

Department of Health and Human Services Office of Inspector General Projects



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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 the Department of Health and Human Services (HHS) and other federal agencies. The audited FY 2002 consolidated HHS financial statements are due to the Office of Management and Budget (OMB) by February 1, 2003.

Audits of FY 2002 Financial Statements

The following audits of FY 2002 financial statements will be completed and reports issued during FY 2003.

Consolidated HHS Financial Statements

OAS; W-00-02-40009; A-17-02-00001

Centers for Medicare and Medicaid Services

OAS; W-00-02-40008; A-17-02-02002

Administration for Children and Families

OAS; W-00-02-40010; A-17-02-00003

Health Resources and Services Administration

OAS; W-00-02-40013; A-17-02-00005

Indian Health Service

OAS; W-00-02-40013; A-17-02-00006

National Institutes of Health

OAS; W-00-02-40013; A-17-02-00009

Centers for Disease Control and Prevention and Agency for Toxic Substances and Disease Registry

OAS; W-00-02-40013; A-17-02-00010

Food and Drug Administration

OAS; W-00-02-40013; A-17-02-00008

Substance Abuse and Mental Health Services Administration

OAS; W-00-02-40013; A-17-02-00004

Program Support Center

OAS; W-00-02-40003; A-17-02-00007

FY 2002 Statement on Auditing Standards (SAS) 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 2002 financial statement audits.

Center for Information Technology (National Institutes of Health Computer Center)

OAS; W-00-02-40012; A-17-02-00012

Program Support Center—Major Administrative Support Services:

Payment Management System

OAS; W-00-02-40012; A-17-02-00013

Division of Financial Operations and Human Resources Support

OAS; W-00-02-40012; A-17-02-00014

FY 2002 Financial-Related Reviews

Federal Agencies' Centralized Trial Balance System Agreed-Upon Procedures are intended to assist with accounting for and eliminating intragovernmental activity and balances in the preparation of agencywide and governmentwide financial statements and reports.

OAS; W-00-02-40012; A-17-02-00018

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-00-02-40012; A-17-02-00015

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-00-02-40012; A-17-02-00013

Commissioned Corps Agreed-Upon Procedures provide uniformity of tests of internal controls for the payroll cycle.

OAS; W-00-02-40012; A-17-02-00011

Audits of FY 2003 Financial Statements

Work is expected to begin in FY 2003 on the following audits for consolidated reporting on the FY 2003 financial statements. Reports will be issued in FY 2004.

Consolidated HHS Financial Statements

OAS; W-00-03-40009

Centers for Medicare and Medicaid Services

OAS; W-00-03-40008

Administration for Children and Families

OAS; W-00-03-40010

Health Resources and Services Administration

OAS; W-00-03-40010

Indian Health Service

OAS; W-00-03-40010

National Institutes of Health

OAS; W-00-03-40010

Centers for Disease Control and Prevention and Agency for Toxic Substances and Disease Registry

OAS; W-00-03-40010

Food and Drug Administration

OAS; W-00-03-40010

Substance Abuse and Mental Health Services Administration

OAS; W-00-03-40010

Program Support Center

OAS; W-00-03-40010

Agency for Healthcare Research and Quality

OAS; W-00-03-40010

Administration on Aging

OAS; W-00-03-40010

Office of the Secretary

OAS; W-00-03-40010

FY 2003 SAS 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 2003 financial statement audits. Reports will be issued in FY 2004.

Center for Information Technology (National Institutes of Health Computer Center)

OAS; W-00-03-40012

Program Support Center—Major Administrative Support Services:

Payment Management System

OAS; W-00-03-40012

Division of Financial Operations, Human Resources Support, and Information Resource Management Service

OAS; W-00-03-40012

FY 2003 Financial-Related Reviews

The following reports will be issued in FY 2004.

Federal Agencies' Centralized Trial Balance System Agreed-Upon Procedures are intended to assist with accounting for and eliminating intragovernmental activity and balances in the preparation of agencywide and governmentwide financial statements and reports.

OAS; W-00-03-40012

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

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

PROGRAM INTEGRITY AND EFFICIENCY

Government Information Security Reform Act

As required by the Government Information Security Reform Act of 2000, we will continue to evaluate the department's security programs and critical systems. The results of this effort will be included in the department's annual report to OMB and the Congress, as required by law. The purpose of the act is to provide a comprehensive framework for establishing and maintaining effective controls over the information resources that support federal operations and assets. It also creates a mechanism for improved oversight of federal agency information security programs to ensure compliance with applicable laws and regulations regarding computer security. The law requires the OIG to conduct reviews of each operating division's security program and to test an appropriate subset of the department's critical systems.

OAS; W-00-03-40016; Various CINs

Expected Issue Date: FY 2003

Information Systems Internal Controls

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 the department's information systems as well as systems at Medicare contractors and state and local governments. The acts require that OIG, or an independent auditor chosen by OIG, understand the components of internal controls and conduct sufficient tests to reasonably assess control risk. This work covers the relevant general and application controls and controls relating to intra-agency and intragovernmental transactions and balances. Any internal controls found to be improperly designed, not placed in operation, or ineffective should be reported. The results of this effort will be included in our report on the consolidated HHS FY 2003 financial statements.

OAS; W-00-02-40017; Various CINs

Expected Issue Date: FY 2003

Critical Infrastructure Protection

We will assess the department's efforts to protect federally owned and operated critical infrastructures and assets from physical and cyber attacks. We will also assess the

department's progress in implementing Executive Orders 13228 and 13231 and Presidential Decision Directive 63.

OAS; W-00-03-40001; Various CINs

Expected Issue Date: FY 2003

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 its FY 2002 drug control funds.

OAS; W-00-03-58001; A-03-03-00000

Expected Issue Date: FY 2003

International Merchant Purchase Authorization Card Program

We will determine the error rate associated with International Merchant Purchase Authorization Card (IMPAC) purchases in HHS and review controls associated with the purchase cards. The IMPAC program was introduced to save government funds by avoiding costly paperwork and to speed the process of making purchases. To protect against unauthorized or fraudulent use of purchase cards, the *Treasury Financial Manual* requires that each agency have its own internal procedures for using the cards. When the IMPAC program began, the department issued guidelines for the operating divisions' use in developing their individual operating procedures. Core areas within the departmental guidelines included card issuance, card limits, training, written procedures, card security, recordkeeping, and acquisition. Agency procedures should be no less restrictive than the department's guidelines.

OEI; 07-02-00510

Expected Issue Date: FY 2003

Statewide Cost Issues

This review will determine whether states appropriately allocated pension and internal service funds, such as self-insurance and data processing costs, to federally funded programs. Previous reviews disclosed that the Federal Government did not always receive equitable benefit when surplus state pension funds were withdrawn, transferred to other state funds, or used to cover state expenses. Similar problems were found in self-insurance funds.

OAS; W-00-03-27003; A-00-03-00000

Expected Issue Date: FY 2003/2004

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-00-03-50013; Various CINs

Expected Issue Date: FY 2003

Reimbursable Audits

We will conduct a series of audits as part of the department's cognizant responsibility for approximately 95 percent of the nation's nearly 3,000 colleges and universities. Audit cognizance requires that we perform audits at these schools, including those requested by other federal agencies. Our audits may include activities related to the review of disclosure statements filed by universities in conjunction with the cost accounting standards incorporated in OMB Circular A-21.

OAS; W-00-03-50012; Various CINs

Expected Issue Date: FY 2003

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-00-03-50010; Various CINs

Expected Issue Date: FY 2003

Nonfederal 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 organizationwide audit of all federal money they receive. We will continue to review the quality of these audits by nonfederal 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 follow-up work needed, and identify issues that may require management attention.

We also provide up-front technical assistance to nonfederal 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 nonfederal 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.

Follow-up on Nonfederal Audits

These reviews will determine whether auditees have implemented the recommendations in prior nonfederal audit reports to correct reported findings. The OIG's National External Audit Review Center has identified certain prior audits by nonfederal auditors as having circumstances that need further investigation.

OAS; W-00-03-58003; Various CINs

Expected Issue Date: FY 2003

INVESTIGATIONS

Grant Fraud

The department has more than 300 programs that disburse approximately \$200 billion in grant funds annually. The OI is developing an interactive partnership with departmental officials to increase its knowledge of grant programs and educate program officials about fraud prevention. The OI will also investigate individuals or entities that commit fraud related to grants awarded directly or indirectly through the department.