DEPARTMENT OF HEALTH AND HUMAN SERVICES
Office of Inspector General
Office of Audit Services

REGION IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, GA 30303

October 21, 2003

Report Number: A-04-03-01008

John O. Agwunobi, M.D., M.B.A.
Secretary
Florida Department of Health
4052 Bald Cypress Way
Tallahassee, Florida 32399

Dear Dr. Agwunobi:

The enclosed report provides the results of our self-initiated review of the ***State of Florida's Efforts to Account for and Monitor Sub-recipients' Use of Bioterrorism Hospital Preparedness Program Funds, Florida Department of Health.***

Our objectives were to determine whether the Florida Department of Health (State agency): (1) properly recorded, summarized and reported bioterrorism preparedness transactions by each focus area designated in the cooperative agreements, and (2) whether the State agency has established controls and procedures to monitor sub-recipient expenditures of Health Resources and Administration funds. In addition, we inquired as to whether bioterrorism program (Program) funding supplanted programs previously funded by other organizational sources.

Based on our validation of the questionnaire completed by the State agency and our site visit, we found that the State agency generally accounted for program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines. However, the State agency did not segregate expenditures by phase, within phase, or by priority area in its central accounting system. Although segregation was not required, budget restrictions were specified in the cooperative agreement. The State agency Health Project Coordinator maintained extensive Excel spreadsheets that tracked expenditures by phase and priority area. State agency officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. As a result, they said they would make changes to the accounting system that would provide a method to segregate costs by phase, within phase, and by priority area in the future.

The State agency's sub-recipients must submit reports on their activities or purchases in order to be reimbursed for their expenditures. Although State officials had not completed any site visits to sub-recipients, it was in the process of developing a site visit component. We believe that the development of a site visit component, combined with sub-recipient reporting will provide adequate monitoring and oversight of its sub-recipients.

In response to our inquiry as to whether the State agency reduced funding to existing public health programs State officials replied and demonstrated that Program funding had not been used to supplant existing State or local programs.

Final determination as to actions taken on all matters reported will be made by the Department of Health and Human Services (HHS) action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, (5 United States Code 552, as amended by Public Law 104-231), Office of Inspector General reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act (see 45 Code of Federal Regulations Part 5).

If you have any questions or comments about this report, please contact Don Czyzewski, Audit Manager, at 305-536-5309, extension 10.

To facilitate identification, please refer to report number A-04-03-01008 in all correspondence relating to this report.

Sincerely,

Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Enclosures – as stated

**Direct Reply to HHS Action Official:**

Nancy J. McGinness
Director, Office of Financial Policy and Oversight
Room 11A55, Parklawn Building
5600 Fishers Lane
Rockville, Maryland 20857

Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

# STATE OF FLORIDA'S EFFORTS TO ACCOUNT FOR AND MONITOR SUB-RECIPIENT'S USE OF BIOTERRORISM HOSPITAL PREPAREDNESS PROGRAM FUNDS, FLORIDA DEPARTMENT OF HEALTH


OCTOBER 2003
A-04-03-01008

# *Notices*

## THIS REPORT IS AVAILABLE TO THE PUBLIC
## at http://oig.hhs.gov/

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

## OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.

# EXECUTIVE SUMMARY

## OBJECTIVE

Our objectives were to determine whether the Florida Department of Health (State agency): (1) properly recorded, summarized and reported bioterrorism preparedness transactions in accordance with the terms and conditions of the cooperative agreements, and (2) whether the State agency has established controls and procedures to monitor sub-recipient expenditures of Health Resources and Services Administration (HRSA) funds. In addition, we inquired as to whether Bioterrorism Hospital Program (Program) funding supplanted programs previously funded by other organizational sources.

## FINDINGS

Based on our validation of the questionnaire completed by the State agency and our site visit, we found that the State agency generally accounted for Program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines. However, the State agency did not segregate expenditures by phase, within phase, or by priority area in its central accounting system. Although segregation was not required, budget restrictions were specified in the cooperative agreement. The State agency Health Project Coordinator maintained extensive Excel spreadsheets that tracked expenditures by phase and priority area. State agency officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. As a result, they said they would make changes to the accounting system that would provide a method to segregate costs by phase, within phase, and by priority area in the future.

The State agency's sub-recipients must submit reports on their activities or purchases in order to be reimbursed for their expenditures. Although State officials had not completed any site visits to sub-recipients, it was in the process of developing a site visit component. We believe that the development of a site visit component, combined with sub-recipient reporting will provide adequate monitoring and oversight of its sub-recipients.

In response to our inquiry as to whether the State agency reduced funding to existing public health programs, State officials replied and demonstrated that Program funding had not been used to supplant existing State or local programs.

## RECOMMENDATIONS

We recommend that the State agency:

- Segregate expenditures by phase, within phase, and by priority area; and
- Implement the site visit component and address problem areas, as they are identified.

## STATE AGENCY'S COMMENTS

In a written response to our draft report, the State agency concurred with our findings and our recommendation. The State agency's response is included in its entirety as an appendix to this report.

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# INTRODUCTION

## BACKGROUND

### *The Program*

Since September 2001, the United States Department of Health and Human Services has significantly increased its spending for public health preparedness and response to bioterrorism. For fiscal years (FY) 2002 and 2003, the Department awarded amounts totaling $2.98 billion and $4.32 billion, respectively, for bioterrorism preparedness. Some of the attention has been focused on the ability of hospitals and emergency medical services systems to respond to bioterrorist events.

Congress authorized funding to support activities related to countering potential biological threats to civilian populations under the Department of Defense and Emergency Supplemental Appropriations for Recovery from and Response to Terrorist Attacks on the United States Act, 2002, Public Law 107-117. As part of this initiative, HRSA made available approximately $125 million in FY 2002 for cooperative agreements with State, territorial, and selected municipal offices of public health. The program is referred to as the Bioterrorism Hospital Preparedness Program (Program). The purpose of this cooperative agreement program is to upgrade the preparedness of the Nation's hospitals and collaborating entities to respond to bioterrorism.

HRSA made awards to States and major local public health departments under the Program Cooperative Agreement Guidance issued February 15, 2002. These awards provided funds for the development and implementation of regional plans to improve the capacity of hospitals, their emergency departments, outpatient centers, emergency medical services systems and other collaborating health care entities for responding to incidents requiring mass immunization, treatment, isolation and quarantine in the aftermath of bioterrorism or other outbreaks of infectious disease.

### *Annual Program Funding*

The Program year covered the period April 1, 2002 through March 31, 2003 and the funding totaled $125 million. It has since been extended to cover the period through March 31, 2004.

### *Budget Restrictions*

During the program year, the cooperative agreements covered two phases. Phase I, *Needs Assessment, Planning and Initial Implementation*, provided 20 percent of the total award ($25 million) for immediate use. Up to one-half of Phase I funds could be used for development of implementation plans, with the remainder to be used for implementation of immediate needs. The remaining 80 percent of the total award ($100 million) was not made available until required implementation plans were approved by HRSA, at which point Phase II, *Implementation*, could begin. Grantees were allowed to roll over unobligated Phase I funds to Phase II. Grantees were required to allocate at least 80 percent of Phase II funds to hospitals and their collaborating

entities through contractual awards to upgrade their abilities to respond to bioterrorist events. Funds expended for health department infrastructure and planning were not to exceed the remaining 20 percent of Phase II funds.

### *Eligible Recipients*

Grant recipients included all 50 States, the District of Columbia, the commonwealths of Puerto Rico and the Northern Mariana Islands, American Samoa, Guam, the United States Virgin Islands, and the Nation's three largest municipalities (New York, Chicago, and Los Angeles County). Those eligible to apply included the health departments of States or their bona fide agents. Individual hospitals, emergency medical services systems, health centers and poison control centers work with the applicable health department for funding through the Program.

### *Florida Funding*

For budget year 1, the period April 1, 2002 through March 31, 2004, the amount of the State agency program funding awarded to the State agency was $6.44 million. The following table details the funding for budget year 1.

| **Program Amounts for Budget Year 1** | | | |
|---|---|---|---|
| | **Awarded** | **Expended** | **Unobligated** |
| **Year 1** | $6,441,669 (1) | 867,191 (2) | 821,801 (3) |

(1) Amount verified to the Notice of Cooperative Agreement.
(2) Amount reconciled to the accounting records.
(3) Unobligated funds are a calculated amount as of May 9, 2003 resulted from difficulties and delays in allocating funds to hospitals.

## OBJECTIVE, SCOPE AND METHODOLOGY

### *Objectives*

Our objectives were to determine whether the State agency: (1) properly recorded, summarized and reported bioterrorism preparedness transactions in accordance with the terms and conditions of the cooperative agreements, and (2) whether the State agency has established controls and procedures to monitor sub-recipient expenditures of HRSA funds. In addition, we inquired as to whether bioterrorism program funding supplanted programs previously funded by other organizational sources.

### *Scope*

Our review was limited in scope and conducted for the purpose described above and would not necessarily disclose all material weaknesses. Accordingly, we do not express an opinion on the system of internal accounting controls. In addition, we did not determine whether costs charged to the Program were allowable.

Our audit included a review of the State agency policies and procedures, financial reports, and summary accounting transactions during the period of April 1, 2002 through May 9, 2003.

***Methodology***

We developed a questionnaire to address the objectives of the review. The questionnaire covered the areas: (1) the grantee organization; (2) funding; (3) accounting for expenditures; (4) supplanting; and (5) sub-recipient monitoring. Prior to our fieldwork, we provided the questionnaire for the State agency to complete. During our on-site visit, we interviewed the State agency staff and obtained supporting documentation to validate the responses on the questionnaire.

Fieldwork was conducted at State agency offices in Tallahassee, Florida and our Tallahassee, Florida field office during May and June 2003. The State agency's comments on the draft report are included in their entirety as an appendix to this report. A summary of the State agency's comments follows the Findings and Recommendations section.

Our review was performed in accordance with generally accepted government auditing standards.

## FINDINGS AND RECOMMENDTIONS

Based on our validation of the questionnaire completed by the State agency and our site visit, we found that the State agency generally accounted for Program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines. However, the State agency did not segregate expenditures by phase, within phase, or by priority area in their central accounting system. Although segregation was not required, budget restrictions were specified in the cooperative agreement. The State agency Health Project Coordinator maintained extensive Excel spreadsheets that tracked expenditures by phase and priority area. State agency officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. As a result, they said they would make changes to the accounting system that would provide a method to segregate costs by phase, within phase, and by priority area in the future.

The State agency's sub-recipients must submit reports on their activities or purchases in order to be reimbursed for their expenditures. Although State officials had not completed any site visits to sub-recipients, it was in the process of developing a site visit component.

We believe that the development of a site visit component, combined with sub-recipient reporting will provide adequate monitoring and oversight of its sub-recipients.

In response to our inquiry as to whether the State agency reduced funding to existing public health programs State officials replied and demonstrated that Program funding had not been used to supplant existing State or local programs.

**Accounting for Expenditures**

An essential aspect of the Program is the need for the grantee to accurately and fully account for bioterrorism funds. Accurate and complete accounting of Program funds provides the HRSA a means to measure the extent the Program is being implemented and that the objectives are being met. Although the State agency was not required to segregate expenditures in the accounting system by phase, within phase, or by priority area, there are budgeting restrictions set forth in the HRSA Bioterrorism Hospital Preparedness Program Cooperative Agreement Guidance and Summary Application Guidance for Award and First Allocation. Twenty percent of a grantee's total award will be made available in Phase I. Page 7 of the Cooperative Agreement Guidance states that indirect costs will be "limited to 10 percent of the Phase I and Phase II total."

Regarding Phase I funds:

> …Up to half of the Phase I funding may be allocated to planning and health department infrastructure to administer the cooperative agreement. At least half (50%) of the Phase I award must be allocated to hospitals and other health care entities to begin implementation of their plans….

Regarding Phase II funds, page 2 of the Summary Application Guidance for Award and First Allocation states:

> …Grantees will be required to allocate at least 80% of the Phase II funds to hospitals through written contractual agreements. To the extent justified, a portion of these funds could be made available to collaborating entities that improve hospital preparedness….

Without segregation of funds, the State agency had no assurance that funds expended do not exceed the budgeting restrictions set forth in the cooperative agreement.

Expenditures at the State agency were not segregated in the central accounting system by phase, within phase, or by priority area. Although segregation was not required, budget restrictions were specified in the cooperative agreement. Specifically, expenditures for health department infrastructure and planning were not to exceed 50 percent of Phase I and 20 percent of Phase II funds. The State agency Health Project Coordinator maintained extensive Excel spreadsheets that tracked expenditures by phase and priority area. State agency officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. As a result, they said they would make changes to the accounting system that would provide a method to segregate costs by phase, within phase, and by priority area in the future. With regards to Phase I and II separation, the State agency was under the impression that Phase I and II were based on an amount of spending. Although the State agency did not track expenditures by phase, we concluded that with 87 percent of funds allocated, it was in compliance with Phase I and II budget restrictions. Our conclusion was based on a review of the allocation of funds to hospitals and other health care entities. The State agency plans to use specific coding lines to separate costs by priority area.

We noted indirect costs were claimed at 0.75 percent.

**Sub-recipient Monitoring**

Recipients of Program grant funds are required to monitor their sub-recipients. The Public Health Service Grants Policy Statement requires that "grantees employ sound management practices to ensure that program objectives are met and that project funds are properly spent." It reiterates recipients must:

> …establish sound and effective business management systems to assure proper stewardship of funds and activities….

In addition, the Policy Statement states that grant requirements apply to subgrantees and contractors under the grants.

> …Where subgrants are authorized by the awarding office through regulations, program announcements, or through the approval of the grant application, the information contained in this publication also applies to subgrantees. The information would also apply to cost-type contractors under grants….

The State agency required the sub-recipients to report their purchases of equipment and materials. These reports are used by the State agency for releasing funds. Sub-recipients also have to submit documentation of training and exercise plans with a roster of attendees and a description of the activities. In addition, the State agency will conduct physical inspections of equipment and materials at the sub-recipient's location and randomly be present to monitor and participate in the training exercises. Although State officials had not completed any site visits to sub-recipients, it was in the process of developing a site visit component. We believe that the development of a site visit component, combined with sub-recipient reporting will provide adequate monitoring and oversight of its sub-recipients.

**Supplanting**

Program funds were to be used to augment current funding and focus on bioterrorism hospital preparedness activities under the HRSA Cooperative Agreement. Specifically, funds were not to be used to supplant existing Federal, State, or local funds for bioterrorism, infectious disease outbreaks, other public health threats and emergencies, and public health infrastructure within the jurisdiction. Page 4 of the Cooperative Agreement Guidance states:

> …Given the responsibilities of Federal, State, and local governments to protect the public in the event of bioterrorism, funds from this grant must be used to supplement and not supplant the non-Federal funds that would otherwise be made available for this activity….

The Office of Management and Budget Circular A-87 also states:

> …funds are not to be used for general expenses required to carry out other responsibilities of a State or its sub-recipients….

In response to our inquiry as to whether the State reduced funding to existing public health programs, State officials replied and demonstrated that Program funds were not used to supplant any existing State or local funds for bioterrorism, infectious disease outbreaks, other public health threats and emergencies, and public health infrastructure in Florida.

## RECOMMENDATIONS

We recommend the State agency:

- Segregate expenditures by phase, within phase, and by priority area; and

- Implement the site visit component and address problem areas, as they are identified.

## STATE AGENCY'S COMMENTS

In a written response to our draft report, the State agency concurred with our findings and our recommendations. The State agency's response is included in its entirety as an appendix to this report.

# APPENDIX

Jeb Bush
Governor

FLORIDA DEPARTMENT OF HEALTH

John O. Agwunobi, M.D., M.B.A.
Secretary

September 15, 2003

Mr. Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV
Suite 3T41
61 Forsyth Street, Southwest
Atlanta, GA 30303

Dear Mr. Curtis:

This letter is in response to your September 2 correspondence regarding the preliminary and tentative findings of your report entitled, *Review of the State of Florida's Efforts to Account for and Monitor Sub-recipients' Use of Public Health Preparedness and Response for Bioterrorism Program Funds, Florida Department of Health – HRSA,* as they relate to the state of Florida's Department of Health. Our responses and corrective action plans to your recommendations are found in the enclosed document.

If we may be of further assistance, please contact Lynn H. Riley, C.P.A., Director of Auditing, at (850) 245-4444, extension 2146.

Sincerely,

John O. Agwunobi, M.D., M.B.A.
Secretary, Department of Health

JOA/mhb
Enclosure

| *Finding* | *Recommendation* | *Management's Response* | *Corrective Action Plan* |
|---|---|---|---|
| The agency did not segregate expenditures by phase, within phase, or by priority area in their central accounting system. Although segregation was not required, budget restrictions were specified in the cooperative agreement. The agency maintained extensive Excel spreadsheets that tracked expenditures by phase and priority area. Agency officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. As a result, they said they would make changes to the accounting system that would provide a method to segregate costs by phase, within phase, and by priority area in the future. | We recommend the state agency segregate expenditures by phase, within phase, and by priority area. | There is only a single phase in the '03-'04 grant period. The department will segregate expenditures by priority area and within each priority area. | The Bureau of Finance and Accounting is developing a system to accommodate segregation of expenditures by priority area. |

| *Finding* | *Recommendation* | *Management's Response* | *Corrective Action Plan* |
|---|---|---|---|
| Although state officials had not completed any site visits to sub-recipients, it was in the process of developing a site visit component. We believe that the development of a site visit component, combined with sub-recipient reporting will provide adequate monitoring and oversight of its sub-recipients. | We recommend the state agency implement the site visit component and address problem areas, as they are identified. | We concur. The Florida Department of Health has implemented a process to assess risks associated with each sub-recipient. Upon completion of the risk assessment phase, the agency will perform monitoring of subrecipients that includes site-visits. | The Florida Department of Health has implemented a process to assess risks associated with each sub-recipient. Upon completion of the risk assessment phase, the agency will perform monitoring of subrecipients that includes site-visits. |