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
(212) 264-4620

December 19, 2003

Report Number: A-02-03-02014

Clifton R. Lacy, M.D., Commissioner
New Jersey Department of Health and Senior Services
John Fitch Plaza
P.O. Box 360
Trenton, New Jersey 08625-0360

Dear Dr. Lacy:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), report entitled "*Review of New Jersey'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-02-03-02014 in all correspondence relating to this report.

Sincerely,

Timothy J. Horgan
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Nancy J. McGinness
Director, Office of Financial Policy and Oversight
Room 11A55, Parklawn Building
5600 Fishers Lane
Rockville, Maryland 20857

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

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

December 2003
A-02-03-02014

Office of Inspector General

http://oig.hhs.gov

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

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

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Clifton R. Lacy, M.D., Commissioner
New Jersey Department of Health and Senior Services
John Fitch Plaza
P. O. Box 360
Trenton, New Jersey 08625-0360

Dear Dr. Lacy:

This final report presents the results of the Office of Inspector General's self-initiated audit entitled, "*Review of New Jersey'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 the State of New Jersey's Department of Health and Senior Services (DHSS) 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 DHSS established controls and procedures to monitor sub-recipients' expenditures of HRSA funds.

SUMMARY OF FINDINGS

Our review found that DHSS accounted for Program funds in accordance with the terms and conditions of the cooperative agreement with HRSA. Specifically, DHSS recorded, summarized and reported transactions in discrete accounts established to account for bio-terrorism funding. In response to our inquiry as to whether DHSS reduced funding to existing public health programs, DHSS officials stated that HRSA funding had not been used to supplant existing State or local programs. DHSS did not perform site visits to its sub-recipients. We believe site visits are an effective way to verify that sub-recipients

have established sound and effective business management systems to assure proper stewardship of funds and activities.

RECOMMENDATION

We recommend that DHSS consider implementing a site visit component to its procedures for monitoring sub-recipients and address problem areas, as they are identified.

AUDITEE'S COMMENTS

In comments dated December 5, 2003, New Jersey officials concurred with our recommendation to consider conducting site visits of sub-recipients as part of sub-recipient monitoring activities and intend to incorporate this component into its work plan for the upcoming agreement period.

Regarding the "Other Matters" section of the report, New Jersey officials stated that as of November 13, 2003 expenditures and obligations total $3,220,933.35, leaving an unobligated fund balance of $621,656. This balance is being requested as a carry over into Year 2 of the HRSA award**.**

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, the Department 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 agreement 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.

The 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 agreement 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 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.

NJ Program Administration

DHSS is responsible for the administration of the Program grant. DHSS classified the total grant award of $3,509,769, which covered the period April 1, 2002 through March 31, 2004, as Phase II funding.

OBJECTIVE, SCOPE AND METHODOLOGY

Objectives

The objectives were to determine whether DHSS 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 DHSS established controls and procedures to monitor sub-recipients' expenditures of HRSA funds.

Scope

Our review was limited to obtaining DHSS responses to the questionnaires we provided and performing limited validation of the data contained therein. We did not assess the adequacy of the internal control structure of DHSS, 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 DHSS policies and procedures, financial reports, and accounting transactions for the period April 1, 2002 through February 28, 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. To accomplish our objectives, we:

- reconciled HRSA grant awarded, expended and obligated amounts, as reported on the completed questionnaire, to DHSS' Notice of Grant Awards, Financial Status Reports and Reports of Pre-encumbrances, Encumbrances and Expenditures,
- relied on the completed questionnaire and interviews with DHSS officials to assess whether:
    - bio-terrorism funding supplanted programs previously funded by other organizational sources, and
    - DHSS established controls and procedures to monitor sub-recipients' expenditures of HRSA funds.

Fieldwork was conducted at DHSS offices in Trenton and Mercerville, New Jersey during May 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 DHSS accounted for the Program funds in accordance with the terms and conditions of the cooperative agreement with HRSA. Specifically, DHSS recorded, summarized and reported transactions in discrete accounts established to account for bio-terrorism funding. In response to our inquiry as to whether DHSS reduced funding to existing public health programs, DHSS officials stated that HRSA funding had not been used to supplant existing State or local programs. DHSS did not perform site visits to its sub-recipients. We believe site visits are an effective way to verify that sub-recipients have

established sound and effective business management systems to assure proper stewardship of funds and activities.

Accounting for Expenditures

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

> *…Up to half of the Phase I funding may be allocated to planning and health department infrastructure to administer the cooperative agreement. At least half (50%) of the Phase I award must be allocated to hospitals and other health care entities to begin implementation of their plans….*

Regarding Phase II funds (80 percent of total award), page 2 of the Summary Application Guidance for Award and First Allocation states:

> *…Grantees will be required to allocate at least 80% of the Phase II funds to hospitals through written contractual agreements. To the extent justified, a portion of these funds could be made available to collaborating entities that improve hospital preparedness….*

Based on our validation of the completed questionnaire, we found that DHSS accounted for the Program funds in accordance with the terms and conditions of the cooperative agreement with HRSA. Specifically, DHSS recorded, summarized and reported transactions in discrete accounts specifically established for bio-terrorism funding. In addition, we found that DHSS appropriately (1) allocated less than 10 percent of the grant for indirect costs; (2) allocated less then 20 percent of Phase II funding for planning and infrastructure to administer the cooperative agreement and allocated more than 80 percent of Phase II funding to hospitals to upgrade their abilities to respond to bio-terrorist events.

DHSS officials told us that their accounting system does not currently segregate expenditures by phase, within phase or by PPA. However, the DHSS officials indicated that for future years, its accounting system will be capable of tracking expenditures by PPA, critical benchmarks and by funds allocated to hospital/other health care entities.

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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 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 bio-terrorism, funds from this grant must be used to supplement and not supplant the non-Federal funds that would otherwise be made available for this activity….*

OMB Circular A-87 also states:

> *…funds are not to be used for general expenses required to carry out other responsibilities of a State or its sub-recipients….*

Prior to receiving Program funding in April 2002, DHSS had other Federal and State funded infectious disease programs such as TB, HIV/AIDS and vaccine preventable diseases which continue to exist. Further, since October 2001, DHSS has received annual appropriations of $3.25 million as part of the N.J. Domestic Security Preparedness Act initiative. In addition, DHSS received bio-terrorism funding, which totaled $28,398,963, from the Centers for Disease Control to enhance bio-terrorism preparedness for public health programs, excluding hospitals. In response to our inquiry as to whether DHSS reduced funding to existing public health programs, DHSS officials stated that HRSA funding had not been used to supplant existing State or local programs.

Sub-recipient Monitoring

Recipients of the Program funds are required to monitor their sub-recipients. The Public Health Services Grants Policy Statement requires that "grantees employ sound management practices to ensure that program objectives are met and that project funds are properly spent." It reiterates recipients must:

> *…establish sound and effective business management systems to assure proper stewardship of funds and activities…*

In addition, the Policy Statement states that grant requirements apply to subgrantees and contractors under the grants.

> *…Where subgrants are authorized by the awarding office through regulations, program announcements, or through the approval of the grant application, the information contained in this publication also applies to subgrantees. The information would also apply to cost-type contractors under grants…*

In response to our questionnaire, DHSS officials indicated that its monitoring procedures included a requirement for the preparation and submission of quarterly reports of expenditure, and grant management progress reports. DHSS officials advised that these reports are reviewed and discussed at monthly meetings by the DHSS bio-terrorism team. DHSS did not perform site visits to the recipients. We believe site visits are an effective way to verify sub-recipients have established sound and effective business management systems that assure proper stewardship of funds and activities.

RECOMMENDATION

We recommend that DHSS consider implementing a site visit component to its procedures 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. DHSS provided us with its un-obligated balance of $425,598 for the Program, as of February 28, 2003, for Phase II. A DHSS official advised us that this un-obligated balance was the result of delays and difficulties in staff recruitment and hiring.

AUDITEE'S COMMENTS

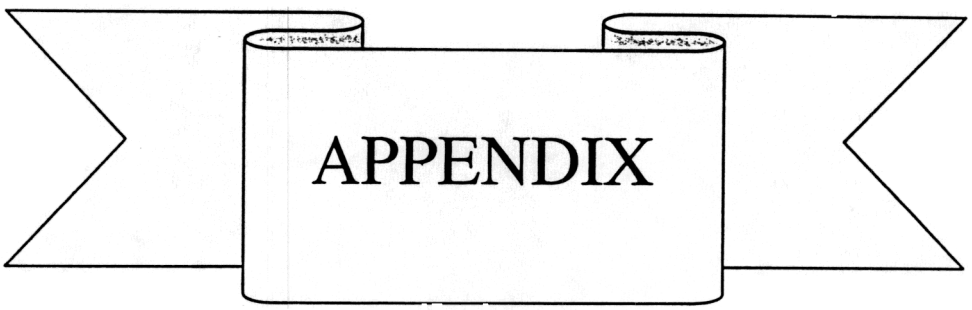
In comments dated December 5, 2003, New Jersey officials concurred with our recommendation to consider conducting site visits of sub-recipients as part of sub-recipient monitoring activities and intend to incorporate this component into its work plan for the upcoming agreement period.

Regarding the "Other Matters" section of the report, New Jersey officials stated that as of November 13, 2003 expenditures and obligations total $3,220,933.35, leaving an unobligated fund balance of $621,656. This balance is being requested as a carry over into Year 2 of the HRSA award.

To facilitate identification, please refer to report number A-02-03-02014 in all correspondence relating to this report.

Sincerely yours,

Timothy J. Horgan
Regional Inspector General
for Audit Services


APPENDIX

Appendix

State of New Jersey

DEPARTMENT OF HEALTH AND SENIOR SERVICES
PO BOX 360
TRENTON, N.J. 08625-0360

www. state nj.us/health

JAMES E. McGREEVEY
Governor

CLIFTON R. LACY, M.D.
Commissioner

December 5, 2003

Mr. Timothy J. Horgan
Regional Inspector General for Audit Services
Office of Inspector General
Jacob K. Javits Federal Building
New York, NY 10278

Re: Report Number: A-02-03-02014

Dear Mr. Horgan:

Thank you for the opportunity to review and comment on the U.S. Department of Health and Human Services (HHS), Office of the Inspector General's (OIG) draft report entitled, "*Review of New Jersey's Efforts to Account for and Monitor Sub-recipients' Use of Bioterrorism Hospital Preparedness Program Funds.*"

The Department accepts OIG's principal finding that the Department appropriately accounted for the Program funds in accordance with the terms and conditions of the Cooperative Agreement with the Health Resources and Services Administration (HRSA). Furthermore, we concur with the recommendation to consider conducting site visits of sub-recipients as part of sub-recipient monitoring activities. The Department intends to incorporate this component into its work plan for the upcoming agreement period.

Lastly, in the "Other Matters" section, reference is made to unobligated funds in the amount of $425,598 for Phase 2 as of February 28, 2003. As of today, November 13, 2003, total expenditures and obligations total $3,220,933.35, leaving an unobligated fund balance of $621,656. This balance is being requested as a carryover into Year 2 of the HRSA award, as the Cooperative Agreement period ended August 30, 2003.

Should you have any questions or require additional information, please contact Mr. James S. Blumenstock, the Department's Deputy Commissioner for Public Health Protection and Emergency Preparedness, at (609) 292-3018.

Sincerely,

Clifton R. Lacy, MD
Commissioner

Cc: James Blumenstock
David Gruber