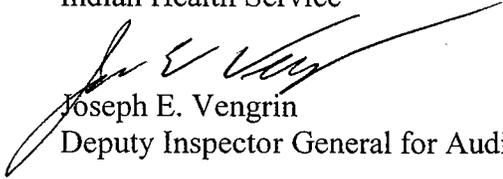




MAR 9 2007

TO: Charles W. Grim, D.D.S., M.H.S.A.
Director
Indian Health Service

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

SUBJECT: Indian Health Service's Resolution of Audit Recommendations (A-07-06-03077)

Attached is our final report examining the Indian Health Service's (IHS) resolution of audit recommendations.

Pursuant to Office of Management and Budget Circular A-50, section 8.a(2), and other authorities, IHS 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. Monthly stewardship reports that the Office of Inspector General prepares and forwards to IHS show the status of those recommendations. Our review covered the 9,493 audit recommendations identified in stewardship reports for calendar years (CY) 2003-2005.

Our objectives were to determine whether IHS had (1) resolved all audit recommendations as of December 31, 2005, and (2) resolved audit recommendations in a timely manner during CYs 2003-2005.

As of December 31, 2005, IHS had not resolved 6,653 audit recommendations, of which 94 percent were past due for resolution. During CYs 2003-2005, IHS resolved 2,840 of the 9,493 audit recommendations that were outstanding during this period. However, it did not resolve 2,727 of the 2,840 recommendations within the required 6-month period. IHS did not resolve all audit recommendations in a timely manner because it did not follow departmental policies and procedures. As a result, IHS did not have reasonable assurance that it was exercising proper stewardship over Federal dollars. Based on the backlog of outstanding audit recommendations, we are also concerned that IHS will not resolve future recommendations in a timely manner.

We recommend that IHS (1) resolve the backlog of outstanding audit recommendations and (2) resolve all audit recommendations within 6 months of receiving the audit reports as required.

In written comments on our draft report, IHS concurred with both recommendations.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Joseph J. Green, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through e-mail at Joe.Green@oig.hhs.gov. Please refer to report number A-07-06-03077 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**INDIAN HEALTH SERVICE'S
RESOLUTION OF AUDIT
RECOMMENDATIONS**



Daniel R. Levinson
Inspector General

March 2007
A-07-06-03077

Office of Inspector General

<http://oig.hhs.gov>

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 all 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. Specifically, these evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness in departmental programs. To promote impact, the reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, 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 in OIG's internal operations. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Notices

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

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR part 5.)

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

The Department of Health and Human Services, Indian Health Service (IHS), is responsible for promoting the physical, mental, social, and spiritual health of American Indians and Alaska Natives. IHS carries out these responsibilities through internal activities and through grants and contracts to tribes, tribal organizations, and urban Indian organizations.

Pursuant to Office of Management and Budget Circular A-50, section 8.a(2), and other authorities, IHS 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. Monthly stewardship reports that the Office of Inspector General prepares and forwards to IHS show the status of those recommendations. Our review covered the 9,493 audit recommendations identified in stewardship reports for calendar years (CY) 2003–2005.

OBJECTIVES

Our objectives were to determine whether IHS had (1) resolved all audit recommendations as of December 31, 2005, and (2) resolved audit recommendations in a timely manner during CYs 2003–2005.

SUMMARY OF FINDINGS

As of December 31, 2005, IHS had not resolved 6,653 audit recommendations, of which 94 percent were past due for resolution. During CYs 2003–2005, IHS resolved 2,840 of the 9,493 audit recommendations that were outstanding during this period. However, it did not resolve 2,727 of the 2,840 recommendations within the required 6-month period.

IHS did not resolve all audit recommendations in a timely manner because it did not follow departmental policies and procedures. As a result, IHS did not have reasonable assurance that it was exercising proper stewardship over Federal dollars. Based on the backlog of outstanding audit recommendations, we are also concerned that IHS will not resolve future recommendations in a timely manner.

RECOMMENDATIONS

We recommend that IHS:

- resolve the backlog of outstanding audit recommendations and
- resolve all audit recommendations within 6 months of receiving the audit reports as required.

INDIAN HEALTH SERVICE COMMENTS

In written comments on our draft report, IHS concurred with both recommendations. IHS's comments are included as Appendix B.

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INTRODUCTION

BACKGROUND

The Department of Health and Human Services (HHS), Indian Health Service (IHS), is responsible for promoting the physical, mental, social, and spiritual health of American Indians and Alaska Natives. IHS carries out these responsibilities through internal activities and through grants and contracts to tribes, tribal organizations, and urban Indian organizations.

IHS 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.¹

Federal Audits

Pursuant to the Inspector General Act of 1978, the Office of Inspector General (OIG) conducts audits of internal IHS activities as well as activities performed by IHS grantees and contractors. These audits are intended to provide independent assessments of IHS 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 that ended after December 31, 2003) or more in Federal awards in a year.² Single audits, generally 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.”

The Indian Self-Determination and Education Assistance Act (ISDEA) of 1975, Public Law 93-638, section 106(f), codified at 25 U.S.C. § 450j-1(f), states that any right of action or remedy

¹Throughout this report, we use the term “recommendations” to refer to both audit findings and recommendations.

²Some 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.

related to the disallowance of costs will be barred unless the Secretary gives notice of the disallowance within 365 days of receiving the required Circular A-133 audit report. Therefore, IHS is barred from recovering funds that have been provided to a tribe or tribal organization pursuant to an ISDEA contract unless IHS gives notice of a cost disallowance within 365 days of HHS's receipt of the Circular A-133 report.

OIG's National External Audit Review Center (NEAR) reviews the OMB Circular A-133 reports for compliance with Federal regulations and the Single Audit Act and for conformance with professional standards. NEAR transmits each IHS-related report to the IHS Audit Liaison Office. When appropriate, NEAR also issues Audit Alert memorandums to inform IHS of significant audit recommendations. After resolving the audit recommendations, IHS 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, IHS must comply with OMB Circular A-50, section 8.a(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 of issuance or release of the audit report by OIG. Resolution is normally deemed to occur when:

- a final decision on the amount of any monetary recovery has been reached;
- a satisfactory plan of action, including time schedules, to correct all deficiencies has been established; and
- the report has been cleared from the HHS tracking system by submission and acceptance of an audit clearance document(s).

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 IHS. 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.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether IHS had (1) resolved all audit recommendations as of December 31, 2005, and (2) resolved audit recommendations in a timely manner during calendar years (CY) 2003–2005.

Scope

We determined the resolution of audit recommendations identified in the “Outstanding Audits and Actions Taken by Cognizance” stewardship reports for CYs 2003–2005. These stewardship reports identified 1,571 (6 Federal and 1,565 non-Federal) audit reports and 9,493 corresponding recommendations.

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

We performed fieldwork from March through May 2006 at the NEAR office in Kansas City, Missouri, and at the IHS office in Rockville, Maryland.

Methodology

To accomplish our objectives, we:

- reviewed applicable sections of OMB Circulars A-50 and A-133, the HHS “Grants Administration Manual,” and other Federal requirements;
- reviewed IHS policies and procedures for resolving audit recommendations;
- interviewed IHS staff and reviewed documentation provided by IHS officials;
- determined whether IHS had resolved the 9,493 recommendations in the 1,571 audit reports identified in stewardship reports for CYs 2003–2005 in accordance with Federal requirements;
- reviewed NEAR Audit Alert memorandums for unresolved audit findings; and
- reviewed 28 of the 1,571 audit reports to test the accuracy of the information in the stewardship reports.

We conducted our review in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

As of December 31, 2005, IHS had not resolved 6,653 audit recommendations, of which 94 percent were past due for resolution. During CYs 2003–2005, IHS resolved 2,840 of the 9,493 audit recommendations that were outstanding during this period. However, it did not resolve 2,727 of the 2,840 recommendations within the required 6-month period.

IHS did not resolve all audit recommendations in a timely manner because it did not follow departmental policies and procedures. As a result, IHS did not have reasonable assurance that it was exercising proper stewardship over Federal dollars. Based on the backlog of outstanding audit recommendations, we are also concerned that IHS will not resolve future recommendations in a timely manner.

FEDERAL REQUIREMENTS

OMB Circular A-50, section 8.a(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 of issuance or release of the audit report by OIG.

AUDIT RECOMMENDATIONS NOT RESOLVED

As of December 31, 2005, IHS had not resolved 6,653 audit recommendations, of which 6,280 (94 percent) exceeded the required 6-month resolution period. Some of these recommendations were more than 5 years old. Table 1 on the following page indicates the age of the unresolved audit recommendations.

Table 1: Age of Unresolved Audit Recommendations

Age of Recommendation	Number of Recommendations	Average Days Past Required Resolution Date	Percent of Total
6 months or less	<u>373</u>	N/A	<u>5.6</u>
6+ months to 1 year	574	187	8.6
1+ year to 2 years	775	593	11.6
2+ years to 3 years	1,040	938	15.6
3+ years to 4 years	1,082	1,318	16.3
4+ years to 5 years	1,540	1,628	23.2
5+ years	<u>1,269</u>	2,214	<u>19.1</u>
Subtotal	<u>6,280</u>		<u>94.4</u>
Total	6,653		100.0

AUDIT RECOMMENDATIONS NOT RESOLVED IN A TIMELY MANNER

Of the 2,840 audit recommendations that IHS resolved in CYs 2003–2005, 2,727 (96 percent) were not resolved within 6 months of the end of the month of issuance or release of the audit report by OIG as required. Table 2 shows the timeframes for resolving these recommendations.

Table 2: Timeliness of Audit Resolution in CYs 2003–2005

Resolution Timeframe	Number of Resolved Recommendations	Percent of Total
Resolved timely (within 6 months)	<u>113</u>	<u>4.0</u>
Not resolved timely:		
6+ months to 1 year	285	10.0
1+ year to 2 years	375	13.2
2+ years to 3 years	642	22.6
3+ years to 4 years	462	16.3
4+ years to 5 years	780	27.5
5+ years	<u>183</u>	<u>6.4</u>
Subtotal	<u>2,727</u>	<u>96.0</u>
Total	2,840	100.0

LACK OF REASONABLE ASSURANCE OF PROPER STEWARDSHIP OVER FEDERAL DOLLARS

IHS did not resolve all audit recommendations in a timely manner because it did not follow departmental policies and procedures. As a result, IHS did not have reasonable assurance that it was exercising proper stewardship over Federal dollars. Because the ISDEA requires IHS to provide notice of any disallowances within 365 days of receiving the Circular A-133 audit reports, timely audit resolution is critical to ensure recovery of unallowable costs. Based on the backlog of outstanding recommendations as of December 31, 2005, we are also concerned that IHS will not resolve future recommendations in a timely manner.

For 31 of the 1,565 Circular A-133 reports for CYs 2003–2005, the recommendations were so significant, i.e., material, that auditors were unable to issue “clean,” or unqualified, opinions.³ Specifically, 16 reports contained qualified opinions,⁴ 8 contained disclaimers of opinion,⁵ and 7 contained adverse opinions.⁶ For 22 of the 31 reports, NEAR issued Audit Alert memorandums to inform IHS of significant audit recommendations pertaining to inadequate documentation, unallowable costs and activities, and/or “going concern” and cash management issues. Furthermore, for a 32nd report, auditors issued a fraud memorandum and NEAR issued an Audit Alert memorandum alerting program officials that funds totaling \$166,740 had been misappropriated. Appendix A contains details on the 32 reports.

RECOMMENDATIONS

We recommend that IHS:

- resolve the backlog of outstanding audit recommendations and
- resolve all audit recommendations within 6 months of receiving the audit reports as required.

INDIAN HEALTH SERVICE COMMENTS

In written comments on our draft report, IHS concurred with both recommendations. IHS stated that, as part of its corrective actions, it had hired a director for the Division of Audit. In addition, IHS stated that it was in the process of hiring a senior auditor whose primary responsibilities would include audit resolution. IHS’s comments are included in their entirety as Appendix B.

³A clean opinion is an auditor’s opinion that the auditee complied with the laws, regulations, and provisions of the Federal program.

⁴A qualified opinion is an auditor’s opinion that, except for the effects of the matter to which the qualification relates, the auditee complied with the laws, regulations, and provisions of the Federal program.

⁵A disclaimer of opinion is a statement in which the auditor does not express an opinion because the auditor could not determine whether the auditee complied with the laws, regulations, and provisions of the Federal program.

⁶An adverse opinion is an auditor’s opinion that the auditee did not comply with the laws, regulations, and provisions of the Federal program.

APPENDIXES

**DETAILS ON 32 CIRCULAR A-133 AUDIT REPORTS ISSUED FOR
CALENDAR YEARS 2003–2005**

Report Number	Auditee	Opinion	NEAR Audit Alert Memo¹
A-04-03-73620	Catawba Indian Nation	Disclaimer	
A-05-01-65303	Lac Courte Oreilles Band of Lake Superior Chippewa	Qualified	X
A-05-02-69457	Lac Courte Oreilles Band of Lake Superior Chippewa	Qualified	X
A-05-02-72713	Lac Courte Oreilles Band of Lake Superior Chippewa	Qualified	X
A-05-03-74784	Red Cliff Band of Lake Superior Chippewa Indians	Qualified	
A-05-03-75325	Lac Courte Oreilles Band of Lake Superior Chippewa	Disclaimer	X
A-05-04-76055	Grand Portage Reservation Tribal Council	Qualified	
A-05-05-81010	Lac Courte Oreilles Band of Lake Superior Chippewa	Disclaimer	X
A-05-05-81360	Little River Band of Ottawa Indians	Fraud Memo	X
A-06-02-69127	All Indian Pueblo Council, Inc.	Qualified	
A-06-02-70073	Picuris Pueblo	Disclaimer	X
A-06-02-70074	Picuris Pueblo	Disclaimer	X
A-06-02-70498	Pueblo de San Ildefonso	Qualified	
A-06-05-80423	Kickapoo Traditional Tribe of Texas	Disclaimer	X
A-06-05-81522	Pueblo of Nambe	Qualified	X
A-06-06-83522	Kaw Nation of Oklahoma	Qualified	
A-07-05-80157	Santee Sioux Tribe of Nebraska	Disclaimer	X
A-08-00-57847	Primary Government of the Chippewa Cree Tribe	Adverse	X
A-08-00-64447	Primary Government of the Chippewa Cree Tribe	Qualified	X
A-08-01-69282	Ute Indian Tribe	Qualified	
A-08-03-71995	Three Affiliated Tribes	Adverse	X
A-08-03-72550	Three Affiliated Tribes	Adverse	X
A-08-03-74249	Three Affiliated Tribes	Adverse	X
A-08-03-76153	Primary Government of the Chippewa Cree Tribe	Qualified	X
A-08-03-76154	Primary Government of the Chippewa Cree Tribe	Adverse	X
A-08-04-76808	Chippewa Cree Tribe	Qualified	X
A-08-04-79675	Chippewa Cree Tribe	Qualified	X
A-09-01-66785	Washoe Tribe of Nevada and California	Adverse	X
A-09-03-71555	Washoe Tribe of Nevada and California	Adverse	X
A-09-05-80889	Tuba City Regional Health Care Corporation	Qualified	
A-10-03-73190	Chitina Traditional Village Council	Qualified	
A-10-05-79333	Samish Indian Nation	Disclaimer	X

¹NEAR = National External Audit Review Center.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

FEB 23 2007

Indian Health Service
Rockville MD 20852

TO: Inspector General

FROM: Director

SUBJECT: Response to Draft Office of Inspector General Report [A-07-06-03077],
"Indian Health Service's Resolution of Audit Recommendations," Issued
December 2006

The Indian Health Service (IHS) has reviewed the Office of Inspector General (OIG) draft audit report, "Indian Health Service's Resolution of Audit Recommendations," and concurs with both OIG recommendations for the resolution of audit recommendations.

The following are specific responses to each recommendation, including corrective actions that have been implemented and/or completed.

OIG Recommendation: "Resolve the backlog of outstanding audit recommendations."

IHS Response: Concur. Since the completion of the OIG auditors' fieldwork in May 2006, the IHS has hired a Director for the Division of Audit in July 2006. During the period of July through September 2006, the Division of Audit processed OIG Audit Clearance Documents for 430 single audit reports with unique report numbers.

OIG Recommendation: "Resolve all audit recommendations within 6 months of receiving the audit reports as required."

IHS Response: Concur. The Division of Audit is in the process of hiring a senior auditor whose primary responsibility will include audit resolution.

If you have any questions concerning this response, please contact Mr. Darryl Drapeaux, IHS Office of Management Services, Management Policy and Internal Control Staff, at (301) 443-2650.

Charles W. Grim, DDS

Charles W. Grim, D.D.S., M.H.S.A.
Assistant Surgeon General