

Auditors of financial statements of Executive Agencies are required to report on whether or not the agencies' financial management systems are in substantial compliance with the requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. Such audits are to be conducted in accordance with OMB's revised FFMIA Implementation Guidance, dated January 4, 2001.

Under FFMIA, agencies are required to report whether their 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.

The Department's FY 2001 financial statement audit revealed two instances (discussed below) in which HHS financial management systems did not substantially comply with federal financial management systems requirements. HHS concurs with the auditors' findings.

**Non-Compliance Number 1:
Financial Systems and Processes**

• *The financial management systems and processes used by HHS and the operating divisions made it difficult to prepare reliable, timely financial statements. The processes required extensive, time-consuming manual spreadsheets and adjustments in order to report accurate financial information;*

• *At most operating divisions, suitable systems were not in place to adequately support sufficient reconciliation and analyses of significant fluctuations in account balances; and*

• *The CMS did not have an integrated accounting system to capture expenditures at the Medicare contractor level, and certain aspects of the financial reporting system did not conform to the requirements specified by the Joint Financial Management Improvement Program. CMS needed extensive consultant support to establish reliable accounts receivable balances.*

**Non-Compliance Number 2:
EDP Access Controls**

• *Access and application controls over the Medicare contractors' financial management systems' were significant departures from requirements specified in OMB Circular A-127, "Financial Management Systems," and OMB A-130, "Management of Federal Information Resources."*

• *The FY 2001 audit recognized the significant steps taken by the Department to resolve material weaknesses found in previous years. Following is a summary of some of the corrective actions taken and the current status for each for the areas of non-compliance.*

Financial Management Systems and Processes

The Department's long-term strategic plan to resolve this material weakness is to replace the existing accounting systems and

Appendix E - Federal Financial Management Improvement Act Compliance (FFMIA)

certain other financial systems within the Department. The short-term focus has been on improving the quality of the data in the accounting systems by increasing periodic reconciliations and analyses, and implementing a web-based automated financial system (AFS) for collecting and consolidating financial statements department-wide. Over the last several years HHS has continued to make progress in strengthening its financial management and has a plan to bring its financial management systems into compliance with the FFMIA by the end of FY 2007. HHS will comply with FFMIA by replacing various existing and antiquated financial systems with a Unified Financial Management System (UFMS). A major sub-component of this effort is the Healthcare Integrated General Ledger Accounting System (HIGLAS). With implementation of the HIGLAS system in FY 2007 the financial material weakness under FFMIA will be eliminated. Following are examples of the Department's FY 2001 achievements/efforts:

Unified Financial Management System (UFMS)

- *Launched the Unified Financial Management System Initiative to replace five legacy accounting systems currently in use across the HHS operating divisions;*
- *Established the strategic direction and overall goal for the UFMS effort;*
- *Developed a concept of operations to support the business case for the system;*
- *Established the management structure for overseeing and guiding the effort;*
- *Worked with OMB officials to gain approval to fund the effort; and*
- *Began financial transaction and account analyses to help support the configuration and structure of the system.*

Healthcare Integrated General Ledger Accounting System (HIGLAS)

- *CMS provided additional instructions for improving internal controls and reliability of financial data to its Medicare contractors through additional Formal guidance and training conferences;*
- *CMS established a program office to work with contractors in developing the CMS financial management system redesign - Healthcare Integrated General Ledger Accounting System (HIGLAS);*
- *CMS established a project management team and internal audit function to help improve the financial performance of CMS components;*
- *CMS issued CFO FY 2001 project plans that identified milestones for achieving pertinent financial management goals and initiatives;*
- *CMS completed automated applications for preparing three of the five required principal financial statements. The two remaining statements are planned for automation during FY 2002;*
- *CMS issued additional instructions to the CMS Central/Regional Offices regarding processing and following up on corrective action plans resulting from CFO audits and, Statement on Auditing Standards (SAS) 70 reviews, as well as other financial management audits and reviews performed by public accounting firms, the Office of Inspector General (OIG), and the General Accounting Office (GAO);*
- *CMS had SAS 70 reviews performed that documented and assessed internal control at 15 Medicare contractor sites. These reviews included assessing progress in implementing corrective actions from prior audits;*
- *CMS performed reviews to assess the effectiveness of internal control processes and validity of accounts receivable at*

twelve contractor locations. The reviews noted progress in resolving prior findings at larger contractors. Such contractors account for approximately 82 percent of total Medicare contractors' accounts receivable balances; and

- *CMS referred an additional \$2.1 billion of delinquent debt to the Department of Treasury for collection as a result of expansion efforts of the debt referral process.*

EDP Systems Access Controls

The **T**he **OIG** acknowledged in its findings that during FY 2001 the Department made considerable progress in identifying weaknesses in its automated processing systems. Specifically, CMS identified several weaknesses in the performance of vulnerability assessments, SAS 70 internal control reviews, the compilation of Medicare contractor controls self-assessments, **OIG** assessment and related procedures. This effort provides a base line for further improvements. CMS embraces the need to: assess the risks inherent in its operations and programs, assess financial and operational priorities, and seek additional resources as necessary to correct known deficiencies.

In the long term HHS will continue to improve data integrity and reliability of its financial statements and financial reporting processes. Performing routine periodic reconciliations and financial analysis will help do this. Past performance on the part of HHS resulted in improved financial discipline and the achievement of a clean audit opinion on HHS financial statements for FYs 1999, 2000, and 2001. In addition, HHS will continue to strengthen Medicare EDP controls and improve systems security.

The corrective actions to remedy these issues will be developed by HHS components and included in the HHS CFO Five-Year Plan.