

Department of Homeland Security Office of Inspector General

System Review Report



Final Report

June 2012



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

System Review Report

June 29, 2012

The Honorable Daniel R. Levinson
Inspector General
U.S. Department of Health and Human Services
Office of Inspector General
Room 5250, Cohen Building
330 Independence Ave, S.W.
Washington DC 20201

We have reviewed the quality control system for the audit organization of the U.S. Department of Health and Human Services (HHS) Office of Inspector General (OIG) in effect for the year ended September 30, 2011. A quality control system encompasses HHS OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming to the elements of quality control described in *Government Auditing Standards*. HHS OIG is responsible for designing a quality control system and complying with it to provide a reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the quality control system and HHS OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed HHS OIG personnel and obtained an understanding of the nature of the HHS OIG audit organization and the design of its quality control system. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with HHS OIG's quality control system. The engagements selected represented a reasonable cross section of HHS OIG's audit organization. Before concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with HHS OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the quality control system for HHS OIG's audit organization. In addition, we tested compliance with HHS OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of its policies and procedures on selected engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in or all instances of noncompliance with the quality control system.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

There are inherent limitations in the effectiveness of any quality control system, and therefore noncompliance may occur and may not be detected. A projection of any quality control system evaluation to future periods is subject to the risk that the system may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

Enclosure 1 to this report identifies the HHS OIG engagements that we reviewed.

In our opinion, the quality control system for the HHS OIG audit organization in effect for the year ended September 30, 2011, has been suitably designed and complied with to provide it with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. HHS OIG has received a peer review rating of *pass*. As is customary, we have issued a letter dated June 29, 2012, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

In addition to reviewing the quality control system to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to HHS OIG's monitoring of engagements performed by independent public accountants (IPAs) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and therefore is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether HHS OIG had controls to ensure that IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion, and accordingly we do not express an opinion of HHS OIG's monitoring of work performed by IPAs. We made certain comments related to HHS OIG's monitoring of engagements performed by IPAs; these are included in the above-referenced letter dated June 29, 2012.

A handwritten signature in blue ink, reading "Charles K. Edwards", is positioned above the printed name.

Charles K. Edwards
Acting Inspector General

Enclosure



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

SCOPE AND METHODOLOGY (Enclosure 1)

Scope and Methodology

We tested compliance with the HHS OIG audit organization's quality control system to the extent we considered appropriate. These tests included a review of 12 of 402 audit and attestation reports issued during the period October 1, 2010, through September 30, 2011, and one dated February 11, 2010. One of the reports we reviewed was an audit that was part of the internal quality control reviews performed by HHS OIG.

In addition, we reviewed HHS OIG's monitoring of engagements performed by IPAs where the IPA served as the principal auditor during the period October 1, 2010, through September 30, 2011. During the period, HHS OIG contracted for the audit of its agency's fiscal year (FY) 2011 financial statements. HHS OIG also contracted for certain other engagements that were to be performed in accordance with *Government Auditing Standards*.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Reviewed Engagements Performed by HHS OIG

Report No.	Report Date	Report Title
A-01-08-00014	2/11/2010	Review of Medicaid Administrative Costs Claimed for the Massachusetts Department of Transitional Assistance
A-01-10-00528	5/18/2011	Hillcrest Baptist Medical Ctr, Scott & White Health Care, Temple, TX, Voluntary Refund of Place of Service Coding Overpayments for CYs 2006–2009: Amount Verification
A-02-09-01033	7/28/2011	Review of New Jersey Medicaid 1915(c) Community Care Waiver Services at Elwyn, New Jersey
A-03-08-00207	11/4/2010	Review of Personal Care Services — Tri State
A-03-10-00202	6/28/2011	Review of Administrative Costs Claimed for PA's HCBS Waiver for Individuals Aged 60 + Over
A-04-08-01056	12/17/2010	CDC's Compliance with Select Agent Regulations – [REDACTED]
A-04-10-01082	11/30/2010	Limited Scope Audit – CSBG – Broward County Board of County Commissioners
A-06-09-00053	11/8/2010	Review LA Workforce Supply Grant (Practitioner Contract Signatures)
A-06-10-00034	10/12/2010	Pinnacle Outpatient Excessive Payments 2008
A-05-10-00054	3/29/2011 <small>(Date Audit Was Closed, No Report Issued.)</small>	Review of Medicaid Third-Party Liability for Prescription Drug Payments in Michigan

Reviewed Monitoring Files of HHS OIG for IPA Contracted Engagements

Report No.	Report Date	Report Title
A-17-10-02010	11/12/2010	Centers for Medicare and Medical Services FY 2010 Financial Statement Audit
A-17-11-00010	5/20/2011	Center for Information Technology at the National Institutes of Health, Application Hosting Environments System for the Period October 1, 2010, Through June 30, 2011
A-18-10-30203	12/9/2010	IT Audit – Oversight of FY 2010 CMS CFO IT Audit – Highmark

ADDITIONAL INFORMATION AND COPIES

To obtain additional copies of this document, please call us at (202) 254-4100, fax your request to (202) 254-4305, or e-mail your request to our Office of Inspector General (OIG) Office of Public Affairs at: DHS-OIG.OfficePublicAffairs@dhs.gov.

For additional information, visit our website at: www.oig.dhs.gov, or follow us on Twitter at: [@dhsoig](https://twitter.com/dhsoig).

OIG HOTLINE

To expedite the reporting of alleged fraud, waste, abuse or mismanagement, or any other kinds of criminal or noncriminal misconduct relative to Department of Homeland Security (DHS) programs and operations, please visit our website at www.oig.dhs.gov and click on the red tab titled "Hotline" to report. You will be directed to complete and submit an automated DHS OIG Investigative Referral Submission Form. Submission through our website ensures that your complaint will be promptly received and reviewed by DHS OIG.

Should you be unable to access our website, you may submit your complaint in writing to: DHS Office of Inspector General, Attention: Office of Investigations Hotline, 245 Murray Drive, SW, Building 410/Mail Stop 2600, Washington, DC, 20528; or fax it directly to us at (202) 254-4297.

The OIG seeks to protect the identity of each writer and caller.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

June 29, 2012

The Honorable Daniel R. Levinson
Inspector General
U.S. Department of Health and Human Services

Dear Mr. Levinson:

We have reviewed the system of quality control for the audit organization of the U.S. Department of Health and Human Services (HHS) Office of Inspector General (OIG) in effect for the year ended September 30, 2011, and have issued our report dated June 29, 2012, in which the HHS OIG received a rating of *pass*. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion.

We observed numerous positive practices at the HHS OIG audit organization and appreciate the cooperation and courtesies provided by the audit staff. They showed a high level of professionalism and expertise and displayed a thorough knowledge of the audits we reviewed and the audit organization's policies and procedures. The findings described below were not considered to be of sufficient significance to affect the opinion expressed in our report.

Finding 1: Documentation of Supervisory Oversight

Section 10-02-50 of the HHS OIG Office of Audit Services' (OAS) Audit Policies and Procedures Manual states that supervisory review of audit work should continue throughout the audit. In addition, section 10-02-60 states that proper supervision should be documented through records of team meetings, phone calls, emails, review notes, and sign-offs of audit documentation.

HHS OIG generally had evidence of proper levels of staff supervision and documentation reviews from planning to report issuance on most of the audits that we reviewed. However, we identified issues with documentation of supervision on 4 of the 13 audits that we included in our peer review. For example:

- On these four projects, there was limited evidence of audit manager supervision aside from TeamMate sign-off.
- On two of the projects, the audit managers did not document their workpaper reviews.
- On one of the projects, we reviewed workpapers that were prepared but not documented as approved for 2 years.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

- On one of the projects, 21 documents were documented as approved after the final report issue date.
- On two of the projects, there was little documentation or evidence of phone calls, emails, review notes, or meetings between the team's senior staff members and junior staff.

Improved compliance with supervisory review requirements in sections 10-02-50 and 10-02-60 of the HHS OIG OAS Audit Policies and Procedures Manual will help ensure sufficient supervisory review and oversight of audit documentation.

Recommendation – Ensure sufficient documentation of supervisory review and oversight throughout the audit process as set forth within the HHS OIG OAS' Audit Policies and Procedures Manual.

Views of Responsible Official:

We appreciated the independent assessment by the peer review team that OAS complied with generally accepted auditing standards related to supervision. However, the reviewers noted that in some instances supervisory oversight could have been better documented. The external peer review process is an important element of Federal audit organizations' quality control system, and we will consider ways to address your observations and recommendation concerning documentation of supervisory oversight.

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the Council of the Inspectors General on Integrity and Efficiency related to HHS OIG's monitoring of audit work performed by independent public accountants (IPAs) under contract where the IPA served as the principal auditor. The matter described below was identified.

Finding 2: IPA Monitoring – Documentation of Oversight

Section 4(b) of the *Inspector General Act of 1978*, as amended (5 U.S.C. Appendix 3), requires OIGs to establish guidelines to determine when it is appropriate to use non-Federal auditors such as IPAs. While IPA monitoring conducted by an OIG is not an audit and does not need to comply with generally accepted government auditing standards (GAGAS), the act requires OIGs to ensure that the work of non-Federal auditors adheres to GAGAS.

HHS OIG generally considered the IPAs' qualifications, technical approach, and system of quality control; evaluated the qualifications and continuing professional education of its staff; and conducted oversight of the work they performed. However, one of the three audits we selected did not have sufficient evidence documenting the assessment of the IPA



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

team members' qualifications, experience, and independence and the oversight of the IPA's work. Limited documentation makes it difficult to conclude that all oversight steps were performed.

Recommendation – Emphasize guidance requiring documentation of work performed related to the contracting process and monitoring of IPA work.

Views of Responsible Official:

We are pleased that the peer review found that we generally performed sufficient activities to monitor the audit work performed by IPAs under contract. Our team has robust procedures designed to ensure that all critical elements of these important engagements are appropriately addressed in accordance with professional standards. We will emphasize the importance of documenting the procedures performed related to the contracting process and monitoring of IPA work as recommended.

If you have any questions or need additional information, please contact Richard Harsche, Director, Information Management for Information Technology Audits, at (202) 254-5448.

A handwritten signature in blue ink, reading "Charles K. Edwards", is positioned above the printed name and title.

Charles K. Edwards
Acting Inspector General

Enclosure