposit of such funds in accordance with Treasury and VA regulations.

(f) **Cost Management Function.** Cost accounting is the part of a financial system devised to measure and accumulate elements of cost incurred in accomplishing a specific purpose, or completing a specific job.

1. Cost Recognition Process. Recognition determines when the results of an event are to be included in financial statements and ensures that the effects of similar events and transactions are accounted for consistently within the VA.

2. Cost Accumulation Process. Cost accumulation refers to the measurement of resources, used in accomplishing VA mission objectives, such as performing a service, providing a product, or carrying out an activity such as a project or a program.

3. Cost Distribution Process. To achieve increased uniformity and consistency in accounting for costs, VA's financial system provides criteria for the assignment of accumulated costs to reporting periods.

(g) **Reporting Function.** The financial system must be able to provide financial information in a timely and useful fashion. Information maintained by the financial system is provided in a variety of formats to users according to their needs. The system must be designed to support budgeting, accounting, and other financial management reporting processes.

1. Management will produce a five year plan to develop and maintain a single, integrated, efficient financial management system. The plan shall feature specific milestones and obligation and outlay estimates for each component system.

2. The plan will be properly approved and will accompany the budget and management submission to OMB.

3. Funds will not be expended for the development or operation of any financial management system except those approved and funded through the planning and budgeting process.

(h) **Internal Controls.** The Core Financial System must provide for effective internal checks to ensure data integrity within the system, and have sufficient audit trails to trace errors and alert management to problems with the operation of the system. Internal controls are important within the financial system to ensure the efficient operation of the system and provide for the safeguarding of assets against waste, loss, or improper use.

3. RESPONSIBILITIES. All VA financial and program managers share responsibility for the effectiveness of VA financial management systems and the effectiveness of controls over those systems.

a. Assistant Secretary for Management

(1) As the Department's Chief Financial Officer (CFO) and Chief Information Officer (CIO), is responsible for establishing the Department's policy and standards for financial management systems.

(2) Establishes VA financial management systems strategic goals and objectives consistent with VA Strategic Goals and Objectives.

(3) Advises the Secretary on all financial systems matters, including the annual assurance of integrity under FMFIA.

b. Deputy Assistant Secretary for Financial Management

(1) As the Department's Deputy Chief Financial Officer (DCFO), is responsible for all aspects of the Department's financial management system.

(2) Prepares, in coordination with all VA Administrations and major offices, VA's Financial Management Systems Five Year Plan and Financial Management Systems Inventory.

(3) Prepares, in coordination with all VA Administrations and major offices, an annual assessment of VA financial management systems. Advises the Assistant Secretary for Management on the integrity of the financial management system.

(4) Prepares policies and procedures for life-cycle management of VA financial management systems consistent with Federal and VA IRM policies and standards.

(5) Conducts reviews of VA financial management systems and their interfacing systems to ensure compliance with Federal and VA standards. Develops and maintains guidance on conduct of financial system reviews.

c. Administrative heads, Assistant Secretaries and other key officials.

(1) Establish policy and procedures to ensure financial and mixed system compliance with Federal and VA policies and standards for financial management systems. Conduct periodic reviews and assessments to certify compliance.

(2) Report annual assurance of system compliance.

(3) Report annual updates to VA Financial Management Systems Five Year Plan and Financial Management Systems Inventory. Ensure compliance with VA CFO strategic goals for VA financial management system and consistency with VA CIO strategies.

(4) Report financial management systems costs annually or more frequently as required by OMB or VA.

4. REFERENCES

- a. Chief Financial Officers Act;
- b. Federal Financial Management Improvement Act of 1996;
- c. Financial Managers Financial Integrity Act;
- d. Joint Financial Management Improvement Program (JFMIP) Core Financial System Requirements;
- e. JFMIP Framework for Federal Financial Management Systems;
- f. JFMIP Inventory System Requirements;
- g. JFMIP Guaranteed Loan System Requirements;
- h. JFMIP Personnel/Payroll System Requirements;
- i. JFMIP Travel System Requirements;
- j. Memo. No. 00-92-5, Supplement #1, Redlegation of Authority - Chief Financial Officers Act;
- k. Public Law 104-106 National Defense Authorization Act, Division E - Information Technology Management Reform;
- l. OMB Circular A-127 (Revised), Financial Management Systems;
- m. OMB Circular A-123, (Revised), Management Accountability and Control;
- n. OMB Circular A-130 (Revised), Management of Federal Information Resources;
- o. Statements of Federal Financial Accounting Standards;
- p. VA Directive 4900, Management Control Over Automated Financial Information Systems;
- q. VA Directive and Handbook 4910, ADP Financial and Interfacing System Integrity.

5. DEFINITIONS

a. **Core Financial System (Application).** A financial system whose functions meet the JFMIP core financial systems requirements. Core financial system functions may also be found in mixed systems.

b. **Financial Data and Transaction Standards.** Data elements and financial transactions prescribed for mandatory VA-wide use. Data elements may be prescribed for use by Accounting Policy and the Financial Management System (FMS) to implement governmentwide requirements.

c. **Financial Event.** Any occurrence having financial consequence to the Department related to the receipt of appropriations or other financial resources; acquisition of goods or services; payments or collections; recognition of guarantees, benefits to be provided, or other potential liabilities; or other reportable financial activities.

d. **Financial Management Systems.** Financial management systems include both financial and mixed systems needed to support financial management in the Department.

e. **Financial System.** An information system (automated and manual processes), comprised of one or more applications, is used for any of the following:

- (1) Accumulating and reporting cost information;
- (2) Collecting, processing, maintaining, transmitting, and reporting data about financial events;
- (3) Other functions significant to the financial management of the agency;
- (4) Supporting financial planning or budgeting activities; and,
- (5) Supporting the preparation of financial statements.

f. **Mixed System.** A mixed system is an information system that supports both financial and non-financial functions for the Department or a component of the Department.

g. **Single, Integrated, Financial Management System.** A unified set of financial systems and the financial portions of mixed systems needed to carry out financial management functions, manage financial operations, and report the Department's financial status to central agencies, Congress, and the public.