FY 2001 Report on Systems and Controls

Background

HHS' management control program under the FMFIA and revised OMB Circular A-123, Management Accountability and Control, reflects the Department's continuing commitment to safeguard the resources entrusted to it by reducing fraud, waste, and abuse and preventing financial losses in HHS programs. HHS continually evaluates its program operations and systems, through CFO annual financial statement audits, as well as other OIG and GAO audits, management reviews, systems reviews, etc. to ensure the integrity and efficiency of its operations. HHS program managers continue to improve management controls by identifying and correcting management control deficiencies.

The Department's FMFIA program supports a key objective in our HHS FY 2001 CFO Five-Year Plan to respond to our diverse customers' needs by ensuring that the financial information for their programs is accurate and that the financial systems and processes that support them maintain the highest level of integrity. HHS components are to have written strategies for assessing management controls on an ongoing basis and these strategies should be consistent with the HHS FY 2001 CFO Five-Year Plan goals and targets and CFO audit Corrective Action Plans (CAPs). In addition to our goal of obtaining a clean audit opinion on our annual financial statements, we have a related goal of resolving all internal control material weaknesses and reportable conditions cited by the auditors, as well as those identified through FMFIA reviews. HHS has developed corrective action plans to address all of the findings resulting from the financial statement audits, including qualifications, material weaknesses, and reportable conditions, and corrective actions are underway.

Report Summary

The FMFIA annual assurance required by the Act is contained in the Message from the Secretary at the beginning of this Accountability Report. The details of this year's FMFIA Annual Report, in addition to this narrative summary, are in the accompanying statistical summary which reflects the cumulative total of Section 2 material weaknesses and Section 4 material non-conformances identified and corrected to date, including two pending Section 2 material weaknesses and one Section 4 material non-conformance.

As identified in the FY 2001 CFO financial statement audit, the Department continues to have serious internal control weaknesses in its financial systems and processes for producing financial statements. In this year's report, we are reporting this finding as a Section 4 material non-conformance. (Note: In the FY 2000 FMFIA Report, this finding was reported as a Section 2 material weakness which comprised two prior year material weaknesses identified by the auditors in the FY 1999 and FY 2000 CFO Audits:

1) Financial Systems and Reporting (HHS 99-01); and 2) Medicare Accounts Receivable (HCFA 97-02). For this year's report, the

Medicare accounts receivable portion of the finding, a repeat condition, is a sub-set of the Financial Systems and Processes Section 4 material non-conformance, but is reported in a separate exhibit called Financial Systems and Regional and Central Office Oversight (See CMS-01-01). *The Financial Systems and Processes* non-conformance (HHS-00-01) from FY 2000 also includes the finding of a weakness involving the analysis and preparation of financial statements reported by CDC.

A second internal control material weakness reported by the auditors at CMS — *Medicare Information Systems Controls* — is also a sub-set of the Financial Systems and Processes material non-conformance and is a repeat condition, although the auditors noted in the FY 2000 audit that this weakness was no longer considered material at CMS headquarters.

The FMFIA-style corrective action plans (CAPs) for the pending Section 4 material non-conformance above as well as for two material weaknesses from previous OIG program audits and/or internal management reviews, which were included in last year's report, are included in this FMFIA report.

Financial Systems and Processes Department-wide, Section 4 Material Non-Conformance

The Department continues to have serious internal control weaknesses in its financial systems and processes for producing financial statements. In the FY 2000 financial statement audits at CMS, as well as the audits of several HHS components, the auditors identified problems related to account analyses and reconciliation.

In the short term, HHS components have made substantial progress in addressing account analysis and reconciliation problems. For example:

• During FY 2001 most accounts for PSC and its customers were reconciled by year-end and the Program Support Center continued its plan to perform reconciliations for all major accounts as specified by DHHS departmental accounting;

• The Program Support Center, Division of Financial Operations (PSC/DFO) implemented a more efficient process for preparing financial statements; and

• The system review of the Payment Management System (PMS) by the audit firm of Ernst & Young completed in FY 2001 determined that the grant advance reconciliation and reporting problems identified in FY 2000 were corrected. All related processes were tested and found to be operating sufficient to provide reasonable assurance that the control objectives specified were achieved. This resolved the findings found in the FY 2000 audit of PSC customer agencies including HRSA, ACF, IHS, SAMSHA, and AoA.

In the long term, the most significant step we are taking to address this problem is the Unified Financial Management System. Specifically, consistent with the President's Management Agenda, under the improving financial performance initiative, HHS has announced a "one department" approach to information technology that emphasizes the management of resources on an enterprise basis with a common infrastructure. To this end, HHS will adopt a unified financial management system to replace five legacy systems. Specifically, HHS will have a unified financial management system comprised of two major sub-com- ponents, one for the CMS and the Medicare Contractors called the Healthcare Integrated General Ledger and Accounting System (HIGLAS), and the other for the rest of HHS. Both components will feed into a Departmental reporting system. The benefits of having a unified system, compared to multiple systems include lower costs, a more secure systems environment, and the capability to provide more timely and accurate information for management purposes. In addition, it is easier to maintain uniform business rules, data standards and accounting policies and procedures across HHS, and to communicate directly with the new centralized Departmental financial reporting system.

Financial Systems and Regional and Central Office Oversight at the Centers for Medicare & Medicaid Services (Medicare Accounts Receivable)

(Note: This finding is a sub-set of the one Section 4 material non-conformance, Financial Systems and Processes.)

CMS relies on a decentralized organization, complex systems, and ad hoc reports to accumulate data for financial reporting due to the lack of an integrated financial accounting system at the contractor level. As a result, integrated financial systems and a strong oversight function are needed to ensure that periodic analyses and reconciliations are completed to detect errors and irregularities in a timely manner. CMS needs to continue to

improve the level of oversight, supervision, and guidance provided to the contractors. CMS needs to develop control mechanisms to identify and investigate significant fluctuations in accounts receivable contractor balances and activity between reporting periods, and to ensure fluctuations are properly supported by detailed transactions. Additionally, CMS' regional offices need to perform a follow-up on findings noted in reviews conducted by central and regional offices or consultants to ensure corrective actions were completed by the contractors.

CMS continues to provide instructions and guidance to the Medicare contractors and to CMS' central and regional offices (CO/ROs). CMS also continues to contract with Independent Public Accountants (IPAs) to test financial management internal controls and to analyze accounts receivable at Medicare contractors. In addition, contractor performance evaluation (CPE) reviews of financial management issues were performed by CMS national teams at Medicare contractors.

The lack of an integrated financial management system continues to impair CMS' and the Medicare contractors' abilities to adequately support accounts receivable and other financial balances reported. However, CMS is following a comprehensive plan to bring its systems into compliance. Specifically, CMS has initiated steps to implement an integrated general ledger system (known as the Healthcare Integrated General Ledger Accounting System or HIGLAS) for the contractors, Regional Offices, and Central Office. HIGLAS is expected to be fully operational in FY 2007. As CMS progresses toward its long-term goal of developing an integrated general ledger system, the HIGLAS system, CMS continues to provide training to the contractors to promote a uniform method of reporting and accounting for accounts receivable and related financial data. Once the HIGLAS system is fully operational, CMS anticipates full resolution of the accounts receivable material weakness.

Medicare Information Systems Controls

(Note: This finding is also a sub-set of the material non-conformance in Financial Systems and Processes.)

CMS relies on extensive EDP operations at both their central office and the Medicare contractors to administer the Medicare program and to process and account for Medicare expenditures. Internal controls over these operations are essential to ensure the integrity, confidentiality, and reliability of critical data while reducing the risk of errors, fraud, and other illegal acts. In FY 2000, numerous and continuing weaknesses at the Medicare contractors, as well as certain application control weaknesses at the contractors' shared systems, were prevalent. Such weaknesses do not effectively prevent: 1) unauthorized access to and disclosure of sensitive information; 2) malicious changes that could interrupt data processing or destroy files; 3) improper Medicare payments; or 4) disruption of critical operations. In FY 2000, the OIG aggregated the findings at the Medicare contractors and CMS central office into one material weakness (which was identified as HCFA 98-01a). No finding at a single location was considered material. The pending material weakness related to the Medicare contractors is included in this year's report as CMS-01-02, formerly HCFA 98-01a, will remain open until corrective action is complete.

CFO Financial Statement Audits and the FMFIA

The 2001 FMFIA Report continues to bring the findings from the CFO audits and the FMFIA closer together. HHS components are to report to the Department all deficiencies (findings) from the audit consistent with OMB Circular A-123, which requires that a deficiency should be reported if it is or should be of interest to the next level of management. This includes all material weaknesses and instances of systems non-compliance with FFMIA identified in the FY 2000 CFO audits, including any which the HHS component may be aware of from the FY 2001 CFO audit at the time they prepared their FMFIA Report.

HHS components are asked to recommend which, if any, of their CFO audit material weaknesses and FFMIA non-compliance should be included as an FMFIA material weakness in the Department's Report, i.e., are significant enough to be reported outside the agency to the President and the Congress. Under departmental policy, a corrective action plan is required for all CFO audit material weaknesses that are tracked under the CFO audit process. However, for those material weaknesses and FFMIA non-compliance the HHS component recommends for inclusion in the Department's FMFIA Report, HHS components are required to include a corrective action plan in the FMFIA format and submit it with their report. Those material weaknesses which

resulted from the FY 2000 and FY 2001 CFO audits are included in the Department's FY 2001 FMFIA report.

However, with the exception of those discussed above, all of the audit material weaknesses reported by the HHS components are not included in the Department's FMFIA report because HHS believes that the remaining material weaknesses do not reach a level of significance that require reporting to the President and the Congress as defined under Revised OMB Circular A-123. HHS requires corrective action plans to address all of the findings resulting from the CFO financial statement audits, including qualifications, material weaknesses and reportable conditions. Therefore, including all material weaknesses from the CFO audits of the HHS components in the Department's FMFIA report would result in a duplication of the financial statement audit process.

2001 FMFIA Section 4 Material Non-Conformance: Schedule of Corrective Actions (HHS 00-01)

Title and Description of Material Non-Conformance: Financial Systems and Processes

The Department continues to have *serious* internal control weaknesses in its financial systems and processes for producing financial statements. (Note: In the FY 2000 FMFIA Report, this material non-conformance comprised two prior year material weaknesses identified by the auditors in the FY 1999 and FY 2000 CFO Audits.) 1) Financial Systems and Reporting (HHS 99-01); and 2) Medicare Accounts Receivable (HCFA 97-02). For this year's FMFIA report, the Medicare accounts receivable portion of the finding, a repeat condition, continues to be a sub-set of the Financial Systems and Processes, but is reported in a separate exhibit called Financial Systems and Regional and Central Office Oversight (See CMS-01-01).

Pace of Corrective Action:
Year Identified: FY 2000
Original Targeted Correction Date: N/A
Correction Date in Last Report: FY 2007
Current Correction Date: FY 2007

Lead Managerial Contact: Gerald W. Thomas, Director, Office of Program Management and Systems Policy

Source of Discovery: FY 2000 and FY 2001 financial statement audits by OIG

Appropriation/Account: All Appropriations

(For Corrected Items Only)

Validation Process Used:

Results Indicators:

2001 FMFIA Section 4 Material Non-Conformance: Schedule of Corrective Actions (HHS 00-01)

Department-wide:

While significant progress has been made to improve the financial statement preparation process, because many systems were not fully integrated, and in some cases were in the process of being upgraded or replaced, the preparation of financial statements continued to require numerous manual accounting adjustments involving billions of dollars. In addition, significant analysis by Department staff as well as outside consultants was necessary to determine proper balances months after the close of the fiscal year. The FY 2000 CFO audits of several HHS components identified the following problems in the preparation of adequate, reliable, and timely financial statements:

Grant expenditures, grant advances, and the grant accrued expense calculation contained billions of dollars in errors until final balances corrections were made. The errors were the result of the Payment Management System (PMS) expenditure disbursement subsystem, which is used to produce and process Federal Cash Transactions Reports. It was not fully tested when the Program Support Center (PSC) implemented the new PMS in July 2000. The errors delayed conclusion of the audits and the Department's compilation of the financial statements. The financial statements of NIH, ACF, SAMHSA and CDC were most affected.

At NIH Institutes, an integrated accounting system was not in place to consolidate the accounting results of transactions by the Institutes requiring extensive, time-consuming manual adjustments before reliable financial statements could be prepared. At most HHS components, suitable internal control systems were not in place to adequately explain significant fluctuations in grant transactions.

At CDC, CDC's central accounting system lacks the integration with the reimbursable agreements subsidiary system, does not facilitate the preparation of the financial statements, and has not fully adopted the Treasury Standard General Ledger.

Briefly define (purpose, scope, methodology, resources) the corrective action plan (CAP) that corrects/improves this material non-conformance.

Department-wide:

For the long-term, consistent with the President's Management Agenda, under the improving financial performance initiative, HHS has announced a "one department" approach to information technology that emphasizes the management of resources on an enterprise basis with a common infrastructure. To this end, HHS will adopt a unified financial management system to replace five legacy systems. Specifically, HHS will have a unified financial management system comprised of two sub-components one for the CMS and Medicare contractors called the Healthcare Integrated General Ledger and Accounting System (HIGLAS), and the other for the rest of HHS. Both components will feed into a Department reporting system. The benefits of having a unified system, compared to multiple systems, include lower costs, a more secure systems environment, and the capability to provide more timely and accurate information for management purposes. In addition, it is easier to maintain uniform business rules, data standards and accounting policies and procedures across HHS, and to communicate directly with the new centralized Departmental financial reporting system.

2001 FMFIA Section 4 Material Non-Conformance: Schedule of Corrective Actions (HHS 00-01)

Overall Status of Material Non-conformance:

For the short term, during FY 2001, the following efforts were made to resolve these material non-conformances.

Department-wide:

Reconciliations were performed for all major accounts as specified by the Department's accounting policy.

The Program Support Center, Division of Financial Operations (PSC/DFO) implemented a more efficient preparation process for preparing financial statements.

The 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 related to the recording and reporting of grant transactions. However, the systems review examination started in the Spring and ending in December 2001 provided management the assurance that the problems noted have been corrected.

Centers for Disease Control and Prevention (CDC):

The fiscal year 2000 financial statement audit identified one material weakness: Analysis and Development of Financial Statements. CDC's central accounting system lacked integration with the reimbursable agreements subsidiary system, did not facilitate the preparation of the financial statements, and did not fully adopt the Treasury Standard General Ledger. The financial reporting system needs several adjusting journal entries and a significant amount of manually intensive processes prior to reporting accurate financial statements. The amount of human effort required during the financial statement process resulted in untimely reporting of financial information that supports management decision-making. Additionally, certain reconciliation processes relating to reimbursable agreements were not adequately performed to ensure differences between subsidiary systems and the general ledger were properly identified, researched and resolved and that account balances were complete and accurate.

2001 FMFIA Section 4 Material Non-Conformance: Schedule of Corrective Actions (HHS 00-01)

Major Milestones Department-wide (Long Term):	**Scheduled Due Dates**
Unified Financial Management System implemented department-wide.	FY 2007
NIH to implement its components of UFMS in phases. First phase is the general ledger Module.	FY 2003
CMS to develop and implement its components of UFMS (an integrated standard general ledger) for all Medicare contractors. (See exhibit CMS-01-01.)	FY 2007

Major Milestones — Centers for Disease Control and Prevention (CDC):

CDC has developed the following corrective action plan to resolve this material non-conformance:

Action Plan	**Target Completion Date**
1. CDC is planning to enhance the current financial database.	3/31/02
2. CDC obtained consulting assistance from a major accounting firm to develop a program providing for the periodic review of CDC's consolidated financial statements. CDC is considering their recommendations.	9/30/01
3. CDC is planning to automate the preparation of month-end financial statements. Additional automation of some manual processes may be necessary.	3/31/02
4. CDC significantly improved the automation of year-end closing entries. CDC also automated data collection for SF 133 preparation, and a detailed year-end closing plan was developed.	9/30/01
5. CDC issued a task order to a public accounting firm to develop polices and procedures to record and maintain reimbursable agreements. The report is under review.	9/30/01
6. With assistance from a public accounting firm, CDC is currently developing a reimbursable database to automate billings and collections which will automatically post appropriate accounting transactions and generate required subsidiary reports.	9/30/01
7. CDC increased training for financial statement preparation staff and reimbursable agreement staff.	9/30/01

2001 FMFIA Section 4 Material Non-Conformance: Schedule of Corrective Actions (CMS 01-01)
(Note: This finding is a sub-set of the one Section 4 material non-conformance (HHS-00-01.)

Title and Description of Material Non-Conformance: Financial Systems and Regional and Central Office Oversight

CMS relies on a decentralized organization, complex systems, and ad hoc reports to accumulate data for financial reporting due to the lack of an integrated financial accounting system at the contractor level. As a result, integrated financial systems and a strong oversight function are needed to ensure that periodic analyses and reconciliations are completed to detect errors and irregularities in a timely manner. CMS needs to continue to improve the level of oversight, supervision, and guidance provided to the contractors. CMS needs to develop control mechanisms to identify and investigate significant fluctuations in contractor accounts receivable balances and activity between reporting periods, and to ensure fluctuations are properly supported by detailed transactions. Additionally, CMS's regional offices did not perform a follow-up on findings noted in reviews conducted by central and regional offices or consultants to ensure corrective actions were completed by the contractors.

Pace of Corrective Action: Continuous
Year Identified: FY 1997
Original Targeted Correction Date: FY 1999
Correction Date in Last Year's Report: FY 2001
Current Correction Date: FY 2007
Reasons for Changes in Dates: Long-term activities related to the development of integrated general ledger system.

Lead Managerial Contact: Marvin Washington, Deputy Director, Division of Accounting, Accounting and Risk Management Group, Office of Financial Management

Source of Discovery: FY 1997 financial statement audit by OIG and other sources.

(For Corrected Items Only)

Validation Process Used:

Results Indicators:

2001 FMFIA Section 4 Material Non-Conformance: Schedule of Corrective Actions (CMS 01-01)
(Note: This finding is a sub-set of the one Section 4 material non-conformance (HHS-00-01.)

Briefly define (purpose, scope, methodology, resources) the corrective action plan (CAP) that corrects/improves this material non-conformance.

CMS continues to provide instructions/guidance to the Medicare contractors and our central and regional offices (CO/ROs). CMS continues to contract with Independent Public Accountants (IPAs) to test financial management internal controls and to analyze accounts receivable at Medicare contractors. In addition, contractor performance evaluation (CPE) reviews of financial management issues were performed by CMS national teams at Medicare contractors. As CMS progresses toward its long-term goal of developing an integrated general ledger system, we continue to provide training to the contractors to promote a uniform method of reporting and accounting for accounts receivable and related financial data.

Overall Status of Material Non-Conformance at the Close of FY 2001 (global progress toward correcting/improving this weakness over this fiscal year).

All short-term corrective actions for FY 2001 have been completed. In May 2001, we issued revised 750/751 contractor financial reporting instructions to be effective October 1, 2001. Also in May 2001, we issued written standard policies and procedures for CO and ROs to follow in processing corrective action plans (CAPs) resulting from Chief Financial Officer (CFO) audits, Statement on Auditing Standards (SAS-70) reviews, as well as other financial management audits and reviews performed by consulting/certified public accounting firms, the Office of Inspector General, and the General Accounting Office. All Medicare contractors that had audit findings in FY 2000 submitted CAPs and received comments from CMS regarding the adequacy of their submitted plan. In addition, we received quarterly updates to the CAPs that described financial activities and efforts underway to correct prior year findings. During FY 2001, the consultants, CO and RO staff followed up on contractor CAPs during the accounts receivable CPE reviews to ensure that findings were corrected.

We acquired consultant services to ensure that the accounts receivable balances for FY 2001 are valid and properly valued and to review implementation of CAPs. Specifically, the consultants assisted in:

- Reconstructing and validating the FY 2001 beginning balance,
- Validating the first six months of FY 2001 accounts receivable activity,
- Identifying variances between subsidiary records and reports submitted to CMS,
- Documenting appropriate adjustments to accounts receivable for variances,
- Reviewing processes and procedures relative to receivables, and
- Reviewing CAPs.

For the past two years, CMS hired consultants to assist us in developing analytical tools necessary to perform more expansive trend analysis of critical financial and related data, specifically accounts receivable. These tools provide the steps necessary to identify unusual variances and potential areas of risk. Additionally, the tools allow us to readily perform more extensive data analyses, follow up with Medicare contractors, and determine the need for additional actions to ensure that problems are adequately resolved. These enhancements, along with additional staff members hired during FY 2000, allowed us to conduct trend analysis starting with quarter ending June 30, 2000. CMS is now performing a more structured and robust financial analysis and review each quarter. During FY 2001, we also issued instructions to our regional offices to perform trending analysis on their own accounts receivable data, starting with the quarter ending June 30, 2001.

2001 FMFIA Section 4 Material Non-Conformance: Schedule of Corrective Actions (CMS 01-01)
(Note: This finding is a sub-set of the one Section 4 material non-conformance (HHS-00-01.)

CMS is also implementing the Healthcare Integrated General Ledger Accounting System (HIGLAS) that is an integrated general ledger accounting system, which incorporates Medicare contractors' financial data (including claims activity) into CMS' internal accounting system, the Financial Accounting and Control System (FACS).

CAP Milestones for FY 2002:	**Scheduled Due Date**
1. Issue instructions/guidance to Medicare contractors on required trend analysis procedures. **Milestone Status:** In progress	December 2001
2. Develop a process to report the status of changes that contractors are required implementing to the Medicare Change Control Board quarterly. **Milestone Status:** In progress	December 2001
3. Test CMS 1522 CPE protocol at two contractor sites. **Milestone Status:** In progress	January 2002
4. Provide 750/751 training to all Medicare contractors and CMS Regional offices. **Milestone Status:** In progress	April 2002
5. Acquire Consultant services to ensure that the accounts receivable balances for FY 2002 are valid and properly valued and to review the implementation of prior year CAPs. **Milestone Status:** In progress	June 2002
6. Implement HIGLAS project. **Milestone Status:** In progress	September 2002-2006
7. Perform trend analysis of quarterly CMS 750/751 reports received from Medicare contractors in order to timely identify unusual items and inconsistencies. a. Quarter ending December 31, 2001 b. Quarter ending March 31, 2002 c. Quarter ending June 30, 2002 d. Quarter ending September 30, 2002 **Milestone Status:** In progress	 a. February 15, 2002 b. May 15, 2002 c. August 15, 2002 d. November 15, 2002

2001 FMFIA Section 4 Material Non-Conformance: Schedule of Corrective Actions (CMS 01-02)
(Note: This finding is a sub-set of the one Section 4 material non-conformance (HHS-00-01.)

Title and Description of Material Non-Conformance: Medicare Elecgronic Data Processing (EDP) Controls

OIG found weaknesses at the CMS Central Office and the Medicare contractors. Such weaknesses do not effectively prevent 1) unauthorized access to and disclosure of sensitive information, 2) malicious changes that could interrupt data processing or destroy files, 3) improper Medicare payments, or 4) disruption of critical operations. Further, weaknesses in the Medicare contractors' entity-wide security structure do not ensure that EDP controls are adequate and operating effectively. Overall, one continuing weakness remains in the EDP systems environment. CMS should continue its focus on implementing appropriate corrective action plans in resolving all findings to improve the controls over integrity, confidentiality, and availability of Medicare data.

Pace of Corrective Action: Continuous
Year Identified: FY 1998
Original Targeted Correction Date: FY 1999
Correction Date in Last Year's Report: FY 2000
Current Correction Date: FY 2002
Reasons for Changes in Dates: Aggregation of findings in FY 2001 and long-term project goals and objectives.

Lead Managerial Contact: Richard Lyman, Director, Security and Standards Group, Office of Information Services

Source of Discovery: FY 1997 financial statement audit by OIG and other sources.

Appropriation/Account:

(For Corrected Items Only)

Validation Process Used:

Results Indicators:

2001 FMFIA Section 4 Material Non-Conformance: Schedule of Corrective Actions (CMS 01-02)
(Note: This finding is a sub-set of the one Section 4 material non-conformance (HHS-00-01.)

Briefly define (purpose, scope, methodology, resources) the corrective action plan (CAP) that corrects/improves this material non-conformance.

CMS recognizes the significance of controls and security issues regarding Medicare EDP issues as they relate to the integrity, confidentiality and availability of sensitive Medicare data. CMS has established an enterprise-wide systems security program. That portion applying to internal systems has been phasing in since late FY 1998. The first major accomplishment was the development of CMS' Systems Security Plan (SSP) Methodology, which established procedures for developing a 3-tiered hierarchical SSP structure. The first tier is the enterprise-wide systems security master plan. Tiers 2 & 3 apply to the development of general support system (GSS) and SSPs, which are applicable enterprise-wide. The Master SSP and a number of GSS SSPs are currently under development.

CMS has revised its information systems security requirements for Medicare contractors. The revision includes CMS Core Information Security Requirements. The core requirements are based on a synthesis of OMB Circular A-130, PDD 63, General Accounting Office Federal Information System Controls Audit Manual, Internal Revenue Service Publication 1075, Health Insurance Portability and Accounting Act and new CMS requirements for systems architecture and security handbook:

• Contractors were given a Contractor Assessment Security tool (CAST) to document their compliance with the core security requirements;

• CMS has begun conducting an Independent Verification and Validation review for Medicare contractor security program documentation;

• Contractors are required to have independent reviews conducted of their implementation of the CMS core security requirements; and

• Gaps identified in the evaluation of each contractor's compliance with the core security requirements will be funded to the extent of available resources.

Overall Status of MW at the close of FY 2001 (global progress toward correcting/improving this weakness over this fiscal year).

CMS continues to make progress toward resolving this issue in FY 2002 by revising its information systems security requirements for Medicare contractors. The Core Information Security Requirements adhere to guidelines set forth in OMB Circular A-130 and implement effective control procedures. Contractors are now required to document their compliance with CMS' Core Information Security Requirements. In June 2001, we developed entity-wide control procedures for significant production applications and systems software programs. The milestones below apply to our Medicare contractors. Compliance with due dates is dependant on resources.

2001 FMFIA Section 4 Material Non-Conformance: Schedule of Corrective Actions (CMS 01-02)
(Note: This finding is a sub-set of the one Section 4 material non-conformance (HHS-00-01)

CAP Milestones for FY 2002:	Scheduled Due Date
CMS will adhere to OMB Circular A-130 guidelines for entity-wide security plans to ensure appropriate consideration is given to safeguarding Medicare data. **Milestone Status:** In progress	September 2002
CMS will develop consistent and effective physical and logical access procedures, including administration and monitoring of access by contractor personnel in the course of their job responsibilities. **Milestone Status:** In progress	September 2002
CMS will develop consistent and effective procedures over the implementation, maintenance, access, and documentation of operating systems software products used to process Medicare data. **Milestone Status:** In progress	September 2002
CMS will develop a segregation of duties to ensure accountability and responsibility for access to Medicare applications and data are appropriately assigned. **Milestone Status:** In progress	September 2002
CMS will update and appropriately document service continuity procedures to recover Medicare processing in case of a system outage. **Milestone Status:** In progress	September 2002

2001 FMFIA Section 2 Material Weaknesses: Schedule of Corrective Actions (FDA-89-02)

Title and Description of Material Weaknesses: Weakness in the Enforcement Program for Imported Foods in the Food and Drug Administration (FDA) - (FDA-89-02). The Office of Inspector General reported that FDA did not inspect a large enough sample of imported foods to ensure the safety of the public health.

Pace of Corrective Action:
Year Identified: FY 1989
Original Targeted Correction Date: FY 1990
Correction Date in Last Year's Report: FY 2000
Current Correction Date: FY 2001
Reasons for Changes in Dates:

Name of Responsible Program Manager: Dennis Baker, Associate Commissioner for Regulatory Affairs

Source of Discovery: OIG (Report A-15-90-00001) and internal FDA management reviews.

Appropriation/Account: 7520600

Validation Process Used: A corrective action review will be completed following correction of the material weakness.

Results Indicators: FDA determined that a 20 percent minimum inspection rate to assure the safety of the imported foods was unrealistic and that goals could be achieved more cost effective with science based targeting of inspection resources. As a result, a revised strategy for how the Agency will deal with imported foods has been prepared. FDA's new approach will focus on products and problems, which present a high risk to the American public, or firms and countries of origin that have a history of noncompliance. FDA also anticipates making improvements and an increased presence due to the substantial added FY 2002 resources provided by bioterrorism funding.

2001 FMFIA Section 2 Material Weaknesses: Schedule of Corrective Actions (FDA-89-02)

Title and Description of Material Weakness: Weakness in the Enforcement Program for Imported Foods in the FDA.

Major Milestones	Milestone Dates		
	Original Plan	Revised Plan	Actual Date
Completed actions/events:			
FDA uses a structural and selective sampling method, based on both the entry level and product intelligence to provide an effective level of examination coverage. This assessment is supported by historical data covering the period of 1972-1992.			FYs 1992/93
FDA developed a Revised Imports Strategy, which embodies intelligence based sampling of imports to provide an effective level of coverage, and includes performance indicators. With this new approach, FDA focuses its import activities on products and problems presenting a high health risk to the American public, or firms and countries of origin having a history of non-compliance. Electronic screening, improved strategic alliances and improved pre-market and post-market surveillance are key components of the revised strategy.			FYs 19994/2001
FDA has expanded the use of an electronic entry processing system (EEPS) for imports using the Custom's Automated Commercial System. EEPS enables FDA to screen import entries and electronically make "May Proceed" decisions on products of low risk and high compliance rates. At this time, EEPS has been implemented at all major ports where electronic entry of imports is available.			FY 1995
FDA plans to maintain its pre-market surveillance through a vigorous foreign inspection program designed to identify problems at their source. FDA completed 65 foreign inspections during FY 1995.			FY 1995
The number of foreign inspections completed during FY 1997 was 40, FY 1998 was 40, and FY 1999 was 87.			FYs 1997,98,99

2001 FMFIA Section 2 Material Weaknesses: Schedule of Corrective Actions (FDA-89-02)			
Major Milestones	**Milestone Dates**		
	Original Plan	**Revised Plan**	**Actual Date**
FDA will complete the full rollout of OASIS version 2 to all district offices.			FY 1998
The default "May proceed" rate for all food commodities has been set at 70 percent or greater. However, the "May proceed" rate measured at any particular time may be lower as FDA intensifies a problem with a firm, country or product. These adjustments are considered essential to FDA surveillance activities.			FY 1998
Planned/continuing agency actions: All facets of the Revised Imports Strategy will continue to be implemented and evaluated.			FYs 2000/01
FDA continues to develop and evaluate agreements with foreign governments whose requirements and regulatory infrastructure are equivalent to FDA's. As these agreements are developed and finalized, surveillance resources can be targeted toward countries whose internal requirements supply less assurance of compliance with U.S. requirements.			FYs 2000/01
During FY 2001, FDA performed 27,032 food import physical examinations out of 4,577,861 representing a 0.6 percent coverage exam rate. FDA believes that identifying firms and countries with inspection systems comparable to those in the U.S. and in accordance with the Food Safety Initiative, combined with targeted physical examinations, is a viable and realistic strategy to addressing the surge of imported FDA-regulated products.			FY 2001
The number of foreign inspections planned for FY 2002 is 1,201.			FY 2002
In FY 2002, FDA received a counter-terrorism supplemental that includes $97.1 million to allow increased inspections of imported food products. The additional resources will allow the FDA to hire 665 more inspectors, lab specialists and other compliance experts, in addition to allowing the FDA to invest in new technology and scientific equipment to detect select agents and monitor imports. The new technology and scientific equipment to detect select agents and monitor imports. The primary focus of this request focuses on those activities that protect the U.S. border against the potential vulnerabilities to the Nation's Food Supply. Also, FDA and the Centers for Disease Control (CDC) are enhancing their surveillance activities with respect to diseases caused by foodborne pathogens, and are working with our federal, state and local partners to coordinate these activities.			FY 2002
The request will also allow the expansion of FDA's information systems that monitor imports and those that provide tools to compare pathogenic findings in the food supply. One of these systems is the eLEXNET system that provides multiple government agencies engaged in food safety regulatory activities with the new ability to rapidly detect, compare, and communicate unusual findings in laboratory analyses.			FY 2002
FDA will enhance the field's Operational and Administrative System for Import Support (OASIS) computer software, including a real-time screening interface with multi-agency import databases to help target import inspection resources.			FY 2002

2001 FMFIA Section 2 Material Weaknesses: Schedule of Corrective Actions
National Institutes of Health (PHS-93-02)

Title and Description of Material Weaknesses: Deficiences in the Public Health Service (PHS) technology transfer activities.

Deficiencies were noted in the PHS technology transfer activities. The technology transfer deficiencies include, 1) the management information systems are inadequate, and 2) the processes to ensure that royalties and other payments received are inadequate.

Pace of Corrective Action:
Year Identified: FY 1993
Original Targeted Correction Date: FY 1994
Correction Date in Last Year's Report: FY 2001
Current Correction Date: FY 2002
Reasons for Changes in Dates: Contractor failed to provide system in accordance with contract terms and budget. Program is contracting through NASA to modify their technology transfer system to meet NIH's requirements. Contracts awarded in December 2000 are planned for completion in December 2001.

Name of Responsible Program Manager:
Dr. Maria Freire

Source of Discovery:
NIH Alternative Management Control Review

Appropriation/Account: 7530846

Validation Process Used: NIH management will be required to demonstrate to the Department that corrective actions have been completed. This will be followed by a corrective action review within one year to demonstrate that corrective actions taken remain effective.

Results Indicators: Existence of policies, procedures, and information system.

2001 FMFIA Section 2 Material Weaknesses: Schedule of Corrective Actions (PHS-93-02)

Title and Description of Material Weakness: Deficiencies in the Public Health Service Technology Transfer Activities.

Major Milestones	Milestone Dates		
	Original Plan	Revised Plan	Actual Date
1. Office of Technology Transfer (OTT) will improve its information systems so its staff can more easily determine what costs have been incurred, billed and collected.	October 1998	February 2002	
2. OTT will revise the current model license agreements used by NIH to include standard language on auditing; develop criteria for use in determining whether or not an audit should be requested by NIH; and obtain Institute Center Division (ICD) approval to enter into contracts to conduct audits as required.	October 1998		August 1998
3. OTT will improve its information systems, so it can accurately document the status of each patent application.	October 1998	February 2002	
4. OTT will develop an integrated management information system that will effectively track and report on Collaborative Research and Developer Agreements (CRADAs), inventions, patent prosecution status and costs, licensing, and receipt of royalty payments for domestic and foreign filed cases.	October 1998	February 2002	
5. OTT will update the Technology Transfer Policy Manual, Chapter 206, and establish clear internal procedures on the processing and content of infringement log items.	March 1998		March 1998
6. Information from the infringement log will be migrated to the new data system where it will be maintained in the future.	October 1998	April 2002	
7. OTT will review how the new process for announcing the availability of technologies is working after it has been in effect for one year.	June 1998 November 1998		October 1998
Part 1: Conduct an analysis Part II: Complete an Evaluation	November 1998		October 1998
8. OTT will make further adjustments, as necessary, to reduce the amount of time between the filing of a patent application and publication of the abstract in the Federal Register.			
9. OTT will provide assistance and guidance, as necessary, in preparing technology training, and will provide oversight to ensure the training provided by the ICDs is conducted properly.	October 1998 and ongoing		August 1998 and ongoing
Note: Items 1, 3, 4, and 6 are tied to the completion of the new OTT data system.			

HHS FY 2001 Pending and New Material Weaknesses and Non-Conformances Under FMFIA Reporting				
No.	Title and Identification Code	First Year Reported	Targeted Date for Correction in 2000 FMFIA Report	Current Target Date for Completion
Management Control Material Weaknesses				
1.	Weak Enforcement in the Import Food Inspection Program (FDA-89-02)	1989	FY 2001	FY 2002
2.	Deficiencies in Technology Transfer Activities at NIH (PHS-93-02)	1993	FY 2001	FY 2002
Financial Management Systems Material Non-Conformances				
3.	Financial Systems and Processes (HHS-00-01)	1999	FY 2007	FY 2007
3a.	CMS Financial systems and Regional and Central Office Oversight (Medicare Accounts Receiveable) (CMS 01-01, formerly HCFA 97-02)	1997	FY 2007	FY 2007
3b.	Medicare EDP Controls including Application Controls for Medicare Contractors (CMS 01-02, formerly HCFA 98-01a)	1998	FY 2001	FY 2002

Notes:

The number of material weaknesses and non-conformances reported on in this section is consistent with the number shown in the statistical table above. This year, HHS has re-categorized issues related to financial management information systems from the Management Control category (Section 2) as material weaknesses to the Financial Management Systems category (Section 4) as material non-conformances. We believe this improves the presentation of the report, and helps to delineate program management control issues from financial systems issues which are being addressed as a concerted effort under the auspices of the Unified Financial Management System and its sub-components.

1 and 2: These two material weaknesses are the result of previous OIG program audits and/or internal management reviews and were included in prior year FMFIA reports.

3. The Financial Systems and Processes (HHS-00-01) material non-conformance is a repeat condition and has been reclassified from a material weakness and updated to reflect the findings from the FY 2000 and FY 2001 CFO audits. The target date for correction of FY 2007 is based on the planned implementation date for the Unified Financial Management System.

3a. Medicare accounts receivable, also a repeat condition, was included under Financial Systems and Processes (HHS-00-01) in the FY 2000 report. It continues to be a sub-set of the Financial Systems and Processes material nonconformance, but is reported in a separate exhibit called Financial Systems and Regional and Central Office Oversight (See CMS-01-01). The target date for correction is based on the planned implementation date for the HIGLAS integrated general ledger system.

3b. Medicare Electronic Data Processing Controls (CMS-01-02, formerly HCFA 98-01a) is also a repeat condition, although the auditors noted in the FY 2000 audit that this weakness is no longer considered material at CMS headquarters.

Statistical Summary of FMFIA Material Weanesses and Non-Conformances

Number of Management Controls (Section 2) Material Weaknesses			
	Number Reported First Time	Number Corrected	Number Still Pending
1989 Report	2 (FDA 89-02) (HCFA 89-01)	1 (HCFA 89-01)	1 (FDA 89-02)
1990 Report	1 (ACF-90-05)	1 (ACF 90-05)	
1993 Report	1 (PHS-93-02)	0	1 (PHS-93-02)
1997 Report	3 (CMS 01-01, formerly HCFA 97-02) (ACF 97-01) (HCFA 97-01)	2 (ACF 97-01) (HCFA-97-01)	1 (CMS 01-01)
1998 Report	2 (CMS 01-02, formerly HCFA-98-01a) HCFA 98-02 renamed HCFA 98-01b in 1999)	1 (HCFA 98-02 renamed) HCFA 98-01b in 1999)	1 (CMS 01-02)
1999 Report	1 (HHS-00-01, formerly HHS 99-01)	0	1 (HHS 00-01)
2000 Report	0	0	0
2001 Report	0	0	0
Subtotal	10	5	5
Less number recategorized to Section 4 in 2001 Report	3 (CMS 01-01) (CMS 01-02) (HHS 00-01)	0	3 (CMS 01-01) (CMS 01-02) (HHS 00-01)
Total	7	5	2 (FDA 89-02) (PHS-93-02)
Of the total number corrected, how many were corrected in 2001? 0			

Number of Financial Management Systems (Section 4) Material Non-Conformance			
	Number Reported First Time	Number Corrected	Number Still Pending
1997 Report	1 (CMS 01-01)	0	1 (CMS 01-01)
1998 Report	1 (CMS-01-02)	0	1 (CMS-01-02)
1999 Report	1 (HHS 00-01)	0	1 (HHS 00-01)
2000 Report	0	0	0
2001 Report	0	0	0
Subtotal	3	0	3
Less number combined with 1999 finding:	2 (CMS 01-01) (CMS-01-02)		2 (CMS 01-01) (CMS-01-02)
Total	1	0	1 (HHS 00-01)
Of the total number corrected, how many were corrected in 2001? 0			