

HHS FY 2000 FEDERAL MANAGERS FINANCIAL INTEGRITY ACT (FMFIA) REPORT ON SYSTEMS AND CONTROLS

Background

HHS' management control program under the Federal Managers Financial Integrity Act (FMFIA), reflects the Department's continuing commitment to safeguard the resources entrusted to us 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 other OIG and GAO audits, management reviews, systems reviews, etc. to ensure the integrity and efficiency of its operations. Consistent with revised OMB Circular A-123, *Management Accountability and Control* and the *HHS CFO Five-Year Plan*, HHS program managers continue to improve management controls by identifying and correcting management control deficiencies.

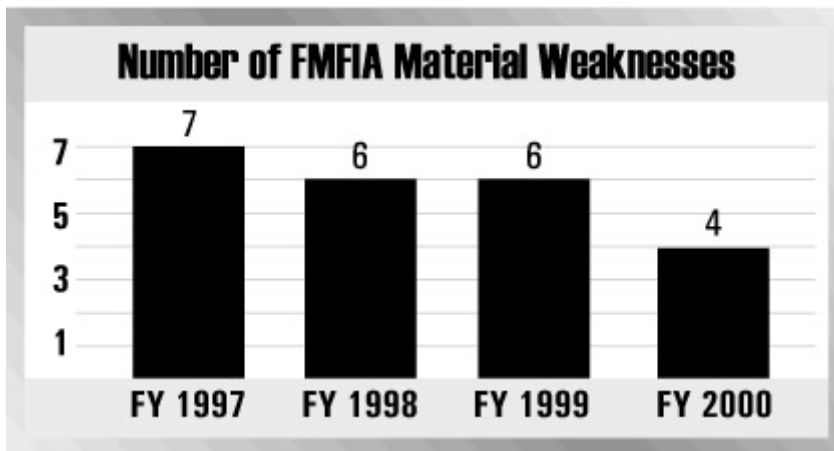
The Department's FMFIA program supports a key objective in our *HHS FY 2000 CFO Five-Year Plan* to respond to our diverse customers' needs by ensuring that the financial information for their programs is accurate and that the financial systems and processes that support them maintain the highest level 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 2000 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. The corrective actions to address the findings from the FY 2000 financial statement audits are described elsewhere in this *Accountability Report*.

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 statistical summary on page VI.13, which reflects the cumulative total of material weaknesses identified and corrected including four pending material weaknesses. A listing of the four material weaknesses is provided on page VI.13. The number of pending material weaknesses has been reduced in this year's report by two as a result of combining two separate material weaknesses from the FY 1999 report into one consistent with the auditors report on the Department's FY 2000 financial statements. Specifically, the Medicare Accounts Receivable material weakness (HCFA 97-02) has been combined with Financial Reporting and Systems (HHS 99-01) and the combined material weakness renamed as "Financial Systems and Processes", and renumbered as (HHS 00-

01). In addition, the Child Support Enforcement Program material weakness included in prior year reports (ACF 90-05) is no longer considered to be material based on management's actions taken to address the problem.



NUMBER OF FMFIA MATERIAL WEAKNESSES

FY 1997: 7

FY 1998: 6

FY 1999: 6

FY 2000: 4

Two of the four pending material weaknesses were reported by the auditors in the FY 2000 HHS-wide CFO financial statement audit: 1) Financial Systems and Processes; and 2) Medicare EDP Controls. The FMFIA-style corrective action plans (CAPs) for the pending material weaknesses are contained in pages VI.14 through VI.18 of this report. The remaining two material weaknesses are the result of previous OIG program audits and/or internal management reviews and were included in prior year FMFIA reports.

FINANCIAL SYSTEMS AND PROCESSES — DEPARTMENT-WIDE

In the FY 1999 HCFA financial statement audits, as well as the audits of several HHS components, problems related to account analyses and reconciliation were identified which were deemed material in HCFA. HCFA has made significant progress and no longer considers this finding to be material in that HCFA successfully developed and fully implemented a Corrective Action Plan (CAP) to resolve the Trust Funds errors and to prevent any future recurrence of these events. However, certain issues regarding the financial analysis material weakness overlapped with the Medicare accounts receivable weakness. Therefore, for FY 2000, the CAP for Financial Systems and Processes (HHS-00-01), contains Medical Accounts Receivable as well as the milestones for addressing the department-wide financial systems and processes issues. Although the Department continues to have serious internal control weaknesses in its financial systems and processes for producing financial statements, the HHS components have made substantial progress in addressing account analysis and reconciliation problems identified in the FY 1999 report. For example:

- 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 their account balance activity including the performance of trend analyses on a quarterly basis.
- During FY 2000 most accounts were reconciled by year-end and the Program Support Center continued its plan to perform reconciliations for all major accounts as specified by DHHS department accounting policy for their customers.
- 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. However the systems experienced a number of problems with its internal and external reports which have been resolved. Management has taken action to address issues identified in the audit related to the recording and reporting of grant transactions. However, the SAS 70 examination scheduled to start in the Spring and end in December 2001 will seek to provide management assurance that the problems noted have been corrected.
- The Program Support Center provided drafts of the Administration for Children and Family (ACF) FY 2000 financial statements to the certified public accountants on a timely basis as specified in the ACF plan.

MEDICARE ACCOUNTS RECEIVABLE

Regarding Medicare Accounts Receivable, while they have worked diligently to improve the financial reporting of their accounts receivable, HCFA remains limited in its ability to ensure the accuracy of account balances and to isolate accounts receivable activities that could have a material impact on the financial statements. This constraint continues to exist largely because many Medicare contractors are limited in their financial reporting due to the lack of a double entry integrated general ledger accounting system. HCFA's long-range strategy is to implement a fully integrated financial management system to standardize the accounting used by all Medicare contractors using a commercial off-the-shelf software package that has been approved by the Joint Financial Management Improvement Program (JFMIP). As HCFA works toward its integrated general ledger system (IGLAS), they will continue to clarify policy, issue instructions, and provide training to Medicare contractors to promote a uniform method for reporting and accounting for accounts receivable and related financial data. Once the IGLAS is fully operational, HCFA anticipates full resolution of the accounts receivable material weakness.

MEDICARE EDP CONTROLS

For FY 1999, HCFA reported two EDP related material weaknesses — Medicare Contractors Systems Application Controls (HCFA 98-01a) and Systems/Access Controls at HCFA Central Office (HCFA 98-01b). HCFA recognizes the significance of general and application controls and security issues regarding Medicare EDP issues as they relate to the integrity, confidentiality and availability of sensitive Medicare data. For FY 2000, HCFA made significant progress and has resolved the material weakness at the HCFA central office related to the programming software application and M204 deficiencies (HCFA 98-01b). For the FY 2000 HCFA CFO audit, the auditors found deficiencies at the Medicare

contractors and the HCFA Central Office but these deficiencies were not deemed material at the HCFA Central Office. However, the material weakness related to the Medicare contractors (HCFA 98-01a) will remain open until corrective action is complete.

CHILD SUPPORT ENFORCEMENT

From 1996 to the present, ACF Office of Child Support Enforcement (OCSE) has been focusing on this issue. OCSE has held training and "issue area" discussions with the States and Federal regional program staff to elevate awareness and increase understanding of the importance of this subject. Beginning in 1998, specific guidance and related "best practice" information, especially in the area of undistributed collections, has been provided to the States, with special attention being focused on the "Big 8" states. This includes the formation of a workgroup and the issuance of two task orders in FY 2000 to explore institutionalized, long term solutions to these problems. An ongoing effort places this issue in every major conference and technical assistance training event. In addition, with the creation of Single Disbursement Units in each State, the potential for the loss of control of funds has been greatly reduced.

OCSE will continue its program of focused technical assistance and support to the States as they fulfill their stewardship responsibilities in this important internal control area. The current Single Audit Compliance Supplement contains references to the applicable OCSE forms that need to be reviewed in this area during a single audit of a State Child Support Program. The OMB Circular A-133 contains the applicable internal control audit steps that would provide the necessary guidance for such a review. OCSE will review and update where necessary, these internal control audit steps and make appropriate changes when and where necessary.

OCSE will also continue its efforts to verify, during certification reviews that all newly developed automated state child support systems contain the necessary management internal control elements to reduce the risk of misappropriation of collections. For example, during the next 12 months, OCSE anticipates reviewing 10-12 states. As we participate in the incremental segments of the system certification reviews, during this period, we will focus on these issues and give feedback to the states on the importance of these issues and the weaknesses and/or condition we find in the segments we have reviewed.

Based upon the activities outlined above, and with concurrence of our OIG staff, we believe that sufficient attention has been placed on this subject area and we no longer consider this a "Material Weakness". OCSE will continue to monitor this issue along with other important issues in State Child Support Programs.

CFO Financial Statement Audits and the FMFIA

Working with an approach developed in conjunction with OIG staff, the 2000 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 the Federal Financial Management Improvement Act (FFMIA) identified in the FY 1999 CFO audits, including any which the HHS component may be aware of from the FY 2000 CFO audit at the time they prepared their FMFIA Report. Further, HHS components are asked to recommend which, if any, of their CFO audit material weaknesses and FFMIA non-compliances 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 Congress.

Under departmental policy a corrective action plan is required for all CFO audit material weaknesses which are tracked under the CFO audit process. However, for those material weaknesses and FFMIA non-compliances 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 1999 and FY 2000 CFO audits are included in the Department's FY 2000 FMFIA report.

However, all of the audit material weaknesses reported by the HHS components, with the exception of those discussed above, 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 Congress as defined under Revised OMB Circular A-123. Further, as stated previously, 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. However, 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 CFO process.