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OCT 6 2003

Report Number: A-01-03-01505

Ms. Suzanne Condon
Acting Director, Center for Emergency Preparedness
Massachusetts Department of Public Health
250 Washington Street, 2nd Floor
Boston, MA 02108

Dear Ms. Condon:

The attached report provides the results of our review of the "State of Massachusetts's Efforts to Account for and Monitor Sub-recipients' Use of Bioterrorism Hospital Preparedness Program Funds." Our audit included a review of the Massachusetts Department of Public Health (State) policies and procedures, financial reports and accounting transactions during the period April 1, 2002 through May 30,2003. A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

Our objectives were to determine whether the State: (1) properly recorded, summarized and reported bioterrorism preparedness transactions in accordance with the terms and conditions of the cooperative agreements; and (2) established controls and procedures to monitor subrecipient expenditures of Health Resources and Services Administration (HRSA) Bioterrorism Hospital Preparedness Program (the Program) funds. In addition, we inquired as to whether the Program funding supplanted programs previously provided by other organizational sources.

Based on our validation of the questionnaire completed by the State and our site visit, we determined that the State generally accounted for the Program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines. State officials plan to implement an automated accounting system that will replace the existing manual system of tracking expenditures by priority planning area in order to better ensure compliance with the budget restrictions specified in the cooperative agreement. In response to our inquiry as to whether the State reduced funding to existing public health programs, State officials replied that the Program funding had not been used to supplant any existing state, or local programs.

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.

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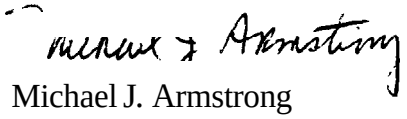
To facilitate identification, please refer to Report Number A-01-03-01505 in all correspondence relating to this report.

Sincerely yours,



Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

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Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF THE STATE OF MASSACHUSETTS' EFFORTS TO ACCOUNT FOR AND MONITOR SUB-RECIPIENTS' USE OF BIOTERRORISM HOSPITAL PREPAREDNESS PROGRAM FUNDS

October 2003
A-01-03-01505

Office of Inspector General

http://oig.hhs.gov

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.

EXECUTIVE SUMMARY

OBJECTIVES

Our objectives were to determine whether the Massachusetts Department of Public Health (State): (1) properly recorded, summarized and reported bioterrorism preparedness transactions in accordance with the terms and conditions of the cooperative agreements; and (2) established controls and procedures to monitor subrecipient expenditures of Health Resources and Services Administration (HRSA) Bioterrorism Hospital Preparedness Program (the Program) funds. In addition, we inquired as to whether the Program funding supplanted programs previously provided by other organizational sources.

FINDINGS

Based on our validation of the questionnaire completed by the State and our site visit, we determined that the State generally accounted for the Program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines. State officials plan to implement an automated accounting system that will replace the existing manual system of tracking expenditures by priority planning area in order to better ensure compliance with the budget restrictions specified in the cooperative agreement.

The State has an online system, the Massachusetts Management Accounting Reporting System (State accounting system), used to track and monitor subrecipient activities, such as ongoing fiscal activities, and reporting. In addition, the State plans to conduct random audits of subrecipients. We believe the State accounting system combined with the random audits, if properly implemented, will provide adequate monitoring of the State's subrecipients.

In response to our inquiry as to whether the State reduced funding to existing public health programs, State officials replied that the Program funding had not been used to supplant any existing state, or local programs.

In a written response to our draft report, the State concurred with our findings and recommendations (see Appendix).

RECOMMENDATIONS

We recommend the State:

1. Segregate expenditures by phase and by priority planning area.

2. Continue to implement its plans to do random audits of subrecipients and address problem areas, as they are identified.

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INTRODUCTION

BACKGROUND

Bioterrorism Hospital Preparedness Program (Program)

Since September 2001, the U.S. Department of Health and Human Services (Department) has significantly increased its spending for public health preparedness and response to bioterrorism. For Fiscal Years (FYs) 2002 and 2003, the Department awarded amounts totaling $2.98 billion and $4.32 billion, respectively, for bioterrorism preparedness. Some of the attention has been focused on the ability of hospitals and emergency medical services 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, the Health Resources and Services Administration (HRSA) made available approximately $125 million in FY 2002 for cooperative agreements with State, territorial, and selected municipal offices of public health. The Program is referred to as the Bioterrorism Hospital Preparedness Program (the Program). The purpose of this cooperative agreement program is to upgrade the preparedness of the Nation's hospitals and collaborating entities to respond to bioterrorism.

HRSA made awards to states and major local public health departments under the Program 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, emergency medical services and other collaborating health care entities for responding to incidents requiring mass immunization, treatment, isolation and quarantine in the aftermath of bioterrorism or other outbreaks of infectious disease.

Annual Program Funding

For Program year 1 (April 1, 2002 through March 31, 2003) 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 was not to exceed the remaining 20 percent of Phase II funds.

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, and the nation's three largest municipalities (New York, Chicago, and Los Angeles County). Those eligible to apply included the health departments of states or their bona fide agents. Individual hospitals, emergency medical services, health centers and poison control centers work with the applicable health department for funding through the Program.

State Program Funding

Program funding to the Massachusetts Department of Public Health (State) for Program Year 1, the period April 1, 2002 through March 31, 2003, totaled $2.7 million. The following table indicates Program funding awarded to the State and the amount of Program funding that the State has reported as expended, obligated, and unobligated.

Program Year 1 (April 1, 2002 through March 31, 2003)			
Awarded	Expended	Obligated	Unobligated
$2,709,678	$349,847	$1,340,592	$1,019,239

In the Spring of 2002, the State established advisory committees and hired a local health preparedness coordinator. A collaborative regional and local structure was established and allocation of funding was to be determined on a regional basis, based on needs assessments.

Six hospital preparedness regions were established in Massachusetts as follows: West, Central, Northeast, Metro North & South, Boston, and Southeast. Primary recipients of HRSA funds will be the 76 acute care hospitals throughout the six hospital preparedness regions. Boston is its own region, the largest region for acute services, containing 10 hospitals. Funds will also be allocated to emergency medical services and community health centers.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

Our objectives were to determine whether the State: (1) properly recorded, summarized and reported bioterrorism preparedness transactions in accordance with the terms and conditions of the cooperative agreements; and (2) established controls and procedures to monitor subrecipient expenditures of HRSA Program funds. In addition, we inquired as to whether the 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 the reasonableness of the budgeted costs proposed by the State, nor did we determine whether costs charged to the Program were allowable.
Our audit included a review of State policies and procedures, financial reports, and accounting transactions during the period of April 1, 2002 through May 30, 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) subrecipient monitoring. Prior to our fieldwork, we provided the questionnaire for the State to complete. During our on-site visit, we interviewed State staff and obtained supporting documentation to validate the responses on the questionnaire. We conducted our fieldwork at the State offices in Boston, Massachusetts during May 2003.

Our review was performed in accordance with generally accepted government auditing standards. On September 3, 2003, we provided the State with a copy of our draft report. We summarized the State's response to our draft report in the Recommendations sections of our report. The State's comments, dated September 23, 2003, are included as an appendix to this report.

FINDINGS AND RECOMMENDATIONS

Based on our site visit and our validation of the questionnaire completed by the State, we determined that the State generally accounted for the Program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines. The State did not segregate expenditures by phase, however they were able to manually segregate portions of specific accounts that were associated with the priority planning areas. State officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions specified in the cooperative agreement. As a result, the State will be implementing an automated accounting system that will use unique organization codes to track expenditures by priority planning area.

The State uses an online system, the Massachusetts Management and Reporting System (State accounting system), to track and monitor subrecipient activities such as ongoing fiscal activities, and reporting. In addition, the State is planning on doing random audits of subrecipients. We believe the implementation of the random audit component, combined with the State accounting system, would provide adequate monitoring and oversight of its subrecipients.

In response to our inquiry as to whether the State reduced funding to existing public health programs, State officials replied that the Program funding had not been used to supplant any existing state, or local programs.

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 the Program funds provides HRSA with a means to measure the extent to which the Program is being implemented and the objectives are being met. Although the State was not required to segregate expenditures in the accounting system by phase, or by priority planning area, there are budgeting restrictions set forth in the HRSA Program Cooperative Agreement Guidance and Summary Application Guidance for Award and First Allocation. Twenty percent of a grantee's total award will be made available in Phase I. Page 7 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:

> …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 percent) 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, page 2 of the Summary Application Guidance for Award and First Allocation states:

> …Grantees will be required to allocate at least 80 percent 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….

The State did not segregate expenditures in the central accounting system by phase, but they were able to identify, manually segregate, and roll up the specific portions of accounts that were associated with the priority planning areas. Although segregation was not required, budget restrictions were specified in the cooperative agreement. Specifically, expenditures for health department infrastructure and planning were not to exceed 50 percent of Phase I and 20 percent of Phase II funds. To ensure compliance with budget restrictions, State officials indicated that they are planning to automate the tracking of expenditures by priority planning area.

The State had policies and procedures in place to draw down the appropriate amount of the Program funding at the appropriate time and, in fact, only drew down what was needed to cover actual expenditures on a reimbursement basis. Our review also showed the State was in compliance with the budget restrictions. In addition, we noted indirect costs represented only 2.3 percent of the total grant award, significantly less

than the 10 percent ceiling stipulated in the cooperative agreement (Note: Page 7 of the Cooperative Agreement Guidance states that indirect costs will be "limited to 10 percent of the Phase I and Phase II total.").

RECOMMENDATION

We recommend the State segregate expenditures by phase and by priority planning area.

Subrecipient Monitoring

Recipients of the Program funds are required to monitor subrecipients. The PHS Grants Policy Statement requires that "grantees employ sound management practices to ensure that the 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….

The State accounting system is an encumbrance and expenditure driven system that can be used to track and monitor subrecipient activities such as ongoing fiscal activities, and reporting. In conjunction with the State accounting system, automated controls prohibit payments if subrecipients have not fulfilled requirements. Furthermore, subrecipients operate under the general conditions of contract regulation for The Commonwealth of Massachusetts, which subjects parties to random audit. In this regard subrecipients have not yet been audited, however we believe the continued implementation of the random audit component combined with the State accounting system will provide adequate monitoring and oversight of the subrecipients.

RECOMMENDATION

We recommend the State continue to implement its plans to do random audits of subrecipients and address problem areas, as they are identified.

Supplanting

Program funds are to be used to augment current funding and focus on bioterrorism hospital preparedness activities under the HRSA Cooperative Agreement. Specifically, funds are not to be used to replace existing federal, state, or local funds for bioterrorism

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 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….

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 subrecipients….

In response to our inquiry as to whether the State reduced funding to existing public health programs, State officials replied that the Program funding had not been used to supplant any existing state, or local programs.

OTHER MATTERS

For Program Year 1, the period April 1, 2002 through March 31, 2003, the State received Program grant funding totaling $2.7 million, of which $1.3 million has been awarded in contracts and $350,000 has been reported as expended. The remaining $1 million are currently unobligated. The State officials informed us that the unobligated funds occurred as a result of the extensive consultative and collaborative needs assessment process.

AUDITEE COMMENTS

In a written response to our draft report, the State concurred with our findings and recommendations. The State intends to comply with the report recommendations by developing an automated system to segregate expenditures by phase and priority planning area. In addition, the State intends to conduct random audits of subrecipients (see Appendix).

APPENDIX

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

A-01-03-01505
Appendix

September 23, 2003

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

RE: Report Number A-01-03-01505

Dear Mr. Armstrong:

Thank you for your report and your recommendations regarding expenditure of funds as provided to the Massachusetts Department of Public Health (MDPH) by the Health Resources Services Administration (HRSA). To date, Massachusetts has been awarded a total of $4,742,678. This amount represents funding awarded over two years; the total received in FFY '02 in the amount of $2,709,678, as well as an advance on FFY'03 in the amount of $2,033,000. Massachusetts has very recently received notice of grant award for the remainder of FFY'03 funding, or $8,653,180. The notice of grant award for the balance of FFY03 funding was received September 17, 2003.

Your report was focused on program year 1, or specifically the FFY02 allocation of funding. Please be assured Massachusetts intends to comply with your recommendations as outlined in your report received September 3, 2003. As was expressed by DPH/HRSA administrators during your review, with same referenced in your report, we intend to develop an automated system to segregate expenditures by phase and priority planning area, and in addition, Massachusetts intends conduct random audits of subrecipients. Completion of these two tasks will address all report recommendations. Massachusetts has actively pursued best practice models based on needs assessments and other factors to ensure appropriate allocation of funding to subrecipients. MDPH will make significant progress in achieving an increase in the amount of funding obligated as our intentions to do so are coming to fruition, while meeting the letter and intent of HRSA guidelines. By the end of second quarter of fiscal year 2003, our obligated funding level will have increased dramatically. We are in the process of requesting carryover of unobligated HRSA funds to accomplish this, as our planning is well underway to expend the awarded funding in total, as predicated on our extensive consultative and collaborative needs assessment and regional planning processes.

We appreciate the opportunity to reply.

Sincerely,

Suzanne Condon, Assistant Commissioner
Acting Director, Center for Emergency Preparedness