



# Department of Veterans Affairs

## Financial Policy

### Volume I

#### General Accounting

### Chapter 4

#### Compliance with FFMIA

Approved:

---

**Jon J. Rychalski**  
Assistant Secretary for Management  
and Chief Financial Officer

<b>0401 Overview .....</b>	<b>2</b>
<b>0402 Revisions .....</b>	<b>2</b>
<b>0403 Definitions.....</b>	<b>4</b>
<b>0404 Roles and Responsibilities.....</b>	<b>5</b>
<b>0405 Policies .....</b>	<b>6</b>
<b>040501 General Policies .....</b>	<b>6</b>
<b>040502 Compliance with Federal Financial Management System         Requirements .....</b>	<b>7</b>
<b>040503 Compliance with Federal Accounting Standards.....</b>	<b>9</b>
<b>040504 Compliance with the Application of the USSGL at the Transaction         Level .....</b>	<b>9</b>
<b>040505 Annual Certification, Audit and Remediation .....</b>	<b>9</b>
<b>040506 Improving Financial Management Systems .....</b>	<b>10</b>
<b>0406 Authorities and References.....</b>	<b>12</b>
<b>0407 Rescissions .....</b>	<b>13</b>
<b>0408 Questions.....</b>	<b>13</b>
<b>Appendix A: History of Revisions to this Chapter .....</b>	<b>14</b>

## 0401 Overview

This chapter establishes the Department of Veterans Affairs' (VA) financial policies for compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996.

Office of Management and Budget (OMB) Circular No. A-123 Appendix D and FFMIA require Federal organizations covered by the Chief Financial Officers Act to implement financial management systems that substantially comply with three essential requirements: (1) federal financial management systems requirements as defined by the Department of the Treasury (Treasury), (2) Federal accounting standards as defined by the Federal Accounting Standards Advisory Board (FASAB), and (3) utilization of the United States Standard General Ledger (USSGL) at the transactional level. Compliance with FFMIA ensures taxpayers and Federal managers receive access to accurate, reliable, and timely financial information.

Key points covered in this chapter:

- Annually, VA CFO and VA's external auditor will independently assess and report whether financial management systems comply with FFMIA's Section 803(a) requirements;
- When a system is found to be non-compliant, remediation plans must be developed and executed to bring those systems into substantial compliance;
- When acquiring, implementing and maintaining components of a financial management system VA will adhere to policies prescribed by OMB Circular No. A-130, Treasury Financial Manual (TFM) Volume I Part 6 Chapter 9500 and other associated financial management system guidance; and
- VA will leverage shared service solutions from Quality Services Management Offices (QSMOs) and other partners, when possible, for future modernization of financial or mixed systems.

## 0402 Revisions

Section	Revision	Office	Reason for Change	Effective Date
0403	Added FMS Vendor Archiving Program definition	OFP (047G)	Address vendor archiving requirements	June 2021
0404	Added FSC, OF and OIT EPMO roles	OFP (047G)	Address vendor archiving requirements	June 2021
0405	Added policy statement regarding vendor archiving	OFP (047G)	Address vendor archiving requirements	June 2021

Section	Revision	Office	Reason for Change	Effective Date
Various	Reformatted to new policy format and completed five-year update	OFP (047G)	Reorganized chapter layout	April 2021
Various	Add reference to OMB Circular No. A-123 Appendix D	OFP (047G)	Rescission of OMB Circular No. A-127	April 2021
0401	Revised overview to focus on compliance with FFMIA and reflect reduction in targeted guidance from OMB concerning financial management systems	OFP (047G)	Revision to OMB Circular No. A-123 and rescission of OMB Circular No. A-127	April 2021
0404	Added annual assurance on compliance with FFMIA to VA CFO responsibilities  Added FFMIA responsibilities for CFO, OBO and OIT QPR Office	OFP (047G)	Updated guidance and procedures	April 2021
0405	Realigned chapter to follow current guidance from OMB Circular Nos. A-123 and A-130 as well as TFM Volume 1 Part 6 Chapter 9500  Updated policy on shared services to incorporate information on QSMOs	OFP (047G)	Revision to OMB Circular No. A-123 and rescission of OMB Circular No. A-127  Rescission of OMB M-13-08 and M-16-11 and issuance of M-19-16	April 2021

Section	Revision	Office	Reason for Change	Effective Date
Appendix A	Removed Appendix A, Accounting Transactions Request Review Process  Move previous policy revisions to an appendix	OFP (047G)	Moved to Volume II, Chapter 1  Improve readability	April 2021
Appendix B	Removed Appendix B, General Ledger Request Process	OFP (047G)	Moved to Volume II, Chapter 1	April 2021

### 0403 Definitions

**Financial Management System** – An agency’s overall financial operation, reflecting the people, processes and technology used to capture, classify, summarize and report data in a meaningful way to support business decisions. It includes hardware and systems software, personnel, procedures, data and reporting functions. The financial management system can be fully integrated with other management information systems (i.e., mixed systems) where transactions automatically flow from one system to another or non-integrated, requiring manual processes used to post transactions from other management systems into the accounting system.

**Financial System** – An information system or set of applications that comprise the accounting portion of the financial management system. The system encompasses processes and transactions that:

- Maintain a record of budgetary and proprietary financial activity;
- Identify and record valid transactions; and
- Provide sufficient detail to permit proper recordation and classification of transactions for financial reporting.

**FMS Vendor Archiving Program** – An FMS process which inactivates vendors in the accounting system if no open transactions related to that vendor exist. For example, if a separated employee has an open obligation, FMS will not archive the record because of the open obligation. Vendor clearing is currently performed twice annually, in May and November.

**Information System** – The organized collection, processing, recordation, transmission and dissemination of information in accordance with defined procedures, whether automated or manual. Information systems include non-financial, financial and mixed systems.

**Mixed System** – A system that is a hybrid of financial and non-financial portions of the overall financial management system. Examples include: payment and invoice systems, procurement systems, receivable systems, loan systems, grants systems, payroll systems, budget formulation systems, billing systems, property management systems, travel system, or other mission operational systems that impact a financial system.

**Non-financial System** – A system that supports non-financial functions of the Federal government or components thereof. A system that does not process data required for recording, transmitting or reporting financial data.

**Shared Service Providers** – Federal agencies or divisions within an agency providing services to another agency or division.

**Quality Service Management Offices (QSMOs)** – Shared service providers formally designated by OMB as governmentwide storefronts, offering multiple solutions for technology and services in their respective functional area (e.g., Core Financial Management, Grants Management, Cybersecurity, and Civilian HR Transaction Services).

#### 0404 Roles and Responsibilities

**Assistant Secretary for Management/Chief Financial Officer (VA CFO)** is responsible for the development, maintenance of VA's financial management systems in accordance with OMB Circular Nos. A-123 and A-130, as well as issuing assurance, annually that systems substantially comply with the requirements of FFMIA and associated guidance.

**Chief Financial Officer Council (CFOC)** is responsible for reviewing and providing recommendations to the VA CFO with respect to approving VA's financial policies and advising VA CFO on issues surrounding compliance with FFMIA.

**Financial Services Center (FSC)** is responsible for overall management of the vendor information including recording and updating vendor information in the accounting systems; maintaining vendor tables on a recurring basis; documenting procedures; and addressing outstanding transactions associated with them.

**Office of Business Oversight (OBO)** is responsible for managing and implementing VA's program for management's assessment and reporting on the effectiveness of VA's internal controls in accordance with OMB Circular A-123 and Federal Managers' Financial Integrity Act (FMFIA) of 1982.

**Office of Finance (OF)** is responsible for compiling and approving system change requirements such as vendor archiving, and the associated criteria for archiving invalid vendors, to be executed by Office of Information Technology's (OIT) Enterprise Program Management Office (EPMO).

**Office of Information and Technology's (OIT) Enterprise Program Management Office (EPMO)** oversees all aspects of development and maintenance of the VA's legacy accounting system, Financial Management System (FMS). EPMO will execute FMS archiving program related to vendor clearing in accordance with the criteria developed by OF.

**OIT Quality, Performance and Risk (QPR) Office** oversees all aspects of quality and compliance within OIT, including assessing for compliance with FFMIA, which applies to the entire agency. OIT QPR establishes OIT-wide policy for enterprise resource management (ERM) and internal controls fully supporting VA requirements.

## **0405 Policies**

### **040501 General Policies**

- A. VA will establish and maintain financial management systems that comply with:
  - Generally accepted accounting principles (GAAP), standards and related requirements as defined by FASAB, OMB and Treasury.
  - Internal control standards as defined in OMB Circular No. A-123 and its appendices.
  - Information resources management policy as defined in OMB Circular No. A-130 and any successor documents.
  - Operational policies and related requirements as prescribed by OMB, Treasury and VA.
- B. VA will ensure financial management systems substantially comply with the Federal Financial Management Improvement Act (FFMIA) of 1996, including the three fundamental requirements in Section 803(a), compliance with: Federal Financial Management System Requirements; Federal Accounting Standards; and the U.S. Government Standard General Ledger (USSGL) at the Transaction Level.
- C. VA's financial management systems will support financial and program managers' accountability for financial results, control over VA's financial resources, and protection of VA assets.
- D. VA's financial management systems will be in place to process and record financial events effectively and efficiently, and to provide complete, timely, consistent, and reliable financial information for decision making, reports, and financial statements.
- E. VA's financial management systems will support standardized information and electronic data exchange to meet the requirements of sound financial management.
- F. VA's financial management systems will provide reliable and useful financial information on VA operations to enable VA to carry out its fiduciary responsibilities;

to deter fraud, waste and abuse of VA resources; and to facilitate efficient and effective delivery of services by linking financial results to program performance.

- G. VA Administrations and Staff Offices are responsible for ensuring that data (e.g., vendor information, accounting codes and obligation amounts) contained in the financial management system is accurate, complete, and free from material error.
- H. VA Administration, Staff Offices and FSC are responsible for providing, entering, or maintaining vendor information in the financial management system are accountable for the following:
  - Ensuring that data is secure and protected from/against potential fraudulent activities;
  - Ensuring proper internal controls around the vendor update process; and
  - Maintaining documentation supporting vendor information for audit and management review purposes.
- I. FSC will monitor and periodically review vendor information to identify potential irregularities. Corrective actions will be immediately taken to address any suspected irregularity.
- J. FSC will update vendor tables in a timely manner when invalid information is identified (e.g., update to the vendor record to correct the record's banking information, mailing address, taxpayer identification number, etc.) and will perform proactive monitoring activities in coordination with OIT EPMO to keep the vendor tables current (e.g., identify and inactivate, through the vendor archiving program and other methods, vendor records no longer needed for separated employees or deceased Veterans).
- K. FSC will research and address any outstanding transactions associated with invalid vendors.
- L. OIT's EPMO will maintain and execute the FMS archiving program to archive inactive vendors no longer needed in the system. The archiving program will be based upon system change requirements compiled by OF.
- M. When modifying or replacing components of a financial system, VA will adhere to the requirements in OMB Circular No. A-130 by performing a systematic assessment of needs and implement cost-effective and efficient solutions.

#### **040502 Compliance with Federal Financial Management System Requirements**

- A. VA's financial management systems will comply with Treasury Financial Manual (TFM) Volume I Part 6 Chapter 9500, Revised Federal Financial Management System Requirements for Fiscal Reporting.



- B. VA's financial management systems will provide information in a reliable, timely and accurate fashion to manage day-to-day operations and comply with internal and external reporting requirements, including, as necessary, the requirements for financial statements, prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury. Reliable financial reporting includes maintaining internal control over financial reporting and financial system security.
- C. VA's financial management system shall include a system of internal controls that are appropriately applied to all VA system inputs, processing and outputs. Such system-related controls form a portion of the management control structure required by OMB Circular No. A-123, including its appendices.
- D. VA's design of its financial management systems will provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls and data comprising it. This includes designing systems which eliminate unnecessary duplication of transaction entries. Wherever appropriate, data needed by the systems to support financial functions shall be entered only once and other parts of the systems shall be updated through electronic means consistent with the timing requirements of normal business transaction cycles.
- E. VA will use common processes for processing similar kinds of transactions throughout the systems to enable these transactions to be reported in a consistent manner.
- F. VA's financial management systems will ensure resources are safeguarded against waste, loss and misuse.
- G. VA's financial management systems shall conform to existing applicable functional requirements for the design, development, operation and maintenance of financial management systems. Functional requirements are defined in TFM Volume I Part 6 Chapter 9500. Compliance objectives should ensure that financial transactions are consistent with relevant laws, regulations and policies.
- H. VA will plan for and incorporate security controls in accordance with the Federal Information Security Management Act (FISMA) of 2002, FISMA of 2014 and Circular No. A-130 for financial management systems to ensure the adequacy and effectiveness of information security controls.
- I. VA will implement new functional requirements as they are established and when they become effective. Additional function requirements may be established through OMB circulars or bulletins and/or published in the TFM.

### **040503 Compliance with Federal Accounting Standards**

- A. VA's financial management systems shall maintain accounting data to permit reporting in accordance with Generally Accepted Accounting Principles (GAAP).
- B. VA's financial management systems shall maintain data in a format that supports the preparation and presentation of financial and managerial reports in accordance with applicable standards.
- C. VA's financial management systems shall be designed with flexibility to adapt to changes in accounting standards.

### **040504 Compliance with the Application of the USSGL at the Transaction Level**

- A. The recording of financial events in any component of a financial management system (e.g., timing, processing rules/conditions) shall be consistent with accounting transaction definitions and processing rules defined in the USSGL.
- B. Transaction detail supporting USSGL accounts shall be available in the financial management systems and directly traceable to specific USSGL account codes.
- C. Reports produced by the financial management systems, whether used internally or externally, will provide financial data that can be traced directly to data residing in the USSGL accounts.

### **040505 Annual Certification, Audit and Remediation**

- A. In accordance with OMB Circular No. A-123 Appendix D, VA will annually provide management assurances related to its financial management systems' compliance with FFMIA in the Analysis of Systems, Controls and Legal Compliance section of its Agency Financial Report (AFR).
- B. VA will utilize the FFMIA Compliance Determination Framework included as Attachment 1 to OMB Circular A-123 Appendix D as its template to rate its risk (or performance) level.
- C. Each audit required by 31 U.S.C. § 3521(e) will disclose whether VA's financial management systems are in compliance with FFMIA Section 803(a).
- D. VA will ensure each partner shared service organization (SSO) provides VA with a *Report on Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting* (also known as a SOC 1) for consideration in the annual certification and applicable audits.

- E. When deficiencies are identified by VA, or an auditor, VA will establish a remediation plan identifying resources, remedies and target dates to bring the financial management system into compliance.

#### **040506 Improving Financial Management Systems**

- A. Designs for financial systems and mixed systems shall be based on the financial and programmatic information and processing needs of VA. As part of any financial management system design effort, VA must analyze system improvements, new technology supporting financial management systems and modifications to work processes that can enhance agency operations and improve program and financial management.
- B. The reassessment of information and processing needs shall be an integral part of VA's determination of system requirements. Process redesign shall be considered an essential step toward meeting user needs in program management, financial management and budgeting. Concurrent with developing and implementing integrated financial management systems, agencies shall consider program operations, roles and responsibilities, and policies/practices to identify related changes necessary to facilitate management systems' operations efficiency and effectiveness.
- C. Financial management system development and implementation efforts shall seek cost-effective and efficient solutions, as required by OMB Circular No. A-130. Should VA decide to replace software to meet core financial system requirements, it will adhere to the order of preference as listed below:
  - 1. Shared Services
  - 2. Transferring of Agency Financial Management Software
  - 3. Commercial Off-the-Shelf (COTS) Software
  - 4. Developing Software Jointly
  - 5. Custom Software
- D. VA will utilize cross-servicing of financial system support whenever feasible and cost-effective, as a solution to meet financial management system needs.
- E. As required by OMB Memorandum 19-16, Centralized Mission Support Capabilities for the Federal Government, VA's first consideration for shared services will be from shared service providers designated as Quality Service Management Offices (QSMOs). A current list designations and other guidance on QSMOs is available on the GSA Unified Shared Services Management website.

- F. Private servicing through commercial vendors may be used in the event solutions available from the QSMOs or other SSPs will not meet VA's need.
- G. In cases where VA determines that it is more efficient and effective to use or adopt the software of another agency to meet its financial management system requirements, it shall ensure the following:
- The software meets the three FFMIA Section 803(a) requirements;
  - A formal written agreement on the transfer of software is prepared and approved by all parties. The agreement shall cover the full scope of support services to be provided, including system modifications, maintenance and related costs;
  - Any necessary support requirements not covered in the agreement shall be provided by VA. Such support, including implementation and training, shall be assessed and determined to be adequate; and
  - An ongoing relationship for determining future enhancements shall be established between the parties.
- H. VA will use commercial off-the-shelf (COTS) software meeting system requirements discussed in this chapter unless VA's evaluation identifies significant deficiencies which disqualify it as a cost-effective and efficient solution. A cost-benefit analysis that includes the explanation of the unique nature of the system's functions and justifies the non-use of COTS software should be documented and will be made available to OMB for review upon request.
- I. After considering shared service solutions, the adoption of another agency's software and COTS solutions, VA will determine whether it is feasible to work with other agencies having similar financial management functions to jointly develop a solution. Developing software jointly pools resources and develops common approaches for meeting similar financial functions. The designs for jointly developed software shall contain the flexibility and other features needed for transportability of the system to other agencies and/or cross-servicing.
- J. A custom software development approach for financial management systems shall be used as a last resort and only after consideration of all appropriate software options, including the following:
- Use of the existing system, with enhancements;
  - Use of another system within VA;
  - Use of an existing system at another department/agency;
  - Use of a commercial "off-the-shelf" software package;
  - Use of a system under development at another department; and
  - Use of a private vendor's service.
- K. The cost effectiveness of developing custom software shall be documented in a cost-benefit analysis that includes an explanation of the unique nature of the system's functions which justifies the use of alternative approaches. This analysis

shall be maintained for audit purposes and will be made available to OMB and others upon request.

#### **0406 Authorities and References**

[38 U.S.C. § 309, Chief Financial Officer](#)

[Chief Financial Officers Act of 1990](#)

[Clinger-Cohen Act \(also known as the Information Technology Management Reform Act of 1996\)](#)

[Federal Accounting Standards Advisory Board \(FASAB\) Handbook](#)

[Federal Financial Management Improvement Act \(FFMIA\) of 1996 \(P.L. 104-208\)](#)

[Federal Information Security Management Act \(FISMA\) of 2002 \(P.L. 107-347\)](#)

[FISMA of 2014 \(P.L. 113-283\)](#)

[Federal Managers' Financial Integrity Act \(FMFIA\) of 1982](#)

[Government Accountability Office \(GAO\) Standards for Internal Control in the Federal Government \(Green Book\)](#)

[GSA Unified Shared Services Management \(USSM\)](#)

[Office of Management and Budget \(OMB\) Circular No. A-11, Preparation, Submission and Execution of the Budget](#)

[OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control](#)

[OMB Circular No. A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996](#)

[OMB Circular No. A-130, Managing Federal Information as a Strategic Resource](#)

[OMB Circular No. A-136, Financial Reporting Requirements – Revised](#)

[OMB Memorandum 19-16, Centralized Mission Support Capabilities of the Federal Government](#)

[Treasury Financial Manual \(TFM\) Volume I Part 6 Chapter 9500, Revised Federal Financial Management System Requirements for Fiscal Reporting](#)

[Treasury Financial Management Standards](#)

[U.S. Standard General Ledger \(USSGL\)](#)

[VA Directive 0054 – VA Enterprise Risk Management](#)

[VA Financial Policy Volume II, Chapter 1 – VA’s Accounting Classification Structure](#)

[VA FSC News Flash FY21 Issue 19 – Nationwide Vendor File Processing Procedures Update](#)

### **0407 Rescissions**

Volume I, Chapter 4 – Financial Management Systems, April 2021.

### **0408 Questions**

Questions concerning this financial policy should be directed to the following points of contact:

VHA	VHA Financial Policy (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
NCA	NCA Financial Policy Group (Outlook)
All Others	OFP Accounting Policy (Outlook)

**Appendix A: History of Revisions to this Chapter**

A. The following table provides the history of the revisions to this chapter.

Section	Revision	Office	Reason for Change	Effective Date
Appendix C	Removed BOCT Request Process appendix	OFP (047G)	Guidance was updated and moved to Volume XIII Chapter 2 Appendix B	February 2020
Various	Changed reference location	OFP (047G)	Guidance was updated and moved to Volume XIII Chapter 2 Appendix B	February 2020
Appendix A	Added instruction for use of “Prompt Pay Indicator” and ACED/ACED form revision 8	APS (047GA)		July 2014
Appendix B	Added: “This field allows 6 characters.” to definitions for “SGL Acct”, Mirror Acct” and “USSGL Acct”  Appendix updated to remove previously existing GLAC form with GLAC form revision 7, which allows for 6 characters in account number fields rather than 4 characters. Corrected the form to mention 12 rather than 13 characters allowed for the “Short Name” field	APS (047GA)		July 2014

Section	Revision	Office	Reason for Change	Effective Date
Overall	Updated the hyperlink for “Financial Systems Integration Office’s (FSIO) Core Financial Systems Requirements”	APS (047GA)		January 2013
040501A.1	Added introduction for Appendix A, B, C	APS (047GA)		January 2013
Appendix A	Added Appendix A Accounting Transaction Requests Review Process	APS (047GA)		January 2013
Appendix B	Added Appendix B General Ledger Request Process	APS (047GA)		January 2013
Appendix C	Added Appendix C BOCT Request Process	APS (047GA)		January 2013