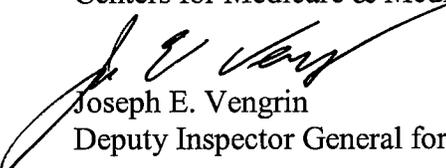




NOV 19 2008

**TO:** Kerry Weems  
Acting Administrator  
Centers for Medicare & Medicaid Services

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

**SUBJECT:** Centers for Medicare & Medicaid Services Resolution of Audit Recommendations  
(A-07-07-04112)

The attached final report provides the results of our review of the Centers for Medicare & Medicaid Services (CMS) resolution of audit recommendations.

CMS is responsible for resolving Federal and non-Federal audit report recommendations related to its activities, grantees, and contractors within 6 months after formal receipt of the reports. The Office of Inspector General prepares and forwards to CMS monthly stewardship reports that show the status of those reported audit recommendations. Our review covered the audit recommendations identified in stewardship reports for fiscal years (FY) 2006 and 2007.

Our objectives were to determine whether CMS had (1) resolved audit recommendations in a timely manner during FYs 2006 and 2007 and (2) resolved all audit recommendations that were due for audit resolution by September 30, 2007.

During FYs 2006 and 2007, CMS resolved 3,462 of the 4,650 audit recommendations that were outstanding during this period. However, it did not resolve 2,813 of the 3,462 recommendations within the required 6-month period. In addition, as of September 30, 2007, CMS had not resolved 1,188 audit recommendations that were past due for resolution. The dollar amounts associated with these recommendations totaled \$1.165 billion.

CMS did not resolve all audit recommendations in a timely manner. As a result, CMS did not have reasonable assurance that it was exercising proper stewardship over Federal dollars. However, CMS revised its audit resolution procedures during the audit period, resulting in progress toward resolving outstanding audit recommendations in a more timely manner.

We recommend that CMS (1) resolve all audit recommendations within the required 6-month audit resolution period and (2) resolve the 1,188 outstanding audit recommendations that were past due as of September 30, 2007.

In written comments on our draft report, CMS concurred with our recommendations and described corrective actions undertaken.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

Please send us your final management decision, including an 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 e-mail at [George.Reeb@oig.hhs.gov](mailto:George.Reeb@oig.hhs.gov). Please refer to report number A-07-07-04112 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**CENTERS FOR MEDICARE  
& MEDICAID SERVICES  
RESOLUTION OF AUDIT  
RECOMMENDATIONS**



Daniel R. Levinson  
Inspector General

November 2008  
A-07-07-04112

# *Office of Inspector General*

<http://oig.hhs.gov>

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

## *Office of Evaluation and Inspections*

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

## *Office of Investigations*

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

# *Notices*

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**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <http://oig.hhs.gov>

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

## **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 Department of Health and Human Services, Centers for Medicare & Medicaid Services (CMS), is responsible for providing health care services to persons age 65 and over, those who are disabled or have permanent kidney disease, and low-income individuals. CMS carries out these responsibilities through internal activities and through grants and contracts that support a number of health-care-related programs, including Medicare, Medicaid, and the State Children's Health Insurance Program.

Pursuant to Office of Management and Budget Circular A-50, section 8a(2), and other authorities, CMS is also responsible for resolving Federal and non-Federal audit report recommendations related to its activities, grantees, and contractors within 6 months after formal receipt of the reports. The Office of Inspector General prepares and forwards to CMS monthly stewardship reports that show the status of those reported audit recommendations. Our review covered 4,650 audit recommendations identified in stewardship reports for fiscal years (FY) 2006 and 2007.

### **OBJECTIVES**

Our objectives were to determine whether CMS had (1) resolved audit recommendations in a timely manner during FYs 2006 and 2007 and (2) resolved all audit recommendations that were due for audit resolution by September 30, 2007.

### **SUMMARY OF FINDINGS**

During FYs 2006 and 2007, CMS resolved 3,462 of the 4,650 audit recommendations that were outstanding during this period. However, it did not resolve 2,813 of the 3,462 recommendations within the required 6-month period. In addition, as of September 30, 2007, CMS had not resolved 1,188 audit recommendations that were past due for resolution. The dollar amounts associated with these recommendations totaled \$1.165 billion.

CMS did not resolve all audit recommendations in a timely manner. As a result, CMS did not have reasonable assurance that it was exercising proper stewardship over Federal dollars. However, CMS revised its audit resolution procedures during the audit period and has made progress in resolving outstanding audit recommendations in a more timely manner.

### **RECOMMENDATIONS**

We recommend that CMS:

- resolve all audit recommendations within the required 6-month audit resolution period and
- resolve the 1,188 outstanding audit recommendations that were past due as of September 30, 2007.

## **CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS**

In written comments on our draft report, CMS concurred with our recommendations and described corrective actions undertaken. CMS's comments are included in their entirety as the appendix.

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# INTRODUCTION

## BACKGROUND

The Department of Health and Human Services (HHS), Centers for Medicare & Medicaid Services (CMS), is responsible for providing health care services to persons age 65 and over, those who are disabled or have permanent kidney disease, and low-income individuals. CMS carries out these responsibilities through internal activities and through grants and contracts that support a number of health-care-related programs, including Medicare, Medicaid, and the State Children's Health Insurance Program.

CMS is also responsible for resolving Federal and non-Federal audit report recommendations related to its own activities and to its grantees and contractors within 6 months after formal receipt of the reports.<sup>1</sup>

### Federal Audits

Pursuant to the Inspector General Act of 1978, 5 U.S.C. App., the Office of Inspector General (OIG) conducts audits of internal CMS activities, as well as activities performed by CMS grantees and contractors. These audits are intended to provide independent assessments of CMS programs and operations and help promote economy and efficiency. OIG uses its own resources to conduct audits in accordance with generally accepted government auditing standards and oversees audit work done by certified public accounting firms.

### Non-Federal Audits

Office of Management and Budget (OMB) Circular A-133 requires periodic "single" audits of non-Federal entities that expend \$300,000 (\$500,000 for fiscal years (FY) that ended after December 31, 2003) or more in Federal awards in a year.<sup>2</sup> Single audits, usually conducted by certified public accounting firms, are audits of all Federal awards to an entity.

OMB Circular A-133 states that the Federal awarding agency is responsible for issuing a management decision within 6 months after formal receipt of the audit report for recommendations that relate to its awards. A management decision is the evaluation of audit recommendations and the proposed corrective action plan and the issuance of a written decision on what corrective action is necessary. OMB Circular A-133, subpart D, §\_\_\_\_.405(a), states: "The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given."

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<sup>1</sup>Throughout this report, we use the term "recommendations" to refer to both audit findings and recommendations.

<sup>2</sup>Some State and local governments that are required by constitution or statute in effect on January 1, 1987, to be audited less frequently than annually are permitted to undergo audits biennially. Nonprofit organizations also are allowed to have biennial audits under certain conditions.

OIG's National External Audit Review Center (NEAR) reviews the single audit reports for compliance with OMB Circular A-133 and for conformance with professional standards. NEAR transmits each CMS-related report to the CMS Audit Liaison Office and to the Regional CMS offices. When appropriate, NEAR also issues Audit Alert memorandums to inform CMS of significant audit recommendations. After resolving the audit recommendations, CMS issues a management decision to the grantee or contractor and an audit clearance document to the OIG audit resolution group.

## **Audit Resolution**

In resolving Federal and non-Federal audit recommendations, CMS must comply with OMB Circular A-50, section 8a(2), which requires “. . . prompt resolution and corrective actions on audit recommendations. Resolution shall be made within a maximum of six months after issuance of a final report or, in the case of audits performed by non-Federal auditors, six months after receipt of the report by the Federal Government. Corrective action should proceed as rapidly as possible.”

The HHS “Grants Administration Manual,” section 1-105, sets forth departmental policies and procedures for resolving recommendations pertaining to grants, contracts, and cooperative agreements. According to section 1-105-30(B)(1) of the manual, action officials must resolve audit recommendations within 6 months of the end of the month in which OIG issued or released the audit report. Resolution is normally deemed to occur when:

- action officials have reached a final decision on the amount of any monetary recovery;
- action officials have established a satisfactory plan of action, including time schedules, to correct all deficiencies; and
- OIG has cleared the report from its tracking system after receiving and accepting the audit clearance document(s) from action officials.

The 1982 Health Care Financing Administration's (HCFA)<sup>3</sup> “HCFA Audit Resolution Manual,” section 0704-3-20B, conveys guidance similar to that in the HHS “Grants Administration Manual,” with emphasis on the communication of final decisions and corrective action plans to auditees.

## **Stewardship Reports**

The OIG audit resolution group prepares monthly stewardship reports on the status of audit recommendations reported in Federal and non-Federal audits and forwards the stewardship reports to the applicable HHS agency. We reviewed the “Outstanding Audits and Actions Taken by Cognizance” stewardship reports for CMS. These reports identify all audit reports and corresponding recommendations issued for the selected period and provide the action taken (management's decision) and the date of that action or indicate that no action has been taken.

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<sup>3</sup>HCFA became CMS on July 1, 2001.

## **Prior Audit Work**

We conducted this audit as the result of prior OIG audit work in 2005, which focused on CMS's audit resolution process as it pertained exclusively to eligibility determinations for Medicaid and the State Children's Health Insurance Program.<sup>4</sup> During that audit, CMS stated that it had initiated a comprehensive restructuring of its entire audit resolution process for OIG audits. CMS planned to complete this process by March 2006.

On May 4, 2006, CMS issued an internal Memorandum of Understanding outlining the new CMS audit resolution process. Under these revised procedures, audit resolution processes related to "internal" audit reports were to remain with CMS's Central Office,<sup>5</sup> and audit resolution processes related to "external" audit reports were transferred to CMS's Region VII office in Kansas City, Missouri.<sup>6</sup>

For purposes of audit resolution, CMS defines "internal" audits as those that address policy issues or systems issues and that require a response from the CMS Administrator. CMS defines "external" audits as those involving entities other than CMS that receive Federal funds to operate various Federal programs. External audits may be performed by OIG, independent certified public accounting firms, Federal and State firms and auditors, or internal auditors of organizations that receive Federal funds.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

### **Objectives**

Our objectives were to determine whether CMS had (1) resolved audit recommendations in a timely manner during FYs 2006 and 2007 and (2) resolved all audit recommendations that were due for audit resolution by September 30, 2007.

### **Scope**

Our current review was designed to assess CMS's restructured audit resolution process. We used the "Outstanding Audits and Actions Taken by Cognizance" stewardship reports for FYs 2006 and 2007, which identified 1,081 audit reports and 5,163 corresponding recommendations. We excluded 500 unresolved audit recommendations (in 76 audit reports) that were not past due for audit resolution. In addition, from the FY 2007 stewardship report, we

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<sup>4</sup>"Resolution of Audit Findings on States' Beneficiary Eligibility Determinations for Medicaid and the State Children's Health Insurance Program" (A-07-06-03073), issued May 2, 2006.

<sup>5</sup>Pursuant to the terms of the Memorandum of Understanding, CMS's Office of Strategic Operations and Regulatory Affairs, Division of Audit Liaison, was designated to share internal audit resolution responsibilities with the Office of Operations Management's Enterprise Project Management and Analysis Group (later renamed the Planning, Performance Management & Analysis Group).

<sup>6</sup>CMS reorganized its regional offices into four consortium-based business lines in 2007. The Consortium for Financial Management and Fee for Service Operations, located in Kansas City, Missouri, is responsible for audit followup of external audits.

excluded 13 audit recommendations (in 12 audit reports) for a variety of reasons, including revisions to the recommendation codes, changes in responsibility for resolution, and receipt of additional information from CMS. We also changed three recommendations from the unresolved category to the resolved category based on information received from CMS.

Our objectives did not require an understanding or assessment of CMS's overall internal control structure. We limited our review to gaining an understanding of controls over CMS's audit resolution process.

We performed fieldwork at the CMS regional office in Kansas City, Missouri.

## **Methodology**

To accomplish our objectives, we:

- reviewed applicable sections of OMB Circulars A-50 and A-133, the HHS "Grants Administration Manual," the 1982 "HCFA Audit Resolution Manual," and other Federal requirements;
- reviewed CMS policies and procedures for resolving audit recommendations;
- reviewed the CMS internal report "Management Review of Monetary Audit Disallowances," dated December 2004;
- interviewed CMS staff and reviewed documentation provided by CMS officials;
- determined whether CMS had resolved in accordance with Federal requirements the 4,650 audit recommendations from the FY 2006–2007 stewardship reports that we identified for our review;
- reviewed working papers associated with previously issued OIG audits that tested the accuracy of information contained in the stewardship reports; and
- determined the dollar amounts associated with any unresolved recommendations that were beyond the required resolution period, as of September 30, 2007.

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.

## **FINDINGS AND RECOMMENDATIONS**

During FYs 2006 and 2007, CMS resolved 3,462 of the 4,650 audit recommendations that were outstanding during this period. However, it did not resolve 2,813 of the 3,462 recommendations

within the required 6-month period. In addition, as of September 30, 2007, CMS had not resolved 1,188 audit recommendations that were past due for resolution. The dollar amounts associated with these recommendations totaled \$1.165 billion.

CMS did not resolve all audit recommendations in a timely manner. As a result, CMS did not have reasonable assurance that it was exercising proper stewardship over Federal dollars. However, CMS revised its audit resolution procedures during the audit period and has made progress in resolving outstanding audit recommendations in a more timely manner.

## **FEDERAL REQUIREMENTS**

OMB Circular A-50, section 8a(2), requires “. . . prompt resolution and corrective actions on audit recommendations. Resolution shall be made within a maximum of six months after issuance of a final report or, in the case of audits performed by non-Federal auditors, six months after receipt of the report by the Federal Government. Corrective action should proceed as rapidly as possible.”

OMB Circular A-133, §\_\_\_\_.405(d), states: “The entity responsible for making the management decision shall do so within six months of receipt of the [non-Federal] audit report. Corrective action should be initiated within six months after receipt of the audit report and proceed as rapidly as possible.”

According to the HHS “Grants Administration Manual,” section 1-105-30(B)(1), action officials must resolve audit recommendations pertaining to grants, contracts, and cooperative agreements within 6 months of the end of the month in which OIG issued or released the audit report.

According to the 1982 “HCFA Audit Resolution Manual,” section 0704-3-20B, action officials are required to resolve audit findings within 6 months of the date on which OIG issued the final audit report.

## **AUDIT RECOMMENDATIONS RESOLVED BUT NOT IN A TIMELY MANNER**

Of the 3,462 audit recommendations that CMS resolved during FYs 2006 and 2007, 2,813 (81.2 percent) were not resolved within 6 months of the end of the month in which OIG issued or released the audit report, as required. Table 1 shows the timeframes for resolving these recommendations for FYs 2006 and 2007. Table 2 presents the same information for each of the 2 FYs individually.

**Table 1: Timeliness of Audit Recommendations Resolved  
in Fiscal Years 2006 and 2007 Combined**

<b>Resolution Timeframe</b>	<b>Number of Resolved Recommendations</b>	<b>Percent of Total</b>
Resolved timely (within 6 months)	649	18.8
Resolved but not timely (beyond 6 months)		
1 year or less	1,140	32.9
1+ year to 2 years	577	16.7
2+ years to 3 years	365	10.5
3+ years to 4 years	326	9.4
4+ years to 5 years	146	4.2
5+ years	259	7.5
Subtotal	2,813	81.2
<b>Total</b>	<b>3,462</b>	<b>100.0</b>

**Table 2: Timeliness of Audit Recommendations Resolved in Each Year**

<b>Resolution Timeframe</b>	<b>FY 2006</b>		<b>FY 2007</b>	
	<b>Number Resolved</b>	<b>Percent of Total</b>	<b>Number Resolved</b>	<b>Percent of Total</b>
Resolved timely (within 6 months)	167	13.0	482	22.1
Resolved but not timely (beyond 6 months)				
1 year or less	499	39.0	641	29.4
1+ year to 2 years	212	16.5	365	16.7
2+ years to 3 years	146	11.4	219	10.0
3+ years to 4 years	149	11.6	177	8.1
4+ years to 5 years	29	2.3	117	5.4
5+ years	79	6.2	180	8.3
Subtotal	1,114	87.0	1,699	77.9
<b>Total</b>	<b>1,281</b>	<b>100.0</b>	<b>2,181</b>	<b>100.0</b>

**AUDIT RECOMMENDATIONS NOT RESOLVED**

As of September 30, 2007, CMS had not resolved 1,188 audit recommendations that were past due for resolution. The dollar amounts associated with these recommendations totaled \$1.165 billion. Table 3 presents additional information on the timeframes for these unresolved

recommendations, and Table 4 presents additional information on the dollar amounts associated with these recommendations, categorized by recommended action.

**Table 3: Unresolved Audit Recommendations Past Due for Resolution  
as of September 30, 2007**

<b>Timeframe Beyond Required Resolution Date</b>	<b>Number of Recommendations</b>	<b>Percent of Total Recommendations</b>	<b>Average Days Beyond Required Resolution Date</b>	<b>Dollar Amounts Beyond Required Resolution Date (in millions)</b>	<b>Percent of Dollar Amounts Beyond Required Resolution Date</b>
1 year or less	229	19.3	249.8	\$552.2	47.4
1+ year to 2 years	213	17.9	633.5	233.4	20.0
2+ years to 3 years	208	17.5	987.1	197.9	17.0
3+ years to 4 years	196	16.5	1,239.8	136.9	11.8
4+ years to 5 years	183	15.4	1,628.9	31.8	2.7
5+ years	159	13.4	2,897.0	13.1	1.1
<b>Total</b>	<b>1,188</b>	<b>100.0</b>		<b>\$1,165.3</b>	<b>100.0</b>

**Table 4: Unresolved Audit Recommendations Past Due for Resolution  
as of September 30, 2007—  
Dollar Amounts by Recommended Action**

<b>Recommended Action</b>	<b>Dollar Amounts of Unresolved Recommendations Beyond Required Resolution Date (in millions)</b>
Monetary Recommendations:	
Questioned Costs	\$515.8
Funds Put to Better Use	464.0
Provide Documentation or Make Financial Adjustment	107.4
Obtain Approval or Make Financial Adjustment	48.0
Subtotal	\$1,135.2
Unable to Express an Opinion (Set Aside)	\$30.1
<b>Total</b>	<b>\$1,165.3</b>

## **PROGRESS TOWARD COMPLIANCE WITH FEDERAL REQUIREMENTS**

Since CMS implemented its revised audit resolution procedures in FY 2006 under its Memorandum of Understanding, it has made progress in complying with Federal requirements related to audit resolution.

Although CMS's overall rate of timely resolution for FYs 2006 and 2007 combined was 18.8 percent (as shown in Table 1), CMS improved its timely audit resolution from 13.0 percent in FY 2006 to 22.1 percent in FY 2007 (as shown in Table 2). This was a 70-percent improvement in timely resolution from 1 FY to the next.

We also noted a significant increase in the number of audit recommendations that CMS resolved. CMS resolved 1,281 recommendations during FY 2006 and 2,181 recommendations during FY 2007—an increase of 70.3 percent.

## **LACK OF REASONABLE ASSURANCE OF PROPER STEWARDSHIP OVER FEDERAL DOLLARS**

CMS did not resolve all audit recommendations in a timely manner. As a result, CMS did not have reasonable assurance that it was exercising proper stewardship over Federal dollars. Although CMS made progress, ultimately it did not resolve 81.2 percent of the audit recommendations in a timely manner. We encourage CMS to continue its progress toward resolving all outstanding audit recommendations in a more timely manner.

## **RECOMMENDATIONS**

We recommend that CMS:

- resolve all audit recommendations within the required 6-month audit resolution period and
- resolve the 1,188 outstanding audit recommendations that were past due as of September 30, 2007.

## **CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS**

In written comments on our draft report, CMS concurred with our recommendations and described corrective actions undertaken. Specifically, CMS stated that it “has implemented stronger internal controls that have allowed CMS to resolve audit recommendations within the required timeframe.”

CMS also provided technical comments, which we have addressed as appropriate. CMS's comments are included in their entirety as the appendix.

# **APPENDIX**



DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Centers for Medicare &amp; Medicaid Services

*Administrator*  
Washington, DC 20201

**DATE:** OCT 23 2008

**TO:** Joseph E. Vengrin  
Deputy Inspector General for Audit Services  
Office of Inspector General

**FROM:** Kerry Weems   
Acting Administrator

**SUBJECT:** Office of Inspector General (OIG) Draft Report: "Centers for Medicare & Medicaid Services Resolution of Audit Recommendations" (A-07-07-04112)

Thank you for the opportunity to review and comment on the above-referenced draft report. The Office of Inspector General (OIG) report on the Centers for Medicare & Medicaid Services' (CMS) audit resolution process found that CMS did not resolve all audit recommendations in a timely manner. We commit that CMS continue to strengthen its processes to ensure audits are resolved timely thus continuing to strengthen our stewardship over Federal dollars. We are happy to point out that our revised process has allowed us to remain current on all new recommendations. We have decreased the number of outstanding recommendations by 38% from 1,188 audit recommendations to 732 audit recommendations. We have reduced monetary recommendations by 56% from \$1,165,382,464 to \$515,268,896.

As noted in the draft report, CMS has significantly revised its audit resolution procedures. In May 2006, CMS put in place a comprehensive restructuring of its audit follow-up process. As a result, we have implemented stronger internal controls to ensure timely resolution of audits as outlined in Departmental policy and Office of Management and Budget (OMB) Circular A-50. In addition, CMS continues to assess and refine its audit resolution process on an on-going basis to ensure compliance with standards.

We found the report helpful because it validated our revised audit follow-up process and noted our significant improvement in the timely resolution of our audits. We have strengthened our reconciliation process to enable us to ensure each audit is resolved timely and to address any discrepancies within 30 days of receiving the OIG monthly Stewardship Report.

Page 2 – Joseph E. Vengrin

**Recommendation #1**

We recommend that CMS resolve all audit recommendations within the required 6-month audit resolution period.

**CMS Response**

We concur with the OIG recommendation. Since undergoing a comprehensive restructuring of our audit follow-up process, CMS has implemented stronger internal controls that have allowed CMS to resolve audit recommendations within the required timeframe.

**Recommendation #2**

We recommend that CMS resolve the 1,188 outstanding audit recommendations that were past due as of September 30, 2007.

**CMS Response**

We concur with the OIG recommendation. As of September 30, 2008, CMS has resolved 456 of the 1,188 outstanding recommendations, totaling \$650,113,568.

**Technical Comments**

Page 3 - Second paragraph, second sentence – CMS reorganized its regional offices into four Consortiums based business lines in 2007. The Consortium for Financial Management and Fee for Service Operations is located in Kansas City and is responsible for audit follow-up of external audits.

Page 3 - Footnote 5, the Enterprise Project Management and Analysis Group was renamed to its current name, Planning, Performance Management & Analysis Group, subsequent to the implementation of the MOU in May 2006.

We would again like to thank the OIG for all of its efforts and for the opportunity to comment. CMS is committed to improving our audit process by continuous assessment and refinement, and implementation of internal controls. In addition, CMS will resolve all audit recommendations within the 6-month period and continue to resolve the remaining outstanding audit recommendations identified in this report.