DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

March 5, 2010

TO: Yvette Roubideaux, M.D., M.P.H.
Director
Indian Health Service

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

SUBJECT: Audit of the Indian Health Service Fiscal Year 2005 Cost Statement for the Phoenix Area Office (A-09-07-00086)

The attached final report provides the results of our audit of the Indian Health Service (IHS) cost statement for fiscal year (FY) 2005 for the Phoenix area office.

IHS's Medicare cost statements for IHS Headquarters (Headquarters) and the area offices identify the portion of obligations from Headquarters and the area offices that is allowable under Medicare and allocable to IHS providers. Allowable Headquarters obligations are allocated to each area office. These obligations, combined with the area offices' own obligations, are then allocated among all IHS providers. Medicare cost statements are subject to the provisions of 42 CFR part 413 and the Medicare "Provider Reimbursement Manual," parts I and II, which establish standards for, among other things, the allowability and allocability of costs.

IHS included $39.1 million of obligations in its FY 2005 cost statement for the Phoenix area office. After IHS adjusted certain obligations, this amount decreased to $33.9 million. IHS identified $8.1 million of the $33.9 million as unallowable for Medicare reimbursement. We reviewed the remaining $25.8 million of obligations that IHS reported in the cost statement as allocable to IHS providers.

Our objective was to determine whether the obligations reported in the FY 2005 cost statement for the Phoenix area office were allowable under Medicare requirements.

The $25,773,354 of obligations reported in the FY 2005 cost statement for the Phoenix area office included $65,739 for unallowable depreciation and $1,992,466 for unsupported salaries, fringe benefits, and related obligations on which we could not express an opinion. Based on our review of judgmentally selected obligations totaling $5,642,418 and our limited review of IHS's internal controls, we concluded that the remaining $23,715,149 reported in the cost statement was allowable.

We recommend that IHS adjust its next cost statement for the Phoenix area office for $65,739 of unallowable depreciation that was reported in the FY 2005 cost statement; review the Phoenix area office's cost statements before and after FY 2005 and adjust its next cost statement for unallowable depreciation that was reported; strengthen its policies and procedures to ensure that depreciation is not reported for items that are fully depreciated; work with the Centers for Medicare & Medicaid Services (CMS) to determine how much of the $1,992,466 for salaries, fringe benefits, and related obligations reported in the Phoenix area office's FY 2005 cost statement was allowable and adjust its next cost statement for obligations that are determined to be unallowable; and develop and implement policies and procedures to ensure that estimates used to allocate obligations in cost statements are supported with cost information that is current, accurate, and in sufficient detail.

In its comments on our draft report, IHS stated that it would adjust a future cost statement to correct for the $65,739 of unallowable costs. In its comments on the second recommendation, IHS referred to its comments on the first recommendation. In response to the third recommendation, IHS described improvements that it was making to the reporting of equipment depreciation. Regarding the fourth recommendation, IHS stated that because 4 years had passed since the period of the FY 2005 cost statement, IHS did not believe that further adjustment of the obligations was warranted. Regarding the fifth recommendation, IHS stated that it would obtain signed time estimates from this point forward to handle salary and benefit obligations that are reclassified or adjusted.

In its response to our second recommendation, IHS did not agree that it would review cost statements before and after FY 2005 to determine if it had claimed additional unallowable depreciation costs. If IHS claimed unallowable costs, those costs should be adjusted in a future cost statement. We continue to recommend that IHS work with CMS to resolve the $1,992,466 for unsupported salaries, fringe benefits, and related obligations reported in the FY 2005 cost statement. In addition, signed time estimates do not provide sufficient support.

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.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through email at George.Reeb@oig.hhs.gov. Please refer to report number A-09-07-00086 in all correspondence.

Attachment

cc:
Charlene Frizzera
Acting Administrator
Centers for Medicare & Medicaid Services

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

AUDIT OF THE INDIAN HEALTH SERVICE FISCAL YEAR 2005 COST STATEMENT FOR THE PHOENIX AREA OFFICE

Daniel R. Levinson
Inspector General

March 2010
A-09-07-00086

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 Indian Health Service (IHS), an agency in the U.S. Department of Health and Human Services, delivers clinical and preventive health services to American Indians and Alaska Natives. IHS provides care in more than 600 health care facilities, including hospitals and outpatient clinics. An IHS facility can be operated by IHS, an Indian tribe, or a tribal organization. IHS Headquarters (Headquarters) has overall responsibility for IHS programs, and 12 area offices located throughout the United States ensure that individual areas' health care needs are met.

Section 1880 of the Social Security Act (the Act) authorizes Medicare reimbursement to IHS hospitals and skilled nursing facilities. Section 1911 of the Act authorizes Medicaid reimbursement to all IHS providers for covered services. IHS providers use all-inclusive reimbursement rates to bill for certain Medicare and Medicaid services provided in IHS and tribal facilities. IHS develops these rates annually using financial and patient data from IHS and certain tribal hospitals. The financial data are obtained from the hospitals' Medicare cost reports, and the patient data are obtained from IHS's patient workload systems.

An IHS contractor prepares separate Medicare cost statements for Headquarters and most of the area offices. (IHS cost statements use obligations rather than costs because, according to IHS officials, IHS's accounting system was not designed to accumulate costs.) The Headquarters and area-office cost statements identify the portion of obligations from Headquarters and the area offices that is allowable under Medicare and allocable to IHS providers. Allowable Headquarters obligations are allocated to each area office. These obligations, combined with the area offices' own obligations, are then allocated among all IHS providers. Medicare cost statements are subject to the provisions of 42 CFR part 413 and the Medicare "Provider Reimbursement Manual," parts I and II, which establish standards for, among other things, the allowability and allocability of costs.

IHS included $39.1 million of obligations in its fiscal year (FY) 2005 cost statement for the Phoenix area office. After IHS adjusted certain obligations, this amount decreased to $33.9 million. IHS identified $8.1 million of the $33.9 million as unallowable for Medicare reimbursement. We reviewed the remaining $25.8 million of obligations that IHS reported in the cost statement as allocable to IHS providers.

OBJECTIVE

Our objective was to determine whether the obligations reported in the FY 2005 cost statement for the Phoenix area office were allowable under Medicare requirements.

SUMMARY OF FINDINGS

The $25,773,354 of obligations reported in the FY 2005 cost statement for the Phoenix area office included $65,739 for unallowable depreciation and $1,992,466 for unsupported salaries, fringe benefits, and related obligations on which we could not express an opinion.

- Contrary to Federal requirements, IHS overstated equipment depreciation by $65,739 in the FY 2005 cost statement. Specifically, IHS erroneously reported depreciation for FY 2004 instead of FY 2005 and for some items that were already fully depreciated. IHS did not have adequate policies and procedures to determine when items were fully depreciated.

- Contrary to Federal requirements, IHS did not properly support its allocation of $1,992,466 for salaries, fringe benefits, and related obligations in the FY 2005 cost statement. Specifically, IHS used unverifiable estimates to allocate obligations related to employees who worked on multiple activities. IHS did not have policies and procedures to ensure that its estimates were supported with cost information that was current, accurate, and in sufficient detail. Because IHS had no verifiable support for its estimates, we were unable to express an opinion on the $1,992,466.

Based on our review of judgmentally selected obligations totaling $5,642,418 and our limited review of IHS's internal controls, we concluded that the remaining $23,715,149 reported in the cost statement was allowable.

RECOMMENDATIONS

We recommend that IHS:

- adjust its next cost statement for the Phoenix area office for $65,739 of unallowable depreciation that was reported in the FY 2005 cost statement;

- review the Phoenix area office's cost statements before and after FY 2005 and adjust its next cost statement for unallowable depreciation that was reported;

- strengthen its policies and procedures to ensure that depreciation is not reported for items that are fully depreciated;

- work with the Centers for Medicare & Medicaid Services (CMS) to determine how much of the $1,992,466 for salaries, fringe benefits, and related obligations reported in the Phoenix area office's FY 2005 cost statement was allowable and adjust its next cost statement for obligations that are determined to be unallowable; and

- develop and implement policies and procedures to ensure that estimates used to allocate obligations in cost statements are supported with cost information that is current, accurate, and in sufficient detail.

INDIAN HEALTH SERVICE COMMENTS

In its comments on our draft report, IHS stated that it would adjust a future cost statement to correct for the $65,739 of unallowable costs. In its comments on the second recommendation, IHS referred to its comments on the first recommendation. In response to the third recommendation, IHS described improvements that it was making to the reporting of equipment depreciation.

Regarding the fourth recommendation, IHS stated that because 4 years had passed since the period of the FY 2005 cost statement, IHS did not believe that further adjustment of the obligations was warranted. Regarding the fifth recommendation, IHS stated that it would obtain signed time estimates from this point forward to handle salary and benefit obligations that are reclassified or adjusted. With the implementation of the Unified Financial Management System, IHS is reviewing its policies and procedures to determine any necessary revisions. IHS's comments are included in their entirety as the Appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

In its response to our second recommendation, IHS did not agree that it would review cost statements before and after FY 2005 to determine if it had claimed additional unallowable depreciation costs. The intent of our second recommendation is to identify similar unallowable costs in other years from IHS cost statements. If IHS claimed unallowable costs, those costs should be adjusted in a future cost statement.

Regarding our fourth recommendation, we continue to recommend that IHS work with CMS to resolve the $1,992,466 for unsupported salaries, fringe benefits, and related obligations reported in the FY 2005 cost statement.

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INTRODUCTION

BACKGROUND

Indian Health Service

The Indian Health Service (IHS), an agency in the U.S. Department of Health and Human Services, delivers clinical and preventive health services to American Indians and Alaska Natives. IHS provides care in more than 600 health care facilities, including hospitals and outpatient clinics. An IHS facility can be operated by IHS, an Indian tribe, or a tribal organization.

IHS Headquarters (Headquarters) has overall responsibility for IHS programs. Twelve area offices located throughout the United States carry out the IHS mission by overseeing and administering programs that are designed to address individual areas' specific health care needs. Each area office provides regional support services to health care providers (e.g., hospitals, outpatient clinics, and community health centers) within its jurisdiction.

One of the twelve area offices is the Phoenix area office in Phoenix, Arizona. This area office oversees the delivery of health care to approximately 140,000 Native Americans throughout Arizona, Nevada, and Utah.

Medicare and Medicaid Reimbursement

IHS health care facilities receive Federal reimbursement for certain Medicare and Medicaid services. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the Medicare and Medicaid programs. The Indian Health Care Improvement Act (IHCIA) of 1976 (P.L. No. 94-437) added section 1880 of the Social Security Act (the Act) to authorize reimbursement to IHS hospitals and skilled nursing facilities for services provided to Medicare-eligible individuals. Further, section 432 of the Medicare, Medicaid, and SCHIP [State Children's Health Insurance Program[1]] Benefits Improvement and Protection Act of 2000 (P.L. No. 106-554) and section 630 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (P.L. No. 108-173) amended section 1880 of the Act to authorize payments for Medicare Part B services provided in certain IHS hospitals. The IHCIA also added section 1911 of the Act to authorize Medicaid reimbursement to all IHS providers for covered services.

IHS providers use all-inclusive reimbursement rates to bill for certain Medicare and Medicaid services provided in IHS and tribal facilities. IHS develops these rates annually using financial and patient data from IHS and certain tribal hospitals. The financial data are obtained from the hospitals' Medicare cost reports, and the patient data are obtained from IHS's patient workload systems.

[1]The program was renamed the Children's Health Insurance Program as of February 4, 2009.

IHS calculates one set of reimbursement rates for the lower 48 States and one set of rates for Alaska:[2]

- Medicare outpatient per-visit rate,
- Medicare Part B inpatient ancillary per diem rate,
- inpatient hospital per diem rate (excluding physician/practitioner services), and
- outpatient per-visit rate (excluding Medicare).[3]

Cost Statements for Headquarters and Area Offices

IHS contracts with Eighteen Nineteen Group, Inc. (Eighteen Nineteen), to prepare separate cost statements for Headquarters and 10 of the 12 area offices, including the Phoenix area office.[4] IHS cost statements use obligations rather than costs because, according to IHS officials, IHS's accounting system was not designed to accumulate costs. CMS and IHS agreed that IHS could use obligations instead of costs when preparing its cost statements.

The Headquarters and area-office cost statements identify the portion of obligations from Headquarters and the area offices that is allowable under Medicare and allocable to IHS providers. Allowable Headquarters obligations are allocated to the 12 area offices. These obligations, combined with the area offices' own obligations, are then allocated among all IHS providers. Headquarters and area office obligations that are allocated to IHS hospitals are included in each hospital's cost report. Errors in these cost reports can affect the calculation of the all-inclusive reimbursement rates described above.

Medicare cost statements are subject to the provisions of 42 CFR part 413 and the Medicare "Provider Reimbursement Manual" (the Manual), parts I and II, which establish standards for, among other things, the allowability and allocability of costs.

IHS included $39.1 million of obligations in its cost statement for the Phoenix area office for FY 2005 (October 1, 2004, through September 30, 2005).[5] After IHS adjusted certain obligations, this amount decreased to $33.9 million. IHS identified $8.1 million of the $33.9 million as

[2]The all-inclusive reimbursement rates developed by IHS using the fiscal year (FY) 2005 Medicare cost reports were finalized and used for reimbursement purposes in FY 2007.

[3]The inpatient hospital per diem and the outpatient per-visit rates are the encounter rates applicable to Medicaid services.

[4]Cost statements are not prepared for the California and Portland area offices because the areas for which they are responsible do not have any IHS hospitals.

[5]This amount does not include Headquarters obligations of $21.1 million that were allocated to Phoenix in FY 2005.

unallowable for Medicare reimbursement and allocated the remaining $25.8 million to IHS providers in the Phoenix area and to other areas.[6]

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the obligations reported in the FY 2005 cost statement for the Phoenix area office were allowable under Medicare requirements.

Scope

We reviewed $25,773,354 of the obligations that IHS reported in its FY 2005 cost statement for the Phoenix area office as allocable to IHS providers in the Phoenix area and to other areas. We did not review Headquarters' obligations of $21,120,894 that were allocated to the Phoenix area office. We reviewed those obligations as part of our review of the Headquarters cost statement.

We did not perform a detailed review of IHS's internal controls. We limited our review to obtaining an understanding of IHS's, including the Phoenix area office's, and Eighteen Nineteen's policies and procedures related to the accounting, accumulation, and reporting of obligations. We performed our fieldwork at the Phoenix area office in Phoenix, Arizona.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed the explanatory notes for the cost statement;
- reviewed IHS's reclassifications and adjustments of obligations;
- reviewed a judgmental sample of salaries, fringe benefits, and related obligations, including supplies, travel, and training;
- reviewed the method that IHS used to allocate the Phoenix area office's obligations to IHS providers in the Phoenix area and to other areas; and
- interviewed Phoenix area office and Eighteen Nineteen officials.

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

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[6]IHS allocated $1.6 million to the Navajo, California, and Tucson area offices and various health care facilities outside the Phoenix area for functions that Phoenix performed on their behalf.

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

The $25,773,354 of obligations reported in the FY 2005 cost statement for the Phoenix area office included $65,739 for unallowable depreciation and $1,992,466 for unsupported salaries, fringe benefits, and related obligations on which we could not express an opinion. Based on our review of judgmentally selected obligations totaling $5,642,418 and our limited review of IHS's internal controls, we concluded that the remaining $23,715,149 reported in the cost statement was allowable.

OVERSTATED DEPRECIATION

Federal regulations (42 CFR § 413.20) require that "providers maintain sufficient financial records and statistical data for proper determination of costs" and that cost statements be submitted "on an annual basis with reporting periods based on the provider's accounting year." CMS reiterated these requirements in the Manual. The Manual, part I, section 2304, states that cost information as developed by the provider must be current, accurate, and in sufficient detail to support payments made for services provided to beneficiaries. In addition, part II, section 102, states: "For cost reporting purposes, Medicare requires submission of annual reports covering a 12-month period of operations based upon the provider's accounting year."

Federal regulations (42 CFR § 413.134(a)) also state that depreciation on equipment used in the provision of patient care is an allowable cost. Among other requirements, the depreciation must be based on the historical cost of the asset and prorated over the estimated useful life of the asset. Further, 42 CFR § 413.144(b) states that if an asset has become fully depreciated under Medicare, further depreciation is not appropriate or allowable, even though the asset may continue in use.

The Manual, part I, section 116, paragraph A, states that regardless of the method of depreciation being used, an asset should not be depreciated below its salvage value.[7]

IHS overstated equipment depreciation by $65,739 in the FY 2005 cost statement for the Phoenix area office. Specifically, IHS erroneously reported depreciation for FY 2004 instead of FY 2005 and for some items that were already fully depreciated:

- Contrary to the requirements at 42 CFR § 413.20 and in the Manual, IHS reported information from the incorrect accounting year in its FY 2005 cost statement. Specifically, IHS reported the FY 2004 depreciation of $159,501 instead of the FY 2005 depreciation of $96,965. As a result, FY 2005 depreciation was overstated by $62,536.

- Contrary to Federal regulations and section 116, paragraph A, of the Manual, IHS reported $3,203 for depreciation on some equipment items that were fully depreciated.

[7]Salvage value is the estimated amount expected to be realized upon the sale or other disposition of the depreciable asset when it is no longer useful to the provider.

Consequently, the items were depreciated below their salvage value.[8] Rather than calculating a partial year's depreciation for items that were purchased during the year, IHS calculated a full year's depreciation in the first and last years of the items' useful lives without regard to when the items were purchased. IHS reported the additional depreciation because it did not have adequate policies and procedures to determine when items were fully depreciated.

ALLOCATIONS BASED ON UNVERIFIABLE ESTIMATES

Federal regulations state that the cost principles were developed to ensure that costs are reported according to actual use of services. The regulations (42 CFR § 413.5(a)) state: "[T]he share of the total institutional cost that is borne by the [Medicare] program is related to the care furnished beneficiaries so that no part of their cost would need to be borne by other patients. Conversely, costs attributable to other patients of the institution are not to be borne by the program."

Federal regulations (42 CFR § 413.5(b)) also explain that one objective of the principles of reimbursement is "[t]hat there be a division of the allowable costs between the beneficiaries of this program [Medicare] and the other patients of the provider that takes account of the actual use of services by the beneficiaries of this program and that is fair to each provider individually."

CMS reiterated this principle in section 2200.1 of part I of the Manual: "Principle of Cost Apportionment.—Total allowable costs of a provider are apportioned between [Medicare] program beneficiaries and other patients so that the share borne by the program is based upon actual services received by program beneficiaries."

Furthermore, Federal regulations (42 CFR § 413.24(a)) state: "Providers receiving payment on the basis of reimbursable cost must provide adequate cost data. This must be based on their financial and statistical records which must be capable of verification by qualified auditors." In addition, 42 CFR § 413.24(c) states: "The requirement of adequacy of data implies that the data be accurate and in sufficient detail to accomplish the purposes for which it is intended."

The Manual, part I, section 2304, states that cost information as developed by the provider must be current, accurate, and in sufficient detail to support payments made for services provided to beneficiaries.

Contrary to Federal regulations and the Manual, IHS did not properly support its allocation of $1,992,466 for salaries, fringe benefits, and related obligations reported in the FY 2005 cost statement. Specifically, IHS used unverifiable estimates to allocate obligations related to employees who worked on multiple activities:

- IHS reported $295,994 for Office of Environmental Health (the office) employees who performed patient-related duties, including infection control and emergency response and preparedness. The director of the office estimated that his staff spent 26 percent of its time on Medicare-reimbursable activities. He stated that he based the estimates on narrative documentation, which included the employees' activity reports and position

[8]IHS sets the salvage value for its equipment at zero.

descriptions and the office's annual activity report. We could not verify the estimates using the documentation that IHS provided.

- IHS reported $145,281 for a team of seven cardiology program employees who provided direct patient care in the areas served by the Phoenix, Tucson, and Navajo area offices. An administrative staff person estimated that approximately 16 percent of these employees' salaries and fringe benefits represented activities related to "indirect" patient care, such as team scheduling and speaking engagements, and was reimbursable in the FY 2005 cost statement for the Phoenix area office. The cost statement included a spreadsheet showing employees' percentages of time spent on direct and indirect patient care, but IHS could not provide support for the percentages included on the spreadsheet. We could not verify the estimates using the documentation that IHS provided.

- IHS reported $1,551,191 for financial management activities of Phoenix area office employees, who provided administrative support for two other area offices: Tucson and California. A financial management officer estimated that approximately 68 percent of the salaries, fringe benefits, and related obligations (such as training and travel) for these employees represented activities performed at the Phoenix area office. She based the estimates on spreadsheet information developed in prior years, but IHS could not provide support for the information included on the spreadsheet. We could not verify the estimates using the documentation that IHS provided.

These deficiencies occurred because IHS did not have policies and procedures to ensure that its estimates were supported with cost information that was current, accurate, and in sufficient detail. Because IHS had no verifiable support for its estimates, we were unable to express an opinion on the $1,992,466.

RECOMMENDATIONS

We recommend that IHS:

- adjust its next cost statement for the Phoenix area office for $65,739 of unallowable depreciation that was reported in the FY 2005 cost statement;

- review the Phoenix area office's cost statements before and after FY 2005 and adjust its next cost statement for unallowable depreciation that was reported;

- strengthen its policies and procedures to ensure that depreciation is not reported for items that are fully depreciated;

- work with CMS to determine how much of the $1,992,466 for salaries, fringe benefits, and related obligations reported in the Phoenix area office's FY 2005 cost statement was allowable and adjust its next cost statement for obligations that are determined to be unallowable; and

- develop and implement policies and procedures to ensure that estimates used to allocate obligations in cost statements are supported with cost information that is current, accurate, and in sufficient detail.

INDIAN HEALTH SERVICE COMMENTS

In its comments on our draft report, IHS stated that it would adjust a future cost statement to correct for the $65,739 of unallowable costs. In its comments on the second recommendation, IHS referred to its comments on the first recommendation. In response to the third recommendation, IHS described improvements that it was making to the reporting of equipment depreciation.

Regarding the fourth recommendation, IHS stated that because 4 years had passed since the period of the FY 2005 cost statement, IHS did not believe that further adjustment of the obligations was warranted. Regarding the fifth recommendation, IHS stated that it would obtain signed time estimates from this point forward to handle salary and benefit obligations that are reclassified or adjusted. With the implementation of the Unified Financial Management System, IHS is reviewing its policies and procedures to determine any necessary revisions. IHS's comments are included in their entirety as the Appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

In its response to our second recommendation, IHS did not agree that it would review cost statements before and after FY 2005 to determine if it had claimed additional unallowable depreciation costs. The intent of our second recommendation is to identify similar unallowable costs in other years from IHS cost statements. If IHS claimed unallowable costs, those costs should be adjusted in a future cost statement.

Regarding our fourth recommendation, we continue to recommend that IHS work with CMS to resolve the $1,992,466 for unsupported salaries, fringe benefits, and related obligations reported in the FY 2005 cost statement.

APPENDIX

APPENDIX: INDIAN HEALTH SERVICE COMMENTS

DEPARTMENT OF HEALTH & HUMAN SERVICES Public Health Service

Indian Health Service
Rockville MD 20852

AUG 21 2009

TO: Inspector General

FROM: Director

SUBJECT: Comments by the Indian Health Service on the OIG Draft Report "Audit of the Indian Health Service Fiscal Year 2005 Cost Statement for the Phoenix Area Office" (Report No. A-09-07-00086)

The purpose of this memorandum is to respond to your June 19 memorandum transmitting the Office of Inspector General (OIG) draft report entitled, "Audit of the Indian Health Service Fiscal Year 2005 Cost Statement for the Phoenix Area Office" (A-09-07-00086). I appreciate the opportunity to address your recommendations and the following provides the Indian Health Services's (IHS) comments on the draft report.

IHS Response to the OIG Draft Recommendations

1. **Adjust its next cost statement for the Phoenix Area Office for $65,739 of unallowable depreciation that was reported in the FY 2005 cost statement.**

   A correction will be made on a future report.

2. **Review the Phoenix Area Office's cost statements before and after FY 2005 and adjust its next cost statement for unallowable depreciation that was reported.**

   See comment above.

3. **Strengthen its policies and procedures to ensure that depreciation is not reported for items that are fully depreciated.**

   The IHS is currently working on a project to improve the reporting of equipment depreciation. An additional review step will include looking for reclassifications or adjustments that are the exact amount from one year to the next. This will prompt a review/correction of a prior year amount that is inadvertently carried forward. The improvements will ensure that items are not further depreciated once they become fully depreciated.

4. **Work with Centers for Medicare and Medicaid Services to determine how much of the $1,992,466 for salaries, fringe benefits, and related obligations reported in the Phoenix Area Office's FY 2005 cost statement was allowable and adjust its next cost statement for obligations that are determined to be unallowable.**

   This finding relates to the lack of signed time estimates rather than an actual dispute over the treatment of costs. Since it is now 4 years past the period of this cost report and the treatment of these salary costs was generally conservative to the Medicare program, the IHS does not believe that further adjustment of the FY 2005 costs is warranted. Instead, signed time estimates will be obtained from this point forward for handling salary and benefit costs that are reclassified or adjusted based on the amount of time spent.

5. **Develop and implement policies and procedures to ensure that estimates used to allocate obligations in cost statements are supported with cost information that is current, accurate, and in sufficient detail.**

   See comment above. Additionally, due to implementation of the Unified Financial Management System, the IHS is currently reviewing its policies and procedures in order to determine any necessary revisions.

Thank you for allowing the IHS to provide comments on the OIG's draft report.

Yvette Roubideaux

Yvette Roubideaux, M.D., M.P.H.