

Part VII:  
Other HHS-Related Reviews

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- Cross-Cutting and Mandatory Work..... 1
- Financial Statement Audits ..... 1
  - Audits of Fiscal Years 2011 and 2012 Financial Statements ..... 1
  - Fiscal Year 2012 Statement on Standards for Attestation Engagements..... 2
  - Fiscal Years 2011 and 2012 Financial-Related Reviews..... 2
- Other Financial Accounting Reviews..... 3
  - The President’s Emergency Plan for AIDS Relief Funds ..... 3
  - Public Welfare Cost Allocation Plan..... 3
  - Annual Accounting of Drug Control Funds ..... 4
  - Use of Appropriated Funds in Program Support Center Contracting ..... 4
  - Reasonableness of Prime Contractor Fees ..... 4
  - Contracting Procedures ..... 4
  - Non-Federal Audits ..... 4
  - Reimbursable Audits ..... 5
  - Requested Audit Services ..... 5
  - Compliance With Executive Order 13520: Reducing Improper Payments ..... 5
- Automated Information Systems ..... 6
  - Information System Security Audits..... 6
  - Federal Information Security Management Act of 2002..... 6
  - Information Technology Systems’ General Controls..... 6
  - Fraud Vulnerabilities Presented by Electronic Health Records (NEW)..... 6
- Other Departmental Issues..... 6
  - State Protections for People in Residential Settings Who have Disabilities ..... 6
  - Classifications of Federal Pass-Through Funding Recipients ..... 7

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### ACRONYMS AND ABBREVIATIONS FOR SELECTED TERMS USED IN PART VII:

ACF—ADMINISTRATION FOR CHILDREN AND FAMILIES	FISMA—FEDERAL INFORMATION SECURITY MANAGEMENT ACT OF 2002
AICPA—AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS	OMB—OFFICE OF MANAGEMENT AND BUDGET
AIDS—ACQUIRED IMMUNODEFICIENCY SYNDROME	PEPFAR—PRESIDENT’S EMERGENCY PLAN FOR AIDS RELIEF
CMS—CENTERS FOR MEDICARE & MEDICAID SERVICES	
FAR—FEDERAL ACQUISITION REGULATION	

## Cross-Cutting and Mandatory Work

Certain financial, performance, and investigative issues cut across Department of Health & Human Services (HHS) programs. The Office of Inspector General’s (OIG) work in progress and its planned work address departmentwide matters, such as financial statement audits; financial accounting; information systems management; and other departmental issues, including discounted airfares and protections for people in residential settings who have disabilities.

Although we have discretion in allocating most of our non-Medicare and non-Medicaid resources, a portion is used for mandatory reviews, including financial statement audits conducted pursuant to the Government Management Reform Act of 1994 (GMRA), § 405(b); the Chief Financial Officers Act of 1990 (CFO Act); and information systems reviews required by the Federal Information Security Management Act of 2002 (FISMA).

The GMRA seeks to ensure that Federal managers have the financial information and flexibility necessary to make sound policy decisions and manage scarce resources. The GMRA broadened the CFO Act by requiring annual audited financial statements for all accounts and associated activities of HHS and other Federal agencies and components of Federal agencies, including the Centers for Medicare & Medicaid Services (CMS).

Summaries of OIG’s reviews of departmentwide matters in fiscal year (FY) 2012 follow.

## Financial Statement Audits

### **Audits of Fiscal Years 2011 and 2012 Financial Statements**

We will review the independent auditor’s workpapers to determine whether financial statement audits of HHS and its components were conducted in accordance with laws and regulations. The purpose of a financial statement audit is to determine whether the financial statements present fairly, in all material respects, the financial position of the audited entity for the specified time period. The audited consolidated HHS FY 2011 financial statements are due to the Office of Management and Budget (OMB) by November 15, 2011; for FY 2012, they are due by November 15, 2012.

The following FY 2011 financial statement audits will be completed and reports will be issued during FY 2012:

- Consolidated HHS – This audit covers all operating divisions, including CMS, which will also receive a separate audit report (listed below). (OAS; W-00-11-40009; A-17-11-00001)
- CMS – (OAS; W-00-11-40008; A-17-11-02010)

The following FY 2012 financial statement audits will be completed and reports will be issued during FY 2013:

- Consolidated HHS – This audit will cover all operating divisions, including those that will also receive separate audit reports (listed below). (OAS; W-00-12-40009; A-17-12-00001)
- CMS – (OAS; W-00-12-40008; A-17-12-02010)

### **Fiscal Year 2012 Statement on Standards for Attestation Engagements**

We will review an independent auditor's workpapers to determine whether examinations of HHS's service organizations were conducted in accordance with laws and regulations. Such examinations are conducted in accordance with Generally Accepted Government Auditing Standards and the American Institute of Certified Public Accountants' (AICPA) *Statement on Standards for Attestation Engagements (SAE) No. 16, Reporting on Controls at a Service Organization*, commonly referred to as SAE 16 examinations. SAE 16 examinations report on the controls of service organizations that may be relevant to the user organizations' internal control structures. The following SAE 16 examinations of HHS service organizations will support FY 2012 financial statement audits and will be issued during FY 2012:

- Center for Information Technology (National Institutes of Health Computer Center) (OAS; W-00-12-40012; A-17-12-00010)
- Division of Payment Management (OAS; W-00-12-40012; A-17-12-00009)

### **Fiscal Years 2011 and 2012 Financial-Related Reviews**

The purpose of the financial-related reviews is to fulfill requirements in OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, §§ 6.11 and 13.

The FY 2011 financial-related reviews that will be issued during FY 2012 are:

- Closing-Package Audit Reports for the Governmentwide Financial Report System. These audit reports are intended to support the preparation of Governmentwide financial statements and reports. (OAS; W-00-11-40009; A-17-11-00006)
- Department of State Agreed Upon Procedures. These procedures focus on reviewing certain financial information for allocation transfers from the Department of State to HHS under the President's Emergency Plan for AIDS Relief (PEPFAR) program. OMB requires auditors to work together to ensure that allocation transfers receive audit coverage that, in the transferring

agency auditor's professional judgment, is required as part of the annual financial statement audit. (OMB Bulletin 07-04, paragraph 6.05.) The procedures are performed in accordance with the AICPA's attestation standards. (OAS; W-00-11-40009; A-17-11-00015)

The FY 2012 financial-related reviews that will be issued in FY 2012 is:

- Payroll Agreed-Upon Procedures. These procedures focus on reviewing the official personnel files for selected HHS employees to assist the Department of Defense OIG in performing the OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, Section 11, Agreed-Upon Procedures. (OAS; W-00-12-40009; A-17-12-00008)

The FY 2012 financial-related reviews that will be issued during FY 2013 are:

- Department of State Agreed Upon Procedures. These procedures focus on reviewing certain financial information for allocation transfers from the Department of State to HHS under the PEPFAR program. OMB requires auditors to work together to ensure that allocation transfers receive audit coverage that, in the transferring agency auditor's professional judgment, is required as part of the annual financial statement audit. (OMB Bulletin 07-04, paragraph 6.05.) The procedures are performed in accordance with the AICPA's attestation standards. (OAS; W-00-12-40009; A-17-12-00015)
- Closing-Package Audit Reports for the Governmentwide Financial Report System. These audit reports are intended to support the preparation of Governmentwide financial statements and reports. (OAS; W-00-12-40009; A-17-12-00006)

## Other Financial Accounting Reviews

### **The President's Emergency Plan for AIDS Relief Funds**

We will review the effectiveness of HHS's accounting for and control of funds received under the PEPFAR program. HHS received PEPFAR funds from the annual HHS appropriation and the Foreign Operations appropriation. PEPFAR funds support international programs for acquired immunodeficiency syndrome (AIDS) prevention, treatment, and care. (OAS; W-00-10-52300; W-00-11-52300; expected issue date: FY 2012; work in progress and new start)

### **Public Welfare Cost Allocation Plan**

We will review the cost allocation plan submitted by one State. The State contracted to have its cost allocation plan prepared. We will determine whether State agency costs have been allocated correctly among various Federal programs and whether claims submitted by the State and based on the cost allocation plan were supported and claimed in accordance with Federal criteria pertinent to the State agency. The Administration for Children and Families (ACF) has informed us that the State's plan may be unsupported and that the State has been required to revise it. Federal regulations require that cost allocation plans conform to the accounting principles and standards in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. (45 CFR pt. 95, subpart E.) (OAS; W-00-12-52310; expected issue date: FY 2012; new start)

### **Annual Accounting of Drug Control Funds**

We will review HHS agencies' compliance with the requirement that agencies expending funds on National Drug Control Program activities submit to the Office of National Drug Control Policy an annual accounting of the expenditure of drug control funds. (21 U.S.C. § 1704.) The policy also requires that an agency submit with its annual accounting an authentication by the agency's OIG in which OIG expresses a conclusion on the reliability of the agency's assertions in its accounting. We will submit this authentication with respect to HHS's FY 2010 annual accounting. (OAS; W-00-12-52312; expected issue date: FY 2012; new start)

### **Use of Appropriated Funds in Program Support Center Contracting**

We will review the appropriateness of the Program Support Center's obligation of appropriated funds for services it obtains through contracts to ensure that appropriated funds were used only during the period of availability in accordance with the Anti-Deficiency Act of 1950 (Anti-Deficiency Act) and were used only for a bona fide need arising in the fiscal year for which the appropriation was made. (31 U.S.C. § 1502.) We will review contracts and contract modifications issued by the Program Support Center to determine whether appropriated funds were used in accordance with the Anti-Deficiency Act. Key provisions of the Anti-Deficiency Act prohibit the Government from obligating or expending funds in advance of an appropriation unless authorized by law as required by 31 U.S.C. § 1341(a)(1). (OAS; W-00-12-52313; expected issue date: FY 2012; new start)

### **Reasonableness of Prime Contractor Fees**

We will determine whether the Government negotiated reasonable fees for prime contracts that involve significant subcontractor efforts, taking into consideration any fees the prime contractor expected to pay subcontractors. Federal acquisition laws and regulations limit the amount of the fee that can be negotiated with a contractor. (10 U.S.C. 2306(d), 41 U.S.C. 254(b), and Federal Acquisition Regulation (FAR) 15.404-4(b)(4)(i).) Subcontractor fees are typically considered "costs" to the prime contractor and may not be considered during the Government's negotiations with the prime contractor. This "fee on fee" situation may result in fees that exceed the limits established in Federal laws and regulations. (OAS; W-00-12-52321; expected issue date: FY 2012; work in progress)

### **Contracting Procedures**

We will determine the scope of HHS contracting for goods and services and determine whether there are risks in this process that would require reviews by OIG. HHS's contracting procedures are subject to the FAR and the HHS Acquisition Regulation. (OAS; W-00-12-52314; various reviews; expected issue date: FY 2012; new start)

### **Non-Federal Audits**

We will continue to review the quality of audits conducted by non-Federal auditors, such as public accounting firms and State auditors, in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. As part of our reviews of A-133 audits, we will ensure that the auditors have audited and reported in compliance with the American Recovery and Reinvestment Act of 2009 (Recovery Act). State, local, and Indian tribal governments; colleges and universities; and nonprofit organizations receiving Federal awards are required to have annual organizationwide audits of all Federal funds that they receive. Our reviews ensure that the audits and reports meet applicable standards, identify any followup work needed, and identify issues that may require management attention. OIG also provides upfront technical assistance to non-Federal auditors to ensure that they understand Federal audit requirements and to promote effective audit

work. We analyze and record electronically the audit findings reported by non-Federal auditors for use by HHS managers. Our reviews assure HHS managers 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.

### **Reimbursable Audits**

We will conduct a series of audits as part of HHS's cognizant responsibility under OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. To ensure a coordinated Federal approach to audits of colleges, universities, and States, OMB establishes audit cognizance, that is, it designates which Federal agency has primary responsibility for audit of all Federal funds the entity receives. Accordingly, HHS OIG has audit cognizance over all State governments and most major research colleges and universities. Agreements are reached with other Federal audit organizations or other Federal agencies to reimburse HHS OIG as the cognizant audit organization for audits that HHS OIG performs of non-HHS funds. (OAS; W-00-12-50012; various reviews; expected issue date: FY 2012; new start)

### **Requested Audit Services**

Throughout the year, Congress, HHS, and other Federal organizations request that we perform a variety of audit services including

- recipient capability audits,
- contract and grant closeouts,
- indirect cost audits,
- bid proposal audits, and
- other reviews designed to provide specific information requested by management.

We evaluate requests as we receive them, considering such factors as why the audit is being requested, how the results will be used, when the results are needed, and whether the work is cost beneficial.

### **Compliance With Executive Order 13520: Reducing Improper Payments**

We will review certain aspects of HHS's compliance with Executive Order 13520 on reducing improper payments. The Executive Order requires Federal agencies to reduce improper payments by intensifying efforts to eliminate payment errors, waste, fraud, and abuse in major programs administered while continuing to ensure that Federal programs serve and provide access to the intended beneficiaries. Pursuant to the Executive Order, HHS is required to provide to OIG a quarterly report of high-dollar overpayments. OIG is reviewing how the Department is compiling these reports. We will assess the data presented in the reports and provide HHS any recommendations for modifying its methodology, improper-payment reduction plans, or program access and participation plans. (OAS; W-00-11-40047; various reviews; expected issue date: FY 2011; work in progress)

## Automated Information Systems

### **Information System Security Audits**

We will review the reliability of the Information System Security Program at several operating divisions. HHS and its components are responsible for administering and implementing this security program in compliance with FISMA and directives issued by OMB and the National Institute of Standards and Technology. To date, several reviews have been conducted to determine compliance with HHS security program requirements. (OAS; W-00-11-42000; various reviews; expected issue date: FY 2012; work in progress and new start)

### **Federal Information Security Management Act of 2002**

We will review various HHS operating divisions' compliance with FISMA. We will also follow up on the unresolved findings from prior reviews of information systems controls. FISMA and OMB Circular A-130, *Management of Federal Information Resources*, 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. (OAS; W-00-11-42001; various reviews; expected issue date: FY 2012; work in progress and new start)

### **Information Technology Systems' General Controls**

We will review the adequacy of information technology security general controls of selected HHS systems using Departmental, OMB, and FISMA guidance and regulations. Recent legislation and OMB directives have focused on safeguards for critical systems' assets and infrastructures. (OAS; W-00-11-42002; various reviews; expected issue date: FY 2012; work in progress and new start)

### **Fraud Vulnerabilities Presented by Electronic Health Records (NEW)**

We will identify fraud and abuse vulnerabilities in electronic health records (EHR) systems as articulated in literature and by experts and determine how certified EHR systems address these vulnerabilities. The Health Information Technology for Economic and Clinical Health Act provides \$36 billion in incentives for adopting EHRs. Medicare and Medicaid EHR incentive programs require providers to use EHR systems that have been certified by a Department-authorized testing and certification body. The Office of the National Coordinator establishes the requirements and oversees the certification process. Regulations at 45 CFR part 170 provide the initial set of standards, implementation specifications, and certification criteria for EHR systems. (OEI; 01-11-00570; expected issue date FY 2012; work in progress)

## Other Departmental Issues

### **State Protections for People in Residential Settings Who have Disabilities**

We will review actions taken by CMS, ACF, the Substance Abuse and Mental Health Services Administration, and the Food and Drug Administration on OIG recommendations to work cooperatively to provide information and technical assistance to States for strengthening State protections for people in residential settings who have disabilities. Several HHS operating divisions fund programs or services that play a role in protecting people who have disabilities from abuse or neglect. For facilities receiving Medicare or Medicaid funds, CMS has established conditions of participation. For facilities not subject to CMS oversight, there are limited Federal standards, partly

because of HHS's limited statutory authority. (OAS; W-00-12-58126; expected issue date: FY 2012; new start)

### **Classifications of Federal Pass-Through Funding Recipients**

We will review the appropriateness of States' classifications of recipients of Federal pass-through funds. In one State, we will determine why the State awarded funds to a university as a vendor when the State had previously treated the university as a subrecipient. State agencies determine whether they are passing through Federal funds in the form of Federal financial assistance to subgrantees or whether they are contracting with vendors. OMB provides guidance on distinguishing between subrecipients and vendors in OMB Circular A-133, subpart B, § 210. There is an advantage to the recipient of the pass-through funds if the recipient is treated as a vendor. Vendors may enter into fixed-price contracts that allow retention of unused funds, whereas subgrantees must return unspent Federal funds to the State agency. (OAS; W-00-12-58127; expected issue date: FY 2012; new start)

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The [Work Plan](#) is one of OIG's three core publications. OIG's [Semiannual Report to Congress](#) summarizes OIG's most significant findings, investigative outcomes, and outreach activities in 6-month increments. OIG's annual [Compendium of Unimplemented Recommendations](#) (Compendium) provides descriptions of open recommendations that when implemented will save tax dollars and improve programs.