



Message From the Chief Financial Officer

OFFICE OF THE SECRETARY OF
HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201



Charles E. Johnson

As the Chief Financial Officer of HHS, I recognize that our Department is accountable to our ultimate stakeholders – the American Public. We are vigilant to use taxpayer resources wisely to carry out the Department’s mission to enhance the health and well-being of Americans. With net outlays in excess of \$600 billion in FY 2006, we are one of the largest, most complex financial organizations in the world. Incorporating the tenets of the President’s Management Agenda (PMA) into our daily routines is central to our success in accomplishing ambitious goals and delivering on the promise of the PMA.

The Department’s work revolves around eight strategic goals. This report includes information on our accomplishments in the past year in support of these important goals. We present in the program performance section, by strategic goal, highlights of our FY 2006 performance results. In addition, we discuss the challenges ahead and how we will address those challenges.

There is perhaps no better measure of our performance in FY 2006 than the successful implementation of the new Medicare Prescription Drug Program (or Part D). This is the most far-reaching benefit to be added to the Medicare program in nearly 40 years.

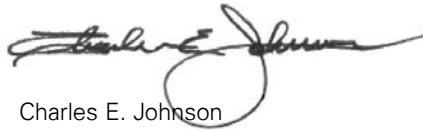
This report also contains our audited financial statements. For the eighth year in a row, the independent auditors have issued an unqualified or “clean” opinion. This is particularly significant in that we included in FY 2006 a new basic financial statement – the Statement of Social Insurance – as required by Federal accounting standards, which was subjected to audit for the first time in 2006. This new statement, which includes actuarially-determined projections of future Medicare costs of approximately \$50 trillion, is likely the largest financial statement ever audited. The statement is intended to help citizens assess the financial position of the Medicare trust funds, as well as the adequacy of future budgetary resources for its programs, including Part D described above.

During 2006, the Department successfully implemented revised OMB Circular A-123, *Management’s Responsibility for Internal Control*, which calls for a more rigorous assessment of internal control similar to the private sector requirements of the Sarbanes-Oxley Act of 2002. The Secretary’s annual Statement of Assurance reflecting the results of our assessment is presented in Section I of this report. The Department created in FY 2006 the Risk Management and Financial Oversight Board (RMFOB), which functions similar to a corporate audit committee. The RMFOB is responsible for overseeing A-123 implementation as well as the financial statement audit process. During 2007, the RMFOB will be actively involved in overseeing corrective actions to resolve our internal control weaknesses.

The independent auditors' report identifies material weaknesses that must be corrected relating to: (1) financial management systems and reporting, and (2) information systems controls. The primary catalyst for addressing our financial systems deficiencies is the Unified Financial Management System (UFMS), which is being deployed in phases – two agencies in April 2005; HHS headquarters and seven agencies in October 2006; and two agencies by October 2007. In addition to implementing UFMS, the Department continues a program to implement FFIA-compliant systems at Medicare contractors by 2010. Significant financial reporting process improvements will be needed also to resolve this weakness.

Information system control weaknesses are also identified as a material weakness relating to electronic data processing vulnerabilities identified at Medicare contractors along with other Departmental information technology control weaknesses. The Department recognizes the importance of effective internal control and is committed to resolving this material weakness promptly. The RMFOB will closely monitor remediation efforts in this area.

Finally, I want to thank our employees and partners – who work each day to achieve our Nation's noblest human aspirations for safety, compassion, and trust. This report – and the accomplishments it describes – is a reflection of their extraordinary dedication to our mission. Together we look forward to tackling our ambitious agenda for the future in 2007.



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