



DEPARTMENT OF HEALTH & HUMAN SERVICES OFFICE OF INSPECTOR GENERAL

**Office of Audit Services
Region II
Jacob K. Javits Federal Building
New York, New York 10278
(212) 264-4620**

November 21, 2003

Report Number: A-02-03-02013

Thomas R. Frieden, M.D., M.P.H.
Commissioner of Health
New York City Department of Health and Mental Hygiene
125 Worth Street, Room 331, CN 28
New York, New York 10013

Dear Dr. Frieden:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), report entitled "*Review of New York City's Efforts to Account for and Monitor Sub-recipients' Use of Bio-terrorism Hospital Preparedness Program Funds.*" A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to actions taken on all matters reported 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 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 U.S.C. 552, as amended by Public Law 104-231), OIG reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See CFR Part 5.)

To facilitate identification, please refer to report Number A-02-03-02013 in all correspondence relating to this report.

Sincerely,


Timothy J. Horgan
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**

**REVIEW OF NEW YORK CITY'S EFFORTS TO
ACCOUNT FOR AND MONITOR
SUB-RECIPIENTS' USE OF BIO-TERRORISM
HOSPITAL PREPAREDNESS PROGRAM FUNDS**



**November 2003
A-02-03-02013**

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the department.

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.



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Thomas R. Frieden, M.D., M.P.H.
Commissioner of Health
New York City Department of Health and Mental Hygiene
125 Worth Street, Room 331, CN 28
New York, New York 10013

Dear Dr. Frieden:

This final report presents the results of the Office of Inspector General's self-initiated audit entitled, "*Review of New York City's Efforts to Account for and Monitor Sub-recipients' Use of Bio-terrorism Hospital Preparedness Program Funds.*"

EXECUTIVE SUMMARY

OBJECTIVES

The objectives were to determine whether Health Research, Incorporated (HRI) properly recorded, summarized and reported bio-terrorism preparedness transactions in accordance with the terms and conditions of the cooperative agreement with the Department of Health and Human Services (DHHS), Health Resources and Services Administration (HRSA). In addition, we inquired as to whether the Bio-terrorism Hospital Preparedness Program (the Program) funding supplanted programs previously funded by other organizational sources and whether HRI and the New York City (NYC) Department of Health and Mental Hygiene (DOHMH) established controls and procedures to monitor sub-recipients' expenditures of HRSA funds.

SUMMARY OF FINDINGS

HRI is the fiscal agent responsible for administering the Program grant on behalf of DOHMH. Our review found that HRI accounted for the Program funds in accordance with the terms and conditions of the cooperative agreement with HRSA. Specifically, HRI recorded, summarized and reported transactions in discrete accounts established to account for bio-terrorism funding. In response to our inquiry as to whether DOHMH reduced funding to existing public health programs, DOHMH officials stated that HRSA funding had not been used to supplant existing State or local programs. We also found that, while HRI and DOHMH implemented controls and procedures to monitor sub-recipient's expenditures of HRSA funds, they are not currently performing on-site audits of sub-recipients. However, HRI and DOHMH indicated that they

plan to add an on-site audit component to their monitoring procedures with funding from the Program.

RECOMMENDATION

We recommend that HRI and DOHMH continue to implement plans to add an on-site audit component for monitoring sub-recipients and address problem areas, as they are identified.

Auditee Comments

In comments dated October 30, 2003, DOHMH officials advised us that HRI will cease its fiscal management responsibilities concerning the HRSA grant funds on December 31, 2003. At that time, fiscal management will become the responsibility of the Fund for the City of New York.

Regarding our report recommendation, DOHMH officials concurred and accept full responsibility for on site audit, which will be in effect for the grant year starting September 2003.

OIG Response

We appreciate the assistance of DOHMH and HRI in performing this review.

INTRODUCTION

BACKGROUND

Bio-terrorism Hospital Preparedness Program

Since September 2001, DHHS has significantly increased its spending for public health preparedness and response to bio-terrorism. For FYs 2002 and 2003, DHHS awarded amounts totaling \$2.98 billion and \$4.32 billion, respectively, for bio-terrorism preparedness. Some of the attention has been focused on the ability of hospitals and Emergency Medical Services (EMS) 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 Program funds for cooperative agreements with State, territorial, and selected municipal offices of public health. The purpose of the Program is to upgrade the preparedness of the nation's hospitals and collaborating entities to respond to bio-terrorism.

HRSA made awards to States and major local public health departments under the Program in accordance with 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, EMS systems and other collaborating health care entities for responding to incidents requiring mass immunization, treatment, isolation and quarantine in the aftermath of bio-terrorism or other outbreaks of infectious disease.

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. The cooperative agreements 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.

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 City, 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 through the Program.

NYC Program Administration

HRI is the fiscal agent responsible for administering the Program grant on behalf of DOHMH. Funding for the Program in NYC totaled \$3,352,455 and covers the period April 1, 2002 through March 31, 2004.¹

| HRSA GRANT AWARD AMOUNTS FOR THE PERIOD 4/1/2002 – 3/31/2004 | |
|---|--------------------|
| Phase I | \$670,491 |
| Phase II | \$2,681,964 |
| TOTAL | \$3,352,455 |

¹ Subsequent to the end of our fieldwork, DOHMH received a new grant award in the amount of \$5,922,855. This amount includes the prior award of \$3,352,455 and an additional amount of financial assistance of \$2,570,400. This new grant award also modified the existing budget period to cover the period April 1, 2002 through August 30, 2003. Our review did not include the additional funding of \$2,570,400 that DOHMH received under the new grant award.

OBJECTIVE, SCOPE AND METHODOLOGY

Objectives

Our objectives were to determine whether HRI properly recorded, summarized and reported bio-terrorism preparedness transactions in accordance with the terms and conditions of the cooperative agreement with HRSA. In addition, we inquired as to whether the Program funding supplanted programs previously funded by other organizational sources and whether HRI and DOHMH established controls and procedures to monitor sub-recipients' expenditures of HRSA funds.

Scope

Our review was limited to obtaining HRI responses to the questionnaire we provided and performing limited validation of the data contained therein. We did not assess the adequacy of the internal control structure of HRI, nor did we determine whether costs charged to the Program were allowable. Consequently, our review would not necessarily disclose all material weaknesses.

In addition, our review was limited to HRI policies and procedures, financial reports, and accounting transactions for the period April 1, 2002 through May 15, 2003.

Methodology

We developed a questionnaire to address the objectives of the review. The questionnaire covered the following 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 HRI to complete. To accomplish our objectives, we:

- reconciled HRSA grant award amounts, as reported on the completed questionnaire, to HRI's books and records,
- relied on the completed questionnaire and interviews with HRI and DOHMH officials to assess whether:
 - bio-terrorism funding supplanted programs previously funded by other organizational sources, and
 - HRI and DOHMH established controls and procedures to monitor sub-recipients' expenditures of HRSA funds.

Fieldwork was conducted at HRI offices in Rensselaer, New York during June 2003.

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

FINDINGS & RECOMMENDATION

Based on our validation of the completed questionnaire and our site-visit, we found that HRI accounted for the Program funds in accordance with the terms and conditions of the cooperative agreement with HRSA. Specifically, HRI recorded, summarized and reported transactions in discrete accounts established to account for bio-terrorism funding. In response to our inquiry as to whether DOHMH reduced funding to existing public health programs, DOHMH officials stated that HRSA funding had not been used to supplant existing State or local programs. We also found that, while HRI and DOHMH implemented controls and procedures to monitor sub-recipient's expenditures of HRSA funds, they are not currently performing on-site audits of sub-recipients. However, HRI and DOHMH indicated that they plan to add an on-site audit component to their monitoring procedures with funding from the Program.

Accounting for Expenditures

An essential aspect of the Program is the need for the grantee to accurately and fully account for bio-terrorism funds. Accurate and complete accounting of the Program funds provides HRSA a means to measure the extent the Program is being implemented and that the objectives are being met. There are budgeting restrictions set forth in HRSA's Cooperative Agreement Guidance and DHHS's Summary Application Guidance for Award and First Allocation. For example, page seven 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 (20 percent of total award):

...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 (80 percent of total award), 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....

Based on our validation of the completed questionnaire, we found that HRI accounted for the Program funds in accordance with the terms and conditions of the cooperative agreement with HRSA. Specifically, HRI recorded, summarized and reported transactions in discrete accounts established to account for bio-terrorism funding. In addition, we found that HRI appropriately (1) allocated less than 10 percent of the total award to indirect costs; (2) allocated more than 50 percent of Phase I funding to hospitals for the development of implementation plans and allocated less than 50 percent of Phase I funding for administration of the health department infrastructure; and (3) allocated less than 20 percent of Phase II funding for administration of the

health department infrastructure and allocated more than 80 percent of Phase II funding to hospitals to upgrade their abilities to respond to bio-terrorist events.

HRI was not required to segregate expenditures in the accounting system by phase, within phase, or by priority planning area (PPA). However, HRI officials told us that for future years, a master account with sub-accounts will be established within the accounting system to track expenditures by phase.

Supplanting

The Program funds were to be used to augment current funding and focus on activities under the HRSA cooperative agreement. Specifically, funds were not to be used to supplant existing Federal, State, or local funds for bio-terrorism, 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 bio-terrorism, 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....

Prior to receiving Program funding in April 2002, DOHMH had programs in existence that were related to infectious disease, bio-terrorism, and emergency preparedness response. According to DOHMH, the activities performed by these programs were to plan for, detect, diagnose and investigate acts of bio-terrorism in NYC. In addition, DOHMH received bio-terrorism funding, which totaled \$28,586,647, from the Centers for Disease Control (CDC). The funding provided by CDC was awarded to enhance bio-terrorism preparedness for States and major public health departments, while the HRSA funding focused on enhancing bio-terrorism preparedness for hospitals. In response to our inquiry as to whether DOHMH reduced funding to existing public health programs, DOHMH officials stated that HRSA funding had not been used to supplant programs previously funded by other organizational sources.

Sub-recipient Monitoring

Recipients of the Program funds are required to monitor their sub-recipients. The Public Health Services 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....

In response to our questionnaire, HRI officials indicated that several procedures are in place to monitor fiscal and programmatic activities of sub-recipients. Currently, HRI reviews contracts prior to final payment to ensure that grant funds are appropriately spent. After the completion of the contracts, HRI performs desk audits on selected contracts to determine if the contracts were properly executed. In the future, HRI plans to add an on-site audit component to its monitoring procedures.

In response to our questionnaire, HRI officials indicated that DOHMH reviews all vouchers to assure that funds are being used for preparedness activities as outlined by the contract. DOHMH plans on conducting on-site audits to assess the hospital/networks' bio-terrorism plan, to evaluate preparedness activities and to verify that funding is being used for bio-terrorism hospital preparedness.

Based on the completed questionnaire and our interviews, we found that HRI and DOHMH employ sound management practices to ensure that the Program objectives are met and that funds are properly spent.

RECOMMENDATION

We recommend that HRI and DOHMH continue to implement plans to add an on-site audit component for monitoring sub-recipients and address problem areas, as they are identified.

Auditee Comments

In comments dated October 30, 2003, DOHMH officials advised us that HRI will cease its fiscal management responsibilities concerning the HRSA grant funds on December 31, 2003. At that time, fiscal management will become the responsibility of the Fund for the City of New York.

Regarding our report recommendation, DOHMH officials concurred and accept full responsibility for on site audit, which will be in effect for the grant year starting September 2003.

OIG Response

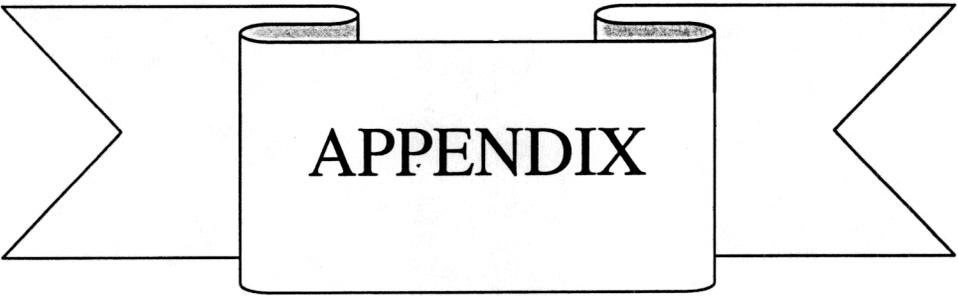
We appreciate the assistance of DOHMH and HRI in performing this review.

To facilitate identification, please refer to report number A-02-03-02013 in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Timothy J. Horgan", with a long horizontal flourish extending to the right.

Timothy J. Horgan
Regional Inspector General
for Audit Services



APPENDIX

THE CITY OF NEW YORK
DEPARTMENT OF HEALTH AND MENTAL HYGIENE
OFFICE OF THE COMMISSIONER



125 WORTH STREET, CN-28
NEW YORK, NY 10013
NYC.GOV/HEALTH

THOMAS R. FRIEDEN, M.D., M.P.H.
COMMISSIONER
TEL (212) 788-5261
FAX (212) 964-0472

October 30, 2003

Mr. Timothy J. Horgan
Regional Inspector General for Audit Services
Region II
Jacob K. Javits Federal Building
26 Federal Plaza
New York, NY 10278

Re: Report #A-02-03-02013

Dear Mr. Horgan,

Thank you for sending us the draft report entitled "Review of NYC Efforts to Account For And Monitor Sub-Recipients "Use Of Public Health Preparedness And Response to Bio-Terrorism Program Funds." This report discusses the activities of HRI and DOHMH in administering funds and monitoring the expenditures of subrecipients.

You should be aware that HRI will cease all activities concerning these funds on December 31, 2003. At that time, fiscal management will become the responsibility of the Fund for the City of New York. We anticipate that FCNY will continue the excellent work of HRI in fiscal management.

This report recommends that "HRI and DOHMH continue to implement plans to add an on-site audit component for monitoring sub recipients and address problem areas, as they are identified." DOHMH accepts the recommendation for on-site audit. We would like to clarify that HRI's responsibilities were limited to fiscal management, about which no recommendations were made.

We intend to implement a complete monitoring plan that includes on-site reviews, as well as a protocol for identifying problem areas and addressing them. This plan will be in effect for the grant year starting September 2003. We anticipate that all subrecipients will receive a minimum of one site visit, with additional visits to the subrecipients with the more complex and larger programs.

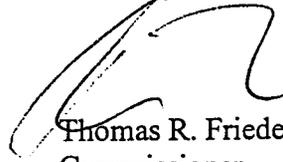
Mr. Timothy J. Horgan

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October 30, 2003

We appreciate the courtesy and professionalism of your review team. If you have questions concerning this matter, please contact Kevin Mahoney, Assistant Commissioner for Administration, Division of Disease Control, at 212-788-4721.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Frieden', written over a faint, larger version of the same signature.

Thomas R. Frieden, M.D., M.P.H.
Commissioner

TRF/it