DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

September 19, *2003*

Report Number: A-05-03-00078

Mr. Steven Wagner, MPH, JD
Chief, Bureau of Environmental Health
Ohio Department of Health
246 North High Street
P.O. Box 118
Columbus, Ohio 43266-0118

Dear Mr. Wagner,

The attached report provides the results of our self-initiated review of the "State of Ohio's Efforts to Account for and Monitor Sub-recipients' Use of Bioterrorism Hospital Preparedness Program Funds."

Our objectives were to determine whether the Ohio Department of Health (State agency): (i) properly recorded, summarized and reported bioterrorism preparedness transactions in accordance with the terms and conditions of the cooperative agreements and (ii) 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 Preparedness Program (Program) funding supplanted funds previously provided by other organizational sources.

Based on our validation of the questionnaire completed by the State agency and our site visit, we determined 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. Although segregation was not required, budget restrictions were specified in the cooperative agreement. State officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. As a result, they elected to make changes to the accounting system that would provide a breakdown of costs by phase, within phase, and by priority area.

The State agency had an advanced online system in place to track and monitor sub-recipient activities; such as, application and award processes, grant conditions, ongoing fiscal activities, and reporting. In addition, the State agency was developing a site visit component that will be made up of the Grants Administration Unit, Internal Audit, and Program staff Although State officials had not completed any site visits to sub-recipients, we believe the development of the site visit component, combined with the online system, 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 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 HHS action official named below. We would appreciate your views and the status of any further action taken or contemplated on our recommendations within 15 days. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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If you have any questions or comments about this report, please contact Leon Siverhus, Audit Manager, at 651-290-3762.

To facilitate identification, please refer to Report Number A-05-03-00078 in all correspondence relating to this report.

Sincerely,

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:
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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 OHIO'S EFFORTS TO ACCOUNT FOR AND MONITOR SUB-RECIPIENTS' USE OF BIOTERRORISM HOSPITAL PREPAREDNESS PROGRAM FUNDS

SEPTEMBER 2003
A-05-03-00078

Office of Inspector General

http://oig.hhs.gov/

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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 Ohio Department of Health (State agency): (i) properly recorded, summarized and reported bioterrorism preparedness transactions in accordance with the terms and conditions of the cooperative agreements and (ii) 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 Preparedness Program (Program) funding supplanted funds previously provided by other organizational sources.

FINDINGS

Based on our validation of the questionnaire completed by the State agency and our site visit, we determined 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. Although segregation was not required, budget restrictions were specified in the cooperative agreement. State officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. As a result, they elected to make changes to the accounting system that would provide a method to separate costs by phase, within phase, and by priority area.

The State agency had an advanced online system in place to track and monitor sub-recipient activities; such as, application and award processes, grant conditions, ongoing fiscal activities, and reporting. In addition, the State agency was developing a site visit component that will be made up of staff from the Grants Administration Unit, Internal Audit, and the Program. Although State officials had not completed any site visits to sub-recipients, we believe the development of the site visit component, combined with the online system, 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 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.
- implement the site visit component and address problem areas, as they are identified.

STATE AGENCY COMMENTS

In a written response to our draft report, the State agency concurred with our findings and recommendations. The State agency's response is appended to this report in its entirety. (See Appendix)

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INTRODUCTION

BACKGROUND

The Program

Since September 2001, the U.S. Department of Health and Human Services has significantly increased its spending for public health preparedness and response to bioterrorism. For FYs 2002 and 2003, the Department awarded amounts for bioterrorism preparedness, totaling $2.98 and $4.32 billion, respectively. Through this funding, 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, the Health Resources and Services Administration (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 the Program is to upgrade the preparedness of the Nation's hospitals and collaborating entities to respond to bioterrorism.

The HRSA made awards to states and major local public health departments under 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 agreement 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. They 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 Marianas Islands, American Samoa, Guam, the U.S. 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, EMS systems, health centers and poison control centers work with the applicable health department for funding under the Program.

State Agency Funding

The Ohio Department of Health received funding of approximately $4.6 million for the first year of the Program. According to the questionnaire completed by the State agency, approximately $3.5 million was unobligated due to delays in the State's processes involved in the start-up of new activities; such as, obtaining approval from the state controlling board to appropriate funds for sub-recipient contracts.

OBJECTIVE, SCOPE AND METHODOLOGY

Objectives

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

Scope

Our review was limited in scope, 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 State agency policies and procedures, financial reports, and accounting transactions during the period of April 1, 2002 through March 31, 2003.

Methodology

We developed a questionnaire to address the objectives of the review. The questionnaire covered the areas of: (i) grantee organization, (ii) funding, (iii) accounting for expenditures, (iv) supplanting, and (v) sub-recipient monitoring. Prior to our fieldwork, we provided the questionnaire for the State agency to complete. During our on-site visit, we interviewed State officials and obtained supporting documentation to validate their responses on the questionnaire.

Fieldwork was conducted at State agency offices in Columbus, Ohio, and in our St. Paul, Minnesota field office during April and May 2003.

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

FINDINGS AND RECOMMENDATIONS

Based on our validation of the questionnaire completed by the State agency and our site visit, we determined 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. Although segregation was not required, budget restrictions were specified in the cooperative agreement. State officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. As a result, they elected to make changes to the accounting system that would provide a method to separate costs by phase, within phase, and by priority area.

The State agency had an advanced online system in place to track and monitor sub-recipient activities; such as, application and award processes, grant conditions, ongoing fiscal activities, and reporting. In addition, the State agency was developing a site visit component that will be made up of staff from the Grants Administration Unit, Internal Audit, and the Program. Although State officials had not completed any site visits to sub-recipients, we believe the development of the site visit component, combined with the online system, 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 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 HRSA with a means to measure the extent that the program is being implemented and whether 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 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 has no assurance that funds expended do not exceed the budgeting restrictions set forth in the cooperative agreement. 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. State officials acknowledged the importance of tracking expenditures in order to ensure compliance with budget restrictions. As a result, they elected to implement method to separate costs by phase, within phase, and by priority area. They stated that they would use different grant numbers for Phases I and II. In addition, specific coding lines would be used to separate costs by priority area.

Our review showed the State agency was in compliance with the budget restrictions. We also noted indirect costs were claimed at 6.4 percent, which was significantly less than the 10 percent ceiling stipulated by the cooperative agreement.

Sub-recipient Monitoring

Recipients of Program grant funds are required to monitor their sub-recipients. The PHS 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 that recipients must:

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

In addition, the Policy Statement further states that grant requirements apply to subgrantees and contractors under the grants, as follows:

> …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 had a process in place, called the Grants Management Information System (Information System), to track and monitor sub-recipients. The Information System is internet-based and was used to track and monitor sub-recipient activities; such as, application and award processes, grant conditions, ongoing fiscal activities, and reporting. In conjunction with the State's central accounting system, automated controls prohibit payments if the sub-recipient has not fulfilled requirements. In addition, the State agency was developing a site visit component that will be made up of staff from the Grants Administration Unit, Internal Audit, and the Program. Although State officials had not completed any site visits to sub-recipients, we believe the development of the site visit component combined with the Information System will provide adequate monitoring and oversight of its sub-recipients.

Supplanting

Program funds were to be used to supplement 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 public health funds available for emergency activities to combat threats to public health. 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….

OMB 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 agency reduced funding to existing public health programs, State officials replied that Program funding had not been used to supplant existing State or local programs.

RECOMMENDATION

We recommend that the State agency:

- segregate expenditures by phase, within phase, and by priority area.

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

STATE AGENCY COMMENTS

In a written response to our draft report, the State agency concurred with our findings and recommendations. The State agency's response is appended to this report in its entirety. (See Appendix)

State agency officials responded that they will work with the Internal Audit and Grants Administration staff to cover the range of fiscal and programmatic accountability issues. They implemented sub-recipient monitoring through an On-Site Review process in July 2003. The On-Site Review Teams visited and reviewed sub-recipients in July 2003 with additional sites selected for review in August and September 2003.

OTHER MATTERS

The Ohio Department of Health received funding of approximately $4.6 million for the first year of the Program. According to the questionnaire completed by the State agency, approximately $3.5 million (75 percent) was unobligated as of March 31, 2003 due to delays in the State's processes involved in the start-up of new activities; such as, obtaining approval from the state controlling board to appropriate funds for sub-recipient contracts, approval from HRSA of the work plan, and hiring freezes. In July 2003, a State agency official stated that approximately $3.5 million in Program funds were still unobligated. Although the official indicated that they were in the process of contracting for several projects relating to hospital infrastructure and confirmed that the contract funds were not yet obligated, they were confident the contracts will be approved and the dollars spent. Therefore, we have not, made a recommendation in regard to the general obligation of funds.

APPENDIX

OHIO DEPARTMENT OF HEALTH

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BOB TAFT
Governor

J. NICK BAIRD, M.D.
Director of Health

August 20, 2003

Mr. Paul Swanson
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Audit Services
233 North Michigan Avenue
Chicago, Illinois 60601

Re: Report Number A-05-03-00078

Dear Mr. Swanson:

Thank you for the opportunity to comment and the time that you spent with staff. The Ohio Department of Health is working hard to insure that we accomplish the necessary programmatic outcomes and provide the requisite fiscal and programmatic accountability within the urgent timeframe of this program.

The report is an accurate statement of conditions. We agree with the recommendation to implement, as planned, an accounting segregation of expenditures by phase, within phase or by priority area. We will work with the Internal Audit and Grants Administration staff to cover the range of fiscal and programmatic accountability issues.

The Ohio Department of Health implemented subgrantee monitoring through the On-Site Review process that began in July, 2003. The On-Site Review Team is currently composed of members of the ODH Audit and Grants Administration Units. The four existing teams each visited and reviewed a subgrantee location in July. Additional sites have been selected and will be reviewed in August and September.

Beginning with the month of October, the Review Team will be expanded to include a Program representative for the grant at the agency selected for review. The three member team approach will continue as the standard for the ODH On-Site Team Review process from here forward. Additional subgrantee sites will be selected for visitation and review

on a monthly basis. Emphasis will be placed on the review of those agencies that may be at risk, while including non at risk agencies as well.

Reports of all reviews, as well as the basis for recommendation for any necessary corrective actions as a result of the review, are reported to the ODH Compliance Committee for approval by the Director of the Department of Health.

Please feel free to contact Alice Chapin at 614-387-1132 if you have any further questions or comments.

Cordially,

Steve Wagner, MPH, JD
Chief, Bureau of Environmental Health

cc: ODH GAU
ODH Audit Unit

ACKNOWLEDGEMENTS

This report was prepared under the direction of Paul Swanson, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

Leon Siverhus, *Audit Manager*
Brent Storhaug, *Senior Auditor*
Shirley Loos, *Auditor*

For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.