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“Top Management Challenges at the Department of Labor, Health
and Human Services and Education: Perspective from the
Inspectors General”

Before the
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and Related Agencies

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With a discretionary budget of approximately \$50 million in fiscal year 2012, the Office of Inspector General (OIG) is charged with overseeing more than 300 Department of Health and Human Services (HHS) programs, accounting for more than \$100 billion (excluding Medicare, Medicaid, and the State Children's Health Insurance Program).¹ These 300-plus public health and human services programs touch the lives of virtually every American. Today, I focus on HHS management challenges related to grant and contract administration, data security, improper payments, emergency preparedness, and management of public health programs.

EFFECTIVELY ADMINISTER GRANTS AND CONTRACTS

HHS is the largest Federal grantmaker and the third largest Federal contracting agency. Effective management of these outlays must be a priority. OIG has identified vulnerabilities at HHS grantees that could be mitigated by improved HHS oversight. These include deficiencies in grantees' internal controls, financial stability, organizational structures, procurement and property management policies, and personnel policies and procedures. And HHS has improperly funded certain contracts, resulting in appropriations violations.

Ineffective grants administration can put vital Federal funds at risk. For example, OIG's postaward reviews of Recovery Act grantees identified instances when grantees claimed unallowable costs, indicating that better oversight was needed. OIG also conducted numerous pre-award reviews of Recovery Act grant applicants. OIG recommended and HHS implemented front-end controls to mitigate grantees' risks and better protect these funds. In another example, OIG found inconsistencies in the Centers for Disease Control and Prevention's (CDC) oversight of grants authorized under the President's Emergency Plan for AIDS Relief (PEPFAR), and most of the awards files lacked evidence to demonstrate that CDC performed required monitoring. OIG followup work looks at selected CDC local offices abroad and PEPFAR recipient organizations in

¹ Through separate funding under the Health Care Fraud and Abuse Control (HCFAC) Program, OIG oversees Medicare and Medicaid. HCFAC funding constitutes about 80 percent of OIG's total budget.

Namibia, South Africa, Vietnam, Ethiopia, and Zambia. Initial findings have identified opportunities to improve compliance but not widespread problems overseas. Across HHS, OIG has investigated specific cases of grant fraud and other criminal and civil violations.

Ineffective oversight can also put people at risk. For example, during site visits to high-risk Head Start facilities, OIG found alarming violations of health and safety requirements, such as toxic chemicals, dangerous tools, and even a machete within reach of children. The Administration for Children and Families (ACF) has taken actions to remedy problems or terminate problematic grantees and needs to ensure that all Head Start grantees provide safe environments for the children they serve.

Ongoing OIG reviews include work underway for this Committee to examine HHS oversight of grantees' compliance with lobbying prohibitions, including reviewing HHS guidance and monitoring of grantees. We are also conducting a systemic Department-wide review to assess agencies' ability to mitigate the risks of grant fraud and mismanagement. OIG experts have trained grants officers across HHS about effective oversight and grant fraud risks to help HHS prevent vital funds from being stolen or misused.

With respect to contracts, OIG has found instances of improper funding, leading to potential violations of the Antideficiency Act, in 11 of 18 completed audits of National Institutes of Health contracts. OIG is assessing the effectiveness of remedial actions taken by HHS to properly fund its contracts and prevent future violations of the Antideficiency Act.

PROTECT SECURITY AND INTEGRITY OF DATA, SYSTEMS, AND TECHNOLOGY

As reliance on information technology and data grows, so do the challenge and importance of ensuring the security and integrity of systems and data. Each year, OIG assesses information security controls in various HHS networks and systems. While HHS has addressed many deficiencies identified by prior audits, we continue to identify findings that put HHS systems, data,

and operations at risk. These include deficiencies in computer inventory management; logical access controls (e.g., weak passwords); outdated software; and patch management that could allow unauthorized access to HHS systems and sensitive data. Also, some HHS laptops lacked whole disk encryption, which put data at risk if laptops are lost or stolen. OIG recommended fixes for specific problems as well as a greater management focus on strengthening information security across HHS. Looking ahead, OIG is assessing security controls for the Data Services Hub being developed by HHS for the Health Insurance Exchanges.

Further, the security and integrity of health care providers' systems and data are essential to protect patient privacy, prevent and detect fraud, and improve quality of care. OIG raised concerns about HHS's oversight of hospitals' network security and has also noted the lack of general information technology (IT) security controls that would protect sensitive health data. Health IT holds promise of benefits for patients and providers; however, continued oversight is needed to guard against misuses that could result in improper payments or poor quality of care.

REDUCE AND REPORT IMPROPER PAYMENTS

HHS should make every reasonable effort to ensure that vital Federal dollars are spent for their intended purposes and in accordance with program requirements. In FY 2012, the Department reported \$64.8 billion in improper payments across eight programs deemed as high risk by the Office of Management and Budget. Three of these are relevant to today's hearing – Foster Care, Head Start, and the Child Care Development Fund (CCDF) – and accounted for about \$0.5 billion of those improper payments.² The positive news is HHS achieved improper payment rates below 10 percent for all three of these programs, and Head Start's improper payment rate was less than 1 percent. HHS met its error rate reduction goals for Head Start and CCDF.

The challenge remains for HHS to meet error rate reduction goals for Foster Care and to

² The other five programs were Medicare Fee-for-Service, Medicare Advantage, the Medicare Prescription Drug Program, Medicaid, and the Children's Health Insurance Program (CHIP).

further lower CCDF's improper payment rate from 7.9 percent. In addition, HHS did not meet its requirement to report an improper payment rate for the ninth high-risk program, Temporary Assistance for Needy Families, citing limitations in its authority to require States to provide the requisite information.

PREVENT, PREPARE FOR, AND RESPOND TO PUBLIC HEALTH EMERGENCIES

HHS is integral to preventing, preparing for, and responding to public health emergencies resulting from a wide spectrum of natural and man-made disasters. Adding to this management challenge is the need to coordinate effectively with a myriad of Federal, State, local, private, and international entities. In recent years, OIG has recommended management improvements in planning, coordination, and communication during pandemic influenza and hurricanes. Most recently, OIG reviewed local public health preparedness for radiological and nuclear incidents and recommended that CDC enhance its guidance and coordination with other entities involved in preparedness and response. Looking ahead and building on lessons learned from Hurricane Katrina, we will review HHS's internal control plans for overseeing funds for Hurricane Sandy relief and will conduct audits and evaluations based on identified risks.

Ensuring the security of toxins known as "select agents" and the Strategic National Stockpile is paramount to preventing and responding to public health disasters. OIG investigates violations of HHS rules for the handling of select agents and imposes financial penalties as appropriate. OIG has identified deficiencies in laboratory security over select agents and plans to review exports and imports of select agents. We are also assessing CDC's safeguards to ensure that the Stockpiles for pharmaceuticals are secure from theft, tampering, or other loss.

EFFECTIVELY MANAGE PUBLIC HEALTH PROGRAMS

Effective oversight and management of public health resources is essential to ensure that

vulnerable populations receive the full benefit of public health programs. OIG has identified the need for increased oversight of certain public health programs to meet their missions effectively. For example, CDC's Vaccines for Children program provides free vaccines to millions of eligible children at a cost of almost \$4 billion. However, my office found that providers too frequently stored vaccines at inappropriate temperatures, potentially reducing their effectiveness to protect against diseases. CDC agreed with and is implementing our recommendations, including working with State health officials and medical organizations and changing its vaccine ordering and inventory systems.

The Health Resources and Services Administration's (HRSA) community health centers are on the front lines of providing primary care to underserved populations. Yet, we found that HRSA provided limited oversight of the extent to which patients receive required services. OIG will continue our oversight of community health centers, including reviewing their use of the Affordable Care Act (ACA) grant funds. Likewise, the 340B Drug Discount Program is intended to increase access to prescription drugs for underserved and vulnerable populations. Prior OIG reviews have uncovered systemic problems with HRSA's oversight of the program, including problems with accuracy and reliability of data. HRSA is implementing improvements, and we will continue to monitor HRSA's management practices.

CONCLUSION

OIG will continue our vigilant oversight of HHS's management of these challenges, including increased responsibilities to oversee new programs created by ACA and the growing complexity and importance of existing HHS programs. I thank this Committee for its commitment to our shared goals – ensuring efficiency, effectiveness, and integrity in HHS programs and operations – which remain paramount in the current budget environment.