

United State Congress
WASHINGTON, D.C.

July 10, 2013

The Honorable Kathleen Sebelius
Secretary
U.S. Department of Health and Human Services
200 Independence Avenue, S.W.
Washington, D.C. 20201

Dear Secretary Sebelius:

As the Chairman of the U.S. House Committee on Ways and Means Subcommittee on Oversight and Ranking Member of the U.S. Senate Committee on Homeland Security and Government Affairs, we write to express concern regarding the results of Ernst & Young's annual independent audit of the Department of Health and Human Services' (HHS or Department) financial statements. The audit of the Department's FY 2012 finances, contracted through the Department's Office of Inspector General (OIG) indicated ongoing significant weaknesses in HHS' financial management. Many of these issues have been discussed every year in Ernst & Young's audits, and we find it perplexing that they are appearing yet again in the 2012 audit report. As HHS takes on increasingly complex duties with the full implementation of the Patient Protection and Affordable Care Act (PPACA) in 2014, it is vital the Department's fiscal management systems are sound and orderly.

As in previous years, Ernst & Young's findings revealed that, while HHS has made some progress in securing and updating its financial management systems, substantial and worrying issues remain. The audit identified "internal control weaknesses in financial systems and processes, including the lack of integrated financial management systems and insufficient analysis of certain significant accounts that impaired HHS's ability to report timely financial information."¹ Additionally, as in previous years, the audit indicated the Department is in violation of a number of Federal laws, including the Federal Financial Management Improvement Act of 1996 (FFMI), the Improper Payments Information Act of 2002 (IPIA), the Payment Eliminations and Recovery Act (IPERA), as well as the PPACA.² Among the worrisome audit findings are the following, and we request that HHS respond.

- 1) **\$440 million not represented on the HHS balance sheets.** Auditors discovered that, as in previous years, there existed a considerable discrepancy – approximately \$440 million in 2012 – between HHS' general ledger and records kept by the U.S. Treasury Department (Treasury).³ In addition, the audit revealed that the Department "was not fully compliant with the U.S. Treasury FBWT Suspense Waiver," and "differences in the Suspense Account Reconciliation were not properly cleared within the 60 days required time frame."⁴ We request HHS explain why the discrepancies the audit revealed were not, as the auditors wrote, "adequately researched and cleared from the Suspense Account Reconciliation."⁵
- 2) **Lack of care and accuracy in Departmental review of division financial statements.** According to the audit results, HHS desk officers charged with reviewing financial statements submitted by operating divisions (OPDIV) did not consistently review the statements' supporting documents and therefore, some of the submissions were inaccurate. Auditors "identified approximately \$1.3 billion in differences that could not be identified or were not identified on a timely basis."⁶ We request HHS explain Department protocol for desk officers' review of OPDIV financial statements, with a particular emphasis on the handling of supporting statements.

¹ Ernst & Young Report on the Financial Statement Audit of the Department of Health and Human Services for Fiscal Year 2012 (A-17-12-00001) at 2.

² *Id.* at 2.

³ *Id.* at 13.

⁴ *Id.* at 13.

⁵ *Id.* at 13.

⁶ *Id.* at 14.

- 3) **Inconsistencies and deficient Information Technology (IT) security in payroll management.** Auditors discovered a number of issues with HHS' payroll management systems, including "inappropriate withholding of employees' pay, inconsistencies in payroll systems, lack of supporting documentation and deficiencies related to IT security."⁷ With over \$9.5 billion in payroll processed in FY 2012, it is imperative that the Department ensures the security and accuracy of its payroll management systems. Auditors noted that the Department was "considering" transitioning to a new system to correct the aforementioned issues, but "the transition will not be fully implemented until FY 14."⁸ We request the Department provide an explanation of its current internal control processes for its payroll systems, as well as a description of the proposed new system and how it will correct the issues the auditors uncovered.
- 4) **Audit of Center for Medicare and Medicaid Services (CMS) financial statements reveals significant deficiencies.** Ernst & Young performed a separate audit of CMS' financial statements, the findings indicating significant deficiencies in the agency's financial reporting. With Medicare fraud rampant, it is important HHS ensure CMS' financial house is in order. We request the Department explain how CMS is addressing the audit's findings. Among the issues and observations the audit results revealed were:
- The vulnerability to delays in financial management due to "the timing of preparation and quality of position papers supporting conclusions on critical accounting matters;"⁹
 - Further improvements can be made by developing "robust analytical procedures or measures" to mitigate "risks associated with the decentralized nature of CMS operations;"¹⁰ and
 - The oversight and monitoring of Medicare Administrative Contractors (MAC) "has not been fully effective in identifying and resolving financial recording and reporting issues or ensuring that the issues are timely remediated by the MACs."¹¹

The audit contained a number of recommendations that the auditors believe would strengthen HHS' fiscal management and oversight systems (pages 19-20). To help us ensure HHS is developing plans to implement the audit's recommendations, please provide the following information by July 15, 2013:

- detailed response to the questions above
- detailed corrective action plan for all the issues the audit identified
- response to the audit's recommendation for further corrective action.

Thank you in advance for your assistance in this matter. We know you share our desire for efficient and transparent government, and we look forward to your response.

Sincerely,



Tom Coburn, M.D.
U.S. Senator



Charles Boustany Jr., M.D.
U.S. Representative

⁷ *Id* at 14.

⁸ *Id* at 14.

⁹ *Id* at 17.

¹⁰ *Id* at 17.

¹¹ *Id* at 18.