

**HHS FISCAL YEAR 1999  
FEDERAL FINANCIAL MANAGEMENT  
IMPROVEMENT ACT (FFMIA)  
COMPLIANCE REPORT**

Fiscal year 1999 is the third year for which auditors, who are auditing the financial statements of Executive Agencies, are required to report on whether or not the agencies are in substantial compliance with the requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. Under FFMIA, the auditors are required to report whether HHS financial management systems substantially comply with the federal financial management systems requirements, the federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement the auditors using the implementation guidance for FFMIA included in OMB Bulletin 98-08 and performed the required test of compliance and reported their findings in the annual financial statement audit report.

The fiscal year 1998 financial statement audit revealed three instances where HHS financial management systems did not substantially comply with FFMIA requirements. The three instances identified were:

- (1) accounting systems not adequate to prepare reliable and timely financial statements;
- (2) lack of an Integrated Financial System at the Medicare Contractor and change process for recognizing Medicare Secondary Payer (MSP) receivables; and
- (3) EDP Systems Control weaknesses at HCFA's Central Office, Medicare contractors, and the Payroll System.

The same three instances of non-compliance were cited in fiscal year 1999; however, substantial progress was made in each of the areas. Also all financial and financial-mixed systems/applications were Y2K compliant. The HHS FFMIA Remediation Plan is provided in the CFO's Financial Management Status Report and Five Year Plan, published annually. The following is a summary of some of the corrective actions taken and the current status for each of the areas of non-compliance.

**1. HHS Accounting Systems were not adequate to prepare reliable and timely financial statements.**

The initial focus was on improving the quality of data in the accounting systems. In fiscal year 1999 revised departmental reconciliation guidance was issued and periodic reconciliations in key areas were implemented; but were not conducted throughout the entire year. In addition, an automated system was developed and implemented to improve the process for preparing departmental financial statements.

**2. Lack of Integrated Accounting System to capture expenditures at the Medicare Contractor level.**

HCFA has eliminated the MSP receivable section of the fiscal year 1998 non-compliance by revising the criteria for the establishment and reporting of MSP receivables and have adjusted the MSP receivable balances to the true economic value.

Efforts to implement an Integrated Accounting System were delayed because of Y2K initiatives. HCFA has now developed a long-range multi-year plan for an integrated general ledger system.

**3. EDP Systems Controls weaknesses at HCFA Central Office, and Medicare contractors.**

Full resolution of these issues was delayed because of Y2K initiatives. The OIG acknowledged in its findings that HCFA had made substantial improvement in the areas of systems access control, application software development, and change control. HCFA has developed a Corrective Action Plan to resolve this finding in FY 2000.

The Payroll EDP processing systems control issues cited in fiscal year 1998 were resolved.