



December 29, 2010

**TO:** Yvette Roubideaux, M.D., M.P.H.  
Director  
Indian Health Service

**FROM:** /Daniel R. Levinson/  
Inspector General

**SUBJECT:** Audit of the Indian Health Service's Internal Controls Over Monitoring of Recipients' Compliance With Requirements of the Loan Repayment Program (A-09-10-01005)

The attached final report provides the results of our review of the Indian Health Service's internal controls over monitoring of recipients' compliance with certain requirements of the Loan Repayment Program.

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, or your staff may contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through email at [Lori.Pilcher@oig.hhs.gov](mailto:Lori.Pilcher@oig.hhs.gov). We look forward to receiving your final management decision within 6 months. Please refer to report number A-09-10-01005 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF THE INDIAN HEALTH  
SERVICE'S INTERNAL CONTROLS OVER  
MONITORING OF RECIPIENTS'  
COMPLIANCE WITH REQUIREMENTS OF  
THE LOAN REPAYMENT PROGRAM**



Daniel R. Levinson  
Inspector General

December 2010  
A-09-10-01005

# *Office of Inspector General*

<http://oig.hhs.gov>

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## **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 Indian Health Service (IHS), an agency in the U.S. Department of Health & Human Services, delivers clinical and preventive health services to American Indians and Alaska Natives. IHS provides care in more than 700 health care facilities, including hospitals and outpatient clinics. An IHS facility can be operated by IHS, an Indian tribe, or a tribal organization.

Section 108 of the Indian Health Care Improvement Act (IHCIA) of 1976 (P.L. No. 94-437), as amended, requires IHS to administer the Loan Repayment Program. The purpose of the Loan Repayment Program is to ensure an adequate supply of trained health professionals to provide health care services to American Indians and Alaska Natives through Indian health programs. Under the program, IHS is authorized to pay directly to the recipient of a loan repayment award the principal, interest, and related expenses on government and commercial loans obtained for an education in the health professions. IHS awarded to recipients \$38.5 million for loan repayments during the Federal fiscal years ended September 30, 2007, and September 30, 2008.

The *Indian Health Manual* states that IHS is responsible for ensuring that recipients properly complete their applications for loan repayment funds. *IHS Loan Repayment Program Procedures* instruct IHS staff to verify that each application has documentation indicating that the recipient is employed at an IHS-approved site.

Pursuant to sections 108(e) and (f) of the IHCIA, the recipient must sign a contract with IHS in which he or she agrees to fulfill a required service obligation at an IHS-approved site in return for funds to pay health profession education loans. Section 108(f)(1)(B)(iii) of the IHCIA requires the recipient to work a minimum of 2 years. According to the *Indian Health Manual*, IHS is responsible for monitoring recipients to ensure that they are in compliance with section 108 of the IHCIA and the contract with IHS. A recipient who fails to begin or complete the required service obligation must repay the Federal Government according to a formula described in section 108(l)(2) of the IHCIA.

The Federal Managers' Financial Integrity Act of 1982 (P.L. No. 97-255) requires each executive agency to develop internal controls in accordance with standards prescribed by the Comptroller General and to provide reasonable assurance that funds are safeguarded against waste, unauthorized use, or misappropriation. The Office of Management and Budget Circular A-123 states that Federal agency management is responsible for establishing and maintaining internal control activities to meet the objectives of effective and efficient operations and compliance with applicable laws and regulations.

### OBJECTIVE

Our objective was to determine whether IHS had adequate internal controls to monitor recipients' compliance with certain requirements of the Loan Repayment Program.

## **SUMMARY OF FINDINGS**

IHS did not have adequate internal controls to monitor recipients' compliance with certain requirements of the Loan Repayment Program. Specifically, IHS did not always follow its policies and procedures to verify that recipients were employed at IHS-approved sites before awarding loan repayment funds and that recipients fulfilled their required service obligations. As a result, IHS could not ensure that all recipients were in compliance with Loan Repayment Program requirements.

## **RECOMMENDATION**

We recommend that IHS follow its policies and procedures to verify that recipients are employed before awarding loan repayment funds and that recipients fulfill their required service obligations.

## **INDIAN HEALTH SERVICE COMMENTS**

IHS concurred with our recommendation and described actions that it planned to take to address the recommendation. IHS's comments are included in their entirety as the Appendix.

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# INTRODUCTION

## BACKGROUND

### Indian Health Service

The Indian Health Service (IHS), an agency in the U.S. Department of Health & Human Services, delivers clinical and preventive health services to American Indians and Alaska Natives. IHS provides care in more than 700 health care facilities, including hospitals and outpatient clinics. An IHS facility can be operated by IHS, an Indian tribe, or a tribal organization.

The Indian Health Care Improvement Act (IHCIA) of 1976 (P.L. No. 94-437), as amended, authorizes IHS funding to administer programs that are designed to attract and recruit qualified individuals into health professions needed at IHS facilities. These programs are intended to encourage American Indians and Alaska Natives to enter health professions and to ensure the availability of Indian health professionals to serve Indians.

### Loan Repayment Program

Section 108 of the IHCIA, as amended, requires IHS to administer the Loan Repayment Program.<sup>1</sup> The purpose of the Loan Repayment Program is to ensure an adequate supply of trained health professionals to provide health care services to American Indians and Alaska Natives through Indian health programs.

Under the Loan Repayment Program, IHS is authorized to pay directly to the recipient of a loan repayment award the principal, interest, and related expenses on government and commercial loans obtained for an education in the health professions. Initial loan repayment awards require an award recipient to agree to a 2-year service obligation with an Indian health program as defined in section 108 of the IHCIA. According to the *Indian Health Service Loan Repayment Program Information and Applicant Booklet* (the Booklet), additional loan repayment awards (extensions) are available to each eligible recipient for a 1-year period and are not to exceed the recipient's eligible health profession education loan amounts.

IHS may award each recipient up to \$20,000 a year for each year of obligated service.<sup>2</sup> IHS also pays the Internal Revenue Service on the recipient's behalf 20 percent of the award amount to offset the Federal tax liability incurred by the recipient. IHS awarded to recipients \$38.5 million for loan repayments during the FYs ended September 30, 2007, and September 30, 2008.

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<sup>1</sup> The Indian Health Care Amendments of 1988 (P.L. No. 100-713) added the IHS Loan Repayment Program under section 108 of the IHCIA.

<sup>2</sup> P.L. No. 100-713 authorized the payment of up to \$25,000 per year for each recipient. P.L. No. 102-573 increased the amount to \$35,000 per year. However, as of Federal fiscal year (FY) 2000, IHS limited each award to \$20,000 per year to maximize the number of awards that could be given to recipients. IHS reduces each award by 7.65 percent for the recipient's share of the Federal Insurance Contribution Act tax and submits this amount to the Social Security Administration.

## **Loan Repayment Program Requirements for Recipients**

The *Indian Health Manual*<sup>3</sup> (the Manual), part 5, section 20.14E., assigns responsibility within IHS for ensuring that recipients properly complete their applications for loan repayment funds. IHS *Loan Repayment Program Procedures* instruct IHS staff to verify that each application has documentation indicating that the recipient is employed at an Indian health program site approved by IHS. “Indian health program” is defined in section 108 of the IHCA as a health program or facility administered by IHS, an Indian tribe or tribal organization pursuant to a contract under the Indian Self-Determination Act (P.L. No. 93-638) or the Buy Indian Act (25 U.S.C. § 47), or an urban Indian organization pursuant to Title V of the IHCA.

Pursuant to sections 108(e) and (f) of the IHCA, a recipient of a Loan Repayment Program award must sign a contract with IHS in which he or she agrees to fulfill a required service obligation at an IHS-approved site in return for funds to pay health profession education loans.<sup>4</sup> Section 108(f)(1)(B)(iii) of the IHCA requires the recipient to work a minimum of 2 years.

Section 108(l)(2) of the IHCA requires that a recipient who fails to begin or complete the required service obligation repay the Federal Government an amount equal to three times the funds received, plus interest, reduced by the percentage of the service obligation that was fulfilled. However, pursuant to section 108(m)(1) of the IHCA, any service or payment obligation is canceled upon the recipient’s death. In addition, section 108(m)(2) authorizes IHS to waive or suspend any service or payment obligation when compliance by the recipient with the contract becomes impossible or involves extreme hardship and when enforcement of the obligation would be unconscionable.

## **Federal Requirements for Internal Controls**

The Federal Managers’ Financial Integrity Act (FMFIA) of 1982 (P.L. No. 97-255) requires each executive agency to develop internal controls in accordance with standards prescribed by the Comptroller General and to provide reasonable assurance that funds are safeguarded against waste, unauthorized use, or misappropriation. The Office of Management and Budget (OMB) Circular A-123 provides guidance on implementation of the FMFIA and further defines management’s responsibility for internal controls in Federal agencies.

## **Office of Inspector General Reviews**

We reviewed IHS’s internal controls for monitoring recipients’ compliance with certain requirements of the Loan Repayment Program. Separate reports will address IHS’s internal controls for monitoring recipients’ compliance with certain requirements of IHS’s scholarship programs, including the Indian Health Professions Scholarship program (A-09-09-00044),

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<sup>3</sup> The *Indian Health Manual* is the reference for IHS employees regarding IHS-specific policy and procedural instructions.

<sup>4</sup> Indian health program sites are assigned a score and ranked by IHS based on the need for or vacancy in a specific health profession. Recipients at priority sites are funded first.

Nursing Program (A-09-10-01006), and American Indians Into Psychology Program (A-09-10-01007).

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether IHS had adequate internal controls to monitor recipients' compliance with certain requirements of the Loan Repayment Program.

### **Scope**

We reviewed IHS's internal controls over its monitoring of recipients' compliance with certain requirements of the Loan Repayment Program. We limited our review of internal controls to those controls for awarding loan repayment funds and monitoring recipients' fulfillment of required service obligations.

We limited our review to the documentation that IHS maintained for each recipient. We did not determine whether recipients' education loans qualified as health profession education loans under the Loan Repayment Program.

We conducted our audit from February 2009 to January 2010 and performed fieldwork at IHS Headquarters in Rockville, Maryland.

### **Methodology**

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- interviewed IHS officials to obtain an understanding of the recipient requirements of the Loan Repayment Program;
- reviewed IHS's policies and procedures for monitoring recipients' compliance with Loan Repayment Program requirements;
- obtained an understanding of the IHS data systems used to monitor recipients' fulfillment of required service obligations;
- selected a judgmental sample of 30 recipients of Loan Repayment Program funding awarded in FYs 2007 and 2008; and
- reviewed IHS's hardcopy and electronic documentation and interviewed IHS officials to verify whether IHS (1) ensured that the sampled recipients were employed at IHS-approved sites before awarding loan repayment funds and (2) monitored the sampled recipients' fulfillment of service obligations.

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.

## **FINDINGS AND RECOMMENDATION**

IHS did not have adequate internal controls to monitor recipients' compliance with certain requirements of the Loan Repayment Program. Specifically, IHS did not always follow its policies and procedures to verify that recipients were employed at IHS-approved sites before awarding loan repayment funds and that recipients fulfilled their required service obligations. As a result, IHS could not ensure that all recipients were in compliance with Loan Repayment Program requirements.

### **FEDERAL REQUIREMENTS**

The FMFIA, section 2(d)(1)(A), states: "... [I]nternal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurances that ... (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation ...."

OMB Circular A-123, section II, states: "Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations ... and compliance with applicable laws and regulations." Section II also states: "Management is responsible for developing and maintaining internal control activities ... to meet the above objectives." Section III.A. states: "... [Management] should design management structures that help ensure accountability for results. As part of this process, agencies and individual Federal managers must take systematic and proactive measures to develop and implement appropriate, cost-effective internal control."

### **VERIFICATION OF EMPLOYMENT BEFORE AWARDING OF LOAN REPAYMENT FUNDS**

IHS is responsible for ensuring that recipients properly complete their applications for loan repayment funds. This responsibility is reflected in part 5, section 20.14E. of the Manual.<sup>5</sup> A complete application is to include, among other things, evidence of employment at an IHS-approved site. Examples of acceptable evidence include a civil service personnel action form, U.S. Public Health Service Commissioned Corps personnel orders, or a letter of hire from a tribal organization. Section 20.14E. of the Manual states that IHS sends a letter of acknowledgment informing the recipient of the completeness of the application or of the items that need to be submitted to complete the application.

IHS's *Loan Repayment Program Procedures*, procedure 3.05, introduced in October 2008, instructs IHS staff to review the recipient's application and attachments for completeness.

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<sup>5</sup> Section 20.14C. of the Manual refers to the Booklet for items needed for a complete application.

Further, procedure 3.04, also introduced in October 2008, instructs IHS staff to review a recipient's application for an extension of an existing contract. IHS staff are to verify that the application contains evidence that the recipient is still employed at an IHS-approved site before awarding the recipient additional funds. Both procedures require IHS to follow up with the recipient on items in the application that IHS determined to be incomplete.

Of the 30 recipients we selected for review, IHS did not verify that 7 recipients were employed before awarding loan repayment funds. IHS's documentation related to the seven recipients did not contain any evidence demonstrating that the recipients were employed, indicating that IHS staff had not reviewed the applications and attachments for completeness. We interviewed the IHS loan repayment analysts responsible for reviewing the applications of the seven recipients and confirmed that IHS did not follow up with the recipients to obtain the missing documentation and that employment of the seven recipients had not been verified.

## **VERIFICATION OF FULFILLMENT OF SERVICE OBLIGATIONS**

IHS is responsible for monitoring recipients to ensure that they are in compliance with section 108 of the IHCA and the contract with IHS, both of which require recipients to fulfill service obligations. This responsibility is reflected in part 5, sections 20.13 and 20.14, of the Manual. IHS's *Loan Repayment Program Procedures*, procedure 3.09, instructs IHS staff to review quarterly the files of recipients who, based on their contract dates, should have already completed their service obligations. IHS staff are also required to check the recipient's length and location of service and verify that the service obligation has been completed.

Of the 30 recipients we selected for review, IHS did not verify that 21 recipients (including the 7 recipients discussed above) had fulfilled their service obligations at the approved worksites. IHS's documentation related to the 21 recipients did not contain any evidence demonstrating that the recipients had fulfilled their service obligations, indicating that IHS staff had not monitored recipients' compliance with the service obligation requirement. We interviewed the IHS loan repayment analysts responsible for reviewing the files of the 21 recipients and confirmed that fulfillment of the service obligations had not been verified. During the interviews, one IHS analyst stated that she had started to perform the procedures quarterly but stopped because of an increased workload. Four other analysts stated that they had never performed the procedures.

## **RECOMMENDATION**

We recommend that IHS follow its policies and procedures to verify that recipients are employed before awarding loan repayment funds and that recipients fulfill their required service obligations.

## **INDIAN HEALTH SERVICE COMMENTS**

IHS concurred with our recommendation and described actions that it planned to take to address the recommendation. IHS's comments are included in their entirety as the Appendix.

# **APPENDIX**

## APPENDIX: INDIAN HEALTH SERVICE COMMENTS



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Indian Health Service  
Rockville MD 20852

SEP 17 2010

TO: Inspector General

FROM: Director

SUBJECT: Response to the Office of Inspector General "Audit of the Indian Health Service's Internal Controls over Monitoring of Recipients" Compliance With Requirements of the Loan Repayment Program (A-09-10-01005)"

The purpose of this memorandum is to respond to your July 28, 2010, memorandum transmitting the results of the Office of Inspector General (OIG) draft report "Audit of the Indian Health Service's Internal Controls over Monitoring of Recipients' Compliance With Requirements of the Loan Repayment Program (A-09-10-01005)."

OIG Recommendation:

*We recommend that IHS follow its policies and procedures to verify that recipients are employed before awarding loan repayment funds and that recipients fulfill their required service obligations.*

**IHS Response:**

The Indian Health Service (IHS) concurs with this recommendation. To ensure loan repayment funds are awarded only to those who are employed at IHS-approved sites, the Agency will:

- require that employment verification, as described in the IHS Loan Repayment Program (IHSLRP) policies and procedures manual the *IHS Loan Repayment Program*, accompanies the recipient's contract for approval by the delegate of the Secretary, Department Health and Human Services (HHS).
- require current employment verification, as described in the *IHS Loan Repayment Program*, be approved by the Chief, IHSLRP, prior to disbursing the second annual payment.

To ensure loan repayment recipients fulfill their obligations to IHS, the Agency will:

- request verification of employment from all Tribal and Urban recipients no later than 15 business days before their contract end date.

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- verify employment of all United States Public Health Service Commissioned Corps Officers and civil service recipients' by accessing their employment service records in HHS databases within 15 business days of their contract end date.

Thank you for the opportunity to respond to your July 28, 2010 memorandum. If you have any questions concerning this response, please contact CDR Michael D. Weahkee, Director of the Management Policy and Internal Control Staff in the Office of Management Services, IHS, at (301) 443-2650.



Yvette Roubideaux, M.D., M.P.H.