

Report of Independent Auditors on Compliance and Other Matters

To the Secretary of the Department of Health and Human Services and the Inspector General of the Department of Health and Human Services

We have audited the financial statements of the Department of Health and Human Services (HHS) as of and for the year ended September 30, 2007 and the statement of social insurance for the year ended January 1, 2007, and have issued our report dated November 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. The management of the HHS is responsible for compliance with laws and regulations.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with laws and regulations including laws governing the use of budgetary authority, laws, regulations, and government-wide policies identified in Appendix E of OMB Bulletin No. 07-04 and other laws, noncompliance with which could have a direct and material effect of the determination of financial statement amounts. Under FFMIA, we are required to report whether the HHS financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

We limited our tests of compliance to the provisions of law and regulation cited in the second paragraph of this report. Providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the second paragraph of this report disclosed instances of noncompliance with laws and regulations or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04, as described below.

The Improper Payments Information Act (IPIA) of 2002 requires Federal agencies to identify the program and activities that may be susceptible to significant improper payments and

estimate the amount of the improper payments. HHS has begun to implement the requirements of IPIA, but has not yet completed its implementation of a process to fully estimate improper payments.

The Prompt Payment Act of 1982 requires Federal agencies to pay their bills on a timely basis and to pay interest penalties when payments are made late. During our testing we identified multiple instances of non-compliance with the Prompt Payment Act where interest was not appropriately paid.

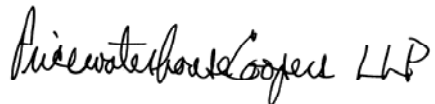
In the accompanying Agency Financial Report, HHS has reported violations of the Anti-Deficiency Act (ADA). HHS reported that these violations occurred over a period of several prior fiscal years and the amounts involved were sufficiently small that they would not have been material to any year's financial statements and that management is committed to resolving these issues and complying with all aspects of the ADA.

The HHS OIG determined that HHS did not comply with appropriation statutes and the Federal Acquisition Regulations related to the modification of a contract where the requested services were not allowable under the contracting vehicle, the contract should have gone through a full and open competition, and the contract was incorrectly funded from a prior fiscal year's appropriation.

The results of our tests of HHS's compliance with FFMIA requirements disclosed, as described below, that the HHS is not in substantial compliance with the requirements of FFMIA section 803(a).

In our report on internal control dated November 14, 2007, we reported material weaknesses related to Medicare Claims Processing Controls, Financial Reporting Systems and Processes, Financial Management Information Systems and Budgetary Accounting. We believe these matters taken together; represent substantial non-compliance with FFMIA. Further details surrounding these findings, together with our recommendations for corrective action, have been reported separately to HHS in our report on internal control dated November 14, 2007.

This report is intended solely for the information and use of the management of HHS, the Office of the Inspector General of HHS, OMB, and Congress. This report is not intended to be and should not be used by anyone other than these specified parties.



November 14, 2007