



JUN 3 0 2008

TO: Kerry Weems
Acting Administrator
Centers for Medicare & Medicaid Services

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

SUBJECT: Review of Centers for Medicare & Medicaid Services' Medicaid
Information Technology Audit Resolution Process (A-04-06-05039)

The attached final report provides the results of our review of Centers for Medicare & Medicaid Services' (CMS) Medicaid information technology (IT) audit resolution process.

As part of the CMS financial statement audits, the Office of Inspector General (OIG) audits State Medicaid agencies' automated data processing methods and practices. OIG performed a series of these audits during fiscal years (FY) 2002 through 2005. These audits assessed the adequacy of the general controls over information systems that State Medicaid agencies and fiscal agents use to process Medicaid claims and eligibility data.

The objective of our audit was to determine whether CMS had resolved, in a timely manner, all Medicaid-related IT recommendations from OIG reports issued in FYs 2003, 2004, and 2005, as of June 30, 2007.

CMS resolved 17 of the 197 Medicaid-related IT recommendations that OIG made between October 2002 and September 2005 within the 6-month periods following the issuance of the final audit reports, as required by regulations. CMS resolved an additional 124 recommendations after the 6-month periods had expired. The remaining 56 recommendations had not been resolved as of June 30, 2007.

We recommended that CMS establish procedures to ensure that all IT audit recommendations are resolved within 6 months of receiving an audit report.

CMS concurred with our recommendation and described steps it has taken to improve the audit resolution process. CMS's comments are attached in their entirety as the Appendix.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the

information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, the final report will be posted on the Internet at <http://oig.hhs.gov>.

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 Lori Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through e-mail at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-04-06-05039 in all correspondence.

Attachment

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**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF CENTERS FOR
MEDICARE & MEDICAID
SERVICES' MEDICAID
INFORMATION TECHNOLOGY
AUDIT RESOLUTION PROCESS**



Daniel R. Levinson
Inspector General

June 2008
A-04-06-05039

Office of Inspector General

<http://oig.hhs.gov>

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Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

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

As part of the Centers for Medicare & Medicaid Services (CMS) financial statement audits, the Office of Inspector General (OIG) audits State Medicaid agencies' automated data processing methods and practices. OIG performed a series of these audits during fiscal years (FY) 2002 through 2005. These audits assessed the adequacy of the general controls over information systems that State Medicaid agencies and fiscal agents use to process Medicaid claims and eligibility data.

Pursuant to Office of Management and Budget Circular A-50, section 8.a(2), and other authorities, CMS is responsible for resolving Federal and non-Federal audit report recommendations related to its activities, grantees, and contractors within 6 months after formal issuance of the reports. Monthly stewardship reports that OIG prepares and forwards to CMS show the status of those recommendations. Our review covered 197 Medicaid-related information technology (IT) audit recommendations included in 16 OIG reports issued to State Medicaid agencies between October 1, 2002, and September 30, 2005.

OBJECTIVE

Our objective was to determine whether CMS had resolved, in a timely manner, all Medicaid-related IT recommendations from OIG reports issued in FYs 2003, 2004, and 2005, as of June 30, 2007.

SUMMARY OF FINDINGS

CMS resolved 17 of the 197 Medicaid-related IT recommendations that OIG made between October 2002 and September 2005 within the 6-month periods following the issuance of the final audit reports, as required by regulations. CMS resolved an additional 124 recommendations after the 6-month periods had expired. The remaining 56 recommendations had not been resolved as of June 30, 2007.

RECOMMENDATION

We recommend that CMS establish procedures to ensure that all IT audit recommendations are resolved within 6 months of receiving an audit report.

CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS

CMS concurred with our recommendation and described steps it has taken to improve the audit resolution process.

CMS's comments are attached in their entirety as the Appendix.

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INTRODUCTION

BACKGROUND

Pursuant to Title XIX of the Social Security Act, the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

Federal Audits

The Office of Inspector General (OIG) conducts audits of internal CMS activities, as well as activities performed by CMS grantees and contractors. These audits are intended to provide independent assessments of CMS 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 performed by certified public accounting firms.

Office of Inspector General Auditing of Medicaid Program

Between October 1, 2002, and September 30, 2005, OIG issued 24 reports to States regarding State Medicaid agencies' automated data processing systems. These reports provided assessments of the adequacy of the general controls over information systems that State Medicaid agencies and fiscal agents use to process Medicaid claims and eligibility data. CMS was responsible for resolving the Medicaid Management Information System (MMIS) recommendations in 16 of the reports.

Audit Resolution

In resolving Federal audit recommendations, CMS must comply with Office of Management and Budget Circular A-50, section 8.a(2), which requires “. . . prompt resolution . . . [of] audit recommendations. Resolution shall be made within a maximum of 6 months after issuance of a final report.”

The Department of Health and Human Services (HHS) “Grants Administration Manual” (GAM),¹ section 1-105, sets forth departmental policies and procedures for resolving recommendations pertaining to grants, contracts, and cooperative agreements. Pursuant to section 1-105-30(B)(1) of the GAM, action officials must resolve audit recommendations within

¹HHS GAM Section 1-105 was updated in 2006 as HHS Grants Policy Directives (GPD). Pursuant to Part 4, section 01(B)(6) of the GPD, “audit findings . . . must be resolved within 6 months of transmission [issuance] of the audit report by the OIG.”

6 months of the end of the month of issuance or release of the audit report by OIG. Resolution is normally deemed to have occurred 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, WebAIMS,² by CMS's submission and OIG's acceptance of an audit clearance document, known as an Office of Inspector General Clearance Document (clearance document).

Stewardship Reports

The OIG audit resolution group prepares monthly stewardship reports on the status of audit recommendations reported in Federal audits and forwards the stewardship reports to the applicable HHS Operating Division. The "Outstanding Audits and Actions Taken by Cognizance" stewardship reports for CMS identify all audit reports and corresponding recommendations issued for the selected period and either provide the action taken (management's decision) and the date of that action or indicate that no action has been taken.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether CMS had resolved, in a timely manner, all Medicaid-related information technology (IT) recommendations from OIG reports issued in fiscal years (FY) 2003, 2004, and 2005, as of June 30, 2007.

Scope

The scope of this review was limited to 197 OIG Medicaid-related IT recommendations that CMS was responsible for resolving and that were included in 16 reports issued from October 1, 2002, through September 30, 2005.

Between October 1, 2002, and September 30, 2005, OIG issued 24 reports to CMS and the Administration for Children and Families (ACF) that assessed the adequacy of the general controls over information systems that State Medicaid agencies and fiscal agents used to process Medicaid claims and eligibility data. These reports identified 273 information security

²OIG maintains the Audit Information Management System (known as WebAIMS), which provides information on various phases of OIG operations. WebAIMS produces a series of listings collectively called the OIG Stewardship Report.

vulnerabilities in 13 MMIS, 8 Income and Eligibility Verification Systems (IEVS), and 3 MMIS/IEVSs.³ Specifically, we identified:

- 145 information security vulnerabilities (53 percent) in the MMISs for 13 States,
- 52 information security vulnerabilities (19 percent) at three State Medicaid agencies that managed both the MMISs and IEVSs for their States, and
- 76 information security vulnerabilities (28 percent) in the IEVSs for 8 States.

CMS is responsible for resolving the 145 MMIS audit recommendations and jointly responsible with ACF for resolving the 52 MMIS/IEVS audit recommendations. ACF is responsible for resolving the 76 IEVS recommendations in the remaining eight States. This report focuses on CMS's resolution of the 197 MMIS and MMIS/IEVS recommendations. (See the chart on page 5.)

We did not perform a detailed examination of internal controls at CMS because the objective of our audit did not require such an examination. We limited our review of internal controls to those governing the resolution of IT report recommendations. We conducted our audit at CMS Headquarters in Baltimore, Maryland.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal requirements,
- compared our OIG general control reports and WebAIMS to the Medicaid Information System Controls Spreadsheet of OIG findings prepared by the Division of State Systems within CMS's Center for Medicaid and State Operations to identify all IT recommendations that OIG made during the nationwide general control reviews,
- obtained clearance documents from OIG Headquarters and the CMS Region VII Regional Administrator's Office,
- met with CMS representatives to discuss the audit resolution procedures that State Medicaid agencies follow as they respond to OIG IT recommendations, and
- surveyed five CMS regional offices to identify the policies and procedures used to resolve OIG IT recommendations.

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.

³Because the individual reports contain restricted information as defined under the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), the final reports are not available to the public.

FINDINGS AND RECOMMENDATION

CMS resolved 17 of the 197 Medicaid-related IT recommendations that OIG made between October 2002 and September 2005 within the 6-month periods following the issuance of the final audit reports, as required by regulations. CMS resolved an additional 124 recommendations after the 6-month periods had expired. The remaining 56 recommendations had not been resolved as of June 30, 2007.

CMS did not design its procedures for resolving IT audit recommendations to ensure that the recommendations were resolved within 6 months. As a result of CMS's lack of timely resolution of OIG audit recommendations, Medicaid computer services could have been interrupted, computerized data reliability could have been diminished, sensitive information could have been disclosed, and system integrity could have been compromised.

FEDERAL REQUIREMENTS

Office of Management and Budget Circular A-50, section 8.a (2), requires “. . . prompt resolution . . . [of] audit recommendations. Resolution shall be made within a maximum of 6 months after issuance of a final report”

The GAM, Chapter 1-105, “Resolution of Audit Findings,” places the responsibility for resolving all findings on the HHS Operating Divisions and requires each Operating Division to designate specific action officials to carry out its audit resolution responsibilities: “The audit resolution process shall include all actions required to fully resolve all issues. Depending on the nature of the problems involved, each resolution shall include: a. Timely correction of management, system, and program deficiencies” (GAM, 1-105-30 (A.1.)). The GAM also states that “Action Officials shall resolve audit findings within 6 months of the end of the month of issuance or release of the audit report by the Office of Audit [Services]. For this purpose, resolution is normally deemed to occur when . . . the report has been cleared from the Department's tracking system [WebAIMS] by submission and acceptance of the Audit Clearance Document(s)” (GAM, 1-105-30 (B.1.)).

AUDIT RECOMMENDATIONS NOT RESOLVED

CMS is solely responsible for resolving the MMIS recommendations and jointly responsible (with ACF) for the MMIS/IEVS recommendations. As of June 30, 2007, CMS had not resolved 56 of the 197 (28 percent) audit recommendations. All 56 of these recommendations had been outstanding for more than 6 months. Resolution of audit recommendations occurs when the report has been cleared from the WebAIMS tracking system by submission and acceptance of the clearance document. As of June 30, 2007, four finalized reports with 56 audit recommendations had not been cleared from the HHS tracking system.

AUDIT RECOMMENDATIONS RESOLVED IN AN UNTIMELY MANNER

Of the 197 recommendations, CMS had resolved 141 (72 percent), and it had resolved only 17 (8.6 percent) within the 6-month periods following the issuance of the final audit reports, as required by regulations. The remaining 56 recommendations had not been resolved as of June 30, 2007.

Timeliness of Audit Resolution in Fiscal Years 2003–2005		
Resolution Timeframe	Number of Resolved Recommendations	Percent of Total
Resolved timely (within 6 months)	<u>17</u>	<u>8.6</u>
Not resolved timely:		
From 6 months to 1 year	63	32.0
Over 1 year	61	31.0
Not resolved as of June 30, 2007: ⁴		
Over 2 years	26	13.2
Over 3 years	14	7.1
Over 4 years	<u>16</u>	<u>8.1</u>
Subtotal	<u>180</u>	<u>91.4</u>
Total	197	100.0

RESOLUTION PROCEDURES NEED IMPROVEMENT

CMS did not design its procedures to ensure that IT audit recommendations were resolved within 6 months. Instead, CMS permitted regional offices to develop their own procedures for resolving IT audit recommendations without central office oversight. The regional policies did not enforce the 6-month requirement for resolving IT audit recommendations. Personnel at three of the five regions we contacted were unaware of this 6-month requirement.

IMPACT OF INFORMATION SECURITY VULNERABILITIES

The information security vulnerabilities identified in OIG audits could compromise the integrity of the MMIS. Delays in the resolution of Medicaid-related IT recommendations could result in interrupted computer services, diminished computerized data reliability, increased risk of inappropriate sensitive information disclosure, and compromised system integrity.

⁴The clearance documents for the final reports not resolved as of June 30, 2007, have not been submitted by CMS and accepted by OIG. Resolution of audit recommendations occurs when the report has been cleared from the WebAIMS tracking system by submission and acceptance of the clearance documents.

RECOMMENDATION

We recommend that CMS establish procedures to ensure that all IT audit recommendations are resolved within 6 months of receiving an audit report.

CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS

CMS concurred with our recommendation and described steps it has taken to improve the audit resolution process.

CMS's comments are included in their entirety as the Appendix.

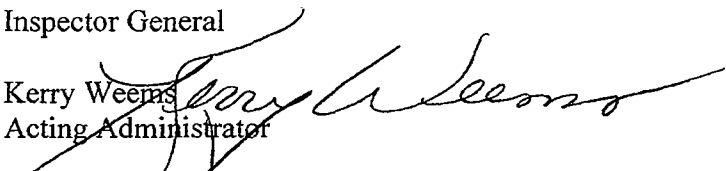
APPENDIX



Office of the Administrator
Washington, DC 20201

DATE: MAR 7 2008

TO: Daniel R. Levinson
Inspector General

FROM: Kerry Weems 
Acting Administrator

SUBJECT: Office of Inspector General (OIG) Draft Report: "Review of Centers for Medicare & Medicaid Services' Medicaid Information Technology Audit Resolution Process" (A-04-06-05039)

The Centers for Medicare & Medicaid Services (CMS) appreciates the opportunity to comment on the above-mentioned OIG draft report, which determined whether CMS resolved, in a timely manner, all Medicaid-related information technology recommendations from various OIG audit reports issued between fiscal years (FYs) 2003-2005. We also appreciate the follow-up by the OIG to ensure that all outstanding recommendations are successfully resolved. CMS understands the importance of maintaining the integrity of information systems that support the Medicaid enterprise. We are also continuing to strengthen the accountability and resolution of corrective action plans for all CMS audit activities.

The OIG draft report found that, as of June 30, 2007, there were a total of 197 Medicaid-related information technology recommendations, from the various OIG audit reports, issued between FY 2003-2005. Of the 197 recommendations, CMS closed 141 of them, but had not resolved 56 recommendations at the time of this draft report. Those remaining 56 recommendations are identified within 4 OIG finalized audit reports.

Our records show that of the four outstanding audits, one audit containing eight recommendations has been resolved (A-04-04-05010) since the publication of this report. One of the audits (A-05-03-00030 that contains 14 recommendations) was entered into the OIG's Web Audit Information Management System audit tracking system without the recommendations, which prevented the audit from appearing on the OIG's Stewardship Report. CMS was not aware that this audit was outstanding, and therefore did not pursue the submission of an Official Clearance Document (OCD) to resolve this audit. We are currently working on resolving this audit so the OCD can be processed. For the two remaining OIG audits (A-05-04-00014 and A-17-03-30010), CMS has requested the work papers from the OIG in order to help us

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reconcile these audits so that we can submit the appropriate documentation to resolve them.

The draft report also found that CMS' Audit Resolution procedures are not written to ensure that OIG audit reports are resolved within a 6-month timeframe and that CMS regional staff are not aware of that requirement. CMS disagrees with these findings. In fact, CMS has always adhered to, and train our staff using the requirements set forth in the Office of Management and Budget, Circular A-50 (Revised, September 29, 1982) and the Department of Health & Human Services Grants Administration Manual (dated March 25, 1983). Furthermore, the Health Care Financing Administration's Audit Resolution Manual, dated January 1, 1982, cites the 6-month timeframe on page 6. CMS has and continues to diligently train our staff regarding the 6-month deadline for OIG OCD submission. As a result, we believe the staff that are responsible for audit resolution are clearly aware of the process and the timeframes involved.

In FY 2006, CMS realigned its Audit Resolution process to better track non-Federal audits. CMS' Kansas City Regional Office (KCRO) took over the management and oversight of those external audits where a CMS Regional Office Action Official (ROAO) has been identified. An external audit is defined as a review of entities (e.g., State Medicaid Management Information System, contractors, etc.), other than CMS, that receive Federal funds to operate various Federal programs. The KCRO facilitates the submission of the OIG OCD which identifies and clears the corrective action plans to be taken for each OIG recommendation. The KCRO communicates with its regional counterparts as needed on issues that may arise as CMS works toward clearing audit recommendations.

In addition, the KCRO prepares two reports on a bi-monthly basis and shares them with the CMS ROAOs, identifying all open and cleared audits for which they have responsibility. These reports identify all outstanding audits and results in holding the regional managers accountable for those audits not cleared in a timely manner. The KCRO actively tracks the timely clearance and closure of outstanding audits. Finally, the KCRO holds quarterly conference calls with the regional offices to discuss audit processing matters, and shares best practices. The KCRO's effort has resulted in a dramatic decrease in the amount of time it takes CMS to resolve external audits. In fact, the average number of days to resolve external audits issued after June 30, 2006, is 150 days. Further, the realignment has allowed CMS to significantly reduce the number of open Medicaid audits. At the start of FY 2007 there were 211 open audits. CMS received 118 and cleared 256 for an ending balance of 73 open audits. This represents a 78 percent decrease in Medicaid audits since the beginning of FY 2007.

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OIG Recommendation

CMS should establish procedures to ensure that all IT audit recommendations are resolved within 6 months of receiving an audit report.

CMS Response

We concur. Since the CMS KCRO has taken over the Audit Resolution process, the KCRO has strengthened procedures to ensure that we clear all audits within 6 months by preparing semi-monthly reports for the Action Officials and Associate Regional Administrators; holding quarterly conference calls with the regional offices; and reconciling monthly to the OIG's Stewardship Report. In addition, the Consortium Administrators hold weekly conference calls with the regional managers. Although audits are not the primary focus of these calls, the Consortium Administrators use part of this forum to update the regions on audit-related issues.

Again, we appreciate the opportunity to comment on the OIG draft audit report.