

Departmentwide Issues

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Financial Statement Audits

The Government Management Reform Act of 1994 seeks to ensure that Federal managers have at their disposal the financial information and flexibility necessary to make sound policy decisions and manage scarce resources. This act broadened the Chief Financial Officers Act of 1990 by requiring annual audited financial statements for all accounts and associated activities of HHS and other Federal agencies.

Audits of FY 2003 Financial Statements

The audited FY 2003 consolidated HHS financial statements are due to OMB by February 1, 2004. However, the Department's target date is November 15, 2003. The following FY 2003 financial statement audits will be completed and reports issued during FY 2004:

- The **consolidated HHS** audit will be performed at all operating divisions, including those that will receive separate audit reports (listed below) and those that will not. Those that will not receive separate audit reports include ACF, HRSA, IHS, CDC, SAMHSA, AHRQ, NIH (excluding the Service and Supply Fund), the Administration on Aging, and the Office of the Secretary.
(OAS; W-00-03-40009; A-17-03-00001)
- **CMS**
(OAS; W-00-03-40008; A-17-03-03003)
- **FDA**
(OAS; W-00-03-40013; A-17-03-00003)
- **Program Support Center**
(OAS; W-00-03-40003; A-17-03-00004)
- **NIH Service and Supply Fund**
(OAS; W-00-03-40013; A-17-03-00005)

FY 2003 Statement on Auditing Standards 70 Examinations

A Statement on Auditing Standards (SAS) 70 examination reports on those controls of a service organization that may be relevant to the user organizations' internal control structures. The following SAS 70 examinations of HHS service organizations will support FY 2003 financial statement audits:

- **Center for Information Technology** (NIH Computer Center)
(OAS; W-00-03-40012; A-17-03-00010)

- **Program Support Center—Major Administrative Support Services**
 - **Payment Management System**
(OAS; W-00-03-40012; A-17-03-00009)
 - **Division of Financial Operations in conjunction with the Office of Information Technology**
(OAS; W-00-03-40012; A-17-03-00011)
 - **Human Resources Support in conjunction with the Office of Information Technology**
(OAS; W-00-03-40012; A-17-03-00012)

FY 2003 Financial-Related Reviews

- **Federal Agencies' Centralized Trial Balance System Verifications (FACTS I)** are intended to support the preparation of Governmentwide financial statements and reports by identifying exceptions to the HHS accounting data submissions to Treasury's Financial Management Service.
(OAS; W-00-04-40012; A-17-04-00006)
- **Federal Intragovernmental Activity and Balances Verifications** are intended to assist with accounting for and eliminating intragovernmental activity and balances in the preparation of Governmentwide financial statements and reports.
(OAS; W-00-04-40012; A-17-04-00007)
- **Office of Personnel Management (OPM) Agreed-Upon Procedures** assist OPM in assessing the reasonableness of retirement, health benefits, and life insurance withholdings and contributions, as well as enrollment information.
(OAS; W-00-03-40012; A-17-03-00008)
- **Payment Management System Agreed-Upon Procedures** focus on analyses of grant advances and expenditures, posting of expenditures, and recalculation of the estimated yearend grant accrual.
(OAS; W-00-03-40012; A-17-03-00013)

Audits of FY 2004 Financial Statements

The audited FY 2004 consolidated HHS financial statements are due to OMB by November 15, 2004. The following FY 2004 financial statement audits will be completed and reports issued during FY 2005:

- The **consolidated HHS** audit will be performed at all operating divisions, including those that will receive separate audit reports (listed below) and those that will not. Those that will not receive separate audit reports include ACF, HRSA, IHS, CDC,

SAMHSA, AHRQ, NIH (excluding the Service and Supply Fund), the Administration on Aging, and the Office of the Secretary.
(OAS; W-00-04-40009; A-17-04-00000)

- **CMS**
(OAS; W-00-04-40008; A-17-04-00000)
- **FDA**
(OAS; W-00-04-40013; A-17-04-00000)
- **Program Support Center**
(OAS; W-00-04-40003; A-17-04-00000)
- **NIH Service and Supply Fund**
(OAS; W-00-04-40013; A-17-04-00000)

FY 2004 Statement on Auditing Standards 70 Examinations

A SAS 70 examination reports on those controls of a service organization that may be relevant to the user organizations' internal control structures. The following SAS 70 examinations of HHS service organizations will support FY 2004 financial statement audits:

- **Center for Information Technology** (NIH Computer Center)
(OAS; W-00-04-40012; A-17-04-00000)
- **Program Support Center—Major Administrative Support Services**
 - **Payment Management System**
(OAS; W-00-04-40012; A-17-04-00000)
 - **Division of Financial Operations**
(OAS; W-00-04-40012; A-17-04-00000)
 - **Human Resources Support**
(OAS; W-00-04-40012; A-17-04-00000)

FY 2004 Financial-Related Reviews

- **OPM Agreed-Upon Procedures** assist OPM in assessing the reasonableness of retirement, health benefits, and life insurance withholdings and contributions, as well as enrollment information.
(OAS; W-00-04-40012; A-17-04-00000)

- **Payment Management System Agreed-Upon Procedures** focus on analyses of grant advances and expenditures, posting of expenditures, and recalculation of the estimated yearend grant accrual.
(OAS; W-00-04-40012; A-17-04-00000)
- **Closing-Package Verifications for the Governmentwide Financial Report System** are intended to support the preparation of Governmentwide financial statements and reports.
(OAS; W-00-04-40012; A-17-04-00000)

Automated Information Systems

Information Systems Internal Controls—FY 2003

As part of our responsibilities under the Chief Financial Officers Act and the Federal Financial Management Improvement Act, we will oversee and conduct tests of internal controls over HHS information systems. The acts require that OIG, or an independent public accountant chosen by OIG, understand the components of internal controls and conduct sufficient tests to reasonably assess control risk. This work will include nationwide reviews of internal controls in Medicare and Medicaid systems and in other HHS financial systems. The results of this effort will be included in our report on the consolidated HHS FY 2003 financial statements.

(OAS; W-00-03-40017; various reviews; expected issue date: no report)

Information Systems Internal Controls—FY 2004

As part of our responsibilities under the Chief Financial Officers Act and the Federal Financial Management Improvement Act, we will oversee and conduct tests of internal controls over HHS information systems. The acts require that OIG, or an independent public accountant chosen by OIG, understand the components of internal controls and conduct sufficient tests to reasonably assess control risk. This work will include nationwide reviews of internal controls in Medicare and Medicaid systems and in other HHS financial systems. The results of this effort will be included in our report on the consolidated HHS FY 2004 financial statements.

(OAS; W-00-04-40017/40019; various reviews; expected issue date: no report)

Federal Information Security Management Act of 2002 and Critical Infrastructure Protection

Our review will assess various operating divisions' compliance with the Federal Information Security Management Act (FISMA) of 2002 and critical infrastructure protection requirements. FISMA and OMB Circular A-130, appendix III, require that agencies and their contractors maintain programs that provide adequate security for all information collected,

processed, transmitted, stored, or disseminated in general support systems and major applications. As part of our review, we will follow up on the unresolved findings from other relevant audit reports on information systems controls.

(OAS; W-00-04-40016; various reviews; expected issue date: FY 2004)

Security Planning for the Unified Financial Management System

We will determine whether the Department has adequately addressed information systems security requirements as it develops and implements the Unified Financial Management System. Federal law and departmental policy require that information security be practiced throughout the life cycle of all systems. We will determine whether security plans and related internal control deliverables for the new system conform to Federal guidelines and incorporate best practices from the public and private sectors.

(OAS; W-00-04-42001; A-17-04-00000; expected issue date: FY 2004/05)

Payment Management System Controls

Our review will document and evaluate the existence and reliability of information systems controls over the electronic funds transfer function of the Payment Management System, which supports the Program Support Center's primary mission. As the largest grant payment and cash management system in the Federal Government, the Payment Management System disburses more than \$200 billion of the over \$300 billion in annual Federal grant funds and financial assistance awarded each year. The system services the grant programs of all HHS operating divisions and more than 40 other Federal agencies. The National Critical Infrastructure Assurance Office recognizes the system as one of the Department's most important national-level assets.

(OAS; W-00-04-42002; A-17-04-00000; expected issue date: FY 2004)

Automated Information System Security Program

We will document and evaluate the existence and reliability of the Automated Information System Security Program at selected operating divisions. This program helps to protect information resources in compliance with the Computer Security Act of 1987 and the directives of OMB and the National Institute of Standards and Technology. To date, limited reviews have been conducted to determine compliance with HHS-mandated security program requirements. We will focus on defined areas in the HHS Automated Information System Security Program handbook and the new Information Technology Security Program being developed/sponsored by HHS.

(OAS; W-00-04-42003; various reviews; expected issue date: FY 2004)

Use of Social Security Numbers in the Integrated Time and Attendance System

Our review will determine whether the Program Support Center provides adequate controls over employees' Social Security numbers, which are used as identifiers in the HHS Integrated Time and Attendance System. Federal agencies are responsible for limiting the risk of unauthorized disclosure of Social Security numbers and must safeguard the integrity of the numbers by reducing opportunities for external entities to improperly obtain and misuse them. We will perform an application assessment of the Time and Attendance System's security, including its use of encryption.

(OAS; W-00-04-42004; A-17-04-00000; expected issue date: FY 2004)

Grants and Contracts

Recipient Capability Audits

At the Department's request, we will perform recipient capability audits of organizations having little or no experience in managing Federal funds. These audits will determine the adequacy of the organizations' accounting and administrative systems and their financial capabilities to satisfactorily manage and account for Federal funds. Such reviews provide management with strengthened oversight of new grantees.

(OAS; W-00-04-50013; various reviews; expected issue date: FY 2004)

Risk Determinations in Grant Management

We will examine CDC, HRSA, ACF, and possibly SAMHSA compliance with departmental grant policy directives to (1) determine each grantee's risk of poor programmatic use or financial stewardship of funds, (2) use the HHS Alert List in making risk determinations, and (3) impose and monitor special award conditions for high-risk grantees. For each agency, we will also assess the criteria and process for determining grantee risk and the development and monitoring of corrective action plans for high-risk grantees. CDC, HRSA, ACF, and SAMHSA awarded \$29.3 billion in grants in FY 2001.

(OEI; 02-03-00010; expected issue date: FY 2004)

Grants to Community Health Centers

We will determine whether HHS-funded community health centers provided nonduplicative services, met program performance measures, and ensured that Federal funds were spent appropriately. Community health centers may receive grants from HRSA, CDC, SAMHSA, and the Office of Minority Health. Our review of program performance will include an assessment of whether the funded level of services was provided for each HHS program and whether similar program services reached different populations and clients. Our financial

reviews will determine whether costs claimed on each grant complied with Federal guidelines, with emphasis on the allocation of costs among the various grants.
(OAS; W-00-04-54250; various reviews; expected issue date: FY 2005)

Grant Closeouts

We will determine whether the Department's operating divisions and the Division of Payment Management have closed grant files timely. Federal regulations and departmental policy require closing grant files after 6 years. We will examine the extent to which files have been kept open after the mandated period and the impact on the Department's accounting system and financial statements. We will also evaluate the Department's procedures for closing the files.

(OAS; W-00-04-40023; A-17-04-00000; expected issue date: FY 2004)

Incurred Cost Contracts

We will audit certain contracts awarded by public health agencies, ACF, the Administration on Aging, and/or the Office of the Secretary. Selection will be based on the materiality of the contract, the significance of contract modifications since the original award, and input from the operating divisions and the Assistant Secretary for Management and Budget.

(OAS; W-00-04-58055; A-00-04-00000; expected issue date: FY 2004)

State Issues

State Pension Funds

These reviews will determine whether the Federal Government received equitable benefit when State pension funds were withdrawn, transferred to other State funds, or used to cover State expenses. We have identified pension transactions in two States that warrant review.

(OAS; W-00-04-58050; A-09-04-00000; expected issue date: FY 2004)

State Trust Funds

We will determine whether a State appropriately charged the Federal Government for fees assessed on selected State trust funds. The State has assessed fees as a way to transfer assets from some State trust funds to its general fund in order to balance the State budget for State FY 2004.

(OAS; W-00-04-58051; A-04-04-00000; expected issue date: FY 2004)

Excess Fund Reserves

We will determine whether internal service, self-insurance, or other State funds that receive Federal Government contributions have accumulated excess reserves. Previous reviews found that some States built excess reserves and transferred these reserves to their general funds without refunding the Federal share.

(OAS; W-00-04-58052; A-00-04-00000; expected issue date: FY 2004)

State-Wide Cost Allocation Plan

We will examine the equitableness of a State's allocation of indirect costs to Federal programs. One State has been cited in at least three recent state-wide audits for significant inequities in its cost allocation plan. The inequitable allocation methods or other errors may have resulted in overcharges or undercharges to the Federal Government.

(OAS; W-00-04-58053; A-04-04-00000; expected issue date: FY 2004)

Uncashed, Canceled Checks

We will determine whether States with a large percentage of unclaimed, uncashed checks (known as escheated warrants) have promptly credited Federal programs for the checks. Federal regulations require that States refund the Federal portion of unclaimed, uncashed checks. Previous reviews found that States did not always timely or promptly report these checks.

(OAS; W-00-04-58054; A-00-04-00000; expected issued date: FY 2004)

Joint Work With Other Federal and State Agencies

To efficiently use audit resources, we will continue our efforts to provide broader coverage of HHS programs by partnering with State auditors, State departmental internal auditors and inspectors general, State agencies, and departmental financial managers. Since 1994, active partnerships have been developed with States on such Medicaid issues as prescription drugs, clinical laboratory services, the drug rebate program, and durable medical equipment. Future joint initiatives will cover managed care issues, hospital transfers, prescription drugs, outpatient therapy services, and transportation services.

We will also expand our partnerships to cover ACF State-administered programs. Our Partnership Plan will highlight opportunities for joint reviews in critical areas, such as licensing and monitoring child care facilities and foster homes and assessing safeguards for the elderly and people with disabilities. We will also identify areas in which State auditors can help States avoid disallowances and financial penalties due to unallowable costs claimed or noncompliance with Federal program requirements. Based on current OIG work, our planned expansion could also cover such issues as increasing child support collections and reducing undistributed collections; expanding enrollment in SCHIP; and improving oversight of State contracting for services, providers, and systems.

(OAS; W-00-04-27002/31080; various reviews; expected issue date: FY 2004)

Other Issues

Annual Accounting of Drug Control Funds

We will determine whether HHS agencies are in compliance with the Office of National Drug Control Policy requirements for annual accounting of drug control funds. Each year, agencies that participate in the National Drug Control Program are required to submit to the Office of National Drug Control Policy a detailed accounting of all prior-year drug control funds, along with an accompanying OIG “authentication.” We will make this authentication to express a conclusion on the reliability of the HHS assertions regarding FY 2003 drug control funds. (OAS; W-00-04-58001; A-03-04-00000; *expected issue date: FY 2004*)

Usefulness of Mental Health Services Data

This study will determine whether HHS has the necessary data to reliably report the number of individuals with serious mental illness served by the public mental health system, the services they used, and the resources spent on this population. Our 2001 study on younger nursing facility residents with mental illness raised concerns about the accuracy of departmental mental health services data. HHS spends about \$15 billion annually on such services and plays a major role in ensuring that individuals with disabilities are served in their communities. We will focus on data from mental health services funded by SAMHSA and CMS. (OEI; 05-01-00441; *expected issue date: FY 2004*)

Reimbursable Audits

We will conduct a series of audits as part of the Department’s cognizant responsibility under OMB Circular A-133. To ensure a coordinated Federal approach to audits of colleges, universities, and States, OMB Circular A-133 establishes audit cognizance, that is, which Federal agency has lead responsibility for audit of all Federal funds the entity receives. The HHS OIG has audit cognizance for all State governments and most major research colleges and universities. Agreements have been reached among many OIG offices to reimburse the cognizant agency for audits performed at their request or the request of their program offices. (OAS; W-00-04-50012; *various reviews; expected issue date: FY 2004*)

Indirect Cost Audits

We will provide assistance, as requested, to the HHS Division of Cost Allocation on specific indirect cost issues at selected institutions. In previous years, we reviewed such issues as library allocations, medical liability insurance, internal service funds, fringe benefit rates, and space allocations. These audits helped to substantially reduce indirect cost rates at the institutions reviewed. (OAS; W-00-04-50010; *various reviews; expected issue date: FY 2004*)

Non-Federal Audits

Under OMB Circular A-133, State and local governments, colleges and universities, and nonprofit organizations receiving Federal awards are required to have an annual organization-wide audit of all Federal money they receive. We will continue to review the quality of these audits by non-Federal auditors, such as public accounting firms and State auditors, in accordance with the circular. The objectives of our reviews are to ensure that the audits and reports meet applicable standards, identify any followup work needed, and identify issues that may require management attention.

We also provide up-front technical assistance to non-Federal auditors to ensure that they understand Federal audit requirements and to promote effective audit work. In addition, we analyze and record electronically the audit findings reported by non-Federal auditors for use by Department managers. Our reviews provide Department managers with assurance about the management of Federal programs and identify significant areas of internal control weaknesses, noncompliance with laws and regulations, and questioned costs that require formal resolution by Federal officials.

Investigations

Grant Fraud

In its ongoing efforts to prevent and detect grant fraud in the Department, OI is continuing to develop an interactive partnership with departmental program officials to increase fraud awareness in grant programs. These efforts have increased the number of investigations that OI conducts involving grant fraud. OI is allocating more resources to investigations of individuals or entities that commit fraud relative to grants awarded directly or indirectly through the Department.

Our efforts are focusing on grant programs administered by ACF. In FY 2003, in a combined effort with Head Start managers, over 300 program officials throughout the country received fraud awareness training. We are continuing to coordinate with Head Start officials to identify programs that are vulnerable to fraud. In conjunction with the Child Care Bureau, we are developing training for State and Federal officials to heighten fraud awareness and to prevent and detect fraud in the child care program. In concert with OAS, OI also plans to interact more frequently with NIH officials to identify fraudulent activities in research grants.

In FY 2003, we issued a policy directive on suspension and debarment of non-health-care providers. In FY 2004, in cooperation with the HHS Office of Grants, Acquisition and Management, we will continue to aggressively assist HHS components in identifying individuals/entities that should be suspended and debarred. Suspension and debarment actions preclude an individual/entity from receiving Federal funds for a specified period.