



**DEPARTMENT OF HEALTH & HUMAN SERVICES**

OFFICE OF INSPECTOR GENERAL  
OFFICE OF AUDIT SERVICES  
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OCT 17 2003

Report Number: A-03-03-00383

Dr. Lisa G. Kaplowitz, M.D., M.S.H.A.  
Deputy Commissioner for Emergency Preparedness and Response  
Virginia Department of Health  
1500 E. Main Street, Suite 214  
Richmond, Virginia 23219

Dear Dr. Kaplowitz:

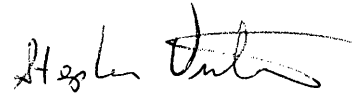
Enclosed are two copies of the Department of Health and Human Services, Office of Inspector General (OIG) report entitled "Commonwealth of Virginia's Efforts to Account For and Monitor Sub-Recipients' Use of Public Health Preparedness and Response for Bioterrorism Program Funds."

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 45 CFR Part 5.)

If you have any questions or comments about this report, please do not hesitate to call me or Leon Skros, Audit Manager, at 215-861-4472 or through e-mail at [lskros@oig.hhs.gov](mailto:lskros@oig.hhs.gov). To facilitate identification, please refer to report number A-03-03-00383 in all correspondence.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Stephen Virbitsky", with a stylized flourish at the end.

Stephen Virbitsky  
Regional Inspector General  
for Audit Services

Enclosures - as stated

Direct Reply to HHS Action Official:

Joseph E. Salter, Director  
Management Procedures Branch  
Management Analysis and Services Office  
Centers for Disease Control and Prevention  
1600 Clifton Road, N.E., MS E-11  
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**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**COMMONWEALTH OF VIRGINIA**

**EFFORTS TO ACCOUNT FOR AND  
MONITOR SUB-RECIPIENTS' USE OF  
PUBLIC HEALTH PREPAREDNESS AND  
RESPONSE FOR BIOTERRORISM  
PROGRAM FUNDS**



**OCTOBER 2003  
A-03-03-00383**

# *Office of Inspector General*

<http://oig.hhs.gov/>

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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.

# ***Notices***

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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 information contained therein 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 awarding agency will make final determination on these matters.



## **EXECUTIVE SUMMARY**

### **OBJECTIVES**

Our objectives were to determine whether the Virginia Department of Health (State agency) properly recorded, summarized and reported bioterrorism preparedness transactions by specific focus area designated in the cooperative agreements and whether the State agency has established controls and procedures to monitor sub-recipient expenditures of Centers for Disease Control and Prevention (CDC) funds. In addition, we inquired as to whether the Public Health Preparedness and Response to Bioterrorism Program (Program) funding supplanted programs previously provided by other organizational sources.

### **FINDINGS**

Based on our validation of the questionnaire completed by the State agency and our site visit, we found that the State agency generally accounted for Program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines. Specifically, the State agency recorded, summarized and reported transactions by specific focus area.

The State agency had a system to track and monitor sub-recipient activities; such as, application and award processes, grant conditions, ongoing fiscal activities, and reporting. At the time of our review, the State agency had only one sub-recipient, the Division of Consolidated Laboratory Services (Consolidated), a division of the Department of General Services, another Virginia State agency. Consolidated informed the State agency of grant activities daily in regard to activities being performed under the terms of the grant, and by participating in weekly update and planning meetings with the State agency. However, in its memorandum of agreement with Consolidated, the State agency required no written reports. We believe that the addition of required formal written reports for sub-recipient grant activities, combined with the current system, will provide adequate monitoring and oversight of State agency sub-recipients.

In response to our inquiry as to whether the State reduced funding to existing public health programs, State agency officials stated that CDC funding had not been used to supplant existing State or local funds for bioterrorism, infectious disease outbreaks, other public health threats and emergencies.

### **RECOMMENDATION**

We recommend that the State agency require sub-recipients to provide formal written reports documenting their activities, annually or more frequently as determined by the State agency.

## **STATE AGENCY'S COMMENTS**

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

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# INTRODUCTION

## BACKGROUND

### *The Program*

CDC was designated as the organization responsible for the Program to improve State and other eligible entity preparedness and response capabilities for bioterrorism and other public health emergencies. The Program is referred to as the Public Health Preparedness and Response to Bioterrorism Program and is authorized under Sections 301(a), 317(k)(1)(2), and 319 of the Public Health Service Act [42 U.S.C. sections 241(a), 47b(k)(1)(2), and 247(d)]. The U.S. Code states, in part:

...The Secretary may make grants to States, political subdivisions of States, and other public and nonprofit private entities for – (A) research into the prevention and control of diseases that may be prevented through vaccination; (B) demonstration projects for the prevention and control of such diseases; (C) public information and education programs for the prevention and control of such diseases; and (D) education, training, and clinical skills improvement activities in the prevention and control of such diseases for health professionals (including allied health personnel)....

CDC, under Program Announcement 99051, initiated a cooperative agreement program to fund States and major local public health departments to help upgrade their preparedness and response capabilities in the event of a bioterrorist act.

### *Annual Program Funding*

Years 1 and 2 of the Program covered the period August 31, 1999 through August 30, 2000 and 2001, respectively. Annual funding totaled \$40.7 million and \$41.9 million. Year 3 covered the period August 31, 2001 through August 30, 2002, it was extended through August 30, 2003 with funds totaling \$49.9 million. During Year 3 of the Program, Congress authorized about \$918 million in supplemental funds 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. The funds were available on February 19, 2002 and were awarded to States and major local public health departments, under Program Announcement 99051-Emergency Supplemental. Of the awarded amount, 20 percent was available for immediate use. The remaining 80 percent was restricted until CDC approved the required work plans.

### *Focus Areas*

Applicants requested support for activities under one or more of the following focus areas:

- Focus Area A - Preparedness Planning and Readiness Assessment
- Focus Area B - Surveillance and Epidemiology Capacity
- Focus Area C - Laboratory Capacity - Biologic Agents

Focus Area D - Laboratory Capacity - Chemical Agents  
 Focus Area E - Health Alert Network/Communications and Information Technology

In Year 3, CDC added two new focus areas, as follows:

Focus Area F - Communicating Health Risks and Health Information Dissemination  
 Focus Area G - Education and Training

***Eligible Recipients***

Grant recipients included all 50 States, the District of Columbia, the Commonwealths of Puerto Rico and the Northern Marianas Islands, American Samoa, Guam, the U.S. Virgin Islands, the Republics of Palau and the Marshall Islands, the Federated States of Micronesia, and the nation’s three largest municipalities (New York, Chicago, and Los Angeles County). Those eligible applicants included the health departments of States or their bona fide agents. Applicants were encouraged to apply for funds in all focus areas.

***State Agency Funding***

The amount of Program funding awarded to the State agency has increased from approximately \$1.2 million in 1999 to nearly \$24 million in 2003. The following table details funding for each budget year.

<b>Program Amounts by Budget Year</b>			
	<b>Awarded</b>	<b>Expended</b>	<b>Unobligated</b>
<b>Year 1</b>	\$ 1,262,505	\$ 936,508	\$ 325,997
<b>Year 2</b>	\$ 1,132,198 <sup>(1)</sup>	\$ 1,421,819	\$ 10,185
<b>Year 3</b>	\$ 23,990,168 <sup>(2)</sup>	\$ 2,443,816 <sup>(3)(4)</sup>	\$ 0 <sup>(3)</sup>

- (1) Excludes \$299,806 of funds carried forward from Year 1.
- (2) Includes \$22,335,497 of Emergency Supplemental funds and excludes \$23,831 of funds carried forward from Year 2.
- (3) These amounts are not finalized yet.
- (4) As of February 28,2003.

**OBJECTIVE, SCOPE AND METHODOLOGY**

***Objectives***

Our objectives were to determine whether the State agency properly recorded, summarized and reported bioterrorism preparedness transactions by specific focus area designated in the cooperative agreements and whether the State agency has established controls and procedures to monitor sub-recipients expenditures of CDC funds. In addition, we inquired as to whether Program funding supplanted programs previously provided by other organizational sources.

## ***Scope***

Our review was limited in scope and conducted for the purpose described above and would not necessarily disclose all material weaknesses. Accordingly, we do not express an opinion on the system of internal accounting controls. In addition, we did not determine whether costs charged to the Program were allowable.

Our audit included a review of State agency policies and procedures, financial reports, and accounting transactions during the period August 31, 1999 through February 28, 2003.

## ***Methodology***

We developed a questionnaire to address the objectives of the review. The questionnaire covered the areas: (i) the grantee organization, (ii) funding, (iii) accounting for expenditures, (iv) supplanting, and (v) sub-recipient monitoring. Prior to our fieldwork, we provided the questionnaire for the State agency to complete. During our on-site visit, we interviewed State agency staff and obtained supporting documentation to validate the responses on the questionnaire.

Fieldwork was conducted at the State agency and Consolidated offices in Richmond, Virginia and the HHS Office of Inspector General Regional Office in Philadelphia, Pennsylvania during June 2003. The State agency's comments on the draft report are included in their entirety as an appendix to this report. A summary of the State agency's comments follows the *Findings and Recommendation* section.

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

## **FINDINGS AND RECOMMENDATIONS**

Based on our validation of the questionnaire completed by the State agency and our site visit, we found that the State agency generally accounted for Program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines. Specifically, the State agency recorded, summarized and reported transactions by specific focus area.

The State agency had a system to track and monitor sub-recipient activities; such as, application and award processes, grant conditions, ongoing fiscal activities, and reporting. At the time of our review, the State agency had only one sub-recipient, Consolidated, a division of the Department of General Services, another Virginia State agency. Consolidated informed the State agency of grant activities daily in regard to activities being performed under the terms of the grant, and by participating in weekly update and planning meetings with the State agency. However, in its memorandum of agreement with Consolidated, the State agency required no written reports. We believe that the addition of required formal written reports for sub-recipient

grant activities, combined with the current system, will provide adequate monitoring and oversight of State agency sub-recipients.

In response to our inquiry as to whether the State reduced funding to existing public health programs, State agency officials stated that CDC funding had not been used to supplant existing State or local funds for bioterrorism, infectious disease outbreaks, other public health threats and emergencies.

### **Accounting for Expenditures**

An essential aspect of the Program is the need for the grantee to accurately and fully account for bioterrorism funds. Accurate and complete accounting of Program funds provides CDC with a means to measure the extent that the Program is being implemented and the objectives are being met.

In that regard, recipients of Program grant funds are required to track expenditures by focus area. Note 3: Technical Reporting Requirements of the original Cooperative Agreement states:

...To assure proper reporting and segregation of funds for each focus area, Financial Status Reports (FSR's) which reflect the cooperative agreement number assigned to the overall project must be submitted for individual focus areas...

The State agency recorded, summarized and reported transactions by specific focus area designated in the cooperative agreements.

### **Sub-recipient Monitoring**

Recipients of Program grant funds were required to monitor their sub-recipients. The PHS Grants Policy Statement requires that: "grantees employ sound management practices to ensure that program objectives are met and that project funds are properly spent." It states 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....

The State agency had a system to track and monitor sub-recipient activities. At the time of our review, the State agency had only one sub-recipient, Consolidated, which administers Focus Area's C and D. Consolidated is required to follow and meet or exceed the same accounting

policies and procedures established by the Virginia Department of Accounts that the State agency is required to follow. Consolidated informed the State agency of grant activities daily in regard to activities being performed under the terms of the grant, and by participating in weekly update and planning meetings with the State agency. Also, the State agency reviews Consolidated expenditure invoices. The State agency provided a memorandum of agreement with Consolidated, which requires that State agency and Federal grantor personnel “*be provided access to all program-related records and facilities under reasonable requests.*” However, the State agency required no written reports from Consolidated. We believe that the addition of required formal written reports for sub-recipient grant activities, combined with the current system, will provide adequate monitoring and oversight of State agency sub-recipients.

### **Supplanting**

Program funds, original and supplemental, were to be used to augment current funding and focus on public health preparedness activities under the CDC Cooperative Agreement. The funds were not to be used to supplant existing Federal, State, or local funds for bioterrorism, infectious disease outbreaks, other public health threats and emergencies, and public health infrastructure within the jurisdiction. Program Announcement 99051 states:

“Cooperative agreement funds under this program may not be used to replace or supplant any current state or local expenditures of the Public Health Service Act.”

In response to our inquiry as to whether the State reduced funding to existing public health programs, State agency officials stated that CDC funding had not been used to supplant existing State or local funds for bioterrorism, infectious disease outbreaks, other public health threats and emergencies.

### **RECOMMENDATION**

We recommend that the State agency require sub-recipients to provide formal written reports documenting their activities, annually or more frequently as determined by the State agency.

### **STATE AGENCY’S COMMENTS**

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

# **APPENDIX**



## COMMONWEALTH of VIRGINIA

ROBERT B. STROUBE, M.D., M.P.H.  
STATE HEALTH COMMISSIONER

Department of Health  
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RICHMOND, VA 23218  
August 26, 2003

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Leon Skros  
Audit Manager  
Department of Health & Human Services  
Office of Inspector General  
Office of Audit Services  
150 S. Independence Mall West  
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Philadelphia, PA 19106-3499

RE: Report Number: A-03-03-00383

Dear Mr. Skros:

This is in response to the Office of Inspector General's draft report providing the results of your self-initiated review of the "Commonwealth of Virginia's Efforts to Account For and Monitor Sub-Recipients' use of Public Health Preparedness and Response for Bioterrorism Program Funds."

We concur with your recommendation that the Commonwealth require sub-recipients to provide formal written reports documenting their activities. We are currently drafting the renewal agreement with the Division of Consolidated Laboratories to be in effect for the next budget cycle that will include specific monthly, quarterly and annual reporting requirements.

Thank you giving us the opportunity to review and respond to your findings.

Sincerely,

A handwritten signature in black ink that reads "Lisa G. Kaplowitz MD, MSHA".

Lisa G. Kaplowitz, MD, MSHA  
Deputy Commissioner  
Emergency Preparedness and Response Programs

c: Robert B. Stroube, MD, MPH