

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ALTHOUGH THE BEMIDJI AREA
OFFICE HAD ADEQUATE
PROCEDURES TO DISBURSE
INDIAN HEALTH SERVICE FUNDS,
IT NEEDS TO STRENGTHEN ITS
PROCEDURES FOR MONITORING THE
USE OF THE FUNDS**

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Office of Inspector General

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operating divisions will make final determination on these matters.

Report in Brief

Date: February 2021

Report No. A-05-18-00019



Why OIG Did This Audit

In recent years, Congress has expressed concerns about the Indian Health Service's (IHS's) administrative and financial management of program funds for health services to American Indians and Alaska Natives. Before we could address Congress' broader concerns, we needed to assess how the 12 IHS Area Offices receive and disburse funds for services provided to Tribal members. We chose to audit the Bemidji Area Office's (BAO's) procedures for disbursing IHS funds because it disburses funds to all program types.

Our objectives were to determine the adequacy of BAO's procedures for (1) disbursing IHS funds to programs and (2) monitoring the programs' use of disbursed IHS funds.

How OIG Did This Audit

Our audit covered \$512.0 million in FYs 2016 and 2017 IHS funds that BAO received and disbursed as allowances to programs within its geographic area. Specifically, we reviewed the adequacy of (1) the procedures BAO had in place when it disbursed \$394.6 million in FYs 2016 and 2017 in Health Service funds to IHS Direct, Tribal, and Urban programs within its geographic area and (2) BAO's monitoring of disbursed Health Service funds. For the remaining \$117.4 million, we confirmed that \$75.9 million was recorded as FYs 2016 and 2017 Contract Support Cost funds and \$41.5 million as FYs 2016 and 2017 Facilities funds.

Although the Bemidji Area Office Had Adequate Procedures To Disburse Indian Health Service Funds, It Needs To Strengthen Its Procedures for Monitoring the Use of the Funds

What OIG Found

BAO generally had adequate procedures to disburse IHS funds to programs. However, BAO's procedures for monitoring the use of funds did not include (1) routine reconciliations of amounts reported in the Uniform Financial Management System (UFMS) with amounts recorded in supporting documents, (2) monitoring and evaluating IHS Direct programs' use of no-year Health Service funds carried forward by appropriation year and budget activity programs, and (3) evaluating IHS Direct programs' use of current no-year Health Service funds.

What OIG Recommends and IHS Comments

We recommend that BAO establish procedures to: (1) reconcile IHS funds recorded in the UFMS on a regular schedule with amounts reported in supporting documents, such as worksheets and funding agreements; (2) monitor and evaluate IHS Direct programs' use of no-year Health Services funds carried forward by appropriation year and budget activity program; and (3) evaluate IHS Direct programs' use of current no-year Health Services funds.

IHS concurred with our recommendations and described actions that BAO has taken or plans to take to address our recommendations. BAO stated that it implemented procedures to ensure completion of documentation to support allotments and allowances and follow through on any reconciliation differences, established routine reviews and evaluations of reported no-year Health Services balances carried forward by appropriation year, and will work with direct services leadership staff in monitoring the use of current no-year Health Services funds.

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INTRODUCTION

WHY WE DID THIS AUDIT

In recent years, Congress has expressed concerns about the Indian Health Service's (IHS's) administrative and financial management of program funds for health services provided to American Indians and Alaska Natives. A member of Congress is particularly concerned that IHS does not have a funding formula to determine how IHS's budget is distributed between regions of the country and that there is a lack of transparency in how funds are distributed among Tribes.¹ Before we can address Congress' broader concerns, we needed to assess how IHS's 12 Area Offices receive and disburse funds for services provided to Tribal members and how the Area Offices monitor the use of those funds.² We chose to audit the Bemidji Area Office's (BAO's) procedures for disbursing IHS funds because it disburses funds to all program types.³

OBJECTIVES

Our objectives were to determine the adequacy of BAO's procedures for (1) disbursing IHS funds to programs and (2) monitoring the programs' use of disbursed IHS funds.

BACKGROUND

Indian Health Service

IHS is an agency within the Department of Health and Human Services (HHS) that delivers clinical and preventive health services to American Indians and Alaska Natives. IHS provides a comprehensive health service delivery system for approximately 2.56 million American Indians and Alaska Natives who belong to 574 federally recognized Tribes in 37 States. IHS receives annual appropriations to fund these services.

IHS has a decentralized management structure that consists of two major components: headquarters offices (IHS HQ) in Rockville, Maryland, and 12 Area Offices. IHS HQ responsibilities include setting health care policy, ensuring the delivery of quality comprehensive health services, and advocating for the health needs and concerns of Tribal members. The Area Offices are responsible for distributing funds to programs within their geographic areas, monitoring operations of IHS Direct programs, and providing guidance and

¹ Senator M. Michael Rounds letter to the HHS Inspector General dated July 6, 2016. Available online at <https://www.rounds.senate.gov/newsroom/press-releases/rounds-requests-audit-of-indian-health-service>. Accessed on September 25, 2020.

² The 12 Area Offices are Alaska, Albuquerque, Bemidji, Billings, California, Great Plains, Nashville, Navajo, Oklahoma City, Phoenix, Portland, and Tucson.

³ For this report, the program types are IHS Direct and Urban programs authorized under the Indian Health Care Improvement Act and Tribal programs authorized under the Indian Self-Determination Education Assistance Act (ISDEAA).

technical assistance to IHS Direct, Tribal, and Urban programs. (See the “Program Descriptions” section for descriptions of these programs.)

Bemidji Area Office

BAO disburses IHS funds to 3 IHS Direct programs, 34 Tribal programs, and 4 Urban programs located in Michigan, Illinois, Indiana, Minnesota, and Wisconsin.^{4, 5, 6} BAO also provides support services and technical guidance as requested by these programs.

Program Descriptions

IHS Direct Programs

The Indian Health Care Improvement Act (IHCIA)⁷ authorizes health services through IHS Direct programs administered directly by IHS HQ and certain Area Offices. These programs provide services, such as direct patient care and dental care, through IHS-operated facilities located within the Area Offices’ geographic areas.

Tribal Programs

Tribal programs authorized under the Indian Self-Determination Education Assistance Act (ISDEAA)⁸ allow Indian Tribes and Tribal organizations to administer health care programs or services under self-determination contracts with IHS (Title I Tribal programs) or self-governance compacts with IHS (Title V Tribal programs). Area Offices are responsible for Title I Tribal programs in which Tribes contract with IHS to provide one or more individual services that IHS would otherwise provide to Indian Tribes and their members. The Office of Tribal Self-Governance in Rockville, Maryland, is responsible for Title V Tribal programs and negotiates and approves compacts with IHS Tribes to assume full funding and control over activities to fit their Tribal communities’ needs.

⁴ IHS Direct programs are administered by IHS facilities in 10 Area Offices: Albuquerque, Bemidji, Billings, Great Plains, Nashville, Navajo, Oklahoma City, Phoenix, Portland, and Tucson. BAO’s IHS Direct programs are administered by IHS facilities in Cass Lake, Red Lake, and White Earth, Minnesota, and BAO offices in Bemidji, Minnesota.

⁵ Tribal programs are administered by 23 ISDEAA Title I contract Tribes and 11 ISDEAA Title V compact Tribes. During our audit period, one Title I contract Tribe converted to a Title V compact Tribe.

⁶ Urban programs are administered through contracts with BAO and are in the cities of Chicago (Illinois), Dearborn (Michigan), Minneapolis (Minnesota), and Milwaukee (Wisconsin).

⁷ P.L. No. 94-437, as amended; codified under 25 U.S.C. chapter 18.

⁸ P.L. No. 93-638, as amended; codified under 25 U.S.C. chapter 46.

Urban Programs

Urban programs authorized under Title V of the IHCA receive IHS funds through contracts with Area Offices; the contracts are subject to Federal Acquisition Regulations. These programs serve American Indians and Alaska Natives who are not able to access IHS services administered through IHS Direct or Tribal programs because they do not meet IHS eligibility criteria⁹ or because they reside outside IHS and Tribal service areas.

IHS Funding Disbursed to the Bemidji Area Office

IHS has three major sources of funding (listed in order of funding amount from highest to lowest): (1) annual appropriations;¹⁰ (2) third-party collections from other Federal programs such as Medicaid, Medicare, State programs (e.g., workers' compensation), and private insurance;¹¹ and (3) funds to support the Special Diabetes Program for Indians.¹²

IHS appropriation funding for fiscal years (FYs) 2016 and 2017 (the most current data available at the start of our audit) and distributed as allotments¹³ between IHS HQ and the 12 Area Offices totaled \$10.1 billion, with \$9.8 billion allocated for Indian Health Services (Health Services), Contract Support Costs (CSC), and Indian Health Facilities (Facilities) and the remaining \$300 million for the Special Diabetes Program for Indians. BAO received IHS funds of \$512.0 million for Health Services, CSC, and Facilities and \$737,416 for the Special Diabetes Program for Indians. Table 1 (next page) shows the IHS funds BAO received by FY.

⁹ *Indian Health Manual*, Part 2, chapter 1, § 2-1.2. Available online at <https://www.ihs.gov/ihtm/pc/part-2/p2c1>. Accessed on September 9, 2020.

¹⁰ For our audit period, IHS received annual appropriations from the Consolidated Appropriations Act, 2016 (P.L. No. 114-113 (Dec. 18, 2015)), and the Consolidated Appropriations Act, 2017 (P.L. No. 115-31 (May 5, 2017)), and distributed the funds among IHS HQ and 12 Area Offices.

¹¹ IHS third-party collections are authorized under section 206 of the IHCA (codified at 25 U.S.C. § 1621(e)), the Social Security Act (the Act) § 1880(a) for Medicare collections, and the Act § 1911(a) for Medicaid collections. Medicare and Medicaid are the primary Federal programs for the third-party collections within BAO's geographic area.

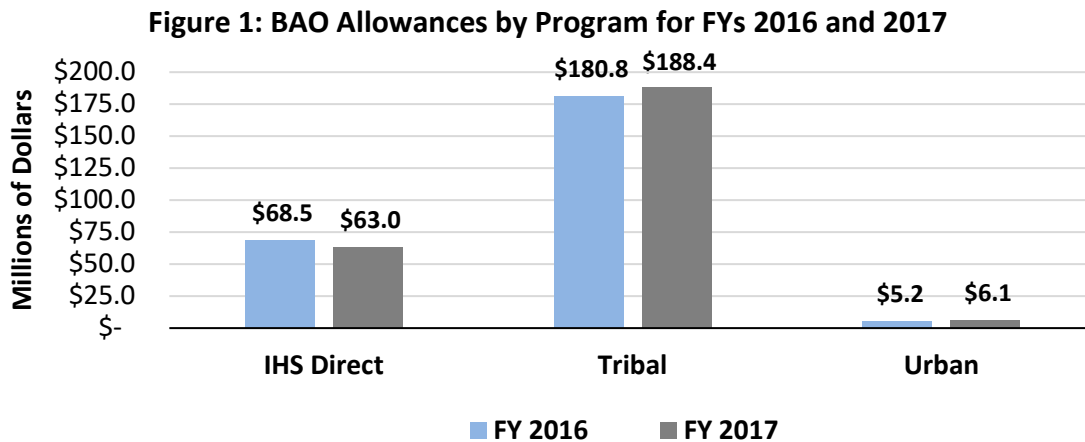
¹² 42 U.S.C. § 254c-3 provides funds for the Special Diabetes Program for Indians. These funds were authorized under P.L. No. 108-7 (Feb. 20, 2003) and remain available until expended.

¹³ Allotments are approved funds that IHS determines and transfers to Area Offices. IHS bases these allotments on spending plans submitted by each Area Office.

Table 1: BAO's FYs 2016 and 2017 IHS Funds by Account

Account	FY 2016	FY 2017
Health Services	\$196,078,108	\$198,498,974
CSC ¹⁴	37,878,044	38,025,091
Facilities ¹⁵	20,571,823	20,939,073
Total	\$254,527,975	\$257,463,138

BAO disbursed IHS funds of approximately \$512.0 million (actual amounts shown in Table 1) in FYs 2016 and 2017 as allowances to programs.¹⁶ Figure 1 shows the FYs 2016 and 2017 allowances BAO disbursed to IHS Direct, Tribal, and Urban programs within BAO's geographic area.



¹⁴ Beginning in FY 2016, CSC allotments were funded under a U.S. Department of the Treasury (Treasury) indefinite appropriation warrant. A Treasury appropriation warrant establishes the fund amounts and the type of funds (annual or no-year funds; see footnotes 17 and 18). Treasury prepares and issues the warrants based on when Congress enacts the regular appropriations bill. CSC allotments assist Tribes in the financial management, accounting, training, and program startup costs incurred in administering programs authorized by the ISDEAA under self-determination contracts and self-governance compacts.

¹⁵ BAO disbursed Facilities appropriation allotments as allowances to applicable IHS Direct and Tribal programs within its geographic area. These disbursed facility allowances are no-year funds with an indefinite period of availability and recorded under Treasury account fund symbol 75 X 0391. Urban programs within BAO's geographic area do not receive any Facilities appropriation funds.

¹⁶ Allowances are approved allotments that BAO received and transferred to IHS Direct, Tribal, and Urban programs within its geographic area. These allowances are based on funding agreements and spending plans for programs within each Area Office's geographic area.

IHS Allotment Process

IHS HQ records Treasury appropriation warrants in the Uniform Financial Management System (UFMS)¹⁷ as either annual or no-year funds.^{18, 19} IHS HQ transfers these appropriated funds as allotments to IHS HQ and the 12 Area Offices. Area Offices disburse these allotments as allowances to IHS Direct, Tribal, and Urban programs within their geographic areas.^{20, 21} Figure 2 on the next page shows how IHS appropriations are distributed to IHS HQ offices and Area Offices.

¹⁷ The UFMS is the core accounting system that supports all the HHS operating and staff divisions except for the Centers for Medicare & Medicaid Services and the National Institutes of Health, which have their own core accounting systems. The HHS operating and staff divisions that use the UFMS are IHS, the Centers for Disease Control and Prevention, the Food and Drug Administration, and the Program Support Center.

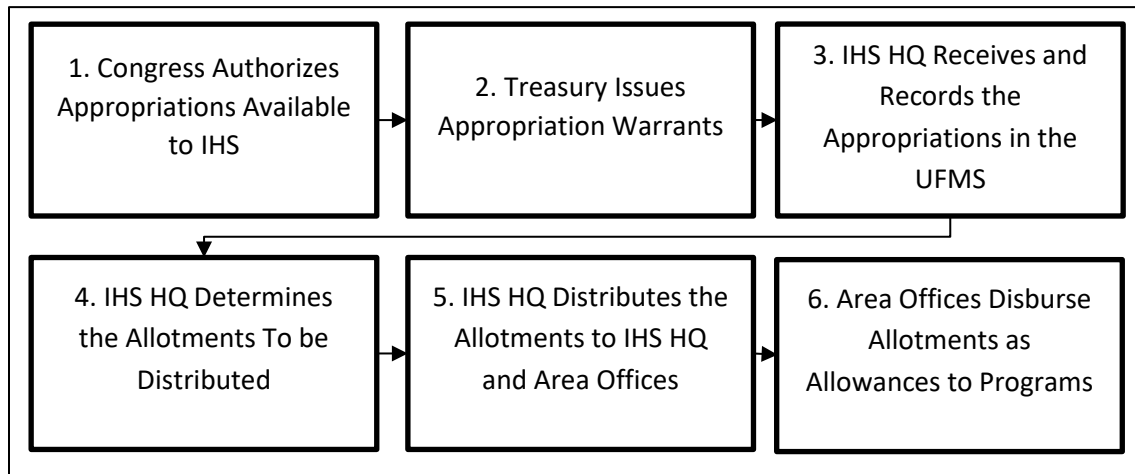
¹⁸ Annual funds are recorded by budget activity program (BAP) under Treasury symbols that contain two digits (00 through 99) to indicate the FY of availability for incurring obligations as an annual appropriation with a 1-year period of availability. For example: Treasury symbols 75 16 0390 and 75 17 0390 were assigned to annual Health Service allotments and allowances disbursed in FYs 2016 and 2017, respectively. In FY 2019, IHS annual Health Services appropriations were changed to multiyear appropriations with a 2-year period of availability and assigned a multiyear Treasury symbol, such as 75 19/20 0390 for multiyear FY 2019 appropriations that had to be obligated by September 30, 2020.

¹⁹ No-year Health Services appropriations are recorded under Treasury symbols that contain an “X” and have an indefinite period of availability for incurring obligations. For example: Treasury symbol 75 X 0390 was assigned to no-year Health Services appropriation allowances and Treasury symbol 75 X 0391 for Facilities appropriation allowances.

²⁰ IHS Circular No. 95-19, section 6(D), states: An allottee, such as BAO, is responsible for (1) administering the allotted funds, (2) conforming to the limitations in the allotment, (3) complying with the Antideficiency Act, and (4) ensuring that obligations are pre-validated for fund availability before release.

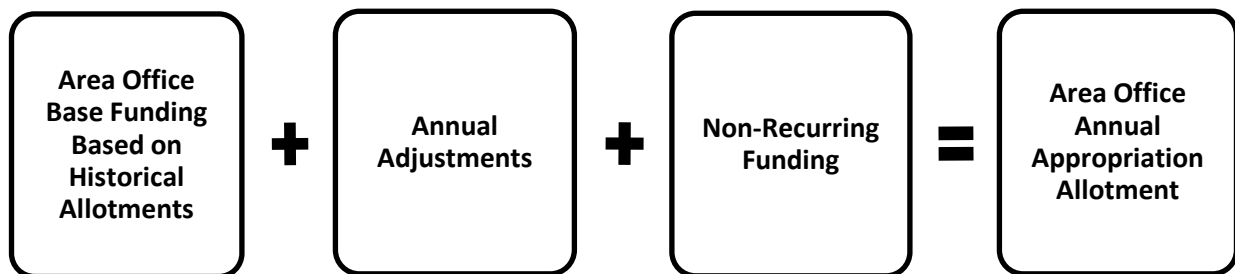
²¹ IHS Circular No. 95-19, section 6(E), states: The allowee is responsible for (1) administering the funds according to the stated purpose of the operation plan, such as BAO’s UFMS Budget Execution Reports or funding agreements for allowances disbursed to Tribal programs and (2) conforming to the limitations of law or other restrictions specified by the allottee.

Figure 2: IHS Allotment Process



During our audit period, IHS HQ determined and distributed allotments to Area Offices using adjusted historical costs, as shown in Figure 3.

Figure 3: IHS Determination of Allotments Distributed to Area Offices



Base funding is based on funds disbursed in previous-year allotments recorded in tables maintained by IHS HQ. These base funding historical allotments are the basis for annual spending plans that Area Offices prepare and IHS HQ approves. The annual adjustments added to the base funding are intended to cover any pay increases, inflation factors, and increases or decreases in appropriations for the current FY. The non-recurring funding represents funding that IHS determines based on specific program priorities and that may not be available each year for the Area Office.

The timing of the disbursement of these allotments as allowances to IHS Direct, Tribal, and Urban programs depends on whether IHS receives total funding or partial funding from continuing resolutions at the beginning of each FY. Typically, BAO distributes IHS Direct program allowances quarterly, distributes Tribal program allowances in accordance with funding agreements with the Tribes, and distributes Urban program allowances in accordance with the terms of the Urban program's contract. However, the variability of funding provided through continuing resolutions could affect the ability of some IHS Direct, Tribal, or Urban

programs to provide health services. In both FY 2016 and 2017, IHS had five separate continuing resolutions, causing BAO to disburse pro-rated allowances based on each of the allotments authorized under each continuing resolution.²²

Although BAO is responsible for distributing allowances to Tribal programs, Tribes administer these allowances. BAO is responsible for distributing allowances and monitoring how they are used by IHS Direct and Urban programs.

HOW WE CONDUCTED THIS AUDIT

Our audit covered \$512.0 million (\$254.5 million in FY 2016 and \$257.5 million in FY 2017) in IHS funds that BAO received and disbursed as allowances to programs within its geographic area. Specifically, we reviewed the adequacy of (1) the procedures BAO had in place when it disbursed \$394.6 million (\$196.1 million in FY 2016 and \$198.5 million in FY 2017) in Health Service funds to IHS Direct, Tribal, and Urban programs²³ within its geographic area and (2) BAO's monitoring of the programs' use of disbursed Health Service funds. For the remaining \$117.4 million in IHS funds that BAO received, we confirmed that \$75.9 million (\$37.9 million in FY 2016 and \$38.0 million in FY 2017) was recorded as CSC funds and \$41.5 million (\$20.5 million in FY 2016 and \$21.0 million in FY 2017) as Facilities funds.

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.

Appendix A contains the details of our audit scope and methodology, and Appendix B contains a summary of Federal regulations and IHS guidelines related to the financial stewardship of IHS funds.

FINDINGS

BAO generally had adequate procedures to disburse IHS funds to programs. However, BAO's procedures for monitoring the use of disbursed funds did not include (1) routine reconciliations of amounts reported in the UFMS with amounts reported in supporting documents,

²² Regarding FY 2016, the continuing resolutions were passed on October 1, 2015; December 12, 2015; December 17, 2015; December 18, 2015; and January 1, 2017. Regarding FY 2017, the continuing resolutions were passed on October 1, 2016; December 10, 2016; January 1, 2017; April 29, 2017; and May 5, 2017.

²³ During our audit, BAO had four alcohol treatment centers that are associated with the National Institute on Alcohol Abuse and Alcoholism, which is part of the National Institutes of Health. These alcohol treatment centers were in the process of being reclassified as Urban programs and received funds under contracts similar to contracts with the four established Urban programs within the BAO geographic areas identified in footnote 6.

(2) monitoring and evaluating IHS Direct programs' use of no-year Health Service funds carried forward by appropriation year and budget activity programs (BAPs), and (3) evaluating IHS Direct programs' use of current no-year Health Service funds.

THE BEMIDJI AREA OFFICE GENERALLY HAD ADEQUATE PROCEDURES TO DISBURSE IHS FUNDS TO PROGRAMS

BAO generally had adequate procedures for disbursing IHS funds to programs. Below are specific steps that BAO performs in disbursing IHS funds as allowances to programs:

- BAO uses the UFMS for recording IHS funds received as allotments and disbursed as allowances to programs. This step assists IHS HQ in monitoring whether IHS funds are properly disbursed to programs.
- BAO program officials identify historical recurring funds disbursed to each program and use this historical understanding to develop base program allowances that are adjusted for applicable annual adjustments and non-recurring funds, resulting in the final allowances that are recorded in the UFMS for each program. This step assists in disclosing how BAO's allotments will be disbursed as allowances to each program.
- BAO program officials maintain supporting documents in either electronic or hardcopy case files, depending on the programs, that it uses to monitor available allowances for each program. These files, which include correspondence, agreements, and logs, provide documentation as to when funds were disbursed or used.
- BAO finance officials verify the availability of funds before authorizing and distributing the funds to programs through electronic transfers.
- BAO finance officials monitor monthly allotment and allowance reports from the UFMS and verify for IHS HQ the accuracy of reported allotments and allowances.

THE BEMIDJI AREA OFFICE PROCEDURES FOR MONITORING THE USE OF DISBURSED IHS FUNDS DID NOT INCLUDE ROUTINE RECONCILIATIONS AND EVALUATIONS

BAO's procedures for monitoring the use of disbursed IHS funds did not include (1) routine reconciliations of amounts reported in the UFMS with amounts reported in supporting documents, (2) evaluating IHS Direct programs' use of no-year Health Service funds carried forward by appropriation year and BAPs, and (3) evaluating IHS Direct programs' use of current no-year Health Service funds.

The Bemidji Area Office Procedures Did Not Include Routine Reconciliations of Amounts Reported in the Uniform Financial Management System With Amounts Reported in Supporting Documents

IHS policy requires entities to periodically reconcile fund authorization, fund reservation, and obligational documents to funds availability reports and to promptly report any differences.²⁴ IHS policy also states that at least one allowance will be issued for each allotment.²⁵ Also, Federal internal control standards require that management use quality information to achieve the entity's objectives.²⁶

BAO's procedures did not include routine reconciliations of amounts reported in the UFMS with amounts reported in supporting documents for FYs 2016 and 2017. Also, BAO's procedures did not include verifying that complete and accurate information was maintained to support UFMS reports and available to BAO officials in monitoring the management of disbursed IHS funds. Without adequate and routine reconciliation procedures, BAO increases the risk that it will not detect significant errors in recorded allowances in the UFMS and supporting documentation such as worksheets and funding agreements.²⁷ Following are examples of inconsistencies we identified that routine reconciliations would usually detect:

- Allowances and allotments reported in the UFMS as of September 30, 2016, did not agree with supporting documents. BAO's supporting documents overstated the allowances recorded in the UFMS by IHS HQ by \$400,000.
- The allowances reported in the UFMS as of September 30, 2017, did not reconcile with BAO's FY 2017 supporting worksheet for tracking allowances disbursed to programs because BAO staff updated its worksheet only through July 2017.

Inconsistencies, such as those we detected, affect the reliability of the data BAO uses to monitor and make informed decisions on the management of disbursed funds within its geographic area.

²⁴ IHS Circular 95-19 § 9(F)(4) (Oct. 20, 1995).

²⁵ IHS Circular 95-19 § 15 (Oct. 20, 1995).

²⁶ Government Accountability Office, *Standards for Internal Control in the Federal Government*, "Principle 13 – Use of Quality Information" (Sept. 2014).

²⁷ FY funding levels are established under "Annual Funding Agreements" for ISDEAA Title I Tribal contracts and "Funding Agreements" for ISDEAA Title V Tribal compacts.

The Bemidji Area Office Procedures Did Not Include Evaluating IHS Direct Programs' Use of No-Year Health Service Funds Carried Forward by Appropriation Year and Budget Activity Program

IHS policy requires that funds be used in an economical, efficient, and effective manner. This means careful and prudent use of allocations to promote optimum utilization of all available resources.²⁸

BAO did not have procedures to monitor and evaluate IHS Direct programs' use of no-year Health Service funds carried forward. BAO reported to IHS HQ cumulative totals of no-year Health Service funds carried forward from prior years and BAPs; however, it did not identify which funds carried forward were from which appropriation year or plans for using these funds. This type of reporting does not promote optimum utilization of all available resources because it lacks the necessary information to determine whether IHS Direct programs are managing and using no-year funds in an economical, efficient, and effective manner for specific BAPs. Also, this reporting did not identify the appropriation years for the no-year Health Service funds carried forward from prior years of \$3.0 million as of September 30, 2016, and \$2.2 million as of September 30, 2017, and BAO did not have timeframes or plans for the use of these funds.

IHS's policy on no-year Facilities funds establishes guidelines for acceptable carry-forward balances and includes monitoring procedures to track the use of these funds. The procedures include identifying available funds carried forward by appropriation year and developing plans for expending funds that are 5 years or older.²⁹ However, IHS does not have similar monitoring procedures for IHS Direct programs' no-year Health Service funds carried forward for specific BAPs.

Without procedures to evaluate how IHS Direct programs manage no-year Health Service allowances carried forward, BAO cannot ensure that IHS Direct programs use no-year funds for specific BAPs in an economical, efficient, and effective manner.

The Bemidji Area Office Procedures Did Not Include Evaluating How IHS Direct Programs Use Current No-Year Health Service Funds

Federal internal control standards require that management identify, analyze, and respond to risks related to achieving program objectives for using funds.³⁰ Also, IHS policy requires that

²⁸ IHS Circular 92-05 § 8(L)(4) (June 19, 1992).

²⁹ Policy for Management of Office of Environmental Health and Engineering Funds (Dec. 1, 2005).

³⁰ Government Accountability Office, *Standards for Internal Control in the Federal Government*, Principle 7 – Identify, Analyze, and Respond to Risks (Sept. 2014).

funds be used in an economical, efficient, and effective manner. This means careful and prudent use of allocations to promote optimum utilization of all available resources.³¹

BAO tracks, on a monthly basis, current no-year funds disbursed to each IHS Direct program for specific BAPs. From these monthly reviews, BAO monitors the current no-year funds the IHS Direct programs have available for specific BAPs. However, BAO procedures require neither the development of plans for using the funds nor an assessment of the risks associated with having unused no-year funds carried forward. Without developing such plans or evaluating the risks of carrying current no-year funds forward, BAO cannot monitor whether IHS Direct programs are using current no-year funds in accordance with IHS standards that require funds be used efficiently and effectively to achieve program objectives. BAO's procedures have resulted in a continuing increase in current no-year funds being carried forward without evaluating why funds are being carried forward, which raises the risk that these funds are not being used to achieve program objectives.

Table 2 shows that the current no-year funds not used within a year increased by more than \$560,000 between FY 2016 and FY 2017.

Table 2: BAO IHS Direct Program Unused Current No-Year Funds

BAP	9/30/2016 Unused Current No- Year Funds Balance	9/30/2017 Unused Current No- Year Funds Balance
Purchased Referred Care Program	\$875,537	\$1,231,451
Domestic Violence Initiative	150,500	150,500
Alcohol and Substance Abuse	150,005	216,500
Indian Health Profession	42,532	93,975
Catastrophic Health Emergency Fund	0	92,749
Unused Current No-Year Funds	\$1,218,574	\$1,785,175

CONCLUSION

Congress has in recent years expressed concerns about IHS's administrative and financial management of program funds for health services provided to American Indians and Alaska Natives. While this audit found that BAO generally had adequate procedures for disbursing IHS funds to programs, we identified financial management practices that could be improved. Specifically, we found that BAO lacked adequate procedures to ensure that amounts recorded in its financial management system reconciled with supporting documents and thus could not

³¹ IHS Circular 92-05 § 8(L)(4) (June 19, 1992).

ensure that program objectives are being achieved in an economical, efficient, and effective manner. We also found that some program no-year funds have been carried forward year after year without a timeframe and plans for using the funds.

RECOMMENDATIONS

We recommend that BAO establish procedures to:

- reconcile IHS funds recorded in the UFMS on a regular schedule with amounts reported in supporting documents, such as worksheets and funding agreements;
- monitor and evaluate IHS Direct programs' use of no-year Health Services funds carried forward by appropriation year and budget activity program; and
- evaluate IHS Direct programs' use of current no-year Health Services funds.

IHS COMMENTS

IHS concurred with our recommendations and described actions that BAO has taken or plans to take to address our recommendations.

For the first recommendation, BAO said that it has implemented procedures to ensure that finance staff complete allotment and allowance supporting documentation on time and follow through on reconciliation efforts, and that errors are identified, researched, and corrected.

For the second recommendation, BAO said that it, in collaboration with IHS Headquarters Office of Finance and Accounting, has established (1) quarterly and yearend reviews to evaluate no-year Health Services balances carried forward by appropriation year and (2) guidance for using these no-year funds as outlined in the direct programs' annual budget and spending plans.

For the third recommendation, BAO said that it will continue to work with direct service programs in monitoring the use of current no-year Health Services funds. It also said that BAO and direct services leadership staff will monitor fund balances weekly and obligations of funds against approved direct services' annual budgets monthly.

We have included IHS's comments in their entirety as Appendix C.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered \$512.0 million (\$254.5 million in FY 2016 and \$257.5 million in FY 2017) in IHS funds that BAO received as allotments and disbursed as allowances to programs within its geographic area. Specifically, we reviewed BAO's (1) disbursement of \$394.6 million (\$196.1 million in FY 2016 and \$198.5 million in FY 2017) in Health Services funds to IHS Direct, Tribal, and Urban programs within its geographic area and (2) monitoring of disbursed Health Service funds. For the remaining \$117.4 million in IHS funds that BAO received, we confirmed that \$75.9 million (\$37.9 million in FY 2016 and \$38.0 million in FY 2017) was recorded as CSC funds and \$41.5 million (\$20.5 million in FY 2016 and \$21.0 million in FY 2017) as Facilities funds. In addition, we identified Health Services funds not obligated within a FY. We assessed the reliability of the appropriation data used in our audit by (1) interviewing IHS officials knowledgeable about the data and (2) tracing the appropriation data amount to specific Treasury appropriation warrants and UFMS reports. We limited our review of internal controls to assessing the Green Book principles within the internal control components for (1) risk assessment and (2) information and communication. We determined that these principles were relevant to BAO's procedures for disbursing and monitoring IHS funds.

We did not audit non-IHS funds, such as third-party collections, from other Federal programs (e.g., Medicare, Medicaid, Veterans Administration) or Tribal units.

We conducted our fieldwork from February 2018 to September 2020 at BAO and IHS's headquarters in Rockville, Maryland.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal Laws, regulations, and program guidance related to (1) budgeting and allocation, (2) financial management and internal controls for areas such as recurring and nonrecurring funds, and (3) financial reporting;
- interviewed appropriate IHS HQ and BAO program officials responsible for the financial reporting of BAO's IHS Health Services fund allotments disbursed as allowances to programs within BAO's geographic area;
- determined that BAO uses the UFMS for reporting and monitoring discretionary IHS appropriation allotments allocated and disbursed as allowances by BAO to programs within its geographic area;
- reviewed UFMS reports and supporting documentation BAO used in tracking FYs 2016 and 2017 allotments received from IHS HQ and disbursed as allowances;

- reconciled BAO's budgeted FYs 2016 and 2017 spending plan amounts to allotments distributed to BAO;
- determined the annual and no-year allotments distributed to BAO under specific Treasury symbols for FYs 2016 and 2017;
- reviewed BAO's procedures for reporting and monitoring annual and no-year appropriation allotments disbursed as allowances by BAO;
- reviewed monthly monitoring reports that BAO received from IHS HQ and used to monitor the disbursement of appropriation allotments as allowances to applicable programs in BAO's geographic area for FYs 2016 and 2017;
- reviewed BAO's procedures for monitoring allowances it disbursed to IHS programs;
- reviewed BAO's procedures related to collecting and validating Tribal data for the allocation determinations;
- reviewed BAO's procedures for disbursing allowances when IHS's allotments are delayed due to congressional actions such as continuing resolutions; and
- discussed the results of our review with BAO officials.

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.

APPENDIX B: FEDERAL REGULATIONS AND IHS GUIDELINES

FEDERAL GUIDELINES

Office of Management and Budget Circulars

Office of Management and Budget (OMB) Circular No. A-123, Appendix D, *Compliance With the Federal Financial Management Improvement Act of 1996*, provides requirements for determining compliance with the Federal Financial Management Improvement Act of 1996. The Federal Government's financial management system policy is to make the best use of financial management systems to initiate, record, process, and report transactions to support agency missions in making business decisions and to provide transparency to the public. Federal Financial Management System Requirements consist of three parts: (a) reliable financial reporting, (b) effective and efficient operations, and (c) compliance with applicable laws and regulations.

OMB Circular No. A-11 § 150, *Administrative Control of Funds*, highlights the policy of administrative control of funds by Federal agencies. Agencies are required to make the best use of financial systems using internal controls as prescribed by OMB Circular No. A-123, Appendix D.

U.S. Government Accountability Office "The Green Book"

Standards for Internal Control in the Federal Government, GAO-14-704G (Sept. 2014), states:

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories: (1) Operations – Effectiveness and efficiency of operations, (2) Reporting – Reliability of reporting for internal and external use and (3) Compliance – Compliance with applicable laws and regulations.

Standards for Internal Control in the Federal Government, GAO-14-704G (Sept. 2014), outlines 5 components and 17 principles relevant for establishing an effective internal control system. The components are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Within the risk assessment and information and communication components, we determined that BAO's internal control systems should incorporate the following principles to improve its procedures in disbursing and monitoring IHS funds.

Principle 7 states: "Management should identify, analyze, and respond to risks related to achieving the defined objectives."

Principle 13 states: “Management should use quality information to achieve the entity’s objectives.”

U.S. Department of the Treasury

The *Treasury Financial Manual* is Treasury’s official publication of policies, procedures, and instructions concerning financial management in the Federal Government.

The *Treasury Financial Manual* § 1530, “Expenditure Account Classification,” describes the expenditure account symbols (i.e., Treasury account fund symbol) used by Federal agencies: “Expenditure account symbols consist of eight or more digits. Using the string [Treasury Account Symbols] format, the first two digits identify the agency responsible for the account. The next digits or characters represent the period of availability for obligation. The last four digits identify the specific account by fund group.” This section further designates the period of availability for incurring obligations for “Annual appropriations” as “Two digits (00 through 99) indicate the fiscal year of availability for incurring obligations of a one-year appropriation” and “No-year appropriations” as “An ‘X’ indicates a no-year appropriation that is available for obligations for an indefinite period of time.”

The *Treasury Financial Manual* § 4225.60d, “Unobligated Balance,” states:

Unobligated balances of no-year and multi-year accounts for which authority to obligate has not expired are available for obligation. Unobligated funds of an expired fiscal year account are not available for new obligations but may be used for payments of adjusted obligations.

The *Treasury Financial Manual* § 4245, “Closed Accounts,” states:

Pursuant to 31 U.S.C. § 1552, agencies must close accounts with fiscal year designations as of September 30th of the fifth year after the availability period to incur new obligation ends. Cancelled appropriation account balances are not available for obligation or expenditure for any purpose.

Pursuant to 31 U.S.C. § 1555, agencies close no-year (X) accounts under the following conditions:

- The head of the agency or the President determines the purposes for which the appropriation was made have been carried out, and
- No disbursement has been made against the appropriation for two consecutive fiscal years.

Agencies should contact [Treasury] to close a no-year account if both conditions are met.

IHS GUIDELINES

IHS Circular No. 92-05, *Budget Execution Policy (Allocation of Resources)*, effective June 19, 1992, establishes IHS policy and prescribes the source, philosophy, and procedures to be followed in allocating resources available to IHS. The policy established the governing framework for IHS resource allocation and methods and formulae, which are the instruments that are used to annually distribute designated portions of the IHS appropriation.

IHS Circular No. 92-05 § 8(L)(4) provides for the agency objectives in disposition of funds by stating: “Funds allocated to Areas or operating entities must be utilized in accordance with the following principles: . . . 4. Funds are used economically, efficiently, and effectively. This means careful and prudent use of allocations to promote optimum utilization of all available resources.”

IHS Circular No. 95-19, *Administrative Control of Funds Policy*, effective October 20, 1995, adopts and supplements HHS policy on Administrative Control of Funds and Budget Execution as contained in the *HHS Departmental Accounting Manual*.

IHS Circular No. 95-19 § 3, *Scope*, states:

All provisions of this circular apply to funds available to IHS and to all IHS employees who are responsible for systems for administrative control of funds; the budget execution and reporting prescribed in OMB Circular A-34 [replaced by OMB Circular A-11]; the issuance and control of funds authorization; incurrence of obligations and/or disbursements; and the identification and reporting of statutory and non-statutory fund control violations.

IHS Circular No. 95-19 § 4, *Background*, states: “The management of IHS activities and resources is accomplished through an organizational structure and hierarchy that includes Headquarters, Area Offices, and service units or an equivalent”

IHS Circular No. 95-19 § 9(F) states that “it is the responsibility of the Chief of each accounting and finance office to make sure that newly appointed allowees and operating plan authority holders understand: . . . 4. That fund authorization, fund reservation, and obligational documents must be periodically reconciled to the fund availability reports, and any differences promptly brought to the attention of the accounting office.”

IHS Circular No. 95-19 § 15 states: “The criteria for the application of allowances within IHS shall be the following: . . . B. At least one allowance will be issued for each allotment”

Policy for Management of Office of Environmental Health and Engineering [OEHE] Funds, effective December 1, 2005, formalizes procedures for the utilization of prior-year Facilities Appropriation funds and establishes what constitutes an acceptable balance to be carried on the books from prior years. The main concept of this policy is to focus on any funding that is

more than 5 years old, to identify and verify the available funds, and to fund other facilities and environmental health projects and activities in accordance with Facilities Appropriation language and appropriations law. At the same time, every effort will be made to obligate funds in the year appropriated. Section E, *Responsibility of Area OEHE Director*, outlines specific procedures:

1. Within 60 days of the end of the FY, each Area will:
 - a. Confirm balances for year just ended.
 - b. Identify unobligated funds available from prior years.
 - c. Review undelivered orders and identify funds available from prior years.
 - d. Prepare a plan for the use of funds five years and older and provide to OEHE-HQs.
2. Provide quarterly updates to OEHE in Rockville, MD.

APPENDIX C: IHS COMMENTS



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

JAN 14 2021

Indian Health Service
Rockville, MD 20857

TO: Inspector General

FROM: Director

SUBJECT: IHS Comments on Draft OIG Report, *Although the Bemidji Area Office Had Adequate Procedures To Disburse Indian Health Service Funds, It Needs To Strengthen Its Procedures for Monitoring the Use of the Funds*, A-05-18-00019.

We appreciate the opportunity to review the draft Office of Inspector General (OIG) audit report titled: *Although the Bemidji Area Office Had Adequate Procedures To Disburse Indian Health Service Funds, It Needs To Strengthen Its Procedures for Monitoring the Use of the Funds*, A-05-18-00019, dated October 2020. The Indian Health Service (IHS) concurs with the three OIG recommendations. Below you will find a description of the status of actions taken to date to implement the OIG recommendations, and those planned in the near future.

Recommendation 1: *We recommend that BAO establish procedures to reconcile IHS funds recorded in the UFMS on a regular schedule with amounts reported in supporting documents, such as worksheets and funding agreements.*

IHS concurs with this recommendation.

Status of actions planned or taken to address Recommendation 1:

- The Bemidji Area Office (BAO) has implemented procedures to ensure finance staff complete allotment/allowance supporting documentation on time and follow through on reconciliation efforts. Errors are identified, researched, and corrected. Procedures implemented by the BAO include the following:
- Supporting documentation is updated using Unified Financial Management System (UFMS) workflow mailers of allotments and allowances for recurring and non-recurring appropriations.
- UFMS Budget Accounting Reports are run weekly and compared to supporting documentation.
- The BAO completes a monthly Monitoring Report, signs off on and forwards to the IHS Headquarters (HQ) Office of Finance & Accounting (OFA). All differences of disbursed funds are researched against supporting documentation and corrections or justifications are documented in the report to the OFA. The OFA and the BAO archive reports for future audit assessments.
- In collaboration with the OFA, the BAO finance office conducts quarterly and year-end reviews of the Bemidji Area's trial balance. UFMS reports and a checklist have been developed for a structured review of the trial balance. This effort provides visibility of errors of incorrect balances to the trial balance. Corrections and cleanup actions are coordinated with OFA staff utilizing UFMS reports and BAO supporting documentation for this reconciliation and review.

Recommendation 2: *We recommend that BAO establish procedures to monitor and evaluate IHS Direct programs' use of no-year Health Services funds carried forward by appropriation year and budget activity program.*

IHS concurs with this recommendation.

Status of actions planned or taken to address Recommendation 2:

- The BAO in collaboration with IHS HQ OFA has established quarterly and year-end reviews of the Bemidji Area's trial balance. The effort provides visibility into annual balances of the no-year funds. Evaluations are conducted on each no-year funding appropriation for incorrect balances. Errors are corrected and adjustments are validated with supporting documentation. This effort increases management oversight of identifying the no-year funds to their appropriation year, corrections are completed and balances are correct for each fiscal funding year.
- Management has established guidance for the no-year funds. Uses for the funds are outlined in the direct programs' annual budget and spending plans. Expenditure of these funds are monitored weekly by the BAO and direct service leadership through fund status and document-view reports. Oversight of fund expenditures against approved annual budgets are conducted monthly with budget obligation reports.

Recommendation 3: *We recommend that BAO establish procedures to evaluate IHS Direct programs' use of current no-year Health Services funds.*

IHS concurs with this recommendation.

Status of actions planned or taken to address Recommendation 3:

The BAO does work closely with direct service programs in use of the current fiscal year no-year funds. Balances are monitored weekly by the BAO and direct services leadership staff through the IHS - Allowance Status by Location report. The IHS's policy on no-year Facilities funds establishes guidelines for acceptable carry-forward balances and includes monitoring procedures to track the use of these funds. These balances are outlined in the annual direct services budgets and spending plans. Spending plans are uploaded and reviewed by the IHS HQ OFA. Obligations of these funds are monitored monthly against approved direct services' annual budgets.



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