



May 27, 2010

TO: Mary Wakefield, Ph.D., R.N.
Administrator
Health Resources and Services Administration

FROM: /Lori S. Pilcher/
Assistant Inspector General for Grants, Internal Activities,
and Information Technology Audits

SUBJECT: Health Resources and Services Administration's Bureau of Clinician Recruitment and Service – Internal Control Review of the Process for Awarding American Recovery and Reinvestment Act Funds (A-03-09-00372)

The attached final report provides the results of our review of internal controls over the process for awarding American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), funds at the Health Resource Services and Administration's Bureau of Clinician Recruitment and Service. This review was part of the Office of Inspector General's assessment of whether the Department of Health & Human Services is using Recovery Act funds in accordance with legal and administrative requirements and is meeting the accountability objectives defined by the Office of Management and Budget.

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>.

If you have any questions or comments about this report, please do not hesitate to call me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-03-09-00372 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**HEALTH RESOURCES AND
SERVICES ADMINISTRATION'S
BUREAU OF CLINICIAN RECRUITMENT
AND SERVICE – INTERNAL
CONTROL REVIEW OF THE
PROCESS FOR AWARDING
AMERICAN RECOVERY AND
REINVESTMENT ACT FUNDS**



Daniel R. Levinson
Inspector General

May 2010
A-03-09-00372

Office of Inspector General

<http://oig.hhs.gov>

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

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

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 American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), was signed into law by President Obama on February 17, 2009. The Recovery Act includes measures to modernize our nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

Every taxpayer dollar spent on the economic recovery must be subject to unprecedented levels of transparency and accountability. The five crucial objectives for the Department of Health & Human Services (HHS) and its agencies are:

- Recovery Act funds are awarded and distributed in a prompt, fair, and reasonable manner.
- Recovery Act funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner.
- Recovery Act funds are used for authorized purposes and every step is taken to prevent instances of fraud, error, and abuse.
- Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.
- Projects funded under the Recovery Act ensure program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

At the President's direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. An Office of Management and Budget memorandum (April 3, 2009) updated initial implementing Recovery Act guidance (February 18, 2009) and requires that all Federal agencies and departments receiving Recovery Act funds must maintain strong internal controls and implement appropriate oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

Health Resources and Services Administration

The Health Resources and Services Administration (HRSA) is charged with increasing access to basic health care for those who are medically underserved. HRSA implements its programs through its 6 bureaus and 13 offices. The Office of Federal Assistance Management (OFAM) provides assistance and oversight to the bureaus. The bureaus, in conjunction with OFAM, establish goals and policies for the programs and activities applicable to the administration of the programs. The Bureau of Clinician Recruitment and Service (BCRS) supports students and clinicians by offering scholarship and educational loan repayment opportunities in exchange for commitments to serve in Health Professional Shortage Areas.

Recovery Act Funding to Address Shortages in the Health Professions Workforce

The Recovery Act provides \$2.5 billion to HRSA to help stimulate the economy through the support of health care access for the underserved. Of the \$2.5 billion, \$2.0 billion was appropriated to support, modernize, and renovate health centers. The remaining \$500 million was appropriated to address the workforce shortage of health professionals.

Of the \$500 million that the Recovery Act provided to address workforce shortage, HRSA apportioned \$302 million to the BCRS. BCRS is using the Recovery Act funding to provide scholarship and loan repayment awards directly to individuals entering or in the health care professions.

OBJECTIVE

Our objective was to assess the internal controls HRSA has in place over the process used by BCRS to award Recovery Act funds for scholarships and loan repayments directly to health professionals to determine whether the controls have been suitably designed.

SUMMARY OF RESULTS

The internal controls over the process used to award BCRS's Recovery Act funds, as described by HRSA and BCRS management, are suitably designed to provide reasonable assurance that the specified internal control objectives would be achieved if the described internal controls were complied with satisfactorily and applied as designed.

This report provides a sufficient understanding of HRSA's process for awarding Recovery Act funds as it pertains to control objectives in the following internal control areas: authorization and approval; accuracy, completeness, and validity; physical safeguards and security; error handling; and segregation of duties.

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INTRODUCTION

BACKGROUND

Recovery Act Requirements

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), was signed into law by President Obama on February 17, 2009. The Recovery Act includes measures to modernize our nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

According to the Department of Health & Human Services (HHS) Recovery Act Web site,¹ every taxpayer dollar spent on our economic recovery must be subject to unprecedented levels of transparency and accountability.

The five crucial objectives for HHS and its agencies are:

- Recovery Act funds are awarded and distributed in a prompt, fair, and reasonable manner.
- Recovery Act funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner.
- Recovery Act funds are used for authorized purposes and every step is taken to prevent instances of fraud, error, and abuse.
- Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.
- Projects funded under the Recovery Act ensure program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

At the President's direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. An Office of Management and Budget (OMB) memorandum (April 3, 2009) updated initial implementing Recovery Act guidance (February 18, 2009) and requires that all Federal agencies and departments receiving Recovery Act funds must maintain strong internal controls and implement appropriate oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

Health Resources and Services Administration

The Health Resources and Services Administration (HRSA) is charged with increasing access to basic health care for those who are medically underserved. HRSA establishes policies over its award processes and provides standard terms and conditions for each type of program. HRSA

¹ Available online at <http://www.hhs.gov/recovery/reports/index.html>, accessed on April 9, 2010.

implements its programs through its six bureaus and 13 offices, which provide leadership and financial support to health care providers through a wide range of programs and initiatives designed to safeguard the health and well-being of the Nation's most vulnerable populations.

HRSA programs are legislatively authorized by Congress. The legislation defines the purpose and provides appropriations for these programs. The Office of Federal Assistance Management (OFAM) provides assistance and oversight to the bureaus. The bureaus, in conjunction with OFAM, establish goals and policies for the programs and activities applicable to the administration of the programs.

Bureau of Clinician Recruitment and Service

The Bureau of Clinician Recruitment and Service (BCRS) supports students and clinicians through its National Health Service Corps (NHSC) Scholarship Program and NHSC Loan Repayment Program, and Nursing Education Loan Repayment Program in exchange for commitments to serve in Health Professional Shortage Areas.² BCRS also supports the development of faculty to train the next generation of health care professionals through its Faculty Loan Repayment Program and provides technical assistance and support for HRSA grantees, other safety net providers,³ and facilities with critical nursing shortages to develop effective recruitment and retention programs in their communities.

Recovery Act Funding to Address Shortages in the Health Professions Workforce

The Recovery Act provides \$2.5 billion to HRSA to help stimulate the economy through the support of health care access for the underserved. Of the \$2.5 billion, \$2.0 billion was appropriated to support, modernize, and renovate health centers. The remaining \$500 million was appropriated to address workforce shortages of health professionals.

Of the \$500 million that the Recovery Act provided to address workforce shortages, HRSA apportioned \$302 million to the BCRS.⁴ BCRS is using the Recovery Act funding to provide scholarship and loan repayment awards directly to individuals entering or in the health care professions. Scholarships may cover the cost of tuition, fees and other reasonable education costs, and a monthly support stipend. Loan repayments cover qualifying preexisting loans for similar health education costs. Recipients agree to provide two years of health care service to the medically underserved.

² A Health Professional Shortage Area is defined in 42 U.S.C. 254e to include a geographic area, facility, or a population group, which the Secretary of Health & Human Services has determined to have a shortage of health professionals.

³ Safety net providers deliver a significant level of health care to uninsured, Medicaid, and other vulnerable patients.

⁴ We reviewed the awarding process of the Bureau of Health Professions in a separate report, *Health Resources and Services Administration's Bureau of Health Professions — Internal Control Review of the Process for Awarding American Recovery and Reinvestment Act Funds* (A-03-09-00362).

This review, one in a series of reviews of HRSA's internal controls over the process used to award Recovery Act funds, addresses BCRS's award processes for programs in the health professions. Programs funded by the Recovery Act and administered by BCRS are designed to increase public access to affordable primary health care by providing an incentive to primary health care clinicians and students to serve in Health Professional Shortage Areas.

Health Resources and Services Administration's Scholarship and Loan Repayment Award Process

Students and health care professionals applying for scholarships or loan repayment must submit applications online at the NHSC website, www.nhsc.hrsa.gov. The BCRS uses its own information management system to accept and manage the applications electronically. BCRS makes awards through contracts signed by the applicant and the HHS Secretary designee. In the contracts, applicants agree to accept a scholarship or repayment of health profession educational loans and to serve for a prescribed period of obligated service.

OFAM provides guidance relating to the laws, regulations, and policies pertinent to the administration of HRSA grants and scholarships and loan repayment awards. OFAM conducts operational planning, review, awarding, and management of HRSA's portfolio of grants and awards. Within OFAM, there are four divisions: Division of Financial Integrity, Division of Grants Policy, Division of Grants Management Operations, and Division of Independent Review. Each division has standard operating procedures.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to assess the internal controls HRSA has in place over the process used by BCRS to award Recovery Act funds for scholarships and loan repayments directly to health professionals to determine whether the controls have been suitably designed.

Scope

We assessed HRSA's internal controls over the process used by BCRS to award Recovery Act funds in the form of scholarship and loan repayment awards directly to health professionals. Our assessment was limited to determining whether existing controls adequately achieved the control objectives for (1) authorization and approval; (2) accuracy, completeness, and validity; (3) physical safeguards and security; (4) error handling; and (5) segregation of duties.

We did not perform procedures to determine the operating effectiveness of these controls. Accordingly, we express no opinion on the operating effectiveness of any aspects of HRSA's internal controls over the process that BCRS used to award Recovery Act funds, individually or in the aggregate.

We performed fieldwork at HRSA offices in Rockville, Maryland, from June through August 2009.

Methodology

The internal control environment represents the collective effect of a number of elements in establishing, enhancing, or mitigating the effectiveness of specific policies and procedures. To gain an understanding of BCRS's internal control environment, we:

- reviewed relevant Federal laws and regulations, including Recovery Act guidance issued by OMB, that BCRS must follow for awarding scholarships and loan repayment assistance;
- reviewed HRSA's organizational structure, including segregation of functional responsibilities, policy statements, operating manuals, and personnel policies;
- reviewed HRSA's spending and implementation plans for financial support of health professionals' training and education;
- reviewed BCRS's Application Information Bulletins (Bulletins) for the NHSC Scholarship Program, NHSC Loan Repayment Program, Nursing Education Loan Repayment Program, and Faculty Loan Repayment Program;
- reviewed HRSA's Fiscal Year 2008 Improper Payments Information Act Risk Assessment (risk assessment);
- interviewed HRSA and BCRS management, as well as operations, administrative, and other personnel responsible for developing, assuring adherence to, and applying internal controls; and
- reviewed the scholarship and loan repayment award process, for four awards to gain an understanding of the award process.

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 objective.

RESULTS OF REVIEW

The internal controls over the process used to award BCRS's Recovery Act funds, as described by HRSA and BCRS management, are suitably designed to provide reasonable assurance that the specified internal control objectives would be achieved if the described internal controls were complied with satisfactorily and applied as designed.

This report provides a sufficient understanding of HRSA's process for awarding Recovery Act funds as it pertains to control objectives in the following internal control areas:

- authorization and approval: transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority;
- accuracy, completeness and validity: all transactions should be consistent with the originating data and fairly represent the economic events that actually occurred, and no valid transactions should be omitted;
- physical safeguards and security: physical controls need to be established to secure and safeguard vulnerable assets and to limit access to resources and records to authorized individuals;
- error handling: errors detected at any stage of processing should receive prompt corrective action and be reported to the appropriate level of management; and
- segregation of duties: key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.

AUTHORIZATION AND APPROVAL

Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Scholarship and Loan Repayment Eligibility Requirements Are in Accordance With Laws, Regulations, Recovery Act Guidance, and Agency Policy

- BCRS's policy is to award scholarships or repayments of qualifying loans for educational costs to applicants who wish to pursue training or practice in health care disciplines and specialties most needed to deliver quality primary health care and who agree to serve for a stipulated period in a medically underserved area. Each scholarship and loan repayment program has its own set of eligibility and service requirements.
- BCRS's policy is to prepare guidance in the form of Bulletins to advise applicants about the requirements for scholarship and loan repayment programs. Bulletins include application forms and other documentation requirements.
- HRSA policy states that guidance is sent to the Office of General Council for review and comment and that guidance for Recovery Act funds are also sent to OMB for approval.
- HRSA's policy is to publish application requirements on HRSA's website. BCRS announces the opening of application cycles at www.nhsc.hrsa.gov, and on its email list, which applicants may join at the website to receive announcements. List subscribers may also recommend potential applicants. For both scholarship and loan repayment program awards, applications are accepted at www.nhsc.hrsa.gov. Scholarship applications undergo an objective review by expert reviewers, based on specific published criteria. For the loan repayment programs, applications are assigned funding preferences based on specific criteria published in the bulletins to determine the sequential order in which qualified applicants are considered for awards.

- BCRS policy is to include the obligations for scholarships or loan repayments in its contracts with applicants. Both scholarship and loan repayment contracts provide for eligibility requirements, including service provisions. Federal regulations establish eligibility requirements for the NHSC Scholarship Program (42 CFR § 62.3), the NHSC Loan Repayment Program (42 CFR § 62.24), and the Nursing Education Loan Repayment Program (42 CFR § 57.312). Federal statute details the eligibility requirements for the Faculty Loan Repayment Program (42 U.S.C. § 293b(a)).

Internal Control Objective 2: Internal Controls Provide Reasonable Assurance That Adjustments to Accounts Are Authorized in Accordance With Policy

- BCRS requires that, prior to the award of scholarships or loan repayments, applicants submit their personal banking information electronically, through the Bureau of Clinician Recruitment and Service Information System (BCRSIS). For scholarships, BCRS uses applicant banking information to pay stipends to the awardees and pays tuition and fee reimbursements directly to the schools based on invoices that the schools are required to provide to BCRS.
- HRSA policy is that only HRSA’s staff can enter any relevant changes to the electronic banking information once it has been submitted through BCRSIS. If changes occur, applicants must complete a Banking Update Form and mail it to HRSA.

Internal Control Objective 3: Internal Controls Provide Reasonable Assurance for Tracking Scholarship and Loan Repayment Requirements

- BCRS’s policy is to require that, prior to the award of scholarships or loan repayments, applicants must certify that they are not presently debarred, suspended, excluded, or disqualified from participation in covered transactions by any Federal agency pursuant to 2 CFR §180.335, as implemented by 2 CFR pt.376.
- BCRS’s policy is that contracts include “Breach of Contract” provisions that contain remedies the Federal Government will use if an applicant fails to complete the statutory and contractual obligations listed in the contract. By signing the contract, the applicant certifies that the information given in the application is accurate and complete to the best of his or her knowledge and belief. Applicants are made aware that any false statement may be punished as a felony under U.S. Code, Title 18, Section 1001 and may subject them to civil penalties under the Program Fraud Civil Remedies Act of 1986 (31 U.S.C. §§ 3801- 3812, as implemented by Federal regulations (45 CFR pt. 79)).

ACCURACY, COMPLETENESS, AND VALIDITY

Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Program Objectives Are Achieved in an Economical and Efficient Manner

- HRSA requires that, prior to the award of a scholarship, applications be reviewed for eligibility and scored by an independent panel of reviewers. The scored applications are then used to create a Rank Order List.
- BCRS awards loan repayments to qualified applicants according to the funding policies of each program. For the NHSC Loan Repayment program, qualified applicants with a disadvantaged background or Exceptional Financial Need status will be funded without regard to Health Professional Shortage Area score⁵ and all other applicants who practice in a Health Professional Shortage Area are ranked based on their facilities' Health Professional Shortage Area score. Other BCRS loan repayment programs have similar policies.

Internal Control Objective 2: Internal Controls Provide Reasonable Assurance That Procedures Used to Review, Process, and Report Scholarship and Loan Repayment Related Transactions Are Efficient

- BCRS requires that all applications for scholarships or loan repayments be submitted electronically through HRSA's website at www.nhsc.hrsa.gov. Banking information must be submitted electronically through BCRSIS.
- HRSA requires that submitted applications undergo checks to ensure that no viruses are attached to the applications.

Internal Control Objective 3: Internal Controls Provide Reasonable Assurance That Only Scholarship Applications and Loan Repayment Requests That Meet the Eligibility Requirements Are Approved

- BCRS policy is to conduct an eligibility and completeness review of applications prior to the award of scholarships or loan repayments. Reviewers processing applications complete a checklist which lists the application requirements that reviewers need to determine if an application is complete and if the applicant is eligible. For example, the NHSC Loan Repayment Program reviewers check documentation to ensure that applicants meet the requirements by reviewing: (1) citizenship, (2) licenses, (3) site award letters, (4) Excluded Parties List System, (5) credit reports, (6) loan verification forms, (7) employment verification forms, (8) Bureau of Health Care Delivery and

⁵ HHS gives each Health Professional Shortage Area a score to rank its need for providers relative to other Health Professional Shortage Areas. The Health Professional Shortage Area score is based on a 1 to 25 scale where the highest scores translate to greatest need. A Health Professional Shortage Area score is based on criteria that include practitioner-to-population ratios for primary medical care, dental, and mental health providers.

Assistance Network (BHCDANET) screens,⁶ and (9) the National Practitioner Data Bank and the Healthcare Integrity and Protection Data Bank.⁷

Internal Control Objective 4: Internal Controls Provide Reasonable Assurance That Loan Repayment Documents Are Approved and Signed by the Borrower Before Funds Are Disbursed

- BCRS policy is that all applicants must submit, prior to the award of scholarships or loan repayments, an application, all required supporting documentation and forms, banking information, and a signed contract before funds are obligated.

Internal Control Objective 5: Internal Controls Provide Reasonable Assurance That Accountability for Service Time Is Established Before Funds are Disbursed

- BCRS policy is to ensure that, prior to the award of scholarships or loan repayments, contracts contain applicant obligation clauses which specify the service-time requirements.

Internal Control Objective 6: Internal Controls Provide Reasonable Assurance That Scholarship and Loan Repayment Transactions and Related Adjustments Will Be Accurately Applied to the Proper Account

- BCRS policy for the NHSC Loan Repayment Program is that, prior to receiving an award, applicants must submit banking information electronically through BCRSIS. To update bank routing information, applicants must submit a Banking Update Form to HRSA. Only HRSA staff can enter the changes to electronic banking information. HHS uses this banking information to disburse periodic payments through electronic funds transfers to the participants' checking or savings accounts identified on the banking information. HRSA submits a Payment Authorization Worksheet, matched to the obligation document number, which is used to set up monthly, quarterly, or lump sum payment. Awardees are required to submit verification that payments have been made.
- For scholarships, HRSA's policy is to pay tuition and fees directly to the schools. Therefore, prior to award of a scholarship, BCRS verifies the applicant's school and requires the school to send invoices directly to HRSA.

⁶ BHCDANET is a database containing information collected from individual scholarship and loan repayment applications, and recruiting and retention assistance applications and monitoring data from individual health provider sites.

⁷ The Healthcare Integrity and Protection Data Bank was established to combat fraud and abuse in health insurance and health care delivery. It can provide detailed information on prior criminal or fraudulent behavior.

Internal Control Objective 7: Internal Controls Provide Reasonable Assurance That Institutions/Employers Provide Accurate and Timely Information on Scholars/Employees Who Drop Out of the Programs

- BCRS scholarship contracts require an annual verification of enrollment/good standing for in-school students receiving scholarship support and a 6-month verification of employment for in-service scholars carrying out their service obligations. The scholarship contracts also are required to include clauses that in-school scholars who fail to meet program requirements or in-service scholars who fail to complete their service obligations are placed in default of their contracts by BCRS' Legal and Compliance Office, and are responsible for the payment of monetary damages specified in their contracts.
- BCRS loan repayment award contracts require participants to submit a service obligation verification form for each 6 months of service. The service obligation verification form must be completed, certified, and signed by the participant and an appropriate official at the approved site, who verifies the participant's compliance or noncompliance. Loan repayment awardees who fail to complete their service obligations or submit the required 6-month employment verification forms are placed in default of their contracts by BCRS' Legal and Compliance Office, and are responsible for the payment of monetary damages specified in their contract.

PHYSICAL SAFEGUARDS AND SECURITY

Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Access to Scholarship and Loan Repayment Information Is Permitted Only in Accordance With Policy

- HRSA maintains an agencywide security program to safeguard and secure access to records. In its Fiscal Year 2008 risk assessment, HRSA formalized system security requirements for all its financial and nonfinancial systems. HRSA's access controls include formal authorization, password requirements, and clearance levels. The risk assessment noted that HRSA also employs firewalls, intrusion detection systems, and anti-virus software at multiple tiers for information technology security. Finally the risk assessment noted that HRSA has developed an Information Systems Security Plan to evaluate and mitigate potential threats.

ERROR HANDLING

Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Changes to Application Packages Are Minimized

- Applicants may resubmit their applications to make corrections until the application deadline. HRSA's policy does not allow applicants who have submitted their applications to correct errors and re-submit the correct information after the deadline has passed for applying for awards. Any applicant that fails to complete and submit all

required documents by the deadline will be considered ineligible and will not be considered for an award. It is the applicant's responsibility to submit a complete application package.

SEGREGATION OF DUTIES

Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Opportunities for an Individual Both To Cause and Conceal Errors Are Reduced

- BCRS's staff establishes or participates in the establishment of goals for programs and is responsible for developing program guidance.
- BCRS's Associate Administrator's Office, the Office of General Council, and OFAM review, provide comments, and sign off on BCRS guidance.
- OFAM is responsible for executing contracts and officially obligating funds. OFAM is independent of BCRS.