

Management Assurance

The Department of Health and Human Services' (HHS) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular No. A-123, *Management's Responsibility for Internal Control*, dated December 21, 2004. These objectives are to ensure: 1) effective and efficient operations; 2) compliance with applicable laws and regulations; and 3) reliable financial reporting.

As required by OMB Circular No. A-123, *Management's Responsibility for Internal Control*, HHS has evaluated its internal controls and financial management systems to determine whether these objectives are being met. Accordingly, HHS provides a qualified statement of assurance that its internal controls and financial systems meet the objectives of FMFIA, except for the following three material weaknesses, two of which also constitute nonconformances under Section 4 of FMFIA:

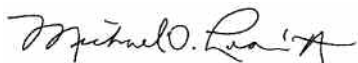
1. Medicare Advantage and Prescription Drug Benefit Payments;
2. Financial Systems and Processes (nonconformance); and
3. Medicare Electronic Data Processing Operations (nonconformance).

Assurance for Internal Control over Operations and Compliance

HHS conducted its assessment of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, HHS identified one material weakness in its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, under Section 2 of FMFIA relating to Medicare electronic data processing operations, which also constitutes a nonconformance under Section 4 of FMFIA as of September 30, 2006. Other than the exceptions described in Attachment I, the internal controls over operations and compliance with applicable laws and regulations as of September 30, 2006, were operating effectively and no other material weaknesses were found in the design or operation of these internal controls.

Assurance for Internal Control over Financial Reporting

HHS conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular No. A-123, *Management's Responsibility for Internal Control*. Based on the results of this assessment, HHS identified two material weaknesses in its internal control over financial reporting as of June 30, 2006, relating to the (1) Medicare Advantage and Prescription Drug Benefit payments; and (2) Department's financial systems and processes, which also constitutes a nonconformance under Section 4 of FMFIA. Other than the exceptions described in Attachment I, the internal controls over financial reporting as of June 30, 2006, were operating effectively and no other material weaknesses were found in the design or operation of the internal control over financial reporting.



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