

FMFIA Information

Federal Managers' Financial Integrity Act Report on Systems and Controls

HHS's 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 A-123, *Management's Responsibility for Internal Control*, dated December 21, 2004. The FMFIA requires agencies to provide an annual statement of assurance on the effectiveness of their management, administrative, and accounting controls (Section 2 of FMFIA), and financial management systems (Section 4 of FMFIA). The annual assurance statement for the Department is contained in Section I of this Report.

For FY 2006, HHS has 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::

- A. Medicare Advantage and Prescription Drug Benefit Payments;
- B. Financial Systems and Processes (nonconformance); and
- C. Medicare Electronic Data Processing Operations (nonconformance).

Significant deficiencies in internal controls are considered material weaknesses; significant deficiencies in financial management systems are considered material nonconformances. FMFIA exceptions identified in FY 2006 and prior years are described below.

FMFIA Section 2 Material Weaknesses and Section 4 Nonconformances Outstanding					
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Section 2 Material Weaknesses Outstanding					
From Prior Year	2	1	0	3	1 ² A
New	0	0	3	1 ²	1 C
Corrected/Reclassified	-1 ¹	-1	-0	-3	1 B
Outstanding as of 9/30/2006					3
Section 4 Nonconformances Outstanding					
From Prior Year	1 ¹	1	1	1	1 B
New	0	0	0	0	1 ³ C
Corrected/Reclassified	0	0	0	0	0
Outstanding as of 9/30/2006					2
¹ Financial Systems and Processes (HHS-00-01). This single Section 4 finding reflects HHS' action during FY 2001, which formerly combined the following Section 2 material weakness findings into a single finding and reclassified the combined finding as a Section 4 nonconformance for tracking purposes. Financial Systems and Processes (HHS-00-01) and CMS Financial Systems. (CMS-01-01) (see 1B below) ² Medicare Advantage and Prescription Drug Benefit Payments. This is a Section 2 material weakness. CMS is continuing to work on remediation of the weakness. (HHS-05-01) (see 1A below) ³ Medicare Electronic Data Processing Operations. There is a weakness in internal controls over the effectiveness and efficiency of EDP operations for Medicare (Section 2). CMS also has EDP systems that do not conform to the requirements of FMFIA (Section 4). The finding was a reportable condition in FY 2005, and was identified as a material weakness and nonconformance in FY 2006. (CMS-06-01) (see 1C below)					

Status of Outstanding FMFIA Material Weaknesses or Nonconformances			
	Title and Identification Code	First FY Reported	Target Correction Date
Section 2			
1A	Medicare Advantage and Prescription Drug Benefit: Payments(HHS-05-01)	FY 2005	FY 2007
1B	Financial Systems and Processes (HHS-00-01)	FY 2001	FY 2009
1C	Medicare Electronic Data Processing Operations (CMS-06-01)	FY 2006	FY 2008
Section 4			
1B	Financial Systems and Processes (nonconformance) (HHS-00-01)	FY 2001	FY 2009
1C	Medicare Electronic Data Processing Operations (nonconformance) (CMS-06-01)	FY 2006	FY 2008

Section 2 Material Weakness

1A Medicare Advantage and Prescription Drug Benefit Payments (formerly Managed Care Benefit Expense Cycle) (CMS-05-01)

In FY 2005, a material weakness related to Medicare Advantage and Prescription Drug Benefit payments was identified. In FY 2006, the material weakness had not been corrected. The lack of integration of accounting processes within operating procedures and a comprehensive methodology for implementation of new payment systems related to Medicare Advantage and prescription drug organizations creates an environment where the high internal control risk is not sufficiently mitigated.

Corrective action will include documenting procedures and controls to determine the eligibility of organizations; improving oversight of providers; implementing adequate policies; documenting supervisory controls covering the authorization and payment process for the programs; and testing the adequacy of the internal controls implemented.

Section 2 Material Weakness and Section 4 Nonconformance

1B Financial Systems and Processes (HHS-00-01)

In FY 2005, a material weakness related to the Department’s financial systems and processes was identified. In FY 2006, the material weakness had not been corrected. The lack of an integrated financial management system makes it difficult for the Department to prepare timely and reliable financial statements. Substantial manual processes, significant adjustments to reported balances, and numerous accounting entries recorded outside the general ledger system are needed to produce the financial statements.

HHS is implementing the Unified Financial Management System (UFMS) to integrate Department-wide financial management systems and operations by aligning HHS’ businesses with modern technological capabilities. UFMS will generate interim and annual financial statements, as well as other required external and internal financial reports. (More information on the UFMS can be found at UFMS website at <http://www.hhs.gov/ufms/>.)

By the end of FY 2006, CMS had successfully implemented HIGLAS at several Medicare contractor sites. Additionally, CDC and FDA had migrated to UFMS. In October 2006, PSC was brought “on-line” adding numerous Departmental components to the system including ACF, AoA, AHRQ, HRSA, and SAMHSA. IHS will be going on-line during FY 2007. CMS will continue its phased integration of Medicare Contractors into CMS Health Care Integrated General Ledger System (HIGLAS) as part of UFMS. HHS continues to analyze and review data in order to establish processes and procedures to reduce the amount of posting corrections and estimates necessary to prepare the financial statements.

Section 2 Material Weakness and Section 4 Nonconformance**1C Medicare Electronic Data Processing Operations (HHS 06-01)**

In FY 2006, a material weakness related to the Centers for Medicare and Medicaid Services central office and (CMS) contractor sites related to electronic data processing operations was identified. Weaknesses were identified in logical access controls; application security, development, and program change control; and systems software. In addition, it was determined that EDP operations systems do not conform to the FFMIA requirements. This control area had been previously reported as a reportable condition in the Department's FY 2005 internal control report.

During FY 2007, the Department will be implementing a comprehensive strategy focusing efforts on both short term and mid-term actions to address the material weakness in this area. This effort will be continuing throughout FY 2007 and FY2008.