




AUG 13 2003

TO: Julie L. Gerberding, M.D., M.P.H.  
Director  
Centers for Disease Control and Prevention

FROM: Dara Corrigan   
Acting **Principal Deputy Inspector General**

SUBJECT: State of California: Review of Public Health Preparedness and Response for Bioterrorism Program Funds (A-09-02-01007)

This memorandum is to alert you to the issuance of the subject audit report within **5** business days from the date of this memorandum. A copy of the report is attached. The audit was conducted at the request of the Office of the Secretary as a pilot audit to evaluate a State's administration of funds provided for bioterrorism preparedness. The objective of the audit was to determine whether the California Department of Health Services used Public Health Preparedness and Response to Bioterrorism Program funds in accordance with the terms and conditions of its cooperative agreement with the Centers for Disease Control and Prevention (CDC) and other Federal requirements. California was awarded \$4.9 million for the period August 31, 1999, through August 30, 2001.

An essential aspect of the bioterrorism program is the requirement that grantees accurately and fully account for program funds by focus area. The program cooperative agreements between CDC and California for years 1 and 2 required expenditure reporting by five focus areas. Specifically, the technical reporting requirements section of the notice of grant award to California states: "To assure proper reporting and segregation of funds for each focus area, Financial Status Reports . . . must be submitted for individual focus areas not later than 90 days after the end of the budget period."

Because of the limitations in California's accounting system discussed in this report, we were not able to rely on accounting records to determine whether program expenditures were allowable. Accordingly, we extended our audit procedures to information maintained outside the accounting system, but we subsequently found this information inadequate to substantiate the allowability of program expenditures. Thus, we are unable to express an opinion, and do not express an opinion on the amounts California claimed for years 1 and 2.

Our audit showed that California did not account for the \$4.9 million in bioterrorism grant funds by focus area for the 2-year period ending August 30, 2001, as required by the cooperative agreement with CDC, nor could it adequately support program expenditures on Financial Status Reports submitted to CDC. Specifically, California:

- Did not organize its accounting system to record, summarize, and report expenditures by program focus area;
- Relied on summary spreadsheets maintained outside the accounting system, which were not traceable to supporting documentation, to prepare the required Financial Status Reports;
- Did not have adequate accounting controls over the preparation and review of the reports; and
- Did not adequately monitor subrecipients.

Because California lacked documentation that reconciled schedules provided by focus area staff with the Financial Status Reports, we were not able to quantify the amount of unallowable costs included in these reports for years 1 and 2 of the program. We reviewed the schedules of expenditures and supporting documentation for selected expenditures. We found that this supporting documentation included unallowable and unsupported costs and overstated indirect costs. Also, California had reported undisbursed funds as expenditures.

We recommended that California:

- Determine, in coordination with CDC, the amount of program funds that were expended in years 1 and 2 for each focus area, identify unallowable costs and unexpended amounts, and make adjustments to current and future grant awards so that funds are rebalanced by focus area to provide the intended levels of bioterrorism preparedness.
- Establish the bioterrorism program in its grant accounting system so that program expenditures are properly recorded, summarized, and reported by focus area.
- Develop and implement policies and procedures to prevent the use of bioterrorism grant funds for unallowable purposes, including those expenditures made by subrecipients.
- Develop and implement policies and procedures, including appropriate levels of review, to ensure that program funds are accurately reported on the Financial Status Reports.
- Require subrecipients to submit expenditure and progress reports to ensure appropriate monitoring.

California concurred with our findings and recommendations. In its written response to the draft report, California documented the corrective actions being taken. Regarding our recommendation to determine expended and unexpended funds for years 1 and 2, California

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stated that it would work closely with CDC to determine how best to comply with the cooperative agreement reporting requirements for those 2 years. In addition, California commented it has initiated changes necessary to account for program funds by focus area, to prevent the use of program funds for unallowable costs or activities, and will require subrecipients to submit progress and expenditure reports twice a year.

If you have any questions or comments about this report, please do not hesitate to call me or Donald L. Dille, Assistant Inspector General for Grants and Internal Activities Audits, at (202) 619-1175, or e-mail at [ddille@oig.hhs.gov](mailto:ddille@oig.hhs.gov), or Lori A. Ahlstrand, Regional Inspector General for Audit Services, Region IX, at (415) 437-8360, or e-mail at [lahlstrand@oig.hhs.gov](mailto:lahlstrand@oig.hhs.gov). To facilitate identification, please refer to report number A-09-02-01007 in all correspondence relating to this report.

Attachment



AUG 15 2003

Report Number: A-09-02-01007

Region IX  
Office of Audit Services  
50 United Nations Plaza  
San Francisco, CA 94102

Diana M. Bonta, R.N., Dr. P.H.  
Director of California Department of Health Services  
Post Office Box 942732  
Sacramento, California 94234-7320

Dear Ms. Bonta:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General's final report titled "State of California: Review of Public Health Preparedness and Response for Bioterrorism Program Funds." The objective of the audit was to determine whether the California Department of Health Services used Public Health Preparedness and Response to Bioterrorism Program funds in accordance with the terms and conditions of its cooperative agreement with the Centers for Disease Control and Prevention (CDC) and other Federal requirements. California was awarded \$4.9 million for the period August 31, 1999, through August 30, 2001.

Our audit showed that California did not account for the \$4.9 million in bioterrorism grant funds by focus area for the 2-year period ending August 30, 2001, as required by the cooperative agreement with CDC, nor could it adequately support program expenditures on Financial Status Reports submitted to CDC.

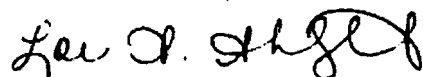
Because of the limitations in California's accounting system discussed in this report, we were not able to rely on accounting records to determine whether program expenditures were allowable. Accordingly, we extended our audit procedures to information maintained outside the accounting system, but we subsequently found this information inadequate to substantiate the allowability of program expenditures. Thus, we are unable to express an opinion, and do not express an opinion on the amounts California claimed for years 1 and 2.

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.

Your formal response to the report was included in the body of our final report and is included in its entirety as an appendix. 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 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.) As such, within 10 days after the final report is issued, it will be posted on the Internet at <http://oig.hhs.gov>.

To facilitate identification, please refer to report number A-09-02-01007 in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori A. Ahlstrand". The signature is fluid and cursive, with a large, stylized initial "L" and "A".

Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services

Enclosures

**HHS Action Official:**  
Chief, Cost Advisory Activity  
Procurement and Grants Office  
Office of Program Support  
Centers for Disease Control and Prevention  
2920 Brandywine Road  
Atlanta, Georgia 30341-5539

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**STATE OF CALIFORNIA:  
REVIEW OF PUBLIC HEALTH  
PREPAREDNESS AND RESPONSE FOR  
BIOTERRORISM PROGRAM FUNDS**



**August 2003  
A-09-02-01007**

## EXECUTIVE SUMMARY

### OBJECTIVE

Under the Public Health Preparedness and Response for Bioterrorism Program, State and major local health departments received funding from the Centers for Disease Control and Prevention (CDC) to improve their bioterrorism preparedness. Our audit objective was to determine whether the California Department of Health Services used such funds in accordance with its cooperative agreement with CDC and other Federal requirements. California was awarded \$4.9 million for the period August 31, 1999, through August 30, 2001.

An essential aspect of the bioterrorism program is the requirement that grantees accurately and fully account for program funds by focus area. The cooperative agreements between CDC and California for years 1 and 2 required expenditure reporting by five focus areas. Specifically, the technical reporting requirements section of the notice of grant award to California states: “To assure proper reporting and segregation of funds for each focus area, Financial Status Reports . . . must be submitted for individual focus areas not later than 90 days after the end of the budget period.”

### SUMMARY OF FINDINGS

California did not account for the \$4.9 million in bioterrorism grant funds by focus area for the 2-year period ending August 30, 2001, as required by the cooperative agreement with CDC, nor could it adequately support program expenditures on Financial Status Reports submitted to CDC. Specifically, California:

- Did not organize its accounting system to record, summarize, and report expenditures by program focus area;
- Relied on summary spreadsheets maintained outside the accounting system, which were not traceable to supporting documentation, to prepare the required Financial Status Reports;
- Did not have adequate accounting controls over the preparation and review of these reports; and
- Did not adequately monitor subrecipients.

Because California lacked the necessary documentation to reconcile the summary spreadsheets or other information provided by focus area staff with the Financial Status Reports, we were not able to ascertain the total amount of unallowable costs included in these reports for years 1 and 2 of the bioterrorism grant program. We reviewed the available documentation for selected expenditures and found numerous unallowable

costs, unsupported costs, and overstated indirect costs. In addition, we found that California had reported undisbursed funds as expenditures.

However, based on limited testing of personnel expenditures, we found no evidence that Federal funds had been used to supplant existing funds during the 2-year period of our audit. We also found that California met its requirement to submit progress reports to CDC.

We believe the weaknesses identified during our review would preclude California from comparing actual expenditures by focus area to the awarded amounts. An effective financial management process should include reliable procedures for comparing achievements with expectations in order to provide frequent feedback to program managers. In addition, the inaccurate reporting of information hinders CDC's ability to monitor the progress of California's use of bioterrorism grant funds.

## **RECOMMENDATIONS**

We recommend that California determine, in coordination with CDC, the amount of program funds that were expended in years 1 and 2 for each focus area, identify unallowable costs and unexpended amounts, and make adjustments to current and future grant awards so that funds are rebalanced by focus area to provide the intended levels of bioterrorism preparedness.

In addition, we are also recommending that California:

- Establish the bioterrorism program in its grant accounting system so that program expenditures are properly recorded, summarized, and reported by focus area;
- Prevent the use of bioterrorism grant funds for unallowable purposes, including those expenditures made by subrecipients;
- Ensure that Financial Status Reports are reviewed and approved by an appropriate level of management before filing with CDC; and
- Require subrecipients to submit expenditure and progress reports.

## **CALIFORNIA'S COMMENTS**

California concurred with our findings and recommendations and is taking corrective actions to improve its bioterrorism grant program. The complete text of California's written comments is included as an appendix to this report.



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# INTRODUCTION

## BACKGROUND

The Department of Health and Human Services' (HHS), CDC, is responsible for the administration of the Public Health Preparedness and Response for Bioterrorism Program. Under this program, States and major local health departments may receive funding to improve their bioterrorism preparedness and response capabilities.

The CDC, under Program Announcement 99051, initiated a cooperative agreement to fund the program for States and major local health departments. The first year of the program was for the period August 31, 1999, through August 30, 2000, and award funds totaled \$40.7 million. The second year of the program was from August 31, 2000, through August 30, 2001, and award funds totaled \$41.9 million. The California Department of Health Services was awarded funds under both years as shown in the table below. However, California reported to CDC that not all funds were expended.

<i>Program</i>		<i>Expenditures</i>	<i>Expenditures</i>
<u>Year</u>	<u>Funds Awarded</u>	<u>Claimed</u>	<u>Unclaimed</u>
Year 1	\$2,364,332	\$1,753,817	\$610,515
Year 2	\$2,594,717	\$2,387,907	\$206,810

For years 1 and 2, CDC divided the funding for the bioterrorism grant program into five focus areas. Eligible applicants could request grant funds for activities under one or more of the 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/Training

### **Applicable Legislation, Regulations, and Guidelines**

The bioterrorism grant program is authorized under sections 301(a), 317(k)(1)(2), and 319 of the Public Health Service Act [42 United States Code (U.S.C.) sections 241(a), 247b(k)(1)(2), and 247(d)]. Funding availability was announced by CDC in Program Announcement 99051, which detailed allowable uses for program funds within the five focus areas. The program announcement also stipulated that the funds were not to be used to supplant any current State or local expenditures, and any rebudgeting of amounts between focus areas would need CDC's prior written consent.

The bioterrorism program cooperative agreements between CDC and California for years 1 and 2 required expenditure reporting by focus area. Specifically, the technical reporting requirements section of the notice of grant award to California states: “To assure proper reporting and segregation of funds for each focus area, Financial Status Reports . . . must be submitted for individual focus areas not later than 90 days after the end of the budget period.” CDC’s approval was also needed before funds could be transferred among focus areas. The agreement also specified the approved budgets and allowable indirect cost rates.

Additionally, States receiving grant program funds are subject to Federal requirements in two Office of Management and Budget (OMB) Circulars: A-87, Cost Principles for State, Local, and Indian Tribal Governments, and A-102, Grants and Cooperative Agreements With State and Local Governments. These circulars require recipients of Federal awards to establish financial management systems that provide records to account for the use of Federal funds and principles and standards for recipients to use in determining the allowability of direct and indirect costs that can be charged to Federal awards.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

The objective of our review was to determine whether California used bioterrorism grant funds awarded for the period August 31, 1999, through August 30, 2001, in accordance with the terms and conditions of its cooperative agreement with CDC and OMB Circulars.

### **Scope**

The scope of our audit included expenditures reported on the Financial Status Reports for the 2 years ending August 30, 2001, and the progress reports California submitted under its cooperative agreement with CDC. We did not evaluate the quality of the information contained in California’s progress reports or the efficacy of California’s preparedness.

Because of the limitations in California’s accounting system discussed later in this report, we were not able to rely on accounting records to determine whether program expenditures were allowable. Accordingly, we extended our audit procedures to information maintained outside the accounting system, but we subsequently found this information inadequate to substantiate the allowability of program expenditures. Thus, we are unable to express an opinion, and do not express an opinion on the amounts California claimed for years 1 and 2.

This audit was conducted in accordance with generally accepted government auditing standards. We did not review internal controls because our survey work indicated that these controls were not effective. However, during our review we did find certain

weaknesses in the internal control structure and we discuss these weaknesses later in our report.

## **Methodology**

To accomplish our audit objective, we:

- Reviewed California's Financial Status Reports for the bioterrorism grant program and other pertinent documents from CDC;
- Obtained an understanding of how the program was organized, the accounting system, and flow of transactions related to the program;
- Verified that progress reports were submitted to CDC;
- Verified whether selected personnel costs had been supplanted with program funds; and
- Evaluated California's monitoring of subrecipients to ensure the allowability of bioterrorism grant expenditures and activities.

We performed fieldwork during the period of August 2002 to March 2003, which included visits to State offices and laboratories in Sacramento and Berkeley, California; and visits to subrecipients in Sacramento and San Joaquin Counties. California's comments on the draft report are included in their entirety as an appendix to this report. A summary of California's comments and our response follow the Findings and Recommendations section.

## **FINDINGS AND RECOMMENDATIONS**

California did not account for bioterrorism grant funds expended by focus area for the 2-year period ending August 30, 2001, as required by the cooperative agreement with CDC. Accordingly, California could not support the grant expenditures that were reported to CDC on its Financial Status Reports. Specifically, California:

- Did not organize its accounting system to record, summarize, and report expenditures by program focus area;
- Relied on summary spreadsheets maintained outside the accounting system, which were not traceable to supporting documentation, to prepare the required Financial Status Reports;
- Did not have adequate accounting controls over the preparation and review of these reports; and
- Did not adequately monitor subrecipients.

Because California lacked the necessary documentation to reconcile the summary spreadsheets maintained by focus area staff with the Financial Status Reports, we were not able to ascertain the total amount of unallowable costs included in these reports for years 1 and 2 of the bioterrorism grant program. We reviewed the available documentation for selected expenditures and found numerous unallowable costs, unsupported costs, and overstated indirect costs. In addition, we found that California had reported undisbursed funds as expenditures.

However, based on limited testing of personnel expenditures, we found no evidence that Federal funds had been used to supplant existing funds during the 2-year period of our audit. We also found that California met its requirement to submit progress reports to CDC.

We believe the weaknesses identified during our review would preclude California from comparing actual expenditures by focus area to the awarded amounts. An effective financial management process should include reliable procedures for comparing achievements with expectations in order to provide frequent feedback to program managers. In addition, the inaccurate reporting of information hinders CDC's ability to monitor the progress of California's use of bioterrorism grant funds.

### **ACCOUNTING OF PROGRAM FUNDS**

California did not organize its accounting system to record, summarize, and report expenditures by focus area, but grouped expenditures for several focus areas under a single accounting code.

At our entrance conference in August 2002, California acknowledged that its accounting system did not report program expenditures by focus area for years 1 and 2, but stated that the problem had been corrected for year 3. However, during our audit, we found that California still had not corrected its accounting system to record program expenditures by focus area as required under the cooperative agreement. It was continuing to work on a solution.

In order to track progress towards bioterrorism preparedness, California needs to compare actual expenditures with approved budgets in its cooperative agreements. Limitations in California's accounting system hinder its ability to manage the program and make effective decisions regarding the use of bioterrorism grant funds. In addition, the inaccurate reporting of financial information hinders CDC's ability to monitor the progress of California's program.

### **PREPARATION OF FINANCIAL STATUS REPORTS**

We were not able to reconcile the amounts claimed on California's Financial Status Reports with its accounting records. Each year California is required to prepare a Financial Status Report by focus area and a summary report for the entire program. When California attempted to report year 1 program expenditures, it found that it could not summarize and report transactions by focus area. Rather than notify CDC that it was not able to report expenditures by focus area, as required, or reconstruct the accounting data to identify expenditures by focus area, California used unreliable expenditure information maintained outside the accounting system to prepare its Financial Status Reports. State officials said that for both years these reports were prepared based on summary spreadsheets provided by program managers assigned to individual focus areas. However, information on these spreadsheets could not be reconciled with California's accounting records.

At the time of our audit, California provided a summary spreadsheet to support expenditures reported on its Financial Status Reports for year 2. The summary spreadsheet showed amounts for personnel, equipment, and other expenditures by focus area, but did not include a list of accounts that were included in the totals or a schedule of transactions to support the amounts reported. California was unable to produce expenditures by focus area from the accounting system in support of the amounts reported to CDC.

Throughout our audit, California provided us with revised Financial Status Reports and, near the conclusion of our fieldwork, with revised reports for years 1 and 2 marked "final." We noted that expenditures reported for year 2 were \$489,774 less than expenditures filed with CDC. The accounting supervisor told us that, to prepare these reports, California isolated expenditures that could be easily associated with specific focus areas and then allocated the remainder of expenditures to the five focus areas. To the extent that California properly associated expenditures with specific focus areas, the reporting represented an improvement over the Financial Status Reports provided to us

when we began our audit, but the cooperative agreements required the State to report all allowable expenditures by focus area.

## **ALLOWABILITY AND SUPPORT OF EXPENDITURES<sup>1</sup>**

Because California was not able to provide support for the amounts reported on its Financial Status Reports, we extended our audit procedures to review information maintained by the focus areas outside the accounting system. We asked each focus area staff person to provide us with all available schedules used to track program expenditures. The schedules and supporting documents maintained for each focus area varied in organization and level of detail and did not reconcile with the summary spreadsheets used to prepare the Financial Status Reports. Thus, we were unable to quantify the amount of unallowable costs included in these reports for years 1 and 2.

However, during our review of focus area documentation for selected expenditures, we found that \$408,031 of year 1 expenditures and \$492,255 of year 2 expenditures included unallowable costs, unsupported costs, and overstated indirect costs. Also, California had reported undisbursed funds as expenditures. Whenever California prepares revised Financial Status Reports for program years 1 and 2, allowable costs that are properly documented should be claimed in the appropriate program year.

### **Unallowable and Unsupported Costs<sup>1</sup>**

We identified some unallowable or unsupported costs in all five focus areas. We found, for example, focus area E (Health Alert Network/Training) reported \$339,647 of sub-recipients expenditures for year 1 and \$462,160 for year 2 which included unallowable costs of \$108,453 for year 1 and \$222,589 for year 2. We determined the costs were unallowable because expenditures were charged to an incorrect program year without obtaining CDC approval and amounts were claimed in excess of the support provided. In another instance, focus area B (Surveillance and Epidemiology Capacity) included a \$1,000 travel claim to move an employee's household goods from a foreign country to California even though such costs are not allowable in OMB Circular A-87. Finally, focus area D (Laboratory Capacity- Chemical Agents) included \$13,094 for travel and \$76,119 for salaries and benefits that were not supported by any documentation.

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<sup>1</sup> Because of the limitations in California's accounting system, we were not able to rely on accounting records to determine whether program expenditures were allowable. Accordingly, we extended our audit procedures to information maintained outside the accounting system, but we subsequently found this information inadequate to substantiate the allowability of program expenditures. Thus, we were not able to quantify the amount of unallowable costs included in the Financial Status Reports for years 1 and 2 of the Program.

## **Overstated Indirect Costs<sup>1</sup>**

California reported charges for indirect costs in excess of the allowable rates set forth in the cooperative agreements with CDC. For example, focus area D included excess indirect costs of \$54,787 for year 1 and \$24,225 for year 2. In addition, focus area B included indirect costs of \$33,447 as direct costs for year 1 and also overstated allowable indirect costs by \$7,521 for a total overstatement of \$40,968. In year 2, focus area B included indirect costs of \$2,954 as a direct cost and overstated allowable indirect costs by \$45,319 for a total overstatement of \$48,273.

Subrecipients also overstated indirect costs. We found that focus area C (Laboratory Capacity - Biologic Agents) included \$2,816 for year 1 and \$9,072 for year 2 of unallowable indirect costs related to subrecipients. Costs identified by focus area C exceeded allowable amounts because subrecipients used incorrect methodologies to calculate indirect costs. One of the subrecipients subtracted direct expenditures from the total amount provided by the State and reported the residual amount of \$6,050 as indirect costs. A county official stated that informal direction provided by the State was to use the “plug” figure as the amount for indirect costs. In addition, another subrecipient included a charge for rent in its indirect cost allocation that was unallowable under the terms of the cooperative agreements. The cooperative agreements allow indirect costs where the approved rate is applied to the base of allowable salary and benefit expenditures. However, amounts that exceed the result of this calculation are unallowable.

## **UNDISBURSED FUNDS<sup>1</sup>**

California reported some costs in the wrong program year. For example, we found focus area C reported \$64,945 for year 1 contracts and \$69,920 for year 2 general expenses that were not allocated to the program year for which the funds were expended. We found a similar situation in focus area E for years 1 and 2 for amounts reported as expenditures of subrecipients and contractors when the funds had not yet been expended. California had agreements with subrecipients and contractors for periods that extended beyond the program year. California reported the entire cost of the agreements as an expenditure of the program year in which the agreement was entered, even if the agreement covered more than 1 year. Expenditures should have been reported in the appropriate program year, and California should have requested approval from CDC to carry over the unexpended funds to the next year.

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<sup>1</sup> See footnote page 6.



## **REVIEW OF FINANCIAL STATUS REPORTS**

During our review of controls over financial reporting, we were told that some of the Financial Status Reports had been prepared without review by an accounting manager. The reports for year 1 appeared to have been prepared without review by an appropriate level of manager within the State and had been signed, certified, and transmitted to CDC by the same accounting supervisor who prepared them. We believe that the lack of managerial oversight and proper segregation of duties contributed to the deficient financial reporting to CDC. Further, the same reporting errors occurred in year 2.

The lack of segregation of duties was a significant weakness in California's internal controls over reporting of expenditures for this important program. This weakness should be remedied by requiring an appropriate level of managerial review before the Financial Status Reports are signed, certified, and submitted to CDC. These reviews should include verification that the financial records support the expenditures reported for the program. Also, the program officials should review the reports for completeness and consistency. In addition, California should ensure that it retains a copy of each Financial Status Report filed for Federal programs.

## **SUBRECIPIENT MONITORING**

Fifteen subrecipients received funding for activities in focus areas C and E of the program. We found that California did not consistently obtain necessary information from subrecipients to prepare expenditure and progress reports submitted to CDC. Specifically, we found that California did not test for the allowability of costs claimed by subrecipients of either focus area. The details of unallowable costs are discussed above, in the section titled, "Allowability and Support of Expenditures."

In addition, we found California required more formal reporting from subrecipients receiving funding for focus area E than it required for subrecipients of focus area C. For focus area E subrecipients, California required written expenditure and progress reports that it used to assess the financial status and accomplishments of the program. California reviewed and retained these reports as evidence that it adequately monitored these subrecipients. However, California allowed focus area C subrecipients to submit verbal expenditure and progress reports and did not maintain records of those reports.

California should require written expenditure and progress reports from its subrecipients and document its review of those reports for achievement of planned program goals prior to reporting to CDC.

## **RECOMMENDATIONS**

We recommend that California:

1. Determine, in coordination with CDC, the amount of program funds that were expended in years 1 and 2 for each focus area, identify unallowable costs and unexpended amounts, and make adjustments to current and future grant awards so that funds are rebalanced by focus area to provide the intended levels of bioterrorism preparedness.
2. Establish the bioterrorism program in its grant accounting system so that program expenditures are properly recorded, summarized, and reported by focus area.
3. Develop and implement policies and procedures to prevent the use of bioterrorism grant funds for unallowable purposes, including those expenditures made by subrecipients.
4. Develop and implement policies and procedures, including appropriate levels of review, to ensure that program funds are accurately reported on the Financial Status Reports.
5. Require subrecipients to submit expenditure and progress reports to ensure appropriate monitoring.

## **CALIFORNIA'S COMMENTS**

California concurred with our findings and recommendations. In its written response to the draft report, California documented the steps it is taking to improve its bioterrorism grant program. See the appendix for the complete text of California's comments.

In response to our recommendation to determine expended and unexpended funds for years 1 and 2, California stated that it would work closely with CDC to determine how best to comply with the cooperative agreement reporting requirements for those years. In addition, California commented that it has initiated changes necessary to account for program funds by focus area in subsequent periods. California noted it refined its procedures to prevent the use of program funds for unallowable costs or activities, including expenditures made by subrecipients. It also refined procedures for the review and approval of Financial Status Reports to ensure accurate reporting by focus area. Finally, California indicated that subrecipients will submit progress and expenditure reports twice a year.

## **OIG'S RESPONSE**

California's response to our report was well considered and provides a clear statement of corrective actions to be taken in response to the recommendations included in our report. California must continue to work towards implementing its plan to improve its grants accounting system and its oversight of the bioterrorism grant program.

# **APPENDIX**



State of California—Health and Human Services Agency  
**Department of Health Services**



**GRAY DAVIS**  
Governor

**DIANA M. BONTÁ, R.N., Dr. P.H.**  
Director

May 1, 2003

Ms. Lori A. Ahlstrand  
Regional Inspector General for Audit Services  
50 United Nations Plaza, Room 171  
San Francisco, CA 94102

Dear Ms. Ahlstrand:

Thank you for the opportunity to comment on the draft of your recent audit titled "Review of Public Health Preparedness & Response for Bioterrorism Program Funds" (A-09-02-01007).

The Department of Health Services (DHS), in general, agrees with the findings of the audit and has already made corrections to improve accounting, program function, and program monitoring activities of the Public Health Preparedness and Response for Bioterrorism Program (BT).

The BT funds were provided to States in record time, assuring that programs to provide for the protection of the public's health were quickly put into place. However, the specific federal guidance for fiscal procedures for this program as well as changes to the State's accounting systems to implement new requirements for unique detailed tracking systems, lagged behind.

We will work closely with the Centers for Disease Control and Prevention (CDC) on determining how best to comply with the cooperative agreement focus area reporting requirements for Years 1 and 2, utilizing the guidelines and recommendations provided in the Office of the Inspector General (OIG) audit report. DHS has been implementing the necessary changes to account for funds in detail, by focus area. We are confident that all of the systems are currently in place for the Year 3 funds awarded to California.

As the OIG is aware, the background information that DHS supplied for this audit and the OIG's work papers contain sensitive information related to the security and safety of the State and local health jurisdictions. Information regarding the State's preparedness for a potential bioterrorism event is sensitive. In the hands of persons desiring to do harm, this information could be used to plan and execute an event or series of events



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causing great harm to the health and safety of the residents of California and, potentially, neighboring states. Therefore, DHS requests that the OIG not make background information and/or its audit work papers available to members of the public even in response to a Freedom of Information Act request.

We appreciate the cooperation and assistance provided by your staff throughout this auditing process. If you have additional questions or concerns please feel free to contact Dr. Kevin Reilly, Deputy Director, Prevention Services Division at (916) 657-1493. Again, thank you for the opportunity to comment.

Sincerely,



*for* Diana M. Bontá, R.N., Dr.P.H.  
Director

Enclosure



**Bioterrorism OIG Audit Report Number A-09-02-01007****Recommendation 1**

Determine, in coordination with CDC, the amount of Public Health Preparedness and Response for Bioterrorism Program (BT) funds that were expended in Years 1 and 2 in each focus area, identify unallowable costs and unexpended amounts, and make adjustments to current and future awards so that funds are rebalanced by focus area to provide appropriate levels of preparedness.

**Response to Recommendation 1**

We agree funds for the BT program should have been accounted for by focus area as stated in the cooperative agreement. As such, effective July 1, 2002, DHS made changes to its accounting system to identify expenditures for each focus area per grant year.

For Years 1 and 2, DHS will contact CDC and work with them to determine the best mechanism to identify expenditures by each focus area. In addition, while the accounting system lacked the required detail, as a whole, the expenditures in Years 1 and 2 were appropriate and we will work with CDC to insure that they are in agreement with the allowability of the expenditures.

**Recommendation 2**

Establish the BT program in the accounting system so that BT program expenditures can be recorded, summarized, and reported by focus area.

**Response to Recommendation 2**

This recommendation has been implemented. Beginning July 1, 2002, DHS established and implemented a coding structure in the accounting system so that the BT program expenditures are recorded, summarized, and reported by focus area. With this change the expenditures for Years 3 and 4 are reported by focus area. DHS will continue to account for and record expenditures by each focus area within the applicable project year. Further, program staff are conducting routine reconciliations to ensure accuracy and accountability relative to all BT fund expenditures and are making the appropriate system changes and updates as problem areas are identified.

**Recommendation 3**

Develop and implement policies and procedures to prevent the use of BT funds for unallowable costs or activities, including expenditures made by subrecipients.

**Response to Recommendation 3**

DHS has refined procedures to prevent the use of BT funds for unallowable costs or activities, including expenditures made by subrecipients. Internally DHS implemented a monthly expenditure monitoring process, as well as a formal written approval process for programs to follow in requesting redirections and expenditures outside of their budgeted allocations. Subrecipients are required to report expenditures by line item in accordance with their approved spending plan. Subrecipients are also required to submit, in writing, requests to redirect funds between focus areas or to expend funds for items not included in their approved spending plan. These requests must be submitted and approved prior to the actual expenditure or redirection. This enables DHS to review the request and submit a formal request to CDC if needed.

**Recommendation 4**

Develop and implement policies and procedures, including appropriate levels of review, to ensure that BT program funds are accurately reported on the Financial Status Reports (FSRs).

**Response to Recommendation 4**

DHS has refined procedures for review and approval of FSRs to ensure accurate reporting by Focus Area. These procedures are now in effect. The Focus Area lead staff track grant expenditures and federal draws by Focus Area expenditure. The Cooperative Agreement Management Lead (delegated by the Principal Investigator for the Cooperative Agreement) reviews and certifies the information and forwards it to the Department's Accounting Section. The Accounting Section then reviews the Program certification and FSR data against Accounting's expenditure tracking system set up by Focus Area. Upon verification, the appropriate Accounting manager approves the FSR for submission to the federal project officials. This collaborative system provides redundant expenditure appropriateness and accounting controls to ensure the accuracy of FSR reporting to the federal contract manager, as required under the cooperative agreement.

**Recommendation 5**

Require subrecipients to submit formal expenditure and progress reports to allow appropriate monitoring.

**Response to Recommendation 5**

DHS' written agreements with subrecipients require submission of progress and expenditure reports twice a year at intervals that facilitate preparation of state expenditure reports as well as FSRs to CDC. For example, the grant period of August 31, 2002, through August 30, 2003, progress and expenditure reports are due May 15, 2003, and September 30, 2003. The progress reports detail the progress in meeting each of the critical benchmarks by Focus Area as identified and required in CDC guidance. The expenditure reports detail expenditures by line item and by Focus Area.