



System Review Report

March 29, 2024

The Honorable Christi A. Grimm, Inspector General
United States Department of Health and Human Services

We have reviewed the system of quality control for the audit organization of U.S. Department of Health and Human Services, Office of Inspector General (HHS OIG) in effect for the year ended September 30, 2023. A system of quality control encompasses HHS OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming in all material respects with Government Auditing Standards and applicable legal and regulatory requirements.¹ The elements of quality control are described in Government Auditing Standards.

In our opinion, the system of quality control for the audit organization of HHS OIG in effect for the year ended September 30, 2023, has been suitably designed and complied with to provide HHS OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards and applicable legal and regulatory requirements in all material respects.

Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. HHS OIG has received an External Peer Review rating of *pass*.

Monitoring of GAGAS Engagements Performed by Independent Public Accountants

In addition to reviewing its system of quality control to ensure adherence with Government Auditing Standards, we applied certain limited procedures in accordance with guidance established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE) related to HHS OIG's monitoring of engagements conducted in accordance with generally accepted government auditing standards (GAGAS engagements) by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring of GAGAS engagements performed by IPAs is not an audit and, therefore, is not subject to the requirements of Government Auditing Standards. The purpose of our limited procedures was to determine whether HHS OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion; accordingly, we do not express an opinion on HHS OIG's monitoring of work performed by IPAs.

¹ U.S. Government Accountability Office (GAO), Government Auditing Standards (GAO-21-368G), April 2021



Letter of Comment

We have issued a letter dated March 29, 2024, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

We also made certain comments related to HHS OIG's monitoring of GAGAS engagements performed by IPAs, which we included in the above referenced letter dated March 29, 2024.

Basis of Opinion

Our review was conducted in accordance with Government Auditing Standards and the CIGIE Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General.

During our review, we interviewed HHS OIG personnel and obtained an understanding of the nature of the HHS OIG audit organization, and the design of HHS OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected GAGAS engagements and administrative files to test for conformity with professional standards and compliance with HHS OIG's system of quality control. The GAGAS engagements selected represented a reasonable cross-section of HHS OIG audit organization, with an emphasis on higher risk engagements.

In performing our review, we obtained an understanding of the system of quality control for the HHS OIG audit organization. In addition, we tested compliance with HHS OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of HHS OIG's policies and procedures on selected GAGAS engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

Before concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with HHS OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion. Enclosure 1 to this report identifies HHS OIG engagements we reviewed.

Responsibilities and Limitation

HHS OIG is responsible for establishing and maintaining a system of quality control designed to provide HHS OIG with reasonable assurance that the organization and its personnel comply in all material respects with professional standards and applicable legal and regulatory requirements. Our responsibility is to express an opinion on the design of the system of quality control and HHS OIG's compliance based on our review.

There are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and may not be detected.

Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

/s/

Rae Oliver Davis
Inspector General

Attachment

cc:

Amy J. Frontz, Deputy Inspector General for Audit Services
Lucia Fort, Assistant Inspector General for Region and Operations
Tamara Lilly, Assistant Inspector General for Cybersecurity & Information Technology
Carla Lewis, Assistant Inspector General for Public Health and Human Services Audits
Cassandra Newsome, Director, Audit Planning and Implementation
Diann Saltman, Director, HQ Review and Quality Assurance Division
William Hill, Audit Manager

Attachment 1

Scope and Methodology

We tested compliance with the HHS OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 14 of 137 engagements conducted in accordance with generally accepted government auditing standards (GAGAS engagement) from October 1, 2022, through September 30, 2023. We also reviewed the internal quality control reviews performed by HHS OIG.

In addition, we reviewed HHS OIG's monitoring of GAGAS engagements performed by IPAs in which the IPA served as the auditor for reports issued between October 1, 2022, and September 30, 2023. During that period, HHS OIG contracted for the audit of its agency's fiscal year 2022 financial statements. HHS OIG also contracted for other GAGAS engagements that were performed in accordance with Government Auditing Standards.

Reviewed GAGAS engagements performed by HHS OIG

	Report no.	Report date	Report title
1	A-07-22-00625	12/21/2022	National Government Services, Inc., Claimed Some Unallowable Medicare Supplemental Executive Retirement Plan Costs Through Its Incurred Cost Proposals
2	A-01-21-01503	09/21/2023	HRSA Had An Effective Process To Identify And Monitor High-Risk Health Centers That Received COVID-19 Grant Funds
3	A-02-19-02008	01/26/2023	Greater Bergen Community Action, Inc., Did Not Manage Its Head Start Awards in Accordance With Federal and State Requirements
4	A-05-20-00033	09/26/2023	Illinois State University's Management of NIH Awards Complied With Federal and Financial Conflict of Interest Requirements
5	A-06-17-09004	03/08/2023	Texas Could Not Support the Permissibility of the Funds Used as the State Share of the Medicaid Delivery System Reform Incentive Payment Program
6	A-04-22-07102	09/12/2023	Kentucky Did Not Always Invoice Manufacturers for Rebates for Physician-Administered Drugs Dispensed to Enrollees of Medicaid Managed-Care Organizations
7	A-18-20-08003	05/16/2023	Massachusetts MMIS and E&E System Security Controls Were Generally Effective, but Some Improvements Are Needed
8	A-18-20-08001	05/24/2023	The Centers for Medicare & Medicaid Services Should Improve Preventative and Detective Controls To More Effectively Mitigate the Risk of Compromise

	Report no.	Report date	Report title
9	A-09-21-03021	05/02/2023	Medicare Improperly Paid Providers for Some Psychotherapy Services, Including Those Provided via Telehealth, During the First Year of the COVID-19 Public Health Emergency

Reviewed monitoring files of HHS OIG for contracted GAGAS engagements

	Report no.	Report date	Report title
1	A-17-22-53000	11/07/2022	Report on the Financial Statement Audit of the Centers for Medicare & Medicaid Services for Fiscal Year 2022
2	A-17-23-52000	05/19/2023	Department of Health and Human Services Met Many Requirements, but It Did Not Fully Comply With the Payment Integrity Information Act of 2019 and Applicable Improper Payment Guidance for Fiscal Year 2022

Reviewed attestation engagement

	Report no.	Report date	Report title
1	A-03-23-00353	01/18/2023	Independent Attestation Review: Food and Drug Administration Fiscal Year 2022 Detailed Accounting Submission and Budget Formulation Compliance Report for National Drug Control Activities, and Accompanying Required Assertions

Reviewed terminated engagements

	Project no.	Start date	Termination date	Project title
1	A-05-20-00016	01/15/2020	08/17/2023	Medicare Inpatient Prospective Payment System Allows Improper Payments to Acute Care Hospitals for Some Claims That Do Not Comply with The Acute/Post-Acute Care Transfer Policies
2	A-18-23-07003	12/19/2022	06/01/2023	FDA Cloud Cybersecurity Audit

/s/

Rae Oliver Davis, Inspector General

Enclosure



March 29, 2024

The Honorable Christi A. Grimm, Inspector General
United States Department of Health and Human Services

We have reviewed the system of quality control for the audit organization of the United States Department of Health and Human Services, Office of Inspector General (HHS OIG), in effect for the year ended September 30, 2023, and have issued our report thereon, dated March 29, 2024, in which HHS OIG received a rating of *pass*. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The findings described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

Finding #1: Policies and Procedures

We reviewed HHS OIG's responses to appendix A, which requested specific information about audit policies and procedures designed to ensure compliance with Government Auditing Standards (GAS; also referred to as generally accepted government auditing standards, or GAGAS). We found that HHS OIG's audit manual provided sufficient policy direction to provide reasonable assurance that audit teams would follow GAGAS when planning, conducting, and reporting on their audit engagements. However, we noted one instance in which further direction could be provided to safeguard compliance with auditing standards.

If auditors discover that they do not have sufficient, appropriate evidence to support the reported findings or conclusions after an audit report is issued, GAS 9.68 calls for them to communicate with appropriate officials and other known users, so that they do not continue to rely on the findings or conclusions that were not supported. Auditors should also determine whether additional audit work is necessary to revise findings or conclusions before reissuing the report.

When there is discovery of insufficient evidence after report release, HHS OIG's audit manual did not discuss communicating with applicable users to prevent their reliance on a previously issued report. The manual also did not include an assessment of new information to determine whether to perform additional work to reissue the report. While an expectedly unusual event, we found that HHS OIG had rescinded an audit report on August 24, 2022, that had been issued on November 2, 2021. HHS OIG performed additional work on this engagement and then reissued an audit report on December 19, 2023. HHS OIG provided a notice on its website and issued a memorandum to HHS informing it that this report had been rescinded at the time. We found this notice was sufficient to meet GAGAS. Clarifying the necessary actions to be taken in its policy would help ensure that HHS OIG engages with its stakeholders in a consistent manner should a report need to be rescinded again.

Recommendation 1: We recommend that HHS OIG update its audit manual to provide guidance on how to communicate with appropriate officials when discovery of insufficient evidence is noted after report release. The manual should also include guidance on determining whether it is necessary to revise those findings or conclusions if the audit report is reissued.

Views of Responsible HHS OIG Official:

We agree. The Office of Audit Services (OAS) will revise its *OAS Audit Policies and Procedures Manual* to provide guidance on communicating with appropriate officials when discovery of insufficient evidence is noted after the release of a final audit report. This revision will also include guidance on determining whether it is necessary to revise any findings or conclusions if the final audit report is reissued.

Finding #2: Monitoring of GAGAS Engagements Performed by Independent Public Accountants

While the monitoring of work performed by an independent public accounting (IPA) firm is not a GAGAS engagement, the Inspector General Act of 1978, as amended, requires OIGs to ensure that the work of non-Federal auditors complies with GAGAS. The U.S. Government Accountability Office's Financial Audit Manual (FAM), sections 615 and 670, provide guidance to OIGs in designing procedures for the oversight of IPA firms contracted to perform financial statement audits, which must be conducted in accordance with the FAM. We reviewed two audit engagements, a financial statement audit and a performance audit, for compliance with the Payment Integrity Information Act (PIIA), in which HHS OIG monitored contracted work performed by an IPA firm that served as the auditor. We determined that while HHS OIG complied with most of the requirements, it did not consistently (1) document its evaluation of the IPA firm's independence, (2) evaluate the other auditors' competence, (3) develop a strategy to monitor the IPA firm's work, or (4) document its evaluation of the sufficiency of the IPA firm's work.

1. When using or reviewing the work of others, FAM 615.03 calls for the auditor to evaluate whether the other auditors' or specialists' organizations, as well as the individual auditors or specialists, are objective (or independent, as applicable). If the auditor has previously evaluated the objectivity of the other auditors or specialists for another engagement, the auditor should update the previous evaluation. We did not find evidence that HHS OIG obtained or reviewed independence certifications for one contractor staff members for the financial statement audit and four contractor staff members for the PIIA audit.¹ HHS OIG stated that the independence certifications were maintained in the HHS OIG financial statement library and were not cross-referenced to the audit team library in TeamMate. HHS OIG acknowledged that it needed to do a better job of cross-referencing the independence statements to the individual assignments, although we noted that independence certifications for five contractor staff members were not provided.

¹ HHS OIG did not provide a complete population of the number of staff members who worked on both audits. Our estimated population is 69 auditors for the financial statement audit and 66 auditors for the PIIA audit.

2. According to FAM 615.12, the auditor should evaluate the other auditors' or specialists' competence to perform the specific tasks required, which may include (according to FAM 615.21) reviewing résumés and training records to determine the specific education, training, certifications, and experience of key team members. In addition, HHS OIG's statement of work (SOW) requires a statement from the IPA firm annually to confirm that its staff is current on its continuing professional education (CPE) hours. However, HHS OIG did not provide any CPE documentation for its staff or a statement from the IPA firm to confirm that staff members were current on their CPE hours. According to HHS OIG, it had verbal discussions with the IPA firm regarding CPE requirements. However, these discussions were not documented.
3. FAM 670.04 states that auditors should develop comprehensive policies and procedures when providing oversight of the work of an IPA firm. FAM 670.09 also calls for the auditor to develop a strategy and plan for overseeing the IPA firm's work. HHS OIG's audit manual for contract monitoring refers to following the terms of the contract. In addition, we found that HHS OIG's audit (monitoring) plan listed six procedures with brief descriptions or high-level summaries of the review to be performed but lacked details. For example, one procedure stated that HHS OIG would examine audit documentation related to the review of internal controls over financial reporting. However, there were no details as to what documents would be reviewed. FAM 670 A lists the areas and documentation to be reviewed, including line-item risk analyses, cycle memorandums, specific control evaluations, flowcharts, the IPA firm's review of high-risk accounts and management's estimates and judgements, and analytical procedures. Overall, there were no details on how HHS OIG planned to implement the procedures to determine the IPA's compliance with GAGAS. HHS OIG stated that its audit plan referenced the IPA's audit plan and its procedures were modeled around it. Also, HHS OIG stated that it documented in the workpapers additional procedures performed that were not included in the audit plan.
4. When evaluating the audit work of the IPA firm, FAM 670.14 states that the auditor should determine whether the work was sufficient and appropriate and whether the IPA firm's levels of internal review for the audit work were appropriate. In addition, the auditor should determine whether any significant issues related to the audit were identified or whether substantial deviations from GAGAS, if applicable, were identified but not documented and explained in the audit. The auditor should document this evaluation. However, other than comments to the draft audit report and statements in the workpapers indicating that there were no comments on the IPA's deliverables, HHS OIG did not sufficiently document its review of the deliverables, as follows:
 - A. For the financial statement audit, HHS OIG workpapers referenced 201 IPA-prepared deliverables as reviewed and had no comments on any of them. For each of the deliverables, the workpapers did not include information regarding what was reviewed, how it was reviewed, and whether recalculations or verifications (as applicable) of the IPA's work were performed. We also did not find evidence of

correspondence with the IPA, such as followup questions resulting from the review of the deliverables.

- B. For the PIIA audit, HHS OIG workpapers indicated that the IPA prepared more than 100 deliverables. However, only 23 were referenced as reviewed, and HHS OIG had no comments on any of these deliverables. The workpapers did not include information about the extent of the review or how HHS OIG determined or selected the 23 deliverables for review.

Recommendation 2: We recommend that HHS OIG consistently document its evaluation of the IPA firm's independence, to include ensuring that all independence certifications are submitted for every contractor staff member working on each assignment.

Views of Responsible HHS OIG Official:

We agree. OAS will improve its procedures for identifying which IPA staff are working on which task order and appropriately identify IPA staff that were removed from the engagement in the prior year. The improved procedures will be designed to ensure that OAS consistently documents its evaluation of the IPA firm's independence to include documentation of independence certifications for every contractor staff member working on each assignment.

Recommendation 3: We recommend that HHS OIG reevaluate the IPA staff's CPEs every year to ensure that CPE requirements are met.

Views of Responsible HHS OIG Official:

We agree. We will request documentation or a written confirmation from the IPA firm that its staff assigned to an audit are current on their CPEs. We will ensure that this information is recorded in the audit documentation.

Recommendation 4: We recommend that HHS OIG enhance its monitoring plan to include all procedures needed for the applicable level of review of the IPA firm's work.

Views of Responsible HHS OIG Official:

We agree. We will ensure that the audit documentation contains a more detailed IPA oversight plan that lists the areas and documentation to be reviewed to ensure the IPA's compliance with GAGAS.

Recommendation 5: We recommend that HHS OIG enhance the documentation of its review of the work performed by IPA firms.

Views of Responsible HHS OIG Official:

We agree. We will ensure that the audit documentation has information on the IPA deliverables that were reviewed, the extent of the review, and which recalculations were performed. The audit documentation will also summarize our review of the IPA deliverables.

Finding #3: Fieldwork Standards - Planning

When planning the audit, GAS 8.30 states that auditors should ask the audited entity's management to identify previous engagements or other studies that directly relate to the objectives of the audit. HHS OIG Standard Document, SD-7, Risk Analysis Worksheet, covers prior audit findings in question 5 and has a note to "request management to identify previous audits, attestations, and studies."

However, HHS OIG's auditor response to question 5 on SD-7 included information on previous HHS OIG audits, other financial audits, and board meeting minutes. It did not include a response from the management of the audited entity. Responses from HHS OIG audit teams conflicted during our followup: one response noted that the team asked the auditee's management but could not provide support for this assertion, while another team did not specifically ask the auditee's management the question. Not engaging the auditee's management increases the risk of missing pertinent oversight work relevant to the current audit being undertaken.

Recommendation 6: We recommend that HHS OIG improve documentation of its engagement with the auditee on prior engagements or on-going work that directly relate to the objectives of the audit.

Views of Responsible HHS OIG Official:

We agree. We believe the risk is low for missing relevant oversight work related to the current audit being undertaken. As part of our planning, we routinely engage the U.S. Government Accountability Office (GAO) and State Auditors when starting a particular audit. Also, HHS Operating Divisions generally communicate with us during an audit to indicate when another audit oversight agency has begun similar work. However, we will improve our documentation of engagement with auditee management on prior or ongoing engagements directly related to our audit objectives.

Finding #4: Report Reference Verification

An accurate report is supported by sufficient, appropriate evidence, with key facts, figures, and findings being traceable to the audit evidence. One way to help the audit organization prepare accurate audit reports is to use a quality control process, such as referencing. GAS 9.17.a defines referencing as a process in which an experienced auditor, who is independent of the audit checks that statements of facts, figures, and dates are correctly reported; the findings are adequately supported by the evidence in the audit documentation; and the conclusions and recommendations flow logically from the evidence. Section 30-05-30 of the HHS OIG audit manual states that the audit team is responsible for ensuring that the report, including any alternative text, is appropriately cross-referenced to the supporting audit documentation.

We found that while most statements were supported, 102 of 892 reviewed statements were inadequately supported with the provided evidence in 9 of 10 reviewed audit reports. Noted

exceptions included unreferenced statements, referenced evidence not fully supporting reported statements, and supported statements being referenced to incorrect workpapers. In one report, for example, a statement was supported by the audit team as “auditor conclusion,” although no evidence was provided to support how the team arrived at this conclusion. In another instance, the audit team supported a statement with a meeting writeup, but that statement was instead supported by the auditee’s written comments in a different workpaper.

While we did not identify any material misstatements or errors from the 102 noted exceptions, a stronger and more consistent referencing program will increase the assurance that HHS OIG can rely on the evidence presented in its audit reports.

Recommendation 7: We recommend that HHS OIG stress the importance of cross-referencing to supporting documentation to ensure the accuracy of the report.

Views of Responsible HHS OIG Official:

We agree. We are updating our *Audit Process Handbook*. Upon completion of that update, we will have mandatory refresher training for all audit staff, during which we will reinforce the importance of cross-referencing to supporting documentation.

/s/

Rae Oliver Davis, Inspector General

Enclosure