



DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES
150 S. INDEPENDENCE MALL WEST
SUITE 316
PHILADELPHIA, PENNSYLVANIA 19106-3499

JUN 28 2005

Report Number: A-03-04-00354

Ms. Monica Lamboy, Chief Operating Officer
District of Columbia Department of Health
Office of the Director
825 North Capitol Street N.E.
Washington, D.C. 20001

Dear Ms. Lamboy:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Audit of Costs and Reporting of Funds Under the Bioterrorism Hospital Preparedness Program District of Columbia Department of Health." A copy of this report will be forwarded to the HHS action official noted below for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to the HHS action official within 30 days. 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 the information is not subject to exemptions in the Act which the Department chooses to exercise (see 45 CFR part 5)

If you have any questions or comments about this report, please do not hesitate to contact me at (215) 861-4470 or through email at stephen.virbitsky@oig.hhs.gov or Robert Baiocco, Audit Manager, at (215) 861-4486 or through email at robert.baiocco@oig.hhs.gov. Please refer to report number A-03-04-00354 in all correspondence.

Sincerely yours,



Stephen Virbitsky
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Gail Lipton
Director, Division of Grants Policy
Room 11A-55 Parklawn Building
5600 Fishers Lane
Rockville, Maryland 20857

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF COSTS AND REPORTING OF
FUNDS UNDER THE BIOTERRORISM
HOSPITAL PREPAREDNESS PROGRAM**

**DISTRICT OF COLUMBIA
DEPARTMENT OF HEALTH**



**Daniel R. Levinson
Inspector General**

**JUNE 2005
A-03-04-00354**

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:

Office of Audit Services

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 HHS.

Office of Evaluation and Inspections

OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to HHS, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs. OEI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

Office of Investigations

OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties.

Office of Counsel to the Inspector General

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. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Notices

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

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

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the 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) funds to upgrade and prepare hospitals and collaborating entities to respond to bioterrorism attacks under the Bioterrorism Hospital Preparedness Program (program). Between April 2002 and August 2004, HRSA awarded the District of Columbia Department of Health (District) \$3,589,921 in program funds. These funds were to be expended according to a cooperative agreement between HRSA and the District.

OBJECTIVES

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

- recorded and reported hospital preparedness program funds awarded, expended, obligated, and unobligated in accordance with its cooperative agreement with HRSA;
- ensured that program funds were used for necessary, reasonable, allocable, and allowable costs in accordance with the terms of the cooperative agreement; and
- supplanted current State or local funding with program funds.

SUMMARY OF FINDINGS

The District:

- did not properly record and report program funds by priority area in accordance with the cooperative agreement;
- had unobligated program funds of \$1,668,543 as of August 30, 2004, representing 46.5 percent of the \$3,589,921 awarded;
- improperly charged or inadequately documented \$14,105 in program funds; but
- did not use program funds to supplant other State or local expenditures.

RECOMMENDATIONS

We recommend that the District:

1. record, summarize, and report program funds awarded, expended, obligated, and unobligated by priority area in accordance with the cooperative agreement;

2. ensure program activities are funded in a manner that minimizes unobligated fund balances and achieves its goals; and
3. refund improperly charged and inadequately documented costs of \$14,105.

DISTRICT'S COMMENTS

In its response to our draft report, the District concurred with our second recommendation and essentially met the intent of our third recommendation by agreeing to adjust its FSRs to account for \$14,105 in improperly charged and inadequately documented expenditures. It is unclear from its response whether the District concurs with our first recommendation. The District responded that it manually tracks program funds by critical benchmark; however, the cooperative agreement guidance specifically states under “Priority Area #1: Administration, Financial Accountability” that grantees “*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.*” The District’s response does not appear to satisfy this requirement. The full text of the District’s comments is included as an appendix.

TABLE OF CONTENTS

	Page
INTRODUCTION	1
BACKGROUND	1
Bioterrorism Hospital Preparedness Program	1
District Funding.....	1
OBJECTIVES, SCOPE, AND METHODOLOGY.....	2
FINDINGS AND RECOMMENDATIONS.....	3
RECORDING, SUMMARIZING, AND REPORTING HOSPITAL PREPAREDNESS PROGRAM FUNDS	4
The District Did Not Track Program Funds by Priority Area.....	4
UNOBLIGATED FUND BALANCE.....	4
As of August 30, 2004, the District had \$1.6 million, or 46.5 percent of Program funds unobligated.	4
ALLOWABILITY OF HOSPITAL PREPAREDNESS PROGRAM COSTS	6
The District Improperly Charged or Did Not Adequately Document Hospital Preparedness Program Expenditures	6
SUPPLANTING	6
No Evidence of Supplanting.....	6
RECOMMENDATIONS.....	7
DISTRICT COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE.....	7
APPENDIX	

INTRODUCTION

BACKGROUND

Bioterrorism Hospital Preparedness Program

States and major local health departments receive HRSA funds to upgrade and prepare hospitals and collaborating entities to respond to bioterrorism attacks 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 of 2002 (Public Law 107-117).

HRSA initiated cooperative agreements with awardees for the period April 1, 2002, through March 31, 2003, as directed by the Cooperative Agreement Guidance it issued on 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 February 28, 2005. The priority planning areas funded by the cooperative agreements are:

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

Program funds were meant to augment current funding. 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."

District Funding

Hospital preparedness program funding awarded to the District has increased from \$721,619 in period one to \$2,868,302 in period two. As of August 30, 2004, cumulative funds awarded totaled \$3,589,921.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

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

- recorded and reported hospital preparedness program funds awarded, expended, obligated, and unobligated in accordance with its cooperative agreement with HRSA;
- ensured that program funds were used for necessary, reasonable, allocable, and allowable costs in accordance with the terms of the cooperative agreement; and
- supplanted current State or local funding with program funds.

Scope

Our audit covered the District's policies and procedures for accounting and financial reporting of program funds for the period April 1, 2002 to March 31, 2004. After completion of our on-site fieldwork, we also obtained balances for awarded, expended, obligated, and unobligated funds as of August 30, 2004.

Our review of the allowability of program expenditures was limited to non-statistical samples of expenditures by the District and one of its contracted subrecipients, the Washington Hospital Center (WHC). Our non-statistical samples were intended to determine the allowability of expenditures by the District and the sub-recipient.

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 District or the sub-recipient. Our internal control review was limited to obtaining an understanding of the District's and the sub-recipient's procedures to account for program funds and expending these funds for allowable program related activities.

We conducted fieldwork between March and July 2004 at the District and WHC offices in Washington, District of Columbia.

Methodology

To accomplish the objectives of our audit, we conducted site visits to the District and one of its contracted subrecipients, WHC. We reviewed the accounting and financial reporting systems at the District and WHC to determine how funds were recorded and reported and to determine whether funds were expended for necessary, reasonable, allocable, and allowable costs. We also reviewed the prior and current levels of District funding of hospital preparedness activities to assess whether these funds were replaced or supplanted by Federal funds provided. Specifically, we:

- reconciled period one amounts reported on the District's Financial Status Reports (FSR) to the accounting records and Notices of Cooperative Agreements and tested the FSRs for completeness and accuracy;
- requested awarded, expended, obligated, and unobligated fund balances as of August 30, 2004, and verified the balances to accounting records provided by the District;
- selected and tested a non-statistical sample of expenditures at the District and WHC to ensure that hospital preparedness program funds were used for necessary, reasonable, allocable, and allowable costs under the terms of the cooperative agreement; and
- addressed supplanting concerns by selectively reviewing cost transfers, District budget reductions versus Federal bioterrorism funding, costs reported for fiscal years prior and subsequent to receiving hospital preparedness program funding, and the employment history of District and sub-recipient program staff.

We selected 14 sample items at the District, representing expenditures of \$214,560 from a universe of \$220,455. We also selected 15 sample items at WHC, representing expenditures of \$50,635 from a universe of \$240,000. The expenditures were generally chosen based on high dollar value or type of expenditure.

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

FINDINGS AND RECOMMENDATIONS

The District:

- did not properly record and report program funds by priority area in accordance with the cooperative agreement;
- had unobligated program funds of \$1,668,543 as of August 30, 2004, representing 46.5 percent of the \$3,589,921 awarded;
- improperly charged or inadequately documented \$14,105 in program funds; but
- did not use program funds to supplant other State or local expenditures.

RECORDING, SUMMARIZING, AND REPORTING HOSPITAL PREPAREDNESS PROGRAM FUNDS

The District Did Not Track Program Funds by Priority Area.

Cooperative Agreement

An essential aspect of the hospital preparedness program is the need for the grantee to accurately and fully account for bioterrorism funds. In that regard, recipients of hospital preparedness program grant funds are required to track expenditures by Priority Planning area. The Cooperative Agreement Guidance for fiscal year (FY) 2003 states that awardees should:

“...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.”

The District Was Not Tracking Program Funds by Priority Area

The District agency did not separately track funds for each priority area in its accounting system.

The District Did Not Adjust Accounting Records to Track Priority Planning Areas

The District did not track program funds by priority area because it did not make the necessary modifications in its accounting system. According to District personnel, the modification was not made because the program office had not requested that this be done. The District is planning to make the changes necessary in time to track FY 2005 funds in accordance with the cooperative agreement guidance.

HRSA Was Unable to Measure the Hospital Preparedness Program Results

Without accurate and complete accounting of program funds by priority area, HRSA does not have a means to measure the extent that program objectives are being met.

UNOBLIGATED FUND BALANCE

As of August 30, 2004, the District had \$1.6 million, or 46.5 percent of Program funds unobligated.

Cooperative Agreement

Unobligated funds are monies that have been awarded but not obligated or expended. HRSA addressed the significance of continuing unobligated fund balances in its period 2 Cooperative Agreement Guidance:

“If FY 2002 funds are still unobligated, FY 2003 funds for similar priority areas will likely be awarded with a funding restriction attached. This restriction will be lifted when FY 2002 implementation efforts on specific priority areas are complete.”

HRSA has indicated that additional appropriations could be restricted, thus reducing the amounts provided for awardee program goals.

Funds Awarded but Not Obligated or Expended

As of August 30, 2004, the District had an unobligated fund balance of \$1,668,543, representing 46.5 percent of the \$3,589,921 awarded. Table 1 shows District balances for each budget period as of August 30, 2004. These program fund balances are based on available Notices of Cooperative Agreements, FSRs, and District accounting records.

Table 1: District Balances as of August 30, 2004

Budget Period	Total Award	Expended	Obligated	Unobligated
One	\$721,619	\$202,732	\$0	\$518,887
Two	2,868,302	529,085	1,189,561	1,149,656
Total	\$3,589,921	\$731,817	\$1,189,561	\$1,668,543

As of August 30, 2004, the District had requested but had not received approval to carry forward the unobligated fund balance of \$518,887 for period one. On September 8, 2004, HRSA approved a six-month extension of period two to February 28, 2005. As a result, the District has until February 28, 2005 to obligate and expend the \$1,149,656 in period 2 unobligated funds.

Funds Were Not Obligated for Various Reasons

District program personnel cited various reasons for the unobligated balances. These included a lengthy District process in hiring personnel and executing contracts, a lengthy District budget modification process and the Federal continuing resolution process, which restricts District spending.

Bioterrorism Hospital Preparedness Program Funds Not Fully Utilized

Large unobligated balances suggest that funds may not be fully utilized to meet important program goals and may indicate a need for stronger program oversight.

ALLOWABILITY OF HOSPITAL PREPAREDNESS PROGRAM COSTS

The District Improperly Charged or Did Not Adequately Document Hospital Preparedness Program Expenditures

Costs Must be Necessary, Reasonable, Allocable, and Adequately Documented

Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments provides basic guidelines for factors affecting the allowability of costs under Federal awards. To be allowable under Federal awards, costs must "...be allocable to..." (C.1.a) and "...be necessary and reasonable for proper and efficient performance and administration of..." the award (C.1.b). In addition, the guidelines state costs must be adequately documented. (C.1.j)

The District Improperly Charged or Did Not Adequately Document \$14,105

Program funds were generally used for allowable costs at the District and WHC, under the terms of the cooperative agreement. Out of 29 total expenditures selected for review (14 at the District and 15 at WHC), we were able to support the necessity, reasonableness, allocability, and allowability of 26 sample expenditures totaling \$251,090. There was \$14,105 of unallowable expenditures for temporary help services. Specifically:

- Two sample items totaling \$9,614 were improperly charged to the District program funds.
- One sample item totaling \$4,491 was not adequately documented.

We found no evidence of unallowable expenditures charged to the hospital preparedness program at WHC.

Reasons for Improperly Charged or Inadequately Documented Funds

The improper charges were due to miscommunication between program and accounting personnel concerning the grant number to be charged for the expenditures. The inadequately documented charge was the result of missing documentation.

SUPPLANTING

No Evidence of Supplanting

Supplanting Not Allowed

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.”

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.

No Evidence of Supplanting

We found no evidence of supplanting at the District or the subrecipient. We did not find significant decreases in District and other funded disbursements corresponding with increases in Federally-funded disbursements.

RECOMMENDATIONS

We recommend that the District:

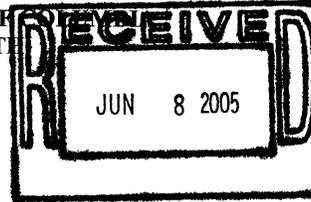
1. record, summarize, and report program funds awarded, expended, obligated, and unobligated by priority area in accordance with the cooperative agreement;
2. ensure program activities are funded in a manner that minimizes unobligated fund balances and achieves its goals; and
3. refund improperly charged or inadequately documented costs of \$14,105.

DISTRICT COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In its response to our draft report, the District concurred with our second recommendation and essentially met the intent of our third recommendation by agreeing to adjust its FSRs to account for \$14,105 in improperly charged and inadequately documented expenditures. It is unclear from its response whether the District concurs with our first recommendation. The District responded that it manually tracks program funds by critical benchmark; however, the cooperative agreement guidance specifically states under “Priority Area #1: Administration, Financial Accountability” that grantees “*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.*” The District’s response does not appear to satisfy this requirement. We are pleased that the District recognizes that \$14,105 should not have been charged to Program funds. We are concerned that the revision of the FSRs only increases the significant unobligated funds already reported. We continue to recommend that the District comply with the cooperative agreement and track program funds by priority area. The full text of the District’s comments is included as an appendix.

APPENDIX

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF HEALTH



Office of the Director

Stephen Virbitsky
Regional Inspector General for Audit Services
Department of Health & Human Services
Office of the Inspector General
Office of Audit Services
150 S. Independence Mall West, Suite 316
Philadelphia, PA 19106-3499

June 2, 2005 (REVISED)

Re: Response to Audit of Costs and Reporting of Funds Under the Bioterrorism Hospital Preparedness Program, March 2005 (A-03-04-00354)

Dear Mr. Virbitsky,

Thank you for allowing the DC Department of Health (DOH) to respond to the findings contained in the "Audit of Costs and Reporting of Funds Under the Bioterrorism Hospital Preparedness Program, March 2005 (A-03-04-00354)". This audit reviews expenditures on the Health Resources and Services Administration (HRSA) grant for Bioterrorism Hospital Preparedness (hereinafter "grant") from April 2002 to August 2004.

The audit findings and DOH responses are as follows:

Finding	Response
The District did not track program funds by priority area.	The Department manually tracks expenditures by <u>critical benchmark</u> in response to HRSA requirements.
As of August 30, 2004, the District had \$1.6 million, or 46.5 percent of Program funds un-obligated.	District records concur that approximately \$1.6 million in grant funds were un-obligated as of August 30, 2004. However, HRSA program staff has extended the award period until August 30, 2005.
The District improperly charged or inadequately documented \$14,105 in program funds.	The District agrees that \$14,105 in expenditure was incorrectly charged to the HRSA grant and has transferred those charges to the appropriate funding source. District staff is presently preparing a revised FSR for Year 1 to document revised expenditures. Corresponding grant drawdowns will be revised as well.
The District did not use program funds to supplant other State and local expenditures.	The District agrees with this finding.

Stephen Virbitsky
June 2, 2005
Report A-03-04-00353
Page 2

We have further reviewed the recommendations and offer the following comments:

Recommendation	Response
That the District record, summarize, and report program funds awarded, expended, obligated, and unobligated by priority area in accordance with the cooperative agreement.	The Department manually tracks expenditures by <u>critical benchmark</u> in response to HRSA requirements.
That the District ensure program activities are funded in a manner that minimizes unobligated fund balances and achieves its goals.	The District concurs and is regularly reviewing program activities and unobligated balances with the intent to reduce/eliminate unobligated balances.
That the District refund improperly charged and inadequately documented costs of \$14,105.	The District does not concur that repayment is required. The District is in the process of preparing a revised FSR for Year 1. Cash drawdown will be similarly revised so that no repayment is necessary.

Thank you again for allowing us to respond to the draft audit findings. If you have any follow up questions, please do not hesitate to contact us at 202-442-5955.

Sincerely,



MONICA R. LAMBOY
Chief Operating Officer



JON CARVER
Interim Agency Fiscal Officer

ACKNOWLEDGMENTS

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

Robert Baiocco, *Audit Manager*
William Grayson, *Senior Auditor*
Yusuf Kheire, *Senior Auditor*
Sheila Dombroski, *Auditor*

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