



MAY 10 2005

Office of Audit Services
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Report Number: A-01-04-01504

Ms. Nancy Ridley
Associate Commissioner/Principal Investigator
Massachusetts Department of Public Health
Center for Patient Safety
HRSA Hospital Bioterrorism Preparedness Program
250 Washington Street, 2nd Floor
Boston, MA 02108

Dear Ms. Ridley:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services' report entitled "Audit of the State of Massachusetts' Costs and Reporting of Funds Under the Hospital Preparedness and Response to Bioterrorism Program for the Period April 1, 2002 - August 30, 2004."

Final determination as to actions taken on all matters will be made by the 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 include 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 U.S.C. 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 under the Act (See 45 CFR Part 5).

To facilitate identification, please refer to report number A-01-04-01504 in all correspondence.

Sincerely yours,

Michael J. Armstrong
Regional Inspector General
for Audit Services

Direct Reply to HHS Action Official:

Nancy J. McGinness
Director, Office of Financial Policy and Oversight
Room 11A55, Parklawn Building
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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF THE STATE OF
MASSACHUSETTS' COSTS AND
REPORTING OF FUNDS UNDER THE
HOSPITAL PREPAREDNESS AND
RESPONSE TO BIOTERRORISM
PROGRAM FOR THE PERIOD
APRIL 1, 2002 - AUGUST 30, 2004**



**MAY 2005
A-01-04-01504**

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 HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

States and major local health departments receive Health Resources and Services Administration (HRSA) funding under the Department of Defense and Emergency Supplemental Appropriations for Recovery from and Response to Terrorist Attacks on the United States Act of 2002 to upgrade the preparedness of the Nation's hospitals and collaborating entities to respond to bioterrorism. HRSA initiated cooperative agreements with awardees for the period April 1, 2002 through March 31, 2003, as directed by Cooperative Agreement Guidance issued February 15, 2002. This first budget period was extended through August 31, 2003. The second budget period initially covered the period September 1, 2003 through August 31, 2004, but was extended through August 31, 2005. The Massachusetts Department of Public Health (State) entered into a cooperative agreement with HRSA to carry out the responsibilities of the Program for the State of Massachusetts. For the 3 year period under audit, the State was awarded \$13.4 million.

OBJECTIVES

The objectives of our audit were to determine whether the State:

- recorded and reported hospital preparedness program funds awarded, expended, obligated, and unobligated by priority planning area in accordance with its cooperative agreement with HRSA;
- ensured that the hospital preparedness program funds were spent on costs that were reasonable, necessary, allocable, and allowable under the terms of the cooperative agreement; and
- did not supplant any current State or local expenditures with hospital preparedness program funds.

SUMMARY OF RESULTS

The State recorded and reported hospital preparedness program funds by priority planning area in accordance with the cooperative agreement with HRSA. We found no evidence of any unreasonable, unnecessary, unallocable, or unallowable costs. In addition, we found no evidence of supplanting of State or local expenditures with Federal hospital preparedness program funds.

We noted that, as of August 30, 2004, the State had cumulative unobligated funds totaling \$8,653,180, or 65 percent of the \$13,395,858 awarded. Large unobligated balances suggest that funds were not fully utilized in a timely manner to meet important bioterrorism hospital preparedness program goals.

RECOMMENDATION

We recommend that the State monitor its hospital preparedness funding to minimize unobligated fund balances and to ensure that program goals are met in a timely manner.

AUDITEE RESPONSE

In a written response, dated April 28, 2005, the State concurred with our results and recommendation, and has taken action to minimize unobligated balances.

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INTRODUCTION

BACKGROUND

Bioterrorism Hospital Preparedness Program

States and major local health departments received HRSA funding to upgrade the preparedness of the Nation's hospitals and collaborating entities to respond to bioterrorism under the Bioterrorism Hospital Preparedness Program. 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.

HRSA initiated cooperative agreements with awardees for the period April 1, 2002 through March 31, 2003, as directed by Cooperative Agreement Guidance issued February 15, 2002. This budget period was extended through August 30, 2003. The second budget period initially covered the period September 1, 2003 through August 31, 2004, but was extended through August 31, 2005.

The cooperative agreements identified priority planning areas to be addressed with program funds. They are:

- Medication and Vaccines
- Personal Protection, Quarantine, and Decontamination
- Communications
- Biological Disaster Drills
- Personnel (including emergency increases in staffing)
- Training
- Patient Transfer

Federal funds were meant to augment current State and local funding and focus on bioterrorism hospital preparedness activities under the HRSA Cooperative Agreement. The Cooperative Agreement Guidance states that "...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..."

Prior OIG Report

In our previous report to the State of Massachusetts Department of Public Health (Report Number A-01-03-01505, dated October 2003) we noted that the State had established an automated financial accounting system capable of tracking expenditures by priority planning area, by critical benchmark, and by funding to subrecipients. However, we noted that significant unobligated funds accumulated as a result of the State's extensive consultative and collaborative needs assessment process.

State Funding

Bioterrorism hospital preparedness program funding awarded to the State has increased from \$2.7 million in 2002 to \$10.7 million in 2004. Total program funds awarded to the State as of August 30, 2004 totaled \$13.4 million.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of our audit were to determine whether the State:

- recorded and reported hospital preparedness program funds awarded, expended, obligated, and unobligated by priority planning area in accordance with its cooperative agreement with HRSA;
- ensured that the hospital preparedness program funds were spent on costs that were reasonable, necessary, allocable, and allowable under the terms of the cooperative agreement; and
- did not supplant any current State or local expenditures with hospital preparedness program funds.

Scope

Our audit was conducted for the purposes described above and would not necessarily disclose all material weaknesses. We did not review the overall internal control structure of the State or its subrecipients. Our internal control review was limited to obtaining an understanding of the State and selected subrecipients' procedures to account for program funds.

In planning and performing our audit, we reviewed State policies and procedures, and financial reports applicable to program funding awarded to the State for the period April 1, 2002 through August 30, 2004. Our review of the allowability of hospital preparedness program expenditures was limited to non-statistical samples of expenditures by the State and four subrecipients that had expended some program funds as of March 31, 2004.

Methodology

To accomplish our objectives, we:

- tested the Financial Status Reports (FSRs) for completeness and accuracy, reconciling the amounts reported on the FSRs to the accounting records and Notice of Cooperative Agreement Awards;

- reviewed the timing of State budget reductions versus hospital preparedness program funding, and costs reported by the State for fiscal years prior and subsequent to receiving Federal funding;
- inquired as to employment history for a sample of staff with salaries charged to the program to determine whether any employees had been relocated from other programs and if the positions were filled;
- conducted site visits at four subrecipients to determine the adequacy of their systems of accounting for federal funds;
- selected for cost testing all State personnel supported by the award, all expenditures by the four subrecipients selected for review, and additional expenditures based on materiality, resulting in a non-statistical sample of 97 program expenditures totaling \$1,840,161;
- verified the subrecipients' receipt of program funds, the State's ability to track and monitor program funds by priority planning area, and determined that expenditure plans at four judgmentally selected subrecipient hospitals were reasonable, necessary, and allowable; and
- reviewed the State's contracts with the Massachusetts Hospital Association and 68 subrecipient hospitals.

We conducted our field work between March and October 2004 at the State offices in Boston, Massachusetts and subrecipient hospitals throughout the State.

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

SUMMARY OF RESULTS

The State recorded and reported hospital preparedness program funds by priority planning area in accordance with its cooperative agreement with HRSA. We found no evidence of any unreasonable, unnecessary, unallocable, or unallowable costs. In addition, we found no evidence of supplanting of State or local expenditures with Federal hospital preparedness program funds.

We noted that, as of August 30, 2004, the State had cumulative unobligated funds totaling \$8,653,180, or 65 percent of the \$13,395,858 awarded. Large unobligated balances suggest that funds were not fully utilized in a timely manner to meet important bioterrorism hospital preparedness program goals.

RECORDING AND REPORTING HOSPITAL PREPAREDNESS PROGRAM FUNDS

The State recorded and reported hospital preparedness program funds awarded, expended, obligated, and unobligated by priority planning area in accordance with cooperative agreement guidelines. The State assigned a unique account number to the HRSA award and established organizational codes for each of the priority planning areas. Program funds budgeted and spent were tracked in accordance with the State’s Expenditure Classification Handbook and financial regulations. However, we did note that the State had accumulated a significant unobligated fund balance as of August 30, 2004.

Funds Awarded but Not Obligated or Expended

The State had a cumulative unobligated balance of \$8,653,180 million, out of \$13,395,858 million awarded, as of August 30, 2004, as detailed in the table below. These balances are based on Notices of Cooperative Agreements and State accounting records.

State Balances (in thousands) as of August 30, 2004						
Budget Period	Awarded	Available for Expenditure, including Carryforward	Expended	Obligated	Unobligated	Carried Forward
1	\$2,710	\$2,710	\$549	\$0	\$0	\$2,161
2	\$10,686	\$12,847	\$3,842	\$352	\$8,653	\$0
Total	\$13,396	N/A	\$4,391	\$352	\$8,653	N/A

The State agency had unobligated balances for each of the budget periods. For period 1, HRSA approved the State’s request to carry forward the unobligated fund balance of \$2.1 million. On August 11, 2004, HRSA approved a one-year extension of period 2 to August 31, 2005. As a result, the State agency has until August 31, 2005 to obligate and expend the \$9 million in period 2 unobligated funds.

Delays Resulted from the Implementation of a Regional System to Distribute Program Funds

Upon the initial award of HRSA funding, the State strived to develop and implement a coordinated regional system for the purpose of planning and implementing the Bioterrorism Hospital Preparedness Program. In this regard, the State sought to partner hospitals and other health care providers with local public health officials and emergency medical response systems.

The State initially contracted solely with the Massachusetts Hospital Association (Association), which represented all acute care hospitals in the State. Since the Association had developed a survey tool to serve as the basis of the needs assessment process, State officials believed that the Association would be in a unique position to successfully elicit sensitive information from hospitals with the expectation of candid replies and a high response rate. The State planned to use the Association as its sole subrecipient to act as a conduit for all bioterrorism preparedness funds allocated to hospitals throughout Massachusetts.

By December of 2003, the State determined that a more direct approach to distributing HRSA funds to subrecipient hospitals would enable the State to directly monitor and track the allocation and expenditure of program funds to better meet the critical benchmarks required by the program. The result was a contract amendment that reduced the overall financial obligation to the Association by \$863,893, from \$1,690,439 to \$826,546. In addition, the amendment revised the scope of work and extended the contractual relationship from December 31, 2003 to August 30, 2004. Under the revised scope of work, although more limited in their responsibilities, the Association would continue to be responsible to the State in assisting in achieving the objectives of the program.

Hospital Preparedness Program Funds Not Fully Utilized

Large unobligated balances suggest that funds were not fully utilized in a timely manner to meet important bioterrorism hospital preparedness program goals.

RECOMMENDATION

We recommend that the State monitor its hospital preparedness funding to minimize unobligated fund balances and to ensure that program goals are met in a timely manner.

ALLOWABILITY OF HOSPITAL PREPAREDNESS PROGRAM COSTS

Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Section C.1 provides basic guidelines for the allowability of costs under Federal awards by providing that costs must "...be allocable to..." and "...be necessary and reasonable for proper and efficient performance and administration of..." the award. In addition, the guidelines state costs must be adequately documented.

We found no evidence of any unreasonable, unnecessary, unallocable, or unallowable costs. Through our review of a non-statistical sample of 97 expenditures, totaling \$1,840,161, we were able to support the necessity, reasonableness, allocability, and allowability of all sample expenditures.

SUPPLANTING

The Cooperative Agreement Guidance states that “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....” Hospital preparedness program funds were meant to augment current funding and focus on bioterrorism hospital preparedness activities under the HRSA Cooperative Agreement. The funds could not supplant existing Federal, State, or local public health funds available for emergency activities to combat threats to public health.

Based on reviews of cost transfers, the timing of State and local budget reductions versus Federal bioterrorism funding, and costs reported for fiscal years prior and subsequent to receiving hospital preparedness program funding, we found no evidence of supplanting at the State agency or the subrecipients. We did not find significant decreases in State and other funded disbursements corresponding with increases in federally-funded disbursements. Regarding our assessment of the employment history for a sample of hospital preparedness program employees, we determined that previous duties of all hospital preparedness program employees were either absorbed by or reassigned to other staff not funded by the HRSA bioterrorism preparedness program.

AUDITEE RESPONSE

In a written response, dated April 28, 2005, the State concurred with our results and recommendation, and has taken action to minimize unobligated balances. The State’s written comments are attached in their entirety as an Appendix to this report.

APPENDIX



The Commonwealth of Massachusetts
Executive Office of Health and Human Services
Department of Public Health
250 Washington Street, Boston, MA 02108-4619

MITT ROMNEY
GOVERNOR

KERRY HEALEY
LIEUTENANT GOVERNOR

RONALD PRESTON
SECRETARY

PAUL J. COTE, JR.
COMMISSIONER

April 28, 2005

Michael J. Armstrong, Regional Inspector General
For Audit Services
Department of Health and Human Services
Office of Inspector General
Region I
John F. Kennedy Federal Building
Boston, MA 02203

RE: **Report Number: A-01-04-01504**

Dear Mr. Armstrong:

Thank you for your submission of the Office of Audit Services' draft report entitled *Audit of Costs and Reporting of Funds under the Hospital Bioterrorism Preparedness Program in the Commonwealth of Massachusetts* for the period April 1, 2002 through August 30, 2004. .

This correspondence is provided based on your request for provision of written comment to the report, your request for validation of the facts, reasonableness of the OIG recommendation and status of actions taken by the program based on your recommendation.

The recommendation made in the report is for the program to minimize unobligated fund balances to ensure program goals are met. This recommendation is fully reasonable, and is the goal of the program on an ongoing basis. The facts as presented in the report are valid for the reporting period. Actions taken by the program to ensure unobligated fund balances are minimized are included herein.

The MDPH/HRSA Hospital Bioterrorism Preparedness Program is pleased to report on significant progress made since the close date of the OIG audit of August 30, 2004.

Funding has been fully obligated, and to date, nearly fully expended from the FFY 02/03 award (authorized for carry forward on August 19, 2004).

As noted in the report, HRSA has awarded to MDPH, FFY02/03 funds in the amount of \$13,395,858. As of April 28, 2005, the HRSA program has expended a total of \$10,789,039 and the remainder of the award has been fully obligated and will be expended by August 31, 2005.

The MDPH/HRSA Hospital Bioterrorism Preparedness Program has increased significantly the amount of funding obligated and expended to date. Commitments to hospitals, as one of several partners in meeting the 15 critical benchmarks of the HRSA program's awarded funds, will allow the program to meet requirements across several HRSA benchmarks.

To provide example of progress made, three (3) separate allocations of HRSA awarded funding has been directly allocated to the Commonwealth's 75 acute care hospitals and the hospitals were notified of the initial allocation of \$1,608,000 in September 2003; notified of a second allocation of \$4,527,296 in September 2004; and notified of the third allocation of \$5,316,298 in March 2005. Hospital allocations are committed via contractual agreement and liquidated as grants to these entities and are paid in full. The third and current allocation of funding will liquidate by June 2005.

The Commonwealth of Massachusetts HRSA Hospital Bioterrorism Preparedness Program appreciates the opportunity to report on achievements made to date and looks forward to its continued success. If you should have any questions or require additional information, please do not hesitate to contact me. I can be reached at (617) 624-5280.

Sincerely,



Nancy Ridley, Associate Commissioner
HRSA Hospital Bioterrorism Preparedness Program