DEPARTMENT OF HEALTH & HUMAN SERVICES **Office of Inspector General**

Washington, D.C. 20201

May 6, 2010

TO: Ellen Murray
Assistant Secretary for Financial Resources

FROM: /Joseph E. Vengrin/
Deputy Inspector General for Audit Services

SUBJECT: Review of the Department of Health & Human Services' Limited Data-Quality Reviews of Information Reported by Recipients of Recovery Act Funds (A-09-10-01001)

The attached final report provides the results of our review of the Department of Health & Human Services' limited data-quality reviews of information reported by recipients of funds authorized under the American Recovery and Reinvestment Act of 2009.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://oig.hhs.gov.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-09-10-01001 in all correspondence.

Attachment

Department of Health & Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF THE DEPARTMENT OF HEALTH & HUMAN SERVICES' LIMITED DATA-QUALITY REVIEWS OF INFORMATION REPORTED BY RECIPIENTS OF RECOVERY ACT FUNDS

Daniel R. Levinson
Inspector General

May 2010
A-09-10-01001

Office of Inspector General

http://oig.hhs.gov

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, was enacted February 17, 2009, to preserve and create jobs; to assist those most affected by the recession; to increase economic efficiency by investing in technological advances in science and health care; to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and to stabilize State and local budgets. The Recovery Act provides approximately $141 billion to the Department of Health & Human Services (the Department).

To promote transparency and accountability, section 1512 of the Recovery Act requires quarterly reporting by recipients of certain funds made available under the Recovery Act. Section 1512 requires each recipient to report to the applicable Federal agency, not later than 10 days after the end of each calendar quarter, (1) the total amount of Recovery Act funds received and the amount that was expended or obligated, (2) a detailed list of all projects for which Recovery Act funds were expended or obligated, and (3) detailed information on payments to subrecipients and vendors.

For the first reporting period, February 17 through September 30, 2009, the Office of Management and Budget (OMB) issued implementing guidance (memorandum M-09-21) for section 1512 that requires recipients to report detailed information on their projects. M-09-21 states that Federal agencies should perform limited data-quality reviews intended to identify material omissions and/or significant errors in the reported information. For the second reporting period, October 1 through December 31, 2009, OMB updated its guidance (memorandums M-10-05 and M-10-08) to improve recipient compliance with section 1512.

M-09-21 states that data quality reviews are intended to emphasize the avoidance of material omissions and significant errors. M-10-08 outlines steps that Federal agencies must take to identify nonreporting recipients and bring them into compliance with section 1512.

OBJECTIVES

Our objectives were to determine whether (1) the Department’s limited data-quality reviews of recipient-reported Recovery Act information identified material omissions and significant errors and (2) the Department took steps to minimize material omissions and significant errors.

SUMMARY OF RESULTS

For the first and second reporting periods, the Department’s limited data-quality reviews of recipient-reported Recovery Act information identified material omissions and significant errors, and the Department took several steps to minimize material omissions and significant errors. Consequently, this report contains no recommendations.

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INTRODUCTION

BACKGROUND

American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, was enacted February 17, 2009, to preserve and create jobs; to assist those most affected by the recession; to increase economic efficiency by investing in technological advances in science and health care; to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and to stabilize State and local budgets.

The Recovery Act provides approximately $141 billion to the Department of Health & Human Services (the Department) for health care, public health and human service programs, and health information technology. The majority of the $141 billion is for entitlement and mandatory programs, such as Medicaid and Temporary Assistance for Needy Families. The remainder is for discretionary programs, which are funded through grants and contracts. The funding for discretionary programs includes:

- $10 billion for the National Institutes of Health (NIH) to strengthen scientific research and facilities;

- $5.2 billion for the Administration for Children and Families (ACF) to improve services for children and communities by temporarily expanding the Head Start, Early Head Start, childcare development, and community services programs; and

- $2.5 billion for the Health Resources and Services Administration (HRSA) to strengthen community health care services by constructing and renovating health centers, expanding health care services, and training health care professionals.

Section 1512 Reporting Requirements

To promote transparency and accountability, section 1512 of the Recovery Act requires quarterly reporting by recipients of certain funds made available under the Recovery Act. A recipient includes any non-Federal entity, other than an individual, that receives Recovery Act funds directly from the Federal Government. Section 1512 reporting requirements apply mainly to recipients of grants, contracts, and loans for discretionary programs. Section 1512(c) requires each recipient to report to the applicable Federal agency, not later than 10 days after the end of each calendar quarter:

- the total amount of Recovery Act funds received and the amount that was expended or obligated;

- a detailed list of all projects for which Recovery Act funds were expended or obligated, including the project name, description, and completion status and an estimate of the number of jobs created or retained; and

- detailed information on payments to subrecipients and vendors.[1]

The first reporting period covered February 17 through September 30, 2009, and the second reporting period covered October 1 through December 31, 2009.

Office of Management and Budget Implementing Guidance

To implement section 1512 of the Recovery Act, on June 22, 2009, OMB issued memorandum M-09-21, which requires recipients to report detailed information on their projects.[2] This guidance applies to recipients of grants, loans, tribal agreements, cooperative agreements, and other forms of assistance. An interim final rule amended the Federal Acquisition Regulation (FAR) to require contractors to report on their use of Recovery Act funds (74 Fed. Reg. 14639 (Mar. 31, 2009)). In an unnumbered memorandum dated September 30, 2009, OMB emphasized that the interim rule remains in effect for contractors and described the requirements for agencies to review contractor reports and take appropriate action.[3]

For the second reporting period, OMB updated its guidance to improve recipient compliance with section 1512. On November 30, 2009, OMB issued memorandum M-10-05, which requires Federal agencies to identify noncompliant recipients. On December 18, 2009, OMB issued memorandum M-10-08, which incorporates lessons learned from the first reporting period and addresses recommendations from the Government Accountability Office.

OMB's guidance for the first and second reporting periods establishes the requirements for agencies to follow in identifying and minimizing material omissions and significant errors in recipient reports.

Identifying Material Omissions and Significant Errors

Section 4.2 of M-09-21 states that Federal agencies should perform limited data-quality reviews intended to identify material omissions and/or significant errors in the reported information and should notify recipients of the need to make appropriate and timely changes. Section 4.1 of M-09-21 defined material omissions and significant errors as follows:

- **Material omissions** are those instances in which required data are not reported or reported information is not otherwise responsive to the data requested. Such omissions

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[1] A vendor is a dealer, distributor, merchant, or other seller providing goods or services for a Federal program. A recipient or subrecipient may purchase from vendors those goods or services needed to carry out a project (Office of Management and Budget (OMB) memorandum M-09-21, section 2.2, p. 7 (June 22, 2009)).

[2] Section 3.1 of M-09-21 requires that the information reported by recipients and subrecipients of Recovery Act funds be submitted through www.federalreporting.gov, reviewed by the funding agency, and published on www.recovery.gov. Programs subject to the reporting requirements in section 1512 of the Recovery Act are listed in Supplement 1 of M-09-21.

[3] OMB's *Interim Guidance on Reviewing Contractor Reports on the Use of Recovery Act Funds in Accordance With FAR Clause 52.204-11*.

would result in significant risk that the public will not be fully informed of the status of a Recovery Act project.

- **Significant errors** are those instances in which required data are not reported accurately. Such errors would result in significant risk that the public will be misled or confused by the recipient report.

To clarify M-09-21's instructions, M-10-08 provided the following explanations:

- **Material omissions** include the failure of recipients to report on awards as required by the terms of the awards and the reporting of data that are not responsive to the required data element (part 1, section 3.2).

- **Significant errors** of major concern include errors in the award amount, number of jobs retained or created, award number, or recipient name. A report is considered to have a significant error if the recipient did not correct the error or submit a reasonable explanation of why the data were not in error (part 1, section 3.1).

Minimizing Material Omissions and Significant Errors

Section 4.1 of M-09-21 states that data-quality reviews are intended to emphasize the avoidance of material omissions and significant errors. Part 1 of M-10-08 provides guidance on improving the quality of reported data and outlines steps that Federal agencies must take to identify nonreporting recipients and bring them into compliance with section 1512 of the Recovery Act.

M-10-05 states that a recipient that fails to submit a report is considered to be noncompliant and subject to Federal action. When a Federal agency identifies a noncompliant recipient, M-10-05 requires the agency to (1) determine an appropriate outreach method and establish contact with the recipient and (2) assess the severity of and circumstances surrounding the noncompliance and determine the need for future action regarding the recipient. In addition, part 1, section 6.4, of M-10-08 requires each agency to submit a complete list of noncompliant recipients to OMB within 5 days following the final day of the quarterly review period.

Office of Recovery Act Coordination

The Department established the Office of Recovery Act Coordination (ORAC) in the Office of the Secretary to ensure that the Department meets the requirements of the Recovery Act and OMB implementing guidance. To carry out its mission, ORAC coordinates closely with the Department's operating divisions, which manage Recovery Act funds.

ORAC developed the Department's process for ensuring that recipients of Recovery Act funds have clear directions on reporting requirements and that the Department has a consistent approach to conducting data-quality reviews of the reported information. This process includes providing information and training to recipients, performing reviews that focus on material omissions and significant errors, notifying recipients about identified data-quality issues, and assessing recipient compliance. Each operating division is responsible for following the

Department's guidance when reviewing and commenting on recipient reports. ORAC compiles the data from the operating divisions into Departmentwide reports.

Prior Office of Inspector General Report

In a prior report,[4] we found that as of September 30, 2009, the Department had designed a process to (1) perform limited data-quality reviews intended to identify material omissions and/or significant errors in information reported by recipients (grantees and contractors) of Recovery Act funds and (2) notify recipients of the need to make appropriate and timely changes. The report contained no recommendations.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether (1) the Department's limited data-quality reviews of recipient-reported Recovery Act information identified material omissions and significant errors and (2) the Department took steps to minimize material omissions and significant errors.

Scope

We assessed the Department's limited data-quality reviews of recipient-reported Recovery Act information for both grants and contracts for the first and second reporting periods.

We performed our audit from November 2009 to March 2010. Our audit included fieldwork at ORAC's and ACF's offices in the District of Columbia; NIH's office in Bethesda, Maryland; and HRSA's office in Rockville, Maryland.[5]

Methodology

To accomplish our objectives, we:

- reviewed Federal laws, regulations, and guidance;
- interviewed ORAC officials about their procedures to ensure that the reporting requirements of section 1512 of the Recovery Act are met;
- interviewed ORAC officials about the Department's process for performing limited data-quality reviews and the steps that the Department took to minimize material omissions and significant errors;

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[4] *Review of the Department of Health and Human Services' Process for Performing Limited Data-Quality Reviews of Information Reported by Recipients of Recovery Act Funds* (A-09-09-00113), issued October 21, 2009.

[5] In total, NIH, ACF, and HRSA accounted for approximately 94 percent of the reports submitted for the first reporting period and 95 percent of the reports submitted for the second reporting period.

- interviewed NIH, ACF, and HRSA officials about their roles in the Department's limited data-quality reviews;
- reviewed guidance issued by ORAC, NIH, ACF, and HRSA;
- validated material omissions reported by the Department for the first reporting period as of December 9, 2009, and the second reporting period as of February 19, 2010, by comparing data from www.recovery.gov with the databases of grants and contracts maintained by NIH, ACF, and HRSA;
- determined how the Department identified and addressed noncompliant recipients;
- reviewed a judgmental sample of 30 recipient reports from NIH, ACF, and HRSA for the first reporting period to determine whether the Department identified reports with significant errors; and
- obtained Governmentwide data on recipient reporting from www.recovery.gov.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS OF REVIEW

For the first and second reporting periods, the Department's limited data-quality reviews of recipient-reported Recovery Act information identified material omissions and significant errors, and the Department took several steps to minimize material omissions and significant errors. Consequently, this report contains no recommendations.

IDENTIFYING MATERIAL OMISSIONS AND SIGNIFICANT ERRORS

Departmental Guidance

The Department's guidance for data-quality reviews defined a material omission as failing to submit a report.

For the first reporting period, the Department's guidance defined a significant error as reporting (1) an award amount or an award date that differs from agency records; (2) expenditures that are greater than the award amount; (3) unreasonable estimates of the number of jobs created or retained; or (4) the generic Treasury Account Symbol code 75.xxx, which does not identify the program source within the Department.

For the second reporting period, the Department identified a different set of significant errors based on OMB's updated guidance (M-10-08). These errors included reporting an award amount, an award number, or a Dun & Bradstreet Data Universal Numbering System (DUNS) number[6] that differs from agency records and reporting job estimates that are unreasonably high or low relative to the amount awarded.

Identifying Material Omissions

To identify material omissions, the Department matched information in the recipient reports on www.federalreporting.gov (such as award numbers, DUNS numbers, and award amounts) against its internal grant and contract databases. The Department identified 288 missing reports for the first reporting period and 120 missing reports for the second reporting period. Table 1 compares the number of recipient reports that the Department expected to be submitted and the actual number of reports submitted for the first and second reporting periods.

Table 1: Comparison of Number of Expected and Submitted Reports for First and Second Reporting Periods

	No. of Reports Expected	No. of Reports Submitted	No. of Reports Missing
First reporting period	17,651	17,363	288
Second reporting period	18,834	18,714	120

For the first and second reporting periods, we independently validated the number of missing reports.

Of the 120 missing reports in the second reporting period, 41 reports were also missing in the first reporting period. Recipients indicated to the Department that they did not submit the 41 reports for various reasons, such as confusion about reporting requirements and issues related to uploading reports to www.federalreporting.gov.

Identifying Significant Errors

To identify significant errors, the Department performed automated queries, matches, analyses, and, when necessary, manual reviews of the information on www.federalreporting.gov. For the first reporting period, the Department identified 1,463 reports with 1,603 significant errors. The most prevalent errors were unreasonable estimates of the number of jobs created or retained (1,111 errors), award dates that differed from agency records (263 errors), and award amounts that differed from agency records (117 errors). For the second reporting period, the Department identified 284 reports with 291 significant errors. The most prevalent errors were job estimates that were unreasonably high or low relative to the amount awarded (126 errors), award numbers that differed from agency records (95 errors), and award amounts that differed from agency records (36 errors).

Table 2 on the next page compares the number of significant errors and number of reports with significant errors identified by the Department for the first and second reporting periods.

[6] A DUNS number is a unique nine-digit identification number assigned to each physical location of a business.

Table 2: Comparison of Number of Significant Errors and Number of Reports With Significant Errors for First and Second Reporting Periods

	No. of Significant Errors	No. of Reports With Significant Errors	No. of Reports Submitted	Percentage of Reports With Significant Errors
First reporting period	1,603	1,463	17,363	8.4%
Second reporting period	291	284	18,714	1.5%

Our review of a judgmental sample of 30 recipient reports from NIH, ACF, and HRSA for the first reporting period determined that the Department correctly identified the 5 reports with significant errors. Based on these sample results and our determination that the Department's procedures for identifying significant errors did not change in the second reporting period, we did not test recipient reports for the second period.

MINIMIZING MATERIAL OMISSIONS AND SIGNIFICANT ERRORS

The Department took several steps to minimize material omissions and significant errors in recipient information.

Minimizing Material Omissions

To minimize material omissions in the first reporting period, the Department developed program guidance, held conference calls with recipients, and created a call center for answering recipients' questions. The Department found that only 1.6 percent of the expected reports were missing, less than the Governmentwide percentage. (See Table 3.)

Table 3: Comparison of Governmentwide and Departmental Missing Reports for First Reporting Period

	No. of Reports Expected	No. of Reports Submitted	No. of Reports Missing	Percentage of Reports Missing
Governmentwide	131,986	127,627	4,359	3.3%
Department	17,651	17,363	288	1.6%

For the second reporting period, the Department made further outreach efforts to encourage recipients to submit reports and focused on recipients that did not report during the first reporting period. The number of missing reports that the Department identified decreased 58 percent from the number identified in the first reporting period (from 288 to 120 reports). Only 0.6 percent of the expected reports were missing, the same as the Governmentwide percentage. (See Table 4 on the next page.)

Table 4: Comparison of Governmentwide and Departmental Missing Reports for Second Reporting Period

	No. of Reports Expected	No. of Reports Submitted	No. of Reports Missing	Percentage of Reports Missing
Governmentwide	161,818	160,782	1,036	0.6%
Department	18,834	18,714	120	0.6%

Minimizing Significant Errors

To minimize significant errors in the first reporting period, the Department developed program guidance, held conference calls with recipients, and created a call center for answering recipients' questions. The Department also developed a Web-based display of award information that recipients could use to check the information they reported.

For the second reporting period, the Department made further outreach efforts to encourage recipients to provide the required information. The number of significant errors that the Department identified decreased 82 percent from the number identified in the first reporting period (from 1,603 to 291 errors).

After identifying significant errors in the first and second reporting periods, Department officials notified the recipients of the need to correct their reports. After recipients made corrections, the Department conducted a review and determined that the number of significant errors had decreased 43 percent (from 1,603 to 910 errors) for the first reporting period and 20 percent (from 291 to 233 errors) for the second reporting period.

CONCLUSION

For the first and second reporting periods, the Department's limited data-quality reviews of recipient-reported Recovery Act information identified material omissions and significant errors, and the Department took several steps to minimize material omissions and significant errors.