

Findings: 2010 Financial Audit of the U.S. Department of Health and Human Services

Ernst & Young audited the balance sheets of the U.S. Department of Health and Human Services (HHS) for Fiscal Year (FY) 2010. Their independent, nonpartisan analysis was included in HHS's FY 2010 Agency Financial Report, dated November 15, 2010.¹

- **HHS Is Not In Compliance With Federal Financial Management Law.** According to the HHS Inspector General's review of Ernst & Young's financial audit of HHS, "HHS's financial management systems are not compliant with the Federal Financial Management Improvement Act of 1996."²
- **Nearly \$2 Billion Taxpayer Dollars Are Stuck in Limbo.** "As of September 30, 2010, the audit identified approximately 102,500 transactions totaling an approximate \$1.8 billion that were more than 2 years old without activity."³
- **Nearly \$800 Million Dollars "Could Not Be Explained" Differing Between HHS' Records and Treasury Department Records.** "Based on our review and discussions with management, we noted differences of \$794 million that could not be explained."⁴
- **Some Processes and Procedural Manuals Have Not Been Updated Since the 1980s.** "HHS's formalized policies and procedures are out of date and may be inconsistent with actual processes taking place....For example, we noted that certain policies and procedures, including certain accrual processes, had not been updated since the mid-1980s."⁵
- **Current HHS Personnel Need Training To "Complete Their Day-to-Day Responsibilities."** "Further, we noted additional training on the financial systems was needed to enable HHS personnel in their ability to access needed information from the system to complete their day-to-day responsibilities - including the preparation of reconciliations, research of differences noted, and the ability to identify and clear older "stale" transactions dating back several years."⁶
- **Weak Information Technology Safeguards "Pose a Significant Risk."** The Inspector General noted the audit showed "weaknesses were identified in information security program and application configuration management. For example, external and internal system vulnerabilities such as weak password configurations, insecure system configuration, and unnecessary system services continue to exist and pose a significant risk...."⁷
- **HHS Does Not Adequately Analyze \$27 Billion Dollars of Medicaid Claims, A "Significant Liability."** "Consistent with the prior years, we noted that CMS does not perform a claims-level detailed look-back analysis for the Medicaid Entitlement Benefits Due and Payable (EBDP) to determine the reasonableness of the various state calculations of incurred but not reported (i.e., unpaid claims) liability. The Medicaid EBDP is approximately \$27.0 billion as of September 30, 2010, and is a significant liability on the financial statements."⁸
- **The Future "Poses a Significant Threat" to Administering the Medicare and Medicaid Programs.** "The complexity of the CMS environment, fast paced technological changes, and the evolution of threats pose a significant challenge to CMS. The age of the mainframe systems and associated software that CMS employs in its processing of Medicare, Medicaid and financially significant data will become more difficult to maintain and modify when integrating future changes in the Medicare program."⁹
- **HHS Will Not Complete Its Financial Management Upgrade Until 2012, Even Though It Started the Process in 2004.** "In FY 2004, HHS began its implementation of a commercial web-based off-the-shelf product modified to replace

¹ Ernst & Young noted "our responsibility is to express an opinion on these financial statements based on our audits" and stated they conducted their "audits in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*," page II-11.

² Page II-9.

³ Page II-9.

⁴ Page II-21.

⁵ Page II-23.

⁶ Page II-23.

⁷ Page II-9.

⁸ Page II-25.

⁹ Page II-38.

five legacy accounting systems and numerous subsidiary systems with one modern accounting system with three components.....the financial systems are not fully integrated and are not expected to have full integration until FY 2012.”¹⁰

- **HHS Has Failed To Implement Corrective Actions, Which Impairs The Reporting of Accurate Financial Information.** “In some cases, the HHS management has not properly implemented corrective actions for long- standing deficiencies in internal controls. Certain deficiencies have been continuously identified and reported to management over the past decade.....This insufficient progress of implementing corrective actions has resulted in limited improvement and continues to impair HHS’s capability to support and report accurate financial information.”¹¹
- **Some Medicare Contractors Are Still Using Financial Processes That Are “Subject to An Increased Risk Of Inconsistent, Incomplete, Or Inaccurate Information.”** By the end of FY 2010, certain Medicare contractors have not implemented [Healthcare Integrated General Ledger Accounting System]¹² and continue to rely on a combination of claims processing systems, personal computer-based software applications and other ad hoc systemsThe accuracy of these reports remains heavily dependent on inefficient, labor-intensive, manual processes that are also subject to an increased risk of inconsistent, incomplete, or inaccurate information being submitted to CMS.”¹³
- **HHS’ Balance Sheet Has A \$3 Billion Discrepancy, Compared To The Treasury Department’s Tally, “Caused By A Backlog Of Differences Dating Back To 2004.”** “Treasury regulations require that each federal entity ensure that it reconciles, on a monthly basis, its financial records with Treasury’s records and that it promptly resolves differences....As of June 30, 2010, the general ledger and Treasury’s records differed by more than an approximate absolute value of \$3 billion. This primarily relates to three OPDIVs that did not adequately research and clear differences noted in the Suspense Account Reconciliation. The differences were primarily caused by a backlog of differences dating back to 2004.”¹⁴
- **Medicare Pays Most Claims Through Contractors.....** “Extensive information systems operations are necessary to support CMS’ large size and decentralized business model. Substantially all of CMS’ Medicare fee-for-service claims and related data are processed by geographically dispersed contractors....Internal controls over these operations are essential to manage the integrity, confidentiality, and reliability of Medicare data and application programs and to reduce the risk of errors, frauds, or other illegal acts.”¹⁵**But HHS Has Failed to Address Needed Changes in a Timely Manner.** “While CMS continues to remediate identified findings and weaknesses, these monitoring activities also revealed a number of instances in which the remediation had not been timely implemented.”¹⁶

Ernst & Young’s Legal Disclaimer

“In planning and performing our audit, we [Ernst & Young] considered the Department’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but *not for the purpose of expressing an opinion on the effectiveness of the Department’s internal control over financial reporting*. Accordingly, we do not express an opinion on the effectiveness of the Department’s internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, as amended. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers’ Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.”¹⁷

¹⁰ Page II-17.

¹¹ Page II-30.

¹² “Healthcare Integrated General Ledger Accounting System (HIGLAS) - developed to support the financial activities of the Centers for Medicare & Medicaid Services (CMS) and its Medicare contractors by integrating the CMS contractors’ standard claims processing system and eventually replace the CMS current mainframe-based financial system with a web-based accounting system (currently, the web-based accounting system has been placed “on top” of the current mainframe-based financial system). Based on the ability to generate financial statements, CMS named HIGLAS as its official financial management system of record. Although initiated in FY 2005, full implementation is not expected until FY 2013.” Page II-17.

¹³ Page II-18.

¹⁴ Page II-20.

¹⁵ Page II-36.

¹⁶ Page II-36.

¹⁷ Page II-15.