

Departmentwide Issues

Table of Contents

Financial Statement Audits

| | |
|---|---|
| Audits of FY 2004 Financial Statements..... | 1 |
| FY 2004 Statement on Auditing Standards 70 Examinations | 1 |
| FY 2004 Financial-Related Reviews..... | 2 |
| Audits of FY 2005 Financial Statements..... | 2 |
| FY 2005 Statement on Auditing Standards 70 Examinations | 3 |
| FY 2005 Financial-Related Reviews..... | 3 |

Automated Information Systems

| | |
|---|---|
| Information Systems Internal Controls—FY 2004 | 4 |
| Information Systems Internal Controls—FY 2005 | 4 |
| Federal Information Security Management Act of 2002 and Critical Infrastructure Protection | 4 |
| Security Planning for the Unified Financial Management System | 5 |
| Payment Management System Controls..... | 5 |
| Automated Information System Security Program | 5 |
| Use of Social Security Numbers in the Integrated Time and Attendance System | 6 |

Grants and Contracts

| | |
|-------------------------------|---|
| Requested Audit Services..... | 6 |
| Incurred Cost Contracts | 6 |

State Issues

| | |
|---|---|
| State Contracted Services | 7 |
| State Pension Funds..... | 7 |
| State Trust Funds | 7 |
| Excess Fund Reserves | 7 |
| Internal Service Funds..... | 7 |
| Statewide Cost Allocation Plan | 8 |
| Joint Work With Other Federal and State Agencies..... | 8 |

Other Issues

| | |
|---|---|
| Annual Accounting of Drug Control Funds | 8 |
| Non-Federal Audits | 9 |
| Reimbursable Audits | 9 |

Financial Statement Audits

The Government Management Reform Act of 1994 seeks to ensure that Federal managers have at their disposal the financial information and flexibility necessary to make sound policy decisions and manage scarce resources. This Act broadened the Chief Financial Officers Act of 1990 by requiring annual audited financial statements for all accounts and associated activities of HHS and other Federal agencies.

Audits of FY 2004 Financial Statements

The audited FY 2004 consolidated HHS financial statements are due to the Office of Management and Budget (OMB) by November 15, 2004. The following FY 2004 financial statement audits will be completed and reports will be issued during FY 2005:

- The **consolidated HHS** audit will be performed at all operating divisions, including those that will receive separate audit reports (listed below) and those that will not. Those that will not receive separate audit reports include ACF, HRSA, IHS, CDC, SAMHSA, AHRQ, NIH (excluding the Service and Supply Fund), AoA, and the Office of the Secretary.
(OAS; W-00-04-40009; A-17-04-00001)
- **CMS**
(OAS; W-00-04-40008; A-17-04-02004)
- **FDA**
(OAS; W-00-04-40013; A-17-04-00003)
- **Program Support Center**
(OAS; W-00-04-40003; A-17-43-00004)
- **NIH Service and Supply Fund**
(OAS; W-00-04-40013; A-17-04-00005)

FY 2004 Statement on Auditing Standards 70 Examinations

A Statement on Auditing Standards (SAS) 70 examination reports on those controls of a service organization that may be relevant to the user organizations' internal control structures. The following SAS 70 examinations of HHS service organizations will support FY 2004 financial statement audits:

- **Center for Information Technology** (NIH Computer Center)
(OAS; W-00-04-40012; A-17-03-00010)

- **Program Support Center—Major Administrative Support Services**
 - **Payment Management System**
(OAS; W-00-04-40012; A-17-04-00009)
 - **Division of Financial Operations in conjunction with the Information Technology Service Center**
(OAS; W-00-04-40012; A-17-04-00011)
 - **Human Resources Support in conjunction with the Information Technology Service Center**
(OAS; W-00-04-40012; A-17-04-00012)

FY 2004 Financial-Related Reviews

- **Office of Personnel Management (OPM) Agreed-Upon Procedures** assist OPM in assessing the reasonableness of retirement, health benefits, and life insurance withholdings and contributions, as well as enrollment information.
(OAS; W-00-04-40012; A-17-04-00008)
- **Payment Management System Agreed-Upon Procedures** focus on analyses of grant advances and expenditures, posting of expenditures, and recalculation of the estimated yearend grant accrual.
(OAS; W-00-04-40012; A-17-04-00013)
- **Closing-Package Audit Reports for the Governmentwide Financial Report System** are intended to support the preparation of governmentwide financial statements and reports.
(OAS; W-00-04-40012; A-17-04-00006)
- **Intragovernmental Agreed-Upon Procedures for the Closing Package** are intended to assist with accounting for and eliminating intragovernmental activity and balances in the preparation of governmentwide financial statements and reports.
(OAS; W-00-04-40012; A-17-04-00007)

Audits of FY 2005 Financial Statements

The audited FY 2005 consolidated HHS financial statements are due to OMB by November 15, 2005. The following FY 2005 financial statement audits will be completed and reports issued during FY 2006:

- The **consolidated HHS** audit will be performed at all operating divisions, including those that will receive separate audit reports (listed below) and those that will not. Those that will not receive separate audit reports include ACF, HRSA, IHS, CDC, SAMHSA, AHRQ, NIH (excluding the Service and Supply Fund), AoA, and the Office of the Secretary.
(OAS; W-00-05-40009; A-17-00-00000)

- **CMS**
(OAS; W-00-05-40008; A-17-00-00000)
- **FDA**
(OAS; W-00-05-40013; A-17-00-00000)
- **Program Support Center**
(OAS; W-00-05-40003; A-17-00-00000)
- **NIH Service and Supply Fund**
(OAS; W-00-05-40013; A-17-00-00000)

FY 2005 Statement on Auditing Standards 70 Examinations

A SAS 70 examination reports on those controls of a service organization that may be relevant to the user organizations' internal control structures. The following SAS 70 examinations of HHS service organizations will support FY 2005 financial statement audits:

- **Center for Information Technology** (NIH Computer Center)
(OAS; W-00-05-40012; A-17-00-00000)
- **Information Technology Support Center** (Office of Secretary)
(OAS; W-00-05-40012; A-17-00-00000)
- **Program Support Center—Major Administrative Support Services**
 - **Payment Management System**
(OAS; W-00-05-40012; A-17-00-00000)
 - **Division of Financial Operations**
(OAS; W-00-05-40012; A-17-00-00000)
 - **Human Resources Support**
(OAS; W-00-05-40012; A-17-00-00000)

FY 2005 Financial-Related Reviews

- **OPM Agreed-Upon Procedures** assist OPM in assessing the reasonableness of retirement, health benefits, and life insurance withholdings and contributions, as well as enrollment information.
(OAS; W-00-05-40012; A-17-00-00000)
- **Payment Management System Agreed-Upon Procedures** focus on analyses of grant advances and expenditures, posting of expenditures, and recalculation of the estimated

yearend grant accrual.
(OAS; W-00-05-40012; A-17-00-00000)

- **Closing-Package Audit Reports for the Governmentwide Financial Report System** are intended to support the preparation of Governmentwide financial statements and reports.
(OAS; W-00-05-40012; A-17-00-00000)
- **Intragovernmental Agreed-Upon Procedures for the Closing Package** are intended to assist with accounting for and eliminating intragovernmental activity and balances in the preparation of Governmentwide financial statements and reports.
(OAS; W-00-05-40012; A-17-00-00000)

Automated Information Systems

Information Systems Internal Controls—FY 2004

As part of our responsibilities under the Chief Financial Officers Act and the Federal Financial Management Improvement Act, we will oversee and conduct tests of internal controls over HHS information systems. The Acts require that OIG, or an independent public accountant chosen by OIG, understand the components of internal controls and conduct sufficient tests to reasonably assess control risk. This work will include nationwide reviews of internal controls in Medicare and Medicaid systems and in other HHS financial systems. The results of this effort will be included in our report on the consolidated HHS FY 2004 financial statements.

(OAS; W-00-04-40017; various reviews; no report)

Information Systems Internal Controls—FY 2005

As part of our responsibilities under the Chief Financial Officers Act and the Federal Financial Management Improvement Act, we will oversee and conduct tests of internal controls over HHS information systems. The Acts require that OIG, or an independent public accountant chosen by OIG, understand the components of internal controls and conduct sufficient tests to reasonably assess control risk. This work will include nationwide reviews of internal controls in Medicare and Medicaid systems and in other HHS financial systems. The results of this effort will be included in our report on the consolidated HHS FY 2005 financial statements.

(OAS; W-00-05-40017/40019; various reviews; no report)

Federal Information Security Management Act of 2002 and Critical Infrastructure Protection

Our review will assess various operating divisions' compliance with the Federal Information Security Management Act (FISMA) of 2002 and critical infrastructure protection requirements. FISMA and OMB Circular A-130, 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. As part of our review, we will follow up on the unresolved findings from other relevant audit reports on information systems controls.

(OAS; W-00-04/05-40016; various reviews; expected issue date: FY 2005; work in progress)

Security Planning for the Unified Financial Management System

We will determine whether the Department has adequately addressed information systems security requirements as it develops and implements the Unified Financial Management System. Federal law and departmental policy require that information security be practiced throughout the life cycle of all systems. We will determine whether security plans and related internal control deliverables for the new system conform to Federal guidelines and incorporate best practices from the public and private sectors.

(OAS; W-00-05-42001; A-17-00-00000; expected issue date: FY 2005; new start)

Payment Management System Controls

Our review will document and evaluate the existence and reliability of information systems controls over the electronic funds transfer function of the Payment Management System, which supports the Program Support Center's primary mission. As the largest grant payment and cash management system in the Federal Government, the Payment Management System disburses more than \$200 billion of the over \$300 billion in annual Federal grant funds and financial assistance awarded each year. The system services the grant programs of all HHS operating divisions and more than 40 other Federal agencies. The National Critical Infrastructure Assurance Office recognizes the system as one of the Department's most important national-level assets.

(OAS; W-00-05-42002; A-17-00-00000; expected issue date: FY 2005; new start)

Automated Information System Security Program

We will document and evaluate the existence and reliability of the Automated Information System Security Program at selected operating divisions. This program helps to protect information resources in compliance with the Computer Security Act of 1987 and the directives of OMB and the National Institute of Standards and Technology. To date, limited reviews have been conducted to determine compliance with HHS-mandated security program requirements. We will focus on defined areas in the HHS Automated Information System Security Program handbook and the new Information Technology Security Program being developed/sponsored by HHS.

(OAS; W-00-05-42003; various reviews; expected issue date: FY 2005; new start)

Use of Social Security Numbers in the Integrated Time and Attendance System

Our review will determine whether the Program Support Center provides adequate controls over employees' Social Security numbers, which are used as identifiers in the HHS Integrated Time and Attendance System. Federal agencies are responsible for limiting the risk of unauthorized disclosure of Social Security numbers and must safeguard the integrity of the numbers by reducing opportunities for external entities to improperly obtain and misuse them. We will perform an application assessment of the Time and Attendance System's security, including its use of encryption.

(OAS; W-00-05-42004; A-17-00-00000; expected issue date: FY 2005; new start)

Grants and Contracts

Requested Audit Services

Throughout the year Members of Congress and officials from the Department and other Federal departments request that we perform a variety of audit services. Requested audit services include:

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

We will evaluate these 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.

(OAS; W-00-05-12345; various reviews, expected issue date: FY 2005; new start)

Incurred Cost Contracts

We will initiate audits of certain contracts awarded by public health agencies, ACF, AoA, and/or the Office of the Secretary. Selection will be based on the materiality of the contract; the significance of contract modifications since the original award; and input from the operating divisions and the Assistant Secretary for Budget, Technology and Finance.

(OAS; W-00-05-58055; A-00-00-00000; expected issue date: FY 2005; new start)

State Issues

State Contracted Services

This review will examine States' increasing use and oversight of contractors that perform administrative and program functions in such areas as foster care, child support, and Statewide systems. Our prior work in the individual ACF program areas, as well as single audit reports, identified abuses in contract performance, service delivery, and costs claimed. We plan to expand that work to determine whether these are isolated incidents or indicators of systemic problems that should be addressed through improved control systems.

(OAS; W-00-05-58056; A-06-00-00000; expected issue date: FY 2005; new start)

State Pension Funds

These reviews will determine whether the Federal Government received an appropriate allocation when State pension funds were withdrawn, transferred to other State funds, or used to cover State expenses. We have identified pension transactions in two States that warrant review.

(OAS; W-00-05-58050; A-00-00-00000; expected issue date: FY 2005; new start)

State Trust Funds

We will determine whether a State appropriately charged the Federal Government for fees assessed on selected State trust funds. The State assessed fees as a way to transfer assets from some State trust funds to its general fund in order to balance its budget for State FY 2004.

(OAS; W-00-04-58051; A-04-05-03500; expected issue date: FY 2005; work in progress)

Excess Fund Reserves

We will determine whether internal service, self-insurance, or other State funds that receive Federal Government contributions have accumulated excess reserves. Previous reviews found that some States built excess reserves and transferred these reserves to their general funds

without refunding the Federal share.

(OAS; W-00-05-58052; A-00-00-00000; expected issue date: FY 2005; new start)

Internal Service Funds

We will determine if a State has appropriately credited the Federal Government for its share of refunds (or redirections of revenues) from the State's internal service fund for information technology services. This service fund provides centrally managed computing services to all of the State agencies and to county and city governments within the State. The fund receives almost all of its revenue income through a fee-for-service arrangement.

(OAS; W-00-04-58052; A-04-04-03503; expected issue date: FY 2005; work in progress)

Statewide Cost Allocation Plan

We will examine the equitableness of a State's allocation of indirect costs to Federal programs. One State has been cited in at least three recent statewide audits for significant inequities in its cost allocation plan. The inequitable allocation methods or other errors may have resulted in overcharges or undercharges to the Federal Government.

(OAS; W-00-05-58053; A-00-00-00000; expected issue date: FY 2005; new start)

Joint Work With Other Federal and State Agencies

To efficiently use audit resources, we will continue our efforts to provide broader coverage of HHS programs by partnering with State auditors, State departmental internal auditors and inspectors general, State agencies, and departmental financial managers. Since 1994, active partnerships have been developed with States on such Medicaid issues as prescription drugs, clinical laboratory services, the drug rebate program, and durable medical equipment. Future joint initiatives will cover managed care issues, hospital transfers, prescription drugs, outpatient therapy services, and transportation services.

We will also expand our partnerships to cover ACF State-administered programs. Our Partnership Plan will highlight opportunities for joint reviews in critical areas, such as licensing and monitoring child care facilities and foster homes and assessing safeguards for the elderly and people with disabilities. We will also identify areas in which State auditors can help States avoid disallowances and financial penalties due to unallowable costs claimed or noncompliance with Federal program requirements. Based on current OIG work, our planned expansion could also cover such issues as increasing child support collections and reducing undistributed collections; expanding enrollment in the State Children's Health Insurance Program; and improving oversight of State contracting for services, providers, and systems.

(OAS; W-00-05-27002; various reviews; expected issue date: FY 2005; new start)

Other Issues

Annual Accounting of Drug Control Funds

We will determine whether HHS agencies are in compliance with the Office of National Drug Control Policy requirements for annual accounting of drug control funds. Each year, agencies that participate in the National Drug Control Program are required to submit to the Office of National Drug Control Policy a detailed accounting of all prior-year drug control funds, along with an accompanying OIG "authentication." We will make this authentication to express a conclusion on the reliability of the HHS assertions regarding FY 2004 drug control funds.

(OAS; W-00-05-58001; A-03-00-00000; expected issue date: FY 2005; new start)

Non-Federal Audits

Under OMB Circular A-133, State and local governments, colleges and universities, and nonprofit organizations receiving Federal awards are required to have an annual organizationwide audit of all Federal money they receive. We will continue to review the quality of these audits by non-Federal auditors, such as public accounting firms and State auditors, in accordance with the circular. The objectives of our reviews are to ensure that the audits and reports meet applicable standards, identify any followup work needed, and identify issues that may require management attention.

We also provide up-front technical assistance to non-Federal auditors to ensure that they understand Federal audit requirements and to promote effective audit work. In addition, we analyze and record electronically the audit findings reported by non-Federal auditors for use by Department managers. Our reviews provide Department managers with assurance about the management of Federal programs and identify significant areas of internal control weaknesses, noncompliance with laws and regulations, and questioned costs that require formal resolution by Federal officials.

Reimbursable Audits

We will conduct a series of audits as part of the Department's cognizant responsibility under OMB Circular A-133. To ensure a coordinated Federal approach to audits of colleges, universities, and States, OMB Circular A-133 establishes audit cognizance—that is, which Federal agency has lead responsibility for audit of all Federal funds the entity receives. HHS OIG has audit cognizance for all State governments and most major research colleges and universities. Agreements have been reached among many OIG offices to reimburse the cognizant agency for audits performed at their request or the request of their program offices. (*OAS; W-00-05-50012; various reviews; expected issue date: FY 2005; new start*)