

HHS FY 2000 FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) COMPLIANCE

Auditors, who are auditing the financial statements of Executive Agencies, are required to report on whether or not the agencies are in substantial compliance with the requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. The audits were conducted in accordance with the revised Implementation Guidance dated January 4, 2001 for the FFMIA.

Under FFMIA agencies are required to report whether financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

The FY 2000 financial statement audit revealed two instances where HHS financial management systems did not substantially comply with Federal Financial Management Systems requirements. HHS concurs with the auditors findings and no additional non-compliances were noted. The two instances identified were:

1. Financial Management accounting systems were not adequate to prepare reliable and timely financial statements
2. EDP control weaknesses were identified at selected Medicare Contractors.

The FY2000 audit recognized the significant steps taken to resolve material weaknesses found in previous years. The following is a summary of some of the corrective actions taken and the current status for each of the areas of non-compliance.

The Financial Management Systems and Processes Used by HHS and Its Components Were Not Adequate to Prepare Reliable, Timely Financial Statements

The auditors recognized the progress made in resolving the material weaknesses reported last year, they have now combined what were two separate weaknesses into one. In last years report the two weaknesses were (1) Financial Systems and Reporting, and (2) Medicare Accounts Receivable.

Our long-term strategic to resolve this material weakness is to modify or replace the existing financial systems in the Department. The short-term focus has been on improving the quality of the data in the accounting systems by increasing periodic reconciliations and analyses. The following are some examples of the FY 2000 efforts:

HCFA successfully developed and fully implemented a Corrective Action Plan (CAP) to resolve the Trust Funds error and to prevent any future recurrence of these events.

HCFA and FDA developed analytical procedures for its account balance activity including the performance of trend analyses on a quarterly basis.

The Program Support Center continued its plan to perform reconciliations for all major accounts as specified by HHS departmental policy and the accounts were reconciled by year-end.

The Program Support Center also implemented a more efficient preparation process for preparing financial statements which allowed them to provided draft FY 2000 financial statements to the auditors on a timely basis as specified in the audit plan.

A new Payment Management System (PMS) was brought online to provide centralized electronic funding and cash management services for federal civilian grants. Management has taken action to address issues identified in the audit. However, the SAS 70 systems review scheduled to start in the Spring and end in December 2001 will provide management assurance that all of the problems have been corrected.

EDP Control Weaknesses Identified at Selected Medicare Contractors

The OIG acknowledged in its findings that HCFA had made improvement in the areas of systems access control, application software development and change control. A number of weaknesses were identified by the auditors at the Medicare Contractors, most of which were at the Medicare Contractors. The auditors also found certain application control weaknesses at the contractors' shared systems. The findings identified at the HCFA Central Office in and of themselves are not considered to be material under FMFIA. HCFA will continue its focus on implementing appropriate corrective action plans to resolve all findings to improve the controls over integrity, confidentiality, and availability of Medicare data processed at the Central Office.

HCFA's Central Office has continued the implementation of enhanced control procedures, specifically in access controls and application development and program change controls.

Task orders were issued to contractors to address issues related to risk assessment, security policies and procedures, independent verification and validation of entity-wide security plans and related procedures for significant systems.

The corrective actions to remedy these issues will be developed by the HHS components and included in the *HHS' CFO Five-Year Plan*.