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MEDICARE FINANCIAL MANAGEMENT

Further Improvements Needed to Establish Adequate Financial Control and Accountability

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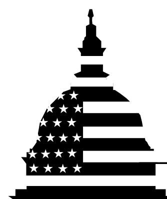

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our review of the Health Care Financing Administration's (HCFA) financial management activities for Medicare. Our report[1] on these issues is being issued today and copies have been given to the Subcommittee. Medicare is the nation's largest health insurer, covering almost 40 million beneficiaries at a cost of over $200 billion annually. Each business day, HCFA's contractors process about 3.5 million claims worth an average of more than $650 million.

Addressing the financial management challenges associated with administering the Medicare program is a daunting task given the size and complexity of the program. As the Medicare program steward, HCFA is accountable for ensuring that funds are spent wisely and in accordance with applicable Medicare laws and that the Medicare program is well managed.

Over the past 4 years, HCFA has set and achieved goals of improving its audit opinion each year. For fiscal year 1999, HCFA received an unqualified, or "clean," opinion on its financial statements, and its audit reports were issued on time. Annual financial audits represent an important means to assure continued progress in improving financial management and to identify significant weaknesses in financial management that require management's attention. Audit results are also key indicators of the quality of the underlying agency financial data and related systems used to compile that information.

For HCFA, as well as other federal agencies, while obtaining an unqualified or "clean" audit opinion on its financial statements is an important objective, it is not an end in and of itself. The key for agencies is to take steps to continuously improve internal controls and underlying financial systems for programs such as Medicare. The ultimate goal is for agencies to be able to generate reliable, timely, accurate, and useful information for decision-making on an ongoing basis.

Since fiscal year 1996, audits of HCFA's financial statements have cited the agency for many financial management weaknesses that affect the agency's ability to establish adequate control and accountability. Many of the underlying internal control weaknesses in HCFA's operations continue. The Medicare program has also received increased attention as a result of investigations by the Department of Health and Human Services'

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[1] *Medicare Financial Management: Further Improvements Needed to Establish Adequate Financial Control and Accountability* (GAO/AIMD-00-66, March 15, 2000).

(HHS) Office of the Inspector General (OIG) and the Department of Justice that cited Medicare claims contractors and providers, such as hospitals and physicians, for payment errors and fraudulent billing practices. For fiscal year 1999, the OIG estimated that claims contractors improperly paid $13.5 billion in Medicare claims, mostly for medical services that were not covered by Medicare or were not reasonable, necessary, and appropriate.

At the same time, HCFA has been the subject of increased congressional interest since we designated the Medicare program a high-risk area in the early 1990s. Just recently, we testified before the Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Senate Committee on Appropriations, on Medicare program integrity issues, including the ongoing and emerging challenges HCFA faces in safeguarding Medicare payments.[2]

Today, I will discuss the results of our report that is being issued today on HCFA's financial management activities for Medicare. As our report highlights, HCFA has not yet established an adequate foundation for control and accountability over the Medicare program's financial operations. Let me begin by summarizing these weaknesses:

- Financial statement audits have repeatedly cited claims contractors for internal control and financial reporting weaknesses, including failure to safeguard checks received from providers for overpayments and incorrectly recording billions of dollars owed to the Medicare program for such overpayments. However, HCFA's procedures for following up on audit findings and evaluating corrective actions were insufficient.
- HCFA's monitoring of contractor financial activities was also insufficient. Until recently, HCFA's oversight focused mainly on contractor compliance with administrative budgets, which total about $1.6 billion annually, instead of on the significant financial activities related to the approximately $170 billion[3] expended annually to pay Medicare health benefit claims. Further, HCFA did not routinely analyze contractor financial data to detect irregularities and assess risk as part of day-to-day monitoring activities, nor had it issued complete and up-to-date instructions to contractors on key financial matters.

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[2] *Medicare: HCFA Faces Challenges to Control Improper Payments* (GAO/T-HEHS-00-74, March 9, 2000).

[3] Of the more than $200 billion in annual costs for Medicare, about $37 billion was expended for managed care and about $170 billion was expended to pay fee-for-service health benefit claims.

- Audit reports have also cited HCFA for inefficiencies in its internal financial reporting practices, including a lack of documented policies and procedures.

Overall, these shortcomings in HCFA's financial operations mean that it could not adequately ensure the reliability of data that the agency and the Congress used to track the cost of the Medicare program and to help make informed decisions about future funding.

HCFA's management has recognized the seriousness of these problems and has shown a commitment to improving financial management. To address these issues, HCFA has started several initiatives designed to establish better control and accountability, such as hiring outside consultants to evaluate contractor internal controls. These initiatives, if successfully implemented, will assist HCFA in correcting some of its longstanding financial management problems. At the same time, HCFA has not yet taken critical steps to address the challenges of implementing its planned improvement efforts.

- HCFA has not yet developed a comprehensive strategy to ensure successful implementation of the initiatives, direct financial management activities, and sustain improvements in the long term. In the absence of a comprehensive strategy, HCFA cannot effectively direct and monitor its many initiatives, potentially putting billions of dollars at risk for fraud and abuse and increasing the likelihood that financial management problems will continue.
- HCFA has not yet completed ongoing assessments of financial management human capital needs. Without sufficient staff who possess the necessary skills to perform the oversight, analytical, and other tasks that are needed to manage the complex Medicare program, the prospects for improving HCFA's financial management remain dim.

Our report makes recommendations designed to help HCFA resolve these problems.

HCFA's Process for Managing Medicare Fee-For-Service

In 1999, Medicare's traditional pay-per-visit or fee-for-service program covered almost 85 percent of Medicare beneficiaries. Physicians, hospitals, and other providers submit claims to Medicare to receive reimbursement. HCFA administers Medicare's fee-for-service program largely through an administrative structure of claims contractors. Since 1965, when the Medicare program was enacted, the law has called for insurance companies—such as Blue Cross and Blue Shield, Travelers, and Aetna—to process and pay claims because of their expertise in performing these

functions. As Medicare claims contractors, these companies assume a large share of the responsibility for managing the federal funds of the Medicare program, although HCFA has ultimate responsibility.

Medicare claims contractors use federal funds to pay health care providers and are reimbursed for their administrative expenses incurred in performing the work. More specifically, contractors have financial management responsibilities that include (1) establishing agreements with commercial banks to withdraw federal funds from the Medicare trust funds to pay Medicare claims, (2) submitting various financial reports to HCFA on the amount of funds withdrawn and expended, and (3) certifying that their internal controls are in place and operating effectively.

Over the years, HCFA has reduced the number of Medicare contractors from a peak of about 130 in 1966 to 56 in 1999. Generally, intermediaries are the contractors that handle Part A claims submitted by hospitals, skilled nursing facilities, and hospices. Carriers are those contractors handling Part B claims submitted by physicians, laboratories, equipment suppliers, and other practitioners.

HCFA is responsible for ensuring that contractors do their jobs accurately and efficiently, including managing Medicare funds in a fiscally responsible manner. HCFA is also responsible for establishing an internal control system to safeguard Medicare assets. At HCFA's central office, the Office of Financial Management (OFM) is responsible for monitoring of contractor financial data and activities in addition to facilitating the annual financial statement audit process, preparing financial statements, and executing daily internal accounting functions. HCFA's central office unit, the Center for Beneficiary Services (CBS) and the 10 regional offices share the responsibility for conducting annual oversight reviews of all aspects of contractor operations for the Medicare program as part of HCFA's Contractor Performance Evaluation (CPE) program. HCFA's OFM is expected to coordinate with CBS and assist the regional offices in assessing contractor financial activities.

Establishing a Solid Foundation for Control and Accountability

While HCFA officials had acknowledged its most serious and long-standing financial management problems, HCFA had not implemented processes to establish adequate control and accountability over the Medicare program. For example, HCFA procedures for evaluating audit findings and following up were not effective to ensure that corrective actions were implemented. In addition, HCFA had serious deficiencies in its oversight and monitoring of contractor financial activities. HCFA's guidance to contractors for executing financial activities was incomplete

and in some cases outdated. Further, HCFA's internal accounting and financial reporting practices lacked documented procedures. These weaknesses in internal control and financial reporting processes pose a risk to the Medicare program because such weaknesses could result in losses to the government.

Significant Financial Management Weaknesses Persist

Over the past 4 years, HCFA has made progress in improving some of its financial management weaknesses. At the same time, many significant accounting and financial systems-related weaknesses cited by auditors in past reports on HCFA's financial statements still exist. For example:

- HCFA's systems do not fully comply with the federal financial system requirements of the Federal Financial Management Improvement Act (FFMIA).[4] The federal financial system requirements prescribe the basic elements for integrated federal financial management systems and having financial systems that fully comply with these requirements is key to the goal of having reliable, timely, and useful information for day-to-day decision making.
- Contractor EDP controls over data processing systems do not provide adequate safeguards to reduce improper access to and manipulation of data.
- Medicare contractors are unable to accurately report some financial data due to insufficient accounting systems, inadequate independent verification of reported amounts, and lack of other financial controls.
- Medicare contractors' controls to properly account for cash balances and activity do not provide adequate safeguards to reduce the opportunities for theft and other irregularities in their cash procedures.
- HCFA's preparation of annual financial statements is manually intensive, requiring extensive adjustments due to lack of an accounting software package to automatically manipulate data for the development of financial statements. In short, HCFA obtained a "clean" audit opinion through a lot of hard work because its financial systems were not adequate.

Most notably, HCFA has had long-standing problems in supporting the amount of accounts receivable due back to the Medicare program either for claims in which Medicare should be the secondary rather than primary

[4]FFMIA requires that agencies' financial management systems comply with three requirements: (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the *U.S. Government Standard General Ledger* at the transaction level.

payer (referred to as Medicare secondary payer) or for contractor overpayments to providers, beneficiaries, physicians, and suppliers.

For fiscal year 1999, HCFA devoted significant resources to address its accounts receivable problems by (1) entering into an interagency agreement with the HHS OIG to assist in validating the accuracy and completeness of accounts receivable balances at September 30, 1998, and March 31, 1999, as well as the activity for the first 6 months of fiscal year 1999 and (2) implementing procedures to write off almost $3 billion of Medicare accounts receivable balances for fiscal year 1999. While these efforts were significant to improving HCFA's accounts receivable balance at September 30, 1999, and the auditors' opinion on the financial statements, the underlying financial systems problems still remain. The auditors still reported the Medicare accounts receivable issue as a material internal control weakness. They stated that many Medicare contractors are still using processes, such as ad-hoc spreadsheet applications and a wide variety of claims processing systems, for tracking receivables that often cannot be reconciled to control amounts. This means that misuse of government resources could occur and HCFA would not be able to detect it in a timely manner.

Audit Evaluation and Follow-up Procedures Were Ineffective

Evaluating the financial management problems identified from audits and implementing follow-up procedures is critical if HCFA is to resolve its financial management problems and establish financial accountability. We found that HCFA had limited procedures to promptly evaluate and resolve auditor findings. In the past, HCFA relied on auditors to ensure that Medicare contractors were implementing corrective actions to address weaknesses. Auditors had followed-up with contractors that were included in subsequent financial statement audits but had not followed-up with those that were not included. HCFA did not have back-up procedures that require its staff to follow-up at contractor sites to ensure that recommended corrective actions were implemented, nor did HCFA have adequate procedures to determine if problems found at contractors under audit were also occurring program-wide at other contractors. Weaknesses in HCFA's follow-up have hindered prompt resolution of financial management problems. In fact, during our visits to contractors included in previous audits, we found several instances where contractors had weaknesses in their internal controls over Medicare activities similar to weaknesses found in previous audits. For example, two contractors we visited did not have adequate controls to ensure the accuracy of their outstanding check amounts reported to HCFA. For the two contractors, outstanding check amounts totaled over $100 million as of September 30, 1999.

Our review also found two contractors not included in previous audits that had problems with controls over cash and review of financial data, similar to findings reported on contractors in prior audits. One contractor that receives cash from providers and other sources averaging about $20 million a month did not physically secure checks while awaiting deposits, thus increasing the risk of lost checks and untimely deposits of Medicare funds. Another contractor with cash receipts of about $1.5 million monthly did not record the amounts in a log when first received, thus creating opportunities for theft.

HCFA is just starting to document procedures for ensuring that its staff adequately evaluates audit findings and conducts follow-up with contractors to ensure prompt resolution. We believe that these new procedures are a good first step, but HCFA financial managers must coordinate with other HCFA units to ensure that adequate resources are available to support a comprehensive audit evaluation and resolution process.

Oversight of Contractor Financial Activities Was Limited in Scope

When daily financial operations of a program as complex as Medicare are delegated to outside entities, oversight mechanisms are important tools for maintaining financial control and accountability. HCFA's oversight of contractor financial activities for the Medicare program did not focus on ensuring that contractors had the necessary internal controls in place to account for and report on all financial activities related to the Medicare program. Until fiscal year 1998, HCFA's CPEs, the primary tool for evaluating contractor operations, focused largely on contractors' compliance with the annual budget HCFA establishes to pay contractors for administering the Medicare program—approximately $1.6 billion a year. The financial responsibility reviews did not focus on some of the significant financial activities and data related to the almost $170 billion expended each year to pay providers' claims, such as Medicare accounts receivable, accounts payable, and funds withdrawal activities. In addition, regional oversight reviewers did not adequately examine contractor internal controls to gain assurance that contractors' reports on financial data were reliable.

Recognizing the shortcomings of the HCFA annual oversight process, in fiscal year 1998, the Chief Financial Officer (CFO) took steps to address weaknesses in oversight of financial activities. For example, HCFA's OFM developed procedures for the regions to use in checking and testing financial data related to accounts receivable and accounts payable for several of the large contractors. OFM also provided staff to assist regional reviewers in an attempt to develop and leverage the skills and expertise of

staff conducting the reviews. The procedures, however, did not cover other key financial activities, such as contractor bank balances and funds withdrawal procedures.

Contractors and the commercial banks that act on behalf of contractors withdraw the almost $170 billion required annually to pay Medicare benefit claims. Despite the magnitude of dollars that flow in and out of contractor bank accounts, HCFA has not developed detailed procedures to review contractor bank balances and the amount of funds withdrawn. We discussed with the CFO the need for expanded evaluation procedures to cover these areas. The CFO agreed and has begun discussions with officials in the HCFA headquarters unit responsible for contractor oversight about expanding financial management oversight.

In fiscal year 1999, HCFA solicited outside help to address some of its significant financial weaknesses. As discussed earlier, HCFA entered into a reimbursable interagency agreement with the OIG to assess and validate the accounts receivable activity and balances reported at September 30, 1998, and March 31, 1999. HCFA also contracted with outside consultants to validate internal controls at contractors in response to our July 1999 report that HCFA does not regularly check contractors' internal controls.[5]

While these two efforts demonstrate that HCFA is acting to address its long-standing problems, we are concerned that HCFA's financial managers have not yet comprehensively assessed how the agency will sustain strong oversight in these two areas in the future or address the recommendations that will likely result from these reviews. For example, HCFA has developed a work force planning project, but thus far this initiative has provided limited information about specific areas, such as financial management.

Day-to-Day Monitoring of Contractor Financial Activities Is Insufficient

HCFA's day-to-day monitoring of contractor data is insufficient. HCFA did not routinely analyze key contractor financial data to detect irregularities in contractor financial activities and assess risk, despite the importance of such mechanisms in establishing sound internal control. For example, HCFA did not have adequate procedures to ensure that bank activity conducted on behalf of contractors was reasonable. In early 1999, HCFA was alerted to a problem in the banking activities done on behalf of the Medicare program. Examiners from the Federal Deposit Insurance Corporation discovered and reported to HCFA that a bank, which provides

[5] *Medicare Contractors: Despite Its Efforts, HCFA Cannot Ensure Their Effectiveness or Integrity* (GAO/HEHS-99-115, July 14, 1999).

banking services for several contractors, had a practice of drawing funds from the U.S. Treasury on the day before the bank needed the money to pay Medicare claims. The bank was selling the amount to another bank overnight to earn interest and transferring it back to its accounts the next morning without HCFA's knowledge.

When HCFA was made aware of the situation, the CFO issued a letter to the bank president to (1) inform the bank that the practice was not in accordance with provisions of the Medicare program bank agreement and Treasury's regulations concerning collateral requirements for federal funds and (2) request that the bank immediately stop the practice. However, because HCFA has so little information on contractor bank activities and does so little analysis, it could not fully determine the extent of irregular activities by this bank. At the request of HCFA, the OIG investigated this bank to determine the amount of profit the bank made from this practice. HCFA officials said that they are awaiting the results of this report to determine what actions against the bank are needed, including disciplinary actions. In addition, HCFA officials said that they asked the OIG to conduct a separate review of bank procedures for a sample of banks participating in the Medicare program to determine if other banks are unfairly profiting from similar practices and to identify areas of potential vulnerability.

We also found that HCFA did limited analysis of quarterly reports submitted by contractors on bank charges, account balances, and collateral. OFM had one staff person who monitored the Medicare bank account balances for the approximately 20 commercial banks that maintain Medicare accounts for the 56 contractors. The staff person said that because of other responsibilities, he only reviewed bank account reports for about 2 or 3 of the 56 Medicare contractors each quarter. When we asked to review his analysis, the staff person could not provide any support or written analysis procedures.

Contractors Lacked Sufficient Guidance to Resolve Financial Management Deficiencies

HCFA's ability to address long-standing financial management weaknesses was also hampered because financial managers had not issued complete, up-to-date guidance to contractors for financial activities. According to contractors we visited, one specific area where instructions were needed was the allocation of cash receipts between the two Medicare trust funds.[6] Because HCFA had not issued specific instructions in this area,

[6]Congress established two trust funds for Medicare. The Hospital Insurance (HI) trust fund is used to pay Medicare Part A claims and is funded primarily by employment taxes. The Supplementary Medical Insurance (SMI) trust fund is used to pay Part B claims and is primarily funded by Medicare premiums and a federal matching contribution.

contractors adopted different methodologies that in some cases led to inaccurate trust fund balances. One contractor adopted a procedure where all overpayments received were allocated to the Hospital Insurance (HI) trust fund. The contractor did not take any steps to determine if the overpayments were related to previous Supplementary Medical Insurance (SMI) or HI benefit payments. After adopting procedures to determine if receipts were related to HI or SMI, the contractor reviewed its allocation for a 9-month period in fiscal year 1999 and found that $33 million which should have been allocated to the SMI trust fund had been incorrectly allocated to the HI trust fund. This error was significant because accurate data on Medicare trust fund balances is essential in managing and monitoring trust fund activities and funding needs.

HCFA's CFO acknowledged that more detailed instructions to contractors are needed because HCFA's contracting documents do not include enough specificity to contractors on their fiscal responsibilities. However, because HCFA lacks baseline data on its financial management instructions, it has hired a contractor to determine what financial guidance has been issued and to develop a manual of financial and internal control guidance. This effort has just begun and it is too soon to tell whether it will succeed in addressing these fundamental problems.

HCFA Lacked Structure for Internal Financial Reporting Practices

HCFA had not taken steps to ensure that it had knowledgeable financial management staff and clearly documented procedures for executing accounting and financial reporting activities. We also found that HCFA did not have an updated accounting manual to direct accounting staff in performing routine accounting procedures for the Medicare program. A recent error in HCFA's financial reporting demonstrates the importance of written accounting procedures that are specific to HCFA operations. In October 1999, HCFA discovered misstatements in its reports to Treasury on amounts expended from the HI and SMI trust funds. Treasury relies on the amounts reported for expenditures because Medicare trust fund amounts not necessary to meet current expenditures are invested in interest-bearing securities of the U.S. government each month.

Senior OFM officials said that the staff person who prepared the report had assumed the responsibilities of a former employee but had not received adequate training. Because of HCFA's errors, the Medicare trust fund balances that Treasury invested for several months were incorrect, thus resulting in a loss of investment interest income of about $80 million

to the Medicare program.[7] HCFA officials told us they have taken steps to enhance their procedures for reporting trust fund balances.

Recent Initiatives Hold Promise But Sustained Commitment Is Critical

Acknowledging the need to correct the significant financial management weaknesses in its operations, HCFA has several initiatives underway. These initiatives—ranging from new systems to help track amounts owed to HCFA, to contractor financial management guidance, to assessments of contractors' internal control—hold promise for improving financial management, establishing control, and making staff more accountable in achieving HCFA's mission. To be successful, HCFA will need to sustain these initiatives and institutionalize improvements. HCFA faces significant challenges in successfully implementing these initiatives. For example, HCFA lacked two key components of any successful financial management reform: developing a comprehensive strategy and assessing financial management human capital needs.

No Comprehensive Strategy or Plans for Implementing Financial Management Improvement Initiatives

HCFA had not yet developed a comprehensive strategy to direct its financial management activities. HCFA lacked long- and short-range plans that provide a basis for prioritizing financial management initiatives, clearly defining goals and objectives, establishing time frames for completing initiatives, assigning responsibilities, and measuring performance. A comprehensive financial management strategy, along with plans for implementing the strategy, is important because of the recurring financial management weaknesses and the scope of current improvement initiatives.

HCFA's current financial management improvement initiatives include (1) developing an integrated accounting system that incorporates Medicare contractors' financial systems and HCFA's internal financial accounting systems, (2) developing new systems to improve oversight and financial reporting over Medicare receivables, (3) reviewing contractors' internal controls, and (4) developing a comprehensive contractor financial management manual. While these projects have the potential to provide major improvements in HCFA's financial management, the chances of success could be significantly improved if HCFA established and documented a specific strategy and implementation plan for sustaining the projects and institutionalizing improvements. HCFA officials provided us with broad conceptual ideas of how the initiatives would need to be implemented. As of January 2000, when we completed our fieldwork,

[7] Although incorrect balances in the Medicare trust funds resulted in a net loss of interest income to the Medicare program, other Treasury investments earned the interest lost by the Medicare program. As a result, these events did not result in a net loss to the U.S. government.

HCFA was in the early stages of drafting more specific details for several of its financial management improvement initiatives.

Any delays in developing detailed plans could cause problems as the projects progress. Specifically, the integrated accounting system project, which HCFA describes as its most comprehensive financial systems development project, is critical and should be well planned. In the past, we have reported on the significant challenges that agencies face in ensuring that modern information technology management practices are consistently defined and properly implemented.

Another financial management improvement initiative that holds great promise for helping HCFA improve financial control is the current project to review contractors' internal control structures, identify poor internal controls, and suggest needed improvements. HCFA has contracted with several independent public accounting firms to perform these reviews. However, HCFA has not yet developed a comprehensive plan to ensure sustained oversight of contractor internal controls. HCFA officials envision that these contracted reviews will continue in future years, but HCFA has not determined what resources will be needed to do the reviews or respond to recommendations resulting from the reviews. Further, HCFA officials do not have alternative plans in the event that these reviews cannot be continued. Without alternative plans, this critical activity could be interrupted.

Assessing Human Capital Needs Is Essential

HCFA officials have stated that they lack sufficient staff with the specialized skills to perform key financial functions, including overseeing and monitoring contractor financial activities, analyzing financial data to detect irregularities, and developing and maintaining internal financial reporting processes. Despite these resource challenges, HCFA has not completed assessments of its human capital needs.

In our recently issued exposure draft of an executive guide designed to help federal agencies achieve federal financial management objectives,[8] we highlighted successful human capital efforts in leading organizations including three critical elements for developing first-rate staff teams. These elements include (1) determining required skills and competencies, (2) measuring the gap between what the organization needs and what it has, and (3) developing strategies and detailed plans to address current or expected future deficiencies.

[8] *Executive Guide: Creating Value Through World-Class Financial Management* (GAO/AIMD-99-45, August 1999, exposure draft).

In comments to our report, HCFA officials stated that they recently initiated an agencywide workforce planning project. This project consists of a four-phased model designed to incorporate critical elements similar to those mentioned in our guide. To date, the results of this project have provided HCFA with limited information, and more detailed assessments to analyze current and future work functions and competencies have not been completed. HCFA's current plans are to use results from its project to formalize hiring, staffing, and learning plans for fiscal year 2001. Having staff with appropriate skills is key to achieving financial management improvements. Therefore, emphasis on completing more detailed human capital planning within HCFA's proposed time frames is important.

Conclusions

With billions of dollars at risk in the Medicare program, the importance of ensuring that Medicare assets are properly accounted for and that adequate controls are in place to safeguard them cannot be overstated. In this respect, HCFA continues to face difficult challenges. Financial statement audits and other assessments and reviews have identified significant financial management problems at HCFA and its Medicare contractors year after year. Despite the seriousness of these repetitive problems, HCFA's follow-up on audit findings and recommendations, evaluation of contractors' corrective action plans, analysis of available financial data to detect inappropriate financial management activities, and financial guidance for HCFA and contractor staff has been limited. Further, it is difficult for HCFA to improve and expand oversight of contractor financial operations without first determining the required staff skills and competencies needed. In addition, HCFA's internal financial reporting processes render HCFA vulnerable to errors in critical data needed to administer the Medicare program.

The significance of the financial management issues facing HCFA emphasizes the need for a comprehensive strategy to direct its financial activities and assess its human capital needs. This strategy would help HCFA establish seamless systems and processes to improve financial management and accountability. HCFA has agreed with the recommendations in our report that we are releasing today. Management outlined its ongoing and planned initiatives to address the problems highlighted in our report. Top management's continued support of these initiatives and sustained actions, as outlined in HCFA's response to our report, will be key to its success in resolving these problems. We plan to continue to monitor HCFA's progress in implementing its financial management improvement efforts.

Mr. Chairman, this concludes my statement. I would be happy to answer any questions you or other Members of the Subcommittee may have.

Contact and Acknowledgement

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