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

REGION V
OFFICE OF
INSPECTOR GENERAL

October 31, 2003

Report Number: A-05-03-00081

Don Kauerauf
Chief, Division of Emergency
Preparedness & Response
Illinois Department of Public Health
525 West Jefferson Street
Springfield, Illinois 62761

Dear Mr. Kauerauf,

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

Our objectives were to determine whether the Michigan Department of Community 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) had 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 the State agency did not segregate expenditures by phase, within phase, or by priority area, we were able to determine that they were in compliance with the budget restrictions by analysis of the accounting data provided. Even though 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. In addition, State officials indicated that that they were establishing procedures to comply with the requirements in the new HRSA Cooperative Agreement Guidance, effective August 31, 2003. The new guidelines require grantees to develop and maintain a financial accounting system capable of tracking expenditures by priority area, by critical benchmark, and by funds allocated to hospitals and other health care entities.

We also found the State agency had controls and procedures to monitor sub-recipient expenditures of Program funds. 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-05-03-00081 in all correspondence relating to this report.

Sincerely,

Paul Swanson

Paul Swanson
Regional Inspector General
for Audit Services

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 ILLINOIS' EFFORTS TO ACCOUNT FOR AND MONITOR SUB-RECIPIENTS' USE OF BIOTERRORISM HOSPITAL PREPAREDNESS PROGRAM FUNDS

## ILLINOIS DEPARTMENT OF PUBLIC HEALTH


OCTOBER 2003
A-05-03-00081

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**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. Final determination on these matters will be made by authorized officials of the HHS divisions.

# EXECUTIVE SUMMARY

## OBJECTIVE

Our objectives were to determine whether the Illinois Department of Public Health (State agency): (i) properly recorded, summarized and reported bioterrorism preparedness transactions in accordance with the terms and conditions of the cooperative agreement and (ii) 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 the State agency did not segregate expenditures by phase, within phase, or by priority area, we were able to determine that they were in compliance with the budget restrictions by analysis of the accounting data provided. Even though segregation was not required, budget restrictions were specified in the cooperative agreement. State agency officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. In addition, State agency officials expressed concern regarding implementation of procedures to comply with the requirements in the new HRSA Cooperative Agreement Guidance, effective August 31, 2003. The new guidelines require grantees to develop and maintain a financial accounting system capable of tracking expenditures by priority area, by critical benchmark, and by funds allocated to hospitals and other health care entities

We also found the State agency had established controls and procedures to monitor sub-recipient expenditures of Program funds. In response to our inquiry as to whether the State agency reduced funding to existing public health programs, State agency officials replied that Program funding had not been used to supplant existing State or local programs.

## RECOMMENDATIONS

We recommend the State agency implement procedures to comply with the new requirements effective August 31, 2003 and begin tracking expenditures by priority area, critical benchmark, and by funds allocated to hospitals and other health care entities.

## STATE AGENCY COMMENTS

In a written response to our draft report, the State agency generally concurred with our findings and recommendations. 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 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 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, the 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 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 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*

The cooperative agreement covered two phases during the program year. 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 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, emergency medical services systems, health centers and poison control centers work with the applicable health department for funding through the Program.

### *State Agency Funding*

The Illinois Department of Public Health received funding of approximately $3.9 million for the first year of the Program. Based on the accounting records on the date of our visit, we verified that the State agency had expended an interim amount of $3.12 million. Subsequently, State agency officials reported expenditures of $3.13 million and no unobligated funds as of June 30, 2003.

## 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 agreement and (ii) has established controls and procedures to monitor sub-recipient expenditures of HRSA funds. In addition, we inquired as to whether Bioterrorism Hospital Preparedness Program funding supplanted funds previously provided 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 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: (i) the 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 agency officials and obtained supporting documentation to validate the responses on the questionnaire.

Fieldwork was conducted at State agency offices in Springfield, Illinois and the St. Paul, Minnesota Field Office during July and August 2003.

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

## FINDINGS AND RECOMMENDATION

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 the State agency did not segregate expenditures by phase, within phase, or by priority area, we were able to determine that they were in compliance with the budget restrictions by analysis of the accounting data provided. Even though segregation was not required, budget restrictions were specified in the cooperative agreement. State agency officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. In addition, State agency officials expressed concern regarding implementation of procedures to comply with the requirements in the new HRSA Cooperative Agreement Guidance, effective August 31, 2003. The new guidelines require grantees to develop and maintain a financial accounting system capable of tracking expenditures by priority area, by critical benchmark, and by funds allocated to hospitals and other health care entities.

We also found the State agency had established controls and procedures to monitor sub-recipient expenditures of Program funds. In response to our inquiry as to whether the State agency reduced funding to existing public health programs, State agency 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 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 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. State agency officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. Although the State agency did not segregate expenditures by phase, within phase, or by priority area, we were able to determine that they were in compliance with the budget restrictions by analysis of the accounting data provided. We did note that indirect costs have not been charged. According to State agency officials, indirect costs will be added to the Financial Status Report based on negotiated agreement rates.

Furthermore, the State agency expressed concern regarding procedures to comply with the requirements in the new HRSA Cooperative Agreement guidance, effective August 31, 2003. The guidance states the grantee must:

> …develop and maintain a financial accounting system capable of tracking expenditures by priority area, by critical benchmark, and by funds allocated to hospitals and other health care entities.

State agency officials responded that segregation would be extremely difficult to accurately track due to the overlap and cross over of responsibilities. The method of dividing expenditures between critical benchmark would be too subjective because many activities completed are related to several critical benchmarks. In addition, they stated the accounting system would not be able to handle additional coding. At the time of our visit, the State agency's accounting system tracked expenditures by Federal grant, by division, by State appropriation, by focus area, and by line item. In order to fulfill the new requirement, State agency officials believe they will need to create either a new accounting system, or an independent system that integrates with the current one. State agency officials expressed concern over the additional cost to track subjective expenditures.

**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 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….

Based on the results of the questionnaire and interviews with State agency officials, we found that the State agency had established controls and procedures to monitor sub-recipient expenditures of Program funds. Sub-recipients are required by their grant agreements to submit quarterly progress and expenditure reports. While on site we also noted evidence of numerous discussions between agency staff and 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 agency officials replied that Program funding had not been used to supplant existing State or local programs.

## RECOMMENDATION

We recommend the State agency implement procedures to comply with the new requirements effective August 31, 2003 and begin tracking expenditures by priority area, critical benchmark, and by funds allocated to hospitals and other health care entities.

## STATE AGENCY COMMENTS

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

State agency officials emphasized in their response that they were able to manually identify expenditures by phases and were able to assure compliance with the budget restrictions to the auditors' satisfaction. In addition, they have implemented new accounting procedures, effective September 1, 2003, to begin tracking expenditures by priority planning area. The State agency will also require sub-recipients, hospitals and other health care entities, to report expenditures by priority planning area as well.

# APPENDIX

Illinois Department of
PUBLIC HEALTH

Rod R. Blagojevich, Governor
Eric E. Whitaker, M.D., M.P.H., Director

525-535 West Jefferson Street • Springfield, Illinois 62761-0001 • www.idph.state.il.us

September 12, 2003

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

RE: Report Number: A-05-03-00081

Dear Mr. Swanson:

This letter is in response to the draft audit findings submitted in the Review of the State of Illinois' Efforts to Account for and Monitor Sub-Recipients' use of Bioterrorism Hospital Preparedness Program Funds. Thank you for the opportunity to review and comment on the draft finding.

We were very pleased with the audit process and the individuals who were here to review our records. The initial response we received during the time when the auditors were here was very positive and complementary. Our fiscal staff continue to work very hard to ensure that the Illinois award is allocated and spent in a manner that meets all of the federal requirements.

We do, as reported to the auditors on site, concur with the statement made in the audit report that the State agency "did not segregate expenditures by phase, within phase, or by priority area, which is not required by regulations." We would again point out that we have, in fact, met and fulfilled the budget restrictions specified in the cooperative agreement. We are able to document the expenditures by phase, within phase, and by priority area because we maintain all detail. The details are maintained in manual ledgers outside of the accounting system. This was demonstrated by the auditors' verification of the calculation of budget restrictions. We were able to manually identify the expenditures by phases and to reassure compliance with the budget restrictions. It would be our hope that the audit report, when it becomes a public document, clearly documents that the Department was, in fact, able to detail and identify all expenditures by phases albeit through manual record-keeping. We were satisfied with the outcome of the audit,

but would not want there to be a misinterpretation of our actual compliance in that your report makes a "finding" in the matter.

Beginning September 1, 2003, all expenditures from the HRSA grant will be coded on an RGS and recorded in a new Access database being constructed by staff. Sub-recipients will also be required to report expenditures by priority planning area. Again, thank you for the opportunity to review the document and make comments.

Sincerely,

Donald S. Kauerauf

Don Kauerauf, Chief
Division of Emergency Preparedness & Response

Cc: Michelle Gentry-Wiseman

# 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.