

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**U.S. DEPARTMENT OF HEALTH AND
HUMAN SERVICES MET MANY
REQUIREMENTS OF THE IMPROPER
PAYMENTS INFORMATION ACT OF
2002 BUT DID NOT FULLY COMPLY
FOR FISCAL YEAR 2016**

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**Gloria L. Jarmon
Deputy Inspector General
for Audit Services**

**May 2017
A-17-17-52000**

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.



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Report of Independent Auditors on HHS’s Compliance with the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012

The Secretary and the Inspector General of the U.S. Department of Health and Human Services

We conducted a performance audit of U.S. Department of Health and Human Services (Department/HHS) compliance with the required calculation and disclosure of Improper Payment Rates as of and for the fiscal year ended September 30, 2016, to determine if HHS is in compliance with the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) (hereinafter referred to as the IPIA, as amended).

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 objectives.

To assess HHS compliance, we performed specific procedures to address the objectives summarized in the 2016 Statement of Work Appendix F – Improper Payment. The specific scope and methodology are summarized in Section II of this report.

In our opinion, the HHS met many requirements but did not fully comply with the IPIA (as amended) for fiscal year (FY) 2016. Our detailed findings and recommendations are documented in Section III of this report.

This report is intended solely for the information and use of HHS and the HHS Office of Inspector General, Office of Management and Budget, Congress, and the U.S. Government Accountability Office and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

May 8, 2017
Tysons, Virginia

EXECUTIVE SUMMARY

The Improper Payments Elimination and Recovery Act of 2010 (IPERA; P.L. No. 111-204) requires Offices of Inspector General (OIGs) to review and report on agencies' annual improper payment information included in their Agency Financial Reports (AFRs) to determine compliance with the Improper Payments Information Act of 2002 (IPIA; P.L. No. 107-300) as amended by IPERA as well as the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. No. 112-248) (hereinafter referred to as IPIA, as amended).

The Department of Health and Human Services (HHS) Office of Inspector General (OIG) engaged us to assist in its evaluation of the accuracy and completeness of HHS's improper payment reporting in its annual Agency Financial Report (AFR) and accompanying materials to determine if HHS is in compliance with IPIA, as amended.

We conducted a performance audit to determine HHS compliance with IPIA, as amended, as of September 30, 2016, in accordance with the related Office of Management and Budget (OMB) guidance, evaluate HHS's assessment of its level of risk and methodology for OMB-determined risk-susceptible programs, and determine the computational accuracy and disclosure of improper payment rate estimates.

BACKGROUND

To improve accountability of Federal agencies' administration of funds, the IPIA requires agencies, including HHS, to annually report to the president and Congress on the agencies' improper payments. An improper payment is any payment that should not have been made or that was made in an incorrect amount (either overpayments or underpayments) as well as other cases listed in the OMB implementing guidance. HHS issued its FY 2016 AFR, including the required IPIA disclosures, on November 14, 2016.

As required by OMB, agencies' OIGs must report on six key issues as part of their IPIA compliance reporting: (1) publishing an AFR and posting it on the agency website; (2) conducting a program-specific risk assessment; (3) developing improper payment estimates for programs and activities identified as risk-susceptible; (4) publishing corrective action plans (CAPs); (5) establishing annual reduction targets for those risk-susceptible programs; and (6) reporting gross improper payment rates of less than 10%. In addition to assessing compliance with the IPIA, an OIG may evaluate the accuracy and completeness of agency reporting, as well as the agency's performance in reducing and recapturing improper payments. In addition, the Disaster Relief Appropriations Act (DRAA; P.L. No. 113-2) provides that all programs and activities receiving funds under the DRAA are deemed to be "susceptible to significant improper payments" for the purposes of the IPIA (section 904(b)). The programs or activities that received funding under the DRAA are required to calculate and report an improper payment estimate until those funds are expended.

WHAT WE FOUND

HHS met many requirements, but did not fully comply with the IPIA, as amended for FY 2016.

As required, HHS:

- Published an AFR for FY 2016 and posted that report and accompanying material on the HHS website
- Conducted a program-specific risk assessment of 22 programs that were not deemed susceptible to significant improper payments by OMB to identify those programs or activities that might have been susceptible to significant improper payments
- Conducted risk assessments of government charge cards and payments to employees
 - The employee pay review included salary, locality pay, travel pay, and other employee payments performed on a Department-wide level.
 - The charge card review, consisting of purchase and travel card payments, covered the Program Support Center and three Operating divisions (FDA, NIH, and CDC) in FY 2016. Consistent with OMB guidance, this risk review will be done by each Staff or Operating division on a three-year rotational basis.
- Published improper payment estimates for seven of the eight programs that OMB deemed to be susceptible to significant improper payments and all five programs deemed susceptible to significant improper payments under the DRAA that had not expended all funds by FY 2016
- Published CAPs for seven of the eight HHS programs that OMB determined to be susceptible to significant improper payments and all five programs deemed susceptible to significant improper payments under the DRAA that had not expended all funds by FY 2016
- Published and met annual reduction targets for four of the seven programs for which it reported reduction targets in the FY 2015 AFR
- Reported an improper payment rate of less than 10% for five of the eight programs that OMB deemed to be susceptible to significant improper payments and that reported an improper payment estimate in FY 2016 and all five programs deemed susceptible to significant improper payments under the DRAA that had not expended all funds by FY 2016

However, HHS did not fully comply with several IPIA requirements. Specifically, HHS:

- Did not publish an improper payment estimate for one of the eight programs that OMB deemed to be susceptible to significant improper payments

- Did not publish an improper payment estimate for the Temporary Assistance for Needy Families (TANF) program
- Did not achieve targets or goals for certain programs:
 - Did not achieve an improper payment rate of less than 10% for two of the seven programs deemed susceptible to significant improper payments by OMB (Medicare Fee-For-Service (FFS) and Medicaid and that reported an improper payment estimate in FY 2016
 - Did not meet improper payment rate reduction targets for three of the seven programs for which it reported reduction targets in the FY 2015 AFR (Medicare Advantage (Part C), Children’s Health Insurance Program (CHIP), and Foster Care)
- Did not meet the requirements to implement a plan to reduce improper payments for one of the eight programs that OMB deemed to be susceptible to significant improper payments (TANF):
 - Did not publish CAPs that addressed improper payment root causes for TANF
- Did not meet recapture and recovery requirements for one of the eight programs required to do so under the Affordable Care Act that OMB deemed to be susceptible to significant improper payments
 - Did not award a Medicare Advantage (Part C) Recovery Audit Contractor (RAC) contract in FY 2016, as required by Section 6411 of the Patient Protection and Affordable Care Act, to conduct recovery audits for the Medicare Part C Program

Finally, the Inspectors General must report on an agency’s compliance with the IPIA, as amended (IPERA and OMB Circular A-123). If an agency is determined by an Inspector General not to be in compliance with the IPIA, as amended for three consecutive fiscal years for the same program or activity, the head of the agency must, not later than 30 days after the determination, submit to Congress either reauthorization proposals for each program or activity that has not been in compliance for three or more consecutive FYs or proposed statutory changes necessary to bring the program or activity into compliance. During our review of prior year reports issued by the Office of Inspector General and the results of our procedures, we identified instances of noncompliance with the IPIA, as amended, in the TANF, Medicaid, and Medicare FFS programs for three or more consecutive years.

WHAT WE RECOMMEND

HHS has not fully addressed recommendations from the prior years’ OIG performance audits related to improper payments, including the need to provide an improper payment estimate and corrective action plan for TANF, meet certain improper payment rate reduction targets, and reduce improper payment rates to below 10%. Addressing these recommendations would improve HHS’s compliance with the IPIA, as amended, including compliance issues identified in our current

findings. We made a series of detailed recommendations as described in Section III to improve HHS's compliance with the IPIA, as amended.

HHS MANAGEMENT COMMENTS

In its comments on our draft report, HHS concurred with the findings and emphasized its commitment to reduce improper payments and improve reporting. HHS's comments, excluding technical comments (which we addressed appropriately), are included in Appendix A.

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Appendix A – HHS MANAGEMENT COMMENTS

INTRODUCTION

The Improper Payments Elimination and Recovery Act of 2010 (IPERA; P.L. No. 111-204) requires Offices of Inspector General (OIGs) to review and report on agencies' annual improper payment information included in their Agency Financial Reports (AFRs) to determine compliance with the Improper Payments Information Act of 2002 (IPIA; P.L. No. 107-300), as amended by IPERA as well as the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. No. 112-248) (herein referred to as IPIA, as amended).

The Department of Health and Human Services' (HHS or the Department) OIG engaged us to assist in its evaluation of the accuracy and completeness of HHS's improper payment reporting in the Agency Financial Report (AFR) and accompanying materials to determine if HHS is in compliance with IPIA, as amended.

We conducted a performance audit to determine HHS's compliance with IPIA, as amended, as of September 30, 2016, in accordance with the related Office of Management and Budget (OMB) guidance, evaluate HHS's assessment of its level of risk and methodology for OMB-determined risk-susceptible programs,¹ and determine the computational accuracy and disclosure of improper payment rate estimates.

Objectives

Specifically, our objective is to provide audit support to the OIG with respect to HHS's improper payment reporting in the annual Agency Financial Report (AFR) and accompanying materials to determine if HHS is in compliance with IPIA, as amended.

A determination of compliance with IPIA, as amended, includes whether HHS has:

- a) Published an AFR for the most recent fiscal year and posted that report and any accompanying material required by the Office of Management and Budget (OMB) on its website
- b) Conducted a program-specific risk assessment, if required, for each program or activity to identify those that may be susceptible to significant improper payments
- c) Published improper payment estimates for all programs and activities identified in its risk assessment as susceptible to significant improper payment
- d) Published programmatic corrective action plans (CAPs) in the AFR as required
- e) Published and met annual reduction targets for each program assessed to be at risk and measured for improper payments (as required)

¹ OMB-determined risk-susceptible programs: Medicare Fee-for-Service (FFS), Medicaid, Medicare Advantage (Part C), Medicare Prescription Drug Benefit (Part D), Children's Health Insurance Program (CHIP), Temporary Assistance for Needy Families (TANF) program, Foster Care, and Child Care Development Fund. Of these eight programs, OMB has classified Medicare Fee-for-Service, Medicaid, Medicare Advantage (Part C), Medicare Prescription Drug Benefit (Part D), and Children's Health Insurance Program (CHIP) as High Priority Programs.

- f) Reported a gross improper payment rate of less than 10% for each program or activity for which an improper payment estimate was obtained and published in the AFR.

In addition, we evaluated HHS's assessment of the level of risk and quality of improper payments estimates and methodology for OMB-determined risk-susceptible programs.

SECTION I – BACKGROUND

In its FY 2016 AFR, HHS reported approximately \$96.9 billion in gross improper payments. An improper payment is any payment that should not have been made or that was made in an incorrect amount (either overpayments or underpayments) as well as other cases listed in the OMB implementing guidance. To improve accountability of Federal agencies' administration of funds, the IPIA requires agencies, including HHS, to annually report information to the president and Congress on the agencies' improper payments. OMB Circulars provide guidance on the implementation of and reporting under the IPIA (OMB Circular A-123, Appendix C, parts I and II, and OMB Circular A-136, § II.5.8). Further, OMB has deemed eight programs to be susceptible to significant improper payments.

On January 29, 2013, the president signed into law the Disaster Relief Appropriations Act (DRAA; P.L. No. 113-2), which provides aid to Superstorm Sandy disaster victims and their communities. All programs and activities receiving funds under the DRAA are deemed to be "susceptible to significant improper payments" for the purposes of IPIA (section 904(b)), so the DRAA requires agencies to calculate and report an improper payment estimate for these programs and activities.

SECTION II – AUDIT SCOPE AND METHODOLOGY

Scope

Our audit covered the IPIA and DRAA information that was reported in the "Other Information" section of HHS's FY 2016 AFR. HHS included information on the following eight programs that were deemed by OMB to be susceptible to significant improper payments: Medicare Fee-for-Service, Medicare Advantage (Part C) and Medicare Prescription Drugs (Part D), Medicaid, CHIP, TANF, Foster Care, and the Child Care Development Fund (CCDF). As required by DRAA, HHS also included information on seven programs that received Superstorm Sandy funds.

We performed our fieldwork from November 2016 through April 2017.

Methodology

To determine whether HHS complied with the IPIA and whether it had made progress on recommendations included in prior years' OIG reports, we:

- Reviewed applicable Federal laws and OMB circulars
- Reviewed improper payment information reported in the HHS FY 2016 AFR

- Obtained and analyzed other information from HHS on the eight programs deemed susceptible to significant improper payments
- Interviewed department staff to obtain an understanding of the processes and events related to determining improper payment rates
- Verified that the improper payment rates for the relevant programs were less than 10% in FY 2016 and the results were published in the HHS FY 2016 AFR
- Assessed HHS's disclosure of IPFA requirements in the AFR by verifying that the HHS FY 2016 AFR includes required disclosures
- Verified that the HHS FY 2016 AFR was published on HHS.gov
- Compared amounts included on HHS-prepared supporting documentation to information included within the Other Information section of the FY 2016 AFR for each program

To evaluate the assessed level of risk and the quality and methodology of improper payment estimates for OMB-determined risk-susceptible programs, we:

- Interviewed Department officials about the process for assessing the level of risk for the OMB-determined risk-susceptible programs and confirmed HHS's approach within the context of OMB's guidance
- Made inquiries to Department officials about the quality of the improper payment estimates and methodology for the OMB-determined risk-susceptible programs
- Reviewed key processes, steps, and documentation used to estimate improper payments in OMB-determined risk-susceptible programs
- Asked program officials about the methodology for determining the estimated improper payment rate targets for the subsequent three years for the OMB-determined risk-susceptible programs
- Agreed amounts included on HHS's prepared supporting documentation to information included within the Other Information section of the FY 2016 AFR for each program
- For two programs (Medicare FFS and CCDF), performed reviews of HHS's methodologies used in the calculation of improper payment rates

To assess HHS's performance in reducing and recapturing improper payments, including accuracy and completeness, we:

- Verified that the improper payment reduction goals from the HHS FY 2015 AFR were met in FY 2016 and the results were published in the HHS FY 2016 AFR

- Reviewed HHS's efforts to recapture improper payments at a program level in FY 2016
- Reviewed HHS's application of the Do Not Pay Initiative at a program level in FY 2016
- Verified that the corrective action plans (CAPs) for the relevant programs were published in the HHS FY 2016 AFR and appropriately prioritized within HHS

We discussed the results of our work with HHS and received written comments on the report's 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.

SECTION III – FINDINGS AND RECOMMENDATIONS

This report consolidates the instances of noncompliance with IPIA from an overall perspective and for each of the improper payment measurement programs. Although HHS met many IPIA and other OMB reporting requirements, it did not fully comply with the IPIA, as amended.

Finding #1 – TANF improper payment estimate not published in FY 2016

HHS did not calculate or report an improper payment estimate for TANF. HHS stated in its FY 2016 AFR that it did not report an improper payment estimate for TANF because statutory limitations prohibit HHS from requiring states to participate in a TANF improper payment measurement since it is a state-administered program. The IPIA requires Federal agencies to review all of their programs to identify those that may be susceptible to significant improper payments; OMB implementing guidance states that OMB can also designate programs as susceptible to significant improper payments regardless of risk assessment results. OMB has designated TANF as a Federal program susceptible to significant improper payments. Accordingly, HHS should have estimated and reported improper payments in the AFR for TANF.

Recommendation:

We recommend that HHS continue to work with the OMB to implement an approach to reporting on TANF improper payments in FY 2017.

Finding #1a – TANF corrective action plan as required by OMB not published in FY 2016

The process of reporting an improper payment estimate helps programs identify the root causes of improper payments. Since HHS did not report an improper payment estimate for the TANF program, HHS did not publish a corrective action plan for TANF addressing the root causes for TANF's improper payments. In the FY 2016 AFR, HHS reported a series of actions, including monitoring a TANF Program Integrity Innovation Grant, working with states to analyze Single Audit material noncompliance findings, and performing a detailed risk assessment of the TANF program to assist states in reducing improper payments for TANF. However, according to OMB guidance, programs for which OMB designates improper payments as susceptible to significant are required to report corrective action plans that address the root causes of the program's improper payments.

Recommendation:

We recommend that HHS first focus on implementing an approach to reporting on TANF improper payment as this process will aid in identifying root causes of TANF improper payments. However, we recommend that HHS develop and publish corrective action plans after implementing an approach.

Finding #2 – Reduction goals for FY 2015 not met for Foster Care program in FY 2016

In accordance with IPERA of 2010 (section 3.3.E), an agency is in compliance with IPERA if it has published improper payment reduction targets and is meeting such targets. Foster Care did not meet its FY 2016 reduction goal (target from FY 2015 AFR – 3.60%; actual – 6.89%). As discussed in the FY 2016 AFR and Foster Care’s FY 2016 OMB Improper Payment Report, the main driver of the program’s significant increase from the prior year’s improper payment rate of 3.65% was the performance of two large states that were reviewed in this cycle. These states each previously had improper payment rates below 3%, but were found to have improper payment rates of more than 20% in one instance and more than 40% in the other instance.

Recommendation:

We recommend that HHS and ACF continue working with states to (1) provide technical assistance and training related to policy updates and (2) support the Foster Care program in reaching its overall reduction goal target through appropriate implementation of corrective action plans at the state-level.

Finding #3 – Reduction goals for FY 2015 not met for certain CMS programs in FY 2016

In accordance with IPERA of 2010 (section 3.3.E), an agency is in compliance with IPERA if it has published improper payment reduction targets and has met such targets. The following programs did not meet the FY 2016 reduction goals:

CMS Program	Target Rate from FY 2015 AFR	Actual Rate from FY 2016 AFR
Medicare Advantage (Part C)	9.14%	9.99%
CHIP	6.81%	7.99%

As detailed in the HHS FY 2016 AFR, Medicare Advantage did not achieve the target rate mainly due to insufficient documentation by third parties, and CHIP did not achieve its target rate in FY 2016 due to administrative or process errors made by the state or local agencies.

Recommendation:

We recommend HHS proactively take action throughout the fiscal year to achieve its established improper payment target rates. Medicare Advantage did not achieve the target rate mainly due to insufficient documentation by third parties, and therefore, we recommend, for example, that HHS continue to work with the Medicare Advantage plans and providers to communicate the documentation requirements and monitor the adherence to such requirements throughout the year. In addition, CHIP did not achieve its target rate in FY 2016 due to administrative or process errors made by the state or local agencies, and as a result, we recommend, for example, that HHS work with the states to bring their respective systems into compliance to implement new requirements.

Finding #4 – Medicare Fee-For-Service improper payment rate percentage exceeds 10% for FY 2016

In accordance with IPERA of 2010 (section 3.3.F), an agency is in compliance with IPERA if they have “reported an improper payment rate of less than 10% for each program and activity for which an estimate was published under section 2(b) of the Improper Payment Information Act of 2002.” The reported improper payment rate percentage in the HHS AFR for the Medicare Fee-For-Service program in FY 2016 was 11.00%, which is above the compliance threshold of 10.00%. HHS identified the primary causes of the Medicare Fee-For-Service improper payments as insufficient documentation and medical necessity errors. In addition, HHS documented that insufficient documentation continues to be prevalent for home health claims, with an improper payment rate of 42.01% due to the documentation requirements to support the medical necessity of the services. In addition, insufficient documentation was also common for Inpatient Rehabilitation Facility (IRF) claims where the improper payment rate for IRF claims increased from 45.50% in FY 2015 to 62.39% in FY 2016.

Recommendation:

We recommend that HHS focus on the root causes for the improper payment rate percentage and evaluate critical and feasible action steps to decrease the improper payment rate percentage below 10%.

Finding #5 – Medicaid improper payment rate percentage exceeds 10% for FY 2016

In accordance with IPERA of 2010 (section 3.3.F), an agency is in compliance with IPERA if they have “reported an improper payment rate of less than 10% for each program and activity for which an estimate was published under section 2(b) of the Improper Payment Information Act of 2002.” The reported improper payment rate percentage in the HHS AFR for the Medicaid program in FY 2016 was 10.48%, which is above the compliance threshold of 10.00%. HHS identified the primary causes of the Medicaid improper payments as errors related to state difficulties bringing systems into compliance with provisions put in place to strengthen program integrity. These provisions include: 1) requiring all ordering and referring providers to be enrolled in Medicaid and claims to be submitted with the ordering and referring provider’s National Provider Identifier (NPI), 2) requiring risk-based screening of providers prior to enrollment, and 3) requiring the attending provider NPI to be submitted on all electronically filed institutional claims. As HHS only reviews 17 states each year for the Medicaid improper payment rate, FY 2016 is the last cycle of states to be reviewed for the first time under these new requirements.

Recommendation:

We recommend that HHS focus on the root causes of the improper payment percentage and evaluate critical and feasible action steps to assist states with their compliance efforts for these new requirements. This would include working with the states to bring their respective systems into full compliance with new requirements to decrease the improper payment rate percentage below 10%. In addition, as HHS only reviews 17 states each year for the Medicaid improper payment rate, HHS should continue to follow up with states during the interim period to verify

that corrective actions identified after the improper payment error rate measurement review are being implemented.

Finding #6 – No Recovery Audit Contract (RAC) activity during FY 2016 to recover improper payments for Medicare Advantage

According to IPERA of 2010 (section 2(h)), the agency shall conduct recovery audits with respect to each program and activity of the agency that expends \$1 million or more annually if conducting such audits would be cost-effective.

As reported in the HHS FY 2016 AFR, Section 6411(b) of the Affordable Care Act expanded the RAC program to Medicare Advantage (Part C) and Medicare Prescription Drug (Part D). As part of the procurement process to secure a Medicare Advantage (Part C) RAC, HHS posted a Request for Quote in June 2014; however, no responses were received as a result of that solicitation. In December 2015, HHS posted a Request for Information to solicit additional feedback from industry regarding this program, and HHS received several submissions in response to the announcement. HHS continues its implementation efforts and anticipates awarding a Part C RAC contract in 2017; but there was not one awarded in FY 2016, and there were no recovery audits conducted for Part C, although the annual expenditures exceed \$1 million. Therefore, CMS is not in compliance with this specific section of the law/regulations.

Recommendation:

We recommend that HHS actively search for RAC contractors for Medicare Advantage (Part C) and finalize the award in a timely manner with the intention to perform RAC audits in FY 2017.



MAY 08 2017

Gloria L. Jarmon
Deputy Inspector General for Audit Services
Department of Health and Human Services
Cohen Building, Room 5700A
330 Independence Avenue, S.W.
Washington, D.C. 20201

Dear Ms. Jarmon:

Thank you for the opportunity to review the Office of Inspector General's (OIG) draft report "*U.S. Department of Health and Human Services Met Many Requirements of the Improper Payments Information Act of 2002 but Did Not Fully Comply for Fiscal Year 2016*" (A-17-17-52000). The Department of Health and Human Services takes seriously its responsibility to meet the requirements of the Improper Payments Information Act of 2002 (IPIA; P.L. No. 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), as well as the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. No. 112-248) (hereinafter referred to as IPIA, as amended).

We concur with the six findings in the draft report as discussed below.

For the Administration for Children and Families (ACF) high-risk programs, HHS is not in full compliance with the IPIA, as amended, due to a) the Foster Care program not meeting the improper payment reduction target for FY 2016 and b) the Temporary Assistance for Needy Families (TANF) program not reporting an improper payment estimate. For the Centers for Medicare and Medicaid Services (CMS) high-risk programs, HHS is not in full compliance with the IPIA, as amended, due to a) reporting program improper payment rates that did not meet the reduction targets for FY 2016 (Medicare Part C, and Children's Health Insurance Program (CHIP)); b) reporting an improper payment rate that is greater than 10 percent (Medicare Fee-for-Service (FFS) and Medicaid); and c) not conducting a Medicare Part C recovery audit program.

Although HHS has implemented a number of important steps in the past several years—many of which are outlined in the draft report—to reduce improper payments and improve reporting, we recognize the need for continuous and focused efforts to further prevent, detect, and reduce improper payments in our programs.

Office of Management and Budget (OMB) guidance requires agencies to lay out a plan for bringing each cited noncompliant program into compliance (including specific actions for programs that have been out of compliance for three or more years). Accordingly, HHS will develop and submit a plan to address the compliance findings to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and OMB.

While we have previously identified many tools and resources to prevent, detect, and reduce improper payments, we look forward to continuing our efforts to find innovative ways to address the root causes of improper payments. Reducing improper payments across HHS programs will strengthen our stewardship of taxpayer funds and accomplish HHS's mission.

We would like to thank the OIG and our independent auditors, Ernst & Young LLP, for your efforts and continued collaboration in support of the Department's programs.

Sincerely,

A handwritten signature in black ink, appearing to read "Jen Moughalian", with a long horizontal flourish extending to the right.

Jen Moughalian
Acting Assistant Secretary for Financial Resources