DEPARTMENT OF HEALTH & HUMAN SERVICES OFFICE OF INSPECTOR GENERAL

Office of Audit Services
Region II
Jacob K. Javits Federal Building
26 Federal Plaza
New York, NY 10278
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December 19, 2003

Report Number: A-02-03-02012

Antonia C. Novello, M.D., M.P.H., Dr.P.H.
Commissioner
New York State Department of Health
Corning Tower Building
Empire State Plaza
Albany, New York 12237

Dear Dr. Novello:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), report entitled "*Review of New York State'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 Depatment chooses to exercise. (See CFR Part 5.)

To facilitate identification, please refer to report number A-02-03-02012 in all correspondence relating to this report.

Sincerely,

Timothy J. Horgar
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 STATE'S EFFORTS TO ACCOUNT FOR AND MONITOR SUB-RECIPIENTS' USE OF BIO-TERRORISM HOSPITAL PREPAREDNESS PROGRAM FUNDS

December 2003
A-02-03-02012

Office of Inspector General

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Antonia C. Novello, M.D., M.P.H., Dr.P.H
Commissioner
New York State Department of Health
Corning Tower Building
Empire State Plaza
Albany, New York 12237

Dear Dr. Novello:

This final report presents the results of the Office of Inspector General's self-initiated audit entitled, *"Review of New York State'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 Bio-terrorism Hospital Preparedness Program (the Program) funding supplanted programs previously funded by other organizational sources and whether HRI and the New York State (NYS) Department of Health (DOH) 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 DOH. 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 DOH reduced funding to existing public health programs, HRI officials stated that HRSA funding had not been used to supplant existing State or local programs. We also found that, while HRI and DOH 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 DOH 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 DOH 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 November 17, 2003, DOH and HRI stated that they agreed with our recommendation. DOH and HRI also informed us that they will work together to develop, standardize, and promulgate fiscal monitoring review standards to be applied to subcontractors during the course of regular ongoing programmatic site monitoring. They believe this will significantly augment current fiscal monitoring resources and audit review activities, and will serve to further strengthen stewardship of public funds.

OIG RESPONSE

We are pleased that DOH and HRI concur with our recommendation and appreciate their assistance 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 bio-terrorist 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 un-obligated 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 bio-terrorist 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.

NYS Program Administration

In NYS, DOH's affiliate, HRI, is responsible for the administration of the Program. As shown in the following table, funding for the Program in NYS totaled $4,499,138 and covers the period April 1, 2002 through March 31, 2004. [1]

HRSA GRANT AWARD AMOUNTS 4/1/2002 – 3/31/2004	
Phase I	$899,828
Phase II	$3,599,310
TOTAL	$4,499,138

[1] Subsequent to the end of our fieldwork, HRI received a new grant award in the amount of $8,094,438. This amount includes the prior award of $4,499,138 and an additional amount of financial assistance of $3,595,300. 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 $3,595,300 that HRI received under the new grant award.

OBJECTIVES, 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 DOH 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 March 31, 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 DOH officials to assess whether:
    - bio-terrorism funding supplanted programs previously funded by other organizational sources, and
    - HRI and DOH 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 DOH reduced funding to existing public health programs, HRI officials stated that HRSA funding had not been used to supplant existing State or local funds for bio-terrorism, infectious disease outbreaks, other public health threats and emergencies. We also found that, while HRI and DOH 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 DOH 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 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% of the 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% of the 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 50 percent of Phase I funding to hospitals for the development of implementation plans and allocated 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 their 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…*

In response to our questionnaire, HRI officials stated that DOH had a century-long history of infectious disease surveillance and monitoring under which State and local health departments worked collaboratively with hospitals to respond to communicable disease outbreaks. However, HRI's response indicated that, prior to receiving HRSA Program funding in April 2002, the only bio-terrorism related funding received was from the Centers for Disease Control (CDC). The funding provided by CDC, which totaled $38,507,865, 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 DOH reduced funding to existing public health programs, HRI 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 Service 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 sub-grantees and contractors under the grants.

> *…Where sub-grants 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 sub-grantees. 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. DOH currently reviews quarterly progress reports to ensure that the Program goals are being met. With the Program funding, DOH plans to conduct on-site audits to assess hospital bio-terrorism plans, verify activities associated with the grant funding and deliverables for all sub-recipients, and perform limited reviews of fiscal information. Based on the completed questionnaire and our interviews, we found that HRI and DOH employ sound management practices to ensure that the Program objectives are met and that funds are properly spent.

RECOMMENDATION

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

OTHER MATTERS

Un-obligated funds represent budget authority previously granted to an agency, which has not yet been committed, but continue to be available for commitment in the future. HRI provided us with its un-obligated fund balances for the Program, as of March 31, 2003, as shown in the following table.

UN-OBLIGATED FUNDS	
Phase I	$0
Phase II	$570,965
TOTAL	$570,965

According to HRI officials, the balance of un-obligated funds was mainly due to delays in hiring a medical director and the time lag in receiving executed hospital contracts.

AUDITEE COMMENTS

In comments dated November 17, 2003, DOH and HRI stated that they agreed with our recommendation. DOH and HRI also informed us that they will work together to develop, standardize, and promulgate fiscal monitoring review standards to be applied to subcontractors during the course of regular ongoing programmatic site monitoring. They believe this will significantly augment current fiscal monitoring resources and audit review activities, and will serve to further strengthen stewardship of public funds.

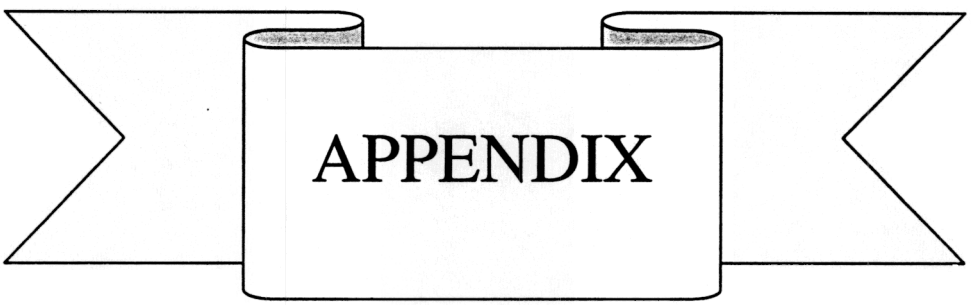
OIG RESPONSE

We are pleased that DOH and HRI concur with our recommendation and appreciate their assistance in performing this review.

To facilitate identification, please refer to report number A-02-03-02012 in all correspondence relating to this report.

Sincerely yours,

Timothy J. Horgan
Regional Inspector General
for Audit Services


APPENDIX

STATE OF NEW YORK
DEPARTMENT OF HEALTH
Corning Tower The Governor Nelson A. Rockefeller Empire State Plaza Albany, New York 12237

Antonia C. Novello, M.D., M.P.H., Dr.P.H.
Commissioner

Dennis P. Whalen
Executive Deputy Commissioner

November 17, 2003

Timothy J. Horgan
Regional Inspector General for
Audit Services
DHHS OIG Office of Audit Services
26 Federal Plaza
Room 3900A
New York, New York 10278

Dear Mr. Horgan:

Enclosed are the Department of Health's comments on the DHHS - OIG's draft audit (A-02-03-02012) entitled "Review of New York State's Efforts to Account For and Monitor Sub-Recipients' Use of Bio-terrorism Hospital Preparedness Program Funds."

Thank you for the opportunity to comment.

Sincerely,

Dennis P. Whalen
Executive Deputy Commissioner

Enclosure

Department of Health and Health Research, Inc. Comments on the Department of Health and Human Services Office of the Inspector General Draft Audit Report A-02-03-02012 "Review of New York State's Efforts to Account For and Monitor Sub-Recipients' Use of Bio-terrorism Hospital Preparedness Program Funds"

The following are the Department of Health (DOH) and Health Research, Inc.'s (HRI) comments in response to the Department of Health and Human Services (DHHS) draft audit report A-02-03-02012 entitled "Review of New York State's Efforts to Account For and Monitor Sub-Recipients' Use of Bio-terrorism Hospital Preparedness Program Funds."

Recommendation #1:

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

Response #1:

The Department of Health and Health Research, Inc. agree with the recommendation to continue implementation of a planned on-site component for monitoring sub-recipients, and address problem areas as they are identified.

HRI has reviewed its monitoring practices and made modifications to its policies to include several audit site visits per year, and developed tools to identify subcontractors with the greatest potential risks.

HRI will be participating in a DOH workgroup to develop, standardize, and promulgate fiscal monitoring review standards to be applied to subcontractors during the course of regular ongoing programmatic site monitoring. Fiscal monitoring of funded subcontractors by HRI and DOH staff currently occurs in many program areas; however, it is anticipated that the activity of this workgroup will provide all program areas which administer contracts with the knowledge to complement program reviews with a fiscal component. This will significantly augment current HRI and DOH fiscal monitoring resources and audit review activities, and will serve to further strengthen stewardship of public funds.

ACKNOWLEDGMENTS

This report was prepared under the direction of Timothy J. Horgan (RIGAS). Other principal Office of Audit Services staff that contributed include:

John J. Madigan, *Audit Manager*
Glenn H. Richter, *Senior Auditor*
Steven M. DeGroff, *Auditor*

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