



September 24, 2008

Report Number: A-06-07-00011

Mr. Adolfo M. Valadez, M.D., M.P.H.
Assistant Commissioner Prevention and Preparedness Division
Texas Department of State Health Services
1100 West 49th Street
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Austin, Texas 78756

Dear Mr. Valadez:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Texas Bioterrorism Hospital Preparedness Program." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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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If you have any questions or comments about this report, please do not hesitate to call me, or contact Cheryl Blackmon, Audit Manager, at (214) 767-9205 or through e-mail at Cheryl.Blackmon@oig.hhs.gov. Please refer to report number A-06-07-00011 in all correspondence.

Sincerely,

A handwritten signature in black ink that reads "Gordon L. Sato".

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF TEXAS
BIOTERRORISM HOSPITAL
PREPAREDNESS PROGRAM**



Daniel R. Levinson
Inspector General

September 2008
A-06-07-00011

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

The Bioterrorism Hospital Preparedness Program (the Program) provided funding to State, territorial, and municipal governments or health departments to upgrade the preparedness of hospitals and collaborating entities to respond to bioterrorism and other public health emergencies. The Health Resources and Services Administration (HRSA) administered the Program until March 2007. At that time, responsibility for the Program was transferred from HRSA to the Assistant Secretary for Preparedness and Response pursuant to the Pandemic and All-Hazards Preparedness Act (P.L. 109-417, December 19, 2006).

The Texas Department of State Health Services (the State agency) entered into cooperative agreements with HRSA to carry out Program activities and, for the period September 1, 2004, through August 31, 2006, expended Program funds totaling \$69,625,545. Subsequently, the State agency entered into subrecipient contracts with 19 regional advisory councils, including the Southwest Texas Regional Advisory Council (STRAC), and the Dallas-Fort Worth Hospital Council (DFWHC) to administer the HRSA grant.

OBJECTIVE

Our objective was to determine whether the State agency claimed costs that were reasonable, allocable, and allowable.

SUMMARY OF FINDINGS

Of the \$11,384,210 in Program expenditures that we reviewed, the State agency claimed \$637,215 in unallowable and undocumented expenditures. Because the State agency reimbursed \$150,138 of this amount for unallowable hurricane expenditures, we are questioning only \$487,077 of these costs (unallowable expenditures totaling \$465,394 and undocumented expenditures totaling \$21,683). We also are questioning \$29,924 in Program fund interest that STRAC did not return to the Department of Health and Human Services' Payment Management System (PMS). In addition, we found that program year 2003 accounting records did not support the final financial status report and that DFWHC did not properly monitor its hospitals.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$487,077 to HRSA;
- refund \$29,924 to the PMS;
- strengthen its review process to detect future unallowable expenditures;

- ensure that regional advisory councils and hospital planning councils strengthen their review process to detect future unallowable expenditures;
- ensure that STRAC:
 - 1) supports salary charges with an after-the-fact determination of actual employee activities,
 - 2) has employees allocate time between grants for total activity and sign their timesheets,
 - 3) follows generally accepted accounting principles and expends Program funds by the end of the Federal program funding period, and
 - 4) remits any interest earned on Program funds in excess of \$250 for every program year to PMS;
- inform regional advisory councils and hospital planning councils about the correct handling of interest earned on Program funds;
- ensure that future costs are adequately documented in the accounting records; and
- monitor grant- and subgrant-supported activities to assure compliance with applicable Federal requirements.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In its comments on our draft report, the State agency agreed with all but one of our findings and provided information on actions that it had taken or planned to take on our recommendations. After we issued our draft report, the State agency provided supporting documentation for \$20,536 in program year 2003 expenditures related to a vehicle tracking system. The State agency did not provide support showing that it had approval to spend an additional \$2,940 in program year 2005 on purchases related to the vehicle tracking system. After review of the State agency's comments and additional information, we revised the report where appropriate. However, we continue to recommend that a total of \$487,077 in unallowable expenses be refunded to HSRA. The State agency's comments are included as Appendix I.

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INTRODUCTION

BACKGROUND

Bioterrorism Hospital Preparedness Program

The Bioterrorism Hospital Preparedness Program (the Program) provided funding to State, territorial, and municipal governments or health departments to upgrade the preparedness of hospitals and collaborating entities to respond to bioterrorism and other public health emergencies.¹ The Health Resources and Services Administration (HRSA) administered the Program until March 2007. At that time, responsibility for the Program was transferred from HRSA to the Assistant Secretary for Preparedness and Response pursuant to the Pandemic and All-Hazards Preparedness Act (P.L. 109-417, December 19, 2006).

Bioterrorism Program Funding

Grants awarded in program years 2003 through 2005 were funded through 1-year appropriations. HRSA initially established 12-month program years for 2003 through 2005 and then extended the years for up to 24 additional months.²

To monitor the expenditure of these funds, HRSA required awardees to submit financial status reports (FSR) showing the amounts expended, obligated, and unobligated. Financial reporting requirements (45 CFR § 92.41(b)(3)) for Department of Health and Human Services (HHS) grants to State and local governments state: “If the Federal agency does not specify the frequency of the report, it will be submitted annually.” Because Program guidance for 2003 was silent on the frequency of submission, annual FSRs were required for that year. Program guidance for 2004 and 2005 required quarterly interim FSRs and a final FSR 90 days after the end of the budget period, which we refer to in this report as a “program year.”

Texas Bioterrorism Program

The Texas Department of State Health Services (the State agency) entered into cooperative agreements with HRSA to implement the Program. (A cooperative agreement is an award of financial assistance under which substantial collaboration is anticipated between the HHS awarding agency and the recipient during the project.) Subsequently, the State agency entered into contracts with 19 regional advisory councils and 1 hospital planning council (20 total subrecipients) to administer the HRSA grant.

¹Congress initially authorized funding for this program under the Department of Defense and Emergency Supplemental Appropriations for Recovery From and Response to Terrorist Attacks on the United States Act, 2002, P.L. 107-117, through the Public Health and Social Services Emergency Fund at section 319 of the Public Health Service Act (42 U.S.C. § 247d). Then, in June 2002, Congress enacted section 319C-1 of the Public Health Service Act (42 U.S.C. § 247d-3a) to support efforts to counter potential terrorist threats and other public health emergencies.

²For Texas, program year 2003 was September 1, 2003, to February 28, 2006; program year 2004 was September 1, 2004, to August 31, 2006; and program year 2005 was September 1, 2005, to August 31, 2007.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State agency claimed costs that were reasonable, allocable, and allowable.

Scope

Our review covered \$11,384,210 in Program expenditures recorded in the State agency's accounting records during the period September 1, 2004, through August 31, 2006, regardless of the grant year to which the obligations and expenditures were related.

We selected nonstatistical samples of State agency, Dallas-Fort Worth Hospital Council (DFWHC), and Southwest Texas Regional Advisory Council (STRAC) expenses related to payroll, travel, equipment, supplies, and services. We also selected a nonstatistical sample of DFWHC hospitals. We reviewed the supporting documentation to ensure that each hospital was spending funds according to Program guidance. We did not select a sample of STRAC hospitals to review because STRAC expended the funds for the hospitals. We reviewed \$4,760,383 of the \$5,020,175 in STRAC hospital expenditures.

The table below summarizes the State agency, DFWHC, and STRAC Program expenditures.

Summary of Reviewed Program Expenditures		
Entity	Total Expenditures	Expenditures Reviewed
State agency	\$4,711,664	\$1,247,901
DFWHC	14,927,780	4,915,385
STRAC	5,413,392	5,220,924
Total	\$25,052,836	\$11,384,210

(See Appendix A for a summary of DFWHC hospitals.)

We did not review the State agency's, DFWHC's, or STRAC's overall internal control structure. We limited our internal control review to obtaining an understanding of their accounting and monitoring procedures, if they had monitoring procedures in place.

We performed fieldwork at State agency, DFWHC, and STRAC offices from November 2006 through January 2008. In May 2008, we performed additional fieldwork at DFWHC, selected DFWHC hospitals, and the Texas Hospital Association.

Methodology

To accomplish our objective, we:

- identified awarded and expended funds in the State agency's accounting records;
- reviewed the State agency's "Notice of Cooperative Agreement" documentation and related Federal regulations to gain an understanding of financial and program requirements;
- reviewed FSRs for completeness and accuracy and reconciled the amounts reported to the accounting records and "Notice of Grant Award" documentation;
- reviewed the State agency's contracts with subrecipients;
- determined the State agency's, DFWHC's, and STRAC's accounting procedures for recording and reporting funds;
- obtained a list of the amounts drawn down by the State agency from the Department of Health and Human Services' Payment Management System (PMS) and compared them to the amounts expended to ensure that drawdowns did not exceed expenditures;
- selected and reviewed nonstatistical samples of State agency, DFWHC, and STRAC expenditures;
- reviewed sampled hospitals' expenditures;
- reviewed selected payroll records at Texas Hospital Association;
- reviewed State agency monitoring procedures; and
- determined whether DFWHC and STRAC had any monitoring procedures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

Of the \$11,384,210 in Program expenditures that we reviewed, the State agency claimed \$637,215 in unallowable and undocumented expenditures. Because the State agency reimbursed \$150,138 of this amount for unallowable hurricane expenditures, we are questioning only \$487,077 of these costs. (See Appendix B for a summary of unallowable and undocumented expenditures.) We also are questioning \$29,924 in Program fund interest that STRAC did not

return to PMS. In addition, we found that program year 2003 accounting records did not support the final FSR and that DFWHC did not properly monitor its hospitals.

UNALLOWABLE EXPENDITURES

The State agency claimed unallowable expenditures totaling \$156,318. Because the State agency reimbursed \$150,138 of this amount, we are questioning only \$6,180 of these costs. In addition, STRAC and DFWHC claimed unallowable expenditures totaling \$459,214. Of this amount:

- STRAC claimed \$424,867, which included \$331,786 in payroll expenditures, \$91,800 in Program expenditures, and \$1,281 in administrative expenditures.
- DFWHC claimed \$34,347, which included \$25,462 in hospital expenditures and \$8,885 in hospital refunds not returned.

State Agency Administrative Expenditures

In accordance with 45 CFR § 92.23(a), “Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.”

Regulations (2 CFR part 225, Appendix A, section C.1.b (formerly OMB Circular A-87)), state that to be allowable under Federal awards, costs must be “allocable to Federal awards under the provisions of 2 CFR part 225.”

Pursuant to 2 CFR part 225, Appendix A, section C.3.a, “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

The State agency claimed \$156,318 in unallowable expenditures for hurricane purchases, a vehicle tracking system, and travel for an employee of another program. Because the State agency reimbursed \$150,138 of this amount, we are questioning only \$6,180 of these costs. (See Appendix C for a summary of State agency unallowable administrative expenditures.)

The Federal Emergency Management Agency (FEMA) reimbursed the State agency for hurricane expenditures that FEMA deemed allowable. However, FEMA did not reimburse the State agency for expenditures totaling \$150,138, which FEMA determined were unallowable. These expenditures were for payments made to the Texas Department of Aging and Disability Services, a pharmaceutical vendor, an individual, and purchases made at a retail store. When we brought these expenditures to the State agency’s attention, an official said that the expenditures should have been paid from general revenue funds. As a result, the State agency reimbursed the Program for the \$150,138 in unallowable hurricane expenditures.

When we asked whether there was approval for the vehicle tracking system expenditures, we did not receive a response. When we inquired why the State agency paid for the employee's travel, the official said that it was coded incorrectly; therefore, it was paid in error from Program funds.

Southwest Texas Regional Advisory Council Expenditures

Unallowable Payroll Expenditures

Regulations (2 CFR part 230, Appendix B, section (8)(m) (formerly OMB Circular A-122)), state:

Support of salaries and wages:

- (1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph 8.m.(2)
- (2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards
 - (a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.
 - (b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
 - (c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.
 - (d) The reports must be prepared at least monthly and must coincide with one or more pay periods.

The "Financial Administrative Procedures Manual for TDH Contractors," section 2.5, "Required Accounting Policies and Procedures, Salary and Wage Distribution Non-Profits," states:

The distribution of salaries and wages to all State agency contract attachments for nonprofit agencies must be supported by personnel activity reports (time sheets)

for each employee whose compensation is charged in whole or in part directly to the contract attachment. The time sheet must:

- (a) allow the employee to charge time to more than one activity (cost center, project, or expense pool),
- (b) reflect an after-the-fact determination of the actual activity of that employee for a period of time which coincides with a pay period,
- (c) be signed by the employee and approved by the employee's supervisor (the signatures attest to the validity of the recorded time) and
- (d) reflect the employee's total activity for the period.

STRAC claimed unallowable payroll expenditures totaling \$331,786. STRAC employees did not allocate their time to show the projects on which they were working, and neither they nor their supervisor signed the employees' timesheets. In addition, the State agency found in its fiscal compliance review that STRAC's expenditures of salaries and related fringe benefits were based on predetermined percentages. The State agency's report stated that the timesheet must reflect an after-the-fact determination of the actual activity of that employee for a period of time that coincides with a pay period. (See Appendix D for a summary of STRAC unallowable payroll expenditures.)

When we requested supporting documentation for the allocation of each employee's payroll expenditures, an STRAC official provided an internal document that she had created to keep track of payroll expenditures. The STRAC official used a predetermined percentage to determine the amount of salary and related fringe benefits to allocate to the Program. STRAC should have based the allocation on the timesheet.

When we asked an STRAC official why time was not allocated on the timesheets and why they were not signed, the official said that employees had allocated their time and signed their timesheets. However, the timesheets we reviewed did not show time allocations among projects and did not have signatures. The official also said that documenting an employee's allocation of time daily was time consuming.

STRAC employees began signing timesheets at the end of program year 2005. They also began allocating the time spent working on the Program, though not their total activity. For some employees who allocated their time, the timesheets we reviewed showed percentages that were different from the allocations used to determine the salaries and related fringe benefits charged to the Program. Therefore, STRAC continued to base allocations on predetermined percentages.

Unallowable Program Expenditures

Regulations (2 CFR part 230, Appendix A, section A.2 (formerly OMB Circular A-122)), state that costs must be "determined in accordance with generally accepted accounting principles" and "adequately documented" to be allowable under an award.

Pursuant to 45 CFR § 92.40, “Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved.”

Regulations (2 CFR part 225, Appendix A, section C.1.b (formerly OMB Circular A-87)), state that to be allowable under Federal awards, costs must be “allocable to Federal awards under the provisions of 2 CFR part 225.”

In accordance with 2 CFR part 225, Appendix A, section C.3.a, “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

Regulations (2 CFR part 230, Appendix A, section A.2.a) state that to be allowable under an award, costs must be “reasonable for the performance of the award and be allocable thereto under these principles.”

Pursuant to 2 CFR part 230, Appendix A, section A.4.a.:

A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

- (1) Is incurred specifically for the award.
- (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or
- (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

STRAC entered into a 2-year agreement with the Greater San Antonio Hospital Council (GSAHC) and prepaid \$157,210 for salary and related expenses for an individual to develop a crisis information management system. STRAC prepaid the expenditures and reported them as expended, which was not in accordance with generally accepted accounting principles. Officials should have recorded the expenditures as prepaid and written them off monthly. The State agency reported this to STRAC in the State agency’s fiscal compliance review. STRAC officials stopped the practice after the State agency’s review and told us that they had not known that prepaying expenditures and recording them as expended was not an acceptable practice.

In addition, STRAC claimed \$91,800 in unallowable Program expenditures that were not allocable to program year 2004. STRAC spent \$79,611 after the Federal Program funding period ended, and \$12,189 was not expended by the end of our fieldwork. When we asked why the \$79,611 was spent after the funding period, officials said that the funding period changed several times. However, because the 2-year agreement was for one individual’s salary and related expenses beginning in September 2005, STRAC would not have been able to expend the funds

by August 31, 2006 (the end of program year 2004). Regarding the \$12,189 of prepaid funds that GSAHC had not expended by the end of our fieldwork, an STRAC official said that the funds had not been expended because the services that STRAC purchased cost less than anticipated.

Unallowable Administrative Expenditures

Regulations (2 CFR part 230, Appendix A, section A.2.a (formerly OMB Circular A-122)), state that to be allowable under an award, costs must be “reasonable for the performance of the award and be allocable thereto under these principles.”

Pursuant to 2 CFR part 230, Appendix A, section A.4.a:

A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

- (1) Is incurred specifically for the award.
- (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or
- (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

STRAC claimed \$1,281 in unallowable administrative expenditures for a sympathy dinner, a parking ticket, and appreciation certificates for hurricane volunteers. An STRAC official said that he thought the dinner and certificates were allowable. The parking ticket was paid in error out of Program funds. (See Appendix E for a summary of STRAC unallowable administrative expenditures.)

Dallas-Fort Worth Hospital Council Expenditures

Unallowable Hospital Expenditures

Pursuant to 45 CFR part 74, Appendix E, section III.D.1, “A cost is allocable to a particular cost center (i.e., a specific function, project, research agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost center in accordance with relative benefits received or other equitable relationship.”

We identified \$25,462 in unallowable hospital expenditures:

- unallowable food and miscellaneous expenditures,
- a duplicate payment,
- duplicate expenditure receipts submitted in program years 2004 and 2005,

- hospital expenditures not related to the Program,
- an unallowable hospital bed expenditure, and
- training expenditures occurring after the program year.

(See Appendix F for a summary of DFWHC unallowable hospital expenditures.)

DFWHC officials provided the following explanations for the unallowable expenditures:³

- DFWHC did not accept receipts for unallowable food and miscellaneous expenditures. (The supporting documentation provided to us showed that the food and miscellaneous expenditures were accepted.)
- The duplicate payment was an administrative error by DFWHC.
- Duplicate expenditure receipts for program years 2004 and 2005 were allowed in error because the program years overlapped. Also, there was no protocol in place to compare documentation submitted for another program year.
- DFWHC did not explain why it accepted hospital expenditures not related to the Program. DFWHC agreed that there was a difference between what the hospital reported as Program expenditures and the supporting invoices. A hospital official stated that there was a difference between the invoices and the amounts paid to the vendor, which included the cost of items not related to the Program.
- DFWHC approved the birthing bed because the State agency approved the purchase. When we informed the State agency that the bed was a birthing bed, State agency officials agreed that it was an unallowable expenditure.
- DFWHC officials did not know why they had allowed expenditures for training that occurred after the program year.

Hospital Refunds Not Returned by DFWHC

Pursuant to 45 CFR § 92.52(a), “Any funds paid to a grantee in excess of the amount to which the grantee is finally determined to be entitled under the terms of the award constitute a debt to the Federal Government”

In accordance with 45 CFR § 74.73(a), “Any funds paid to a recipient in excess of the amount to which the recipient is finally determined to be entitled under the terms and conditions of the award constitute a debt to the Federal Government”

We identified three hospitals that returned \$8,885 in program year 2004 funds that DFWHC did not refund to the State agency. (See Appendix G for a summary of DFWHC hospital refunds not

³DFWHC disburses Program funds to the hospitals and then reviews supporting documentation for Program expenditures.

returned.) An official said that DFWHC did not submit the funds to the State agency because the refunds from hospitals were not always received before DFWHC had submitted a check to the State agency for unexpended Program funds. However, timing was not always the reason the State agency did not receive the Program funds because, in some instances, hospitals had submitted refunds to DFWHC prior to DFWHC submitting a check to the State agency.

UNDOCUMENTED EXPENDITURES

Two subrecipients failed to provide documentation totaling \$21,683. Of this amount:

- DFWHC claimed \$18,595, which included \$18,237 for hospital expenditures and \$358 for travel expenditures.
- STRAC claimed \$3,088 for administrative expenditures.

Dallas-Fort Worth Hospital Council Expenditures

Undocumented Hospital Expenditures

Regulations (2 CFR part 230, Appendix A, section A.2.g (formerly OMB Circular A-122)), state that costs must be “adequately documented” to be allowable under an award.

In accordance with 45 CFR § 74.21(b)(7), recipients’ financial management systems should provide accounting records, including cost accounting records, that are supported by source documentation.

The DFWHC program year 2005 Expenditure Plan states that the certified financial officer certifies with his or her signature that the information is true and accurate to the best of his or her knowledge and that he or she understands that HRSA, the State agency, and/or DFWHC can require additional supporting documentation.

We identified seven hospitals that did not provide supporting documentation for Program expenditures totaling \$23,025:⁴

- One hospital provided documentation for the funds received from DFWHC; however, the documentation did not support expenditures totaling \$6,269. DFWHC officials used supporting documentation for a shelter purchased in program year 2003 to support the shelter purchased in program year 2004.
- One hospital provided supporting documentation for \$191 of \$275 in expenditures, but we were unable to determine from the documentation whether the amount had been paid. The remaining \$84 was not supported. A hospital official said that the hospital had supported the \$191 but did not have support for \$84.

⁴We are recommending that DFWHC repay \$18,237 of this amount because DFWHC overpaid the State agency \$4,788.

- Five hospitals were unable to support expenditures totaling \$16,481. Hospital officials said that they did not have the support.

(See Appendix H for a summary of the DFWHC undocumented hospital expenditures.)

Undocumented Travel Expenditures

Regulations (2 CFR part 230, Appendix A, section A.2.g (formerly OMB Circular A-122)), state that costs must be “adequately documented” to be allowable under an award.

DFWHC did not provide support for travel expenditures totaling \$358 for program year 2005. We requested support for the travel charges several times, but DFWHC would not provide the supporting documentation.

Southwest Texas Regional Advisory Council Undocumented Administrative Expenditures

Regulations (2 CFR part 230, Appendix A, section A.2.g (formerly OMB Circular A-122)), state that costs must be “adequately documented” to be allowable under an award.

STRAC did not provide supporting documentation for program year 2005 expenditures totaling \$3,088. STRAC prepaid GSAHC \$275,793 for administrative services but provided supporting documentation for only \$272,705. GSAHC did not return the funds to STRAC until after program year 2005 was over; therefore, STRAC could not spend the funds on Program expenditures.

INTEREST EARNED ON FUNDS NOT RETURNED

Regulations (45 CFR § 74.22(l)) state: “. . . interest earned on Federal advances deposited in interest bearing accounts shall be remitted annually to the Department of Health and Human Services, Payment Management System Interest amounts up to \$250 per year may be retained by the recipient for administrative expense.”

Pursuant to the “HHS Grants Policy Statement,” page II-64:

Interest earned on advances of Federal funds must be handled as follows:

- *Nongovernmental recipients.* Any interest earned by nongovernmental recipients on advances of Federal funds under all Federal grant awards and subawards that, in the aggregate, exceeds \$250 per year (based on the recipient’s or subrecipient’s fiscal year) must be remitted annually to PMS (as the government-wide agent for collection).

STRAC did not remit \$29,924 in interest earned on Program funds to PMS. Interest earned on Program funds remained in an interest-bearing money market account because the State agency did not provide guidance to STRAC regarding interest earned.

ACCOUNTING RECORDS DID NOT SUPPORT FINANCIAL STATUS REPORT

Regulations (2 CFR part 225, Appendix A, section C.1.j (formerly OMB Circular A-87)), state that costs must be “adequately documented” to be allowable under Federal awards.

Regulations (45 CFR § 92.20(a)(2)) state: “Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.”

The program year 2003 accounting records did not support the final FSR. The FSR showed that all funds had been expended by the end of the program year; however, the accounting records showed an unobligated balance of \$3,005,125.

A State agency official said that expenditures for program year 2003 were mistakenly coded to program year 2004 because both program years ran concurrently for 18 months. Prior to our review, officials were working to resolve the coding error, but an accounting system problem caused a delay. Because program year 2003 had ended, the accounting system would not allow expenditure transfers. When we inquired about the unobligated balance, officials again worked on a solution to the problem. As of February 14, 2008, the accounting records showed program year 2003 funds as expended.

INSUFFICIENT MONITORING OF HOSPITALS BY DALLAS-FORT WORTH HOSPITAL COUNCIL

Pursuant to 45 CFR § 92.40, “Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved.”

Regulations (45 CFR § 74.51(a)) state that recipients are responsible for managing and monitoring each project, program, subaward, function, or activity supported by the award.

In accordance with 45 CFR § 74.21(b)(6) and (7), recipients’ financial management systems should provide for the following: “Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award” and “[a]ccounting records, including cost accounting records, that are supported by source documentation.”

The program year 2005 contract with the State agency states: “Performing agency shall monitor all of its agreements with hospitals to assure that all funds are appropriately spent”

DFWHC did not properly monitor hospitals because it did not consistently review receipts and other supporting documentation to verify that expenditures were acceptable. DFWHC did not have formal monitoring policies or procedures. When we asked for supporting documentation for the sampled hospitals’ expenditures, DFWHC did not have all the documentation required. The expenditure plans that hospitals submitted stated that the hospitals understood that they

could be required to provide additional supporting documentation. We made numerous requests for the supporting documentation through DFWHC, but the hospitals provided none of the documentation. Subsequently, we contacted the hospitals directly, but they did not have the documentation. Without supporting documentation, DFWHC had no assurance that the expenditures were paid or that the hospitals were spending Program funds on allowable expenditures.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$487,077 to HRSA;
- refund \$29,924 to the PMS;
- strengthen its review process to detect future unallowable expenditures;
- ensure that regional advisory councils and hospital planning councils strengthen their review process to detect future unallowable expenditures;
- ensure that STRAC:
 - 1) supports salary charges with an after-the-fact determination of actual employee activities,
 - 2) has employees allocate time between grants for total activity and sign their timesheets,
 - 3) follows generally accepted accounting principles and expends Program funds by the end of the Federal program funding period, and
 - 4) remits any interest earned on Program funds in excess of \$250 for every program year to PMS;
- inform regional advisory councils and hospital planning councils about the correct handling of interest earned on Program funds;
- ensure that future costs are adequately documented in the accounting records; and
- monitor grant- and subgrant-supported activities to assure compliance with applicable Federal requirements.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In its comments on our draft report, the State agency agreed with all but one of our findings and provided information on actions that it had taken or planned to take on our recommendations. After we issued our draft report, the State agency provided supporting documentation for \$20,536 in program year 2003 expenditures related to a vehicle tracking system. The State agency did not provide support showing that it had approval to spend an additional \$2,940 in program year 2005 on purchases related to the vehicle tracking system. After review of the State agency's comments and additional information, we revised the report where appropriate. However, we continue to recommend that a total of \$487,077 in unallowable expenses be refunded to HSRA. The State agency's comments are included as Appendix I

APPENDIXES

SUMMARY OF DALLAS-FORT WORTH HOSPITAL COUNCIL HOSPITALS

Program Year	Total Hospitals	Hospitals Reviewed	Dollar Value of Hospital Receipts	Dollar Value of Hospital Receipts Reviewed
2004	120	34	\$6,273,556	\$1,286,869
2005	114	25	8,240,809	1,303,169
Total			\$14,514,365	\$2,590,038

SUMMARY OF UNALLOWABLE AND UNDOCUMENTED EXPENDITURES

<u>Entity</u>	<u>Type of Questioned Expenditures</u>	<u>Total Amount</u>	<u>Appendix</u>
State agency	Unallowable administrative expenditures	\$6,180	Appendix C
	Total	\$6,180	
STRAC	Unallowable payroll expenditures	\$331,786	Appendix D
STRAC	Unallowable Program expenditures	91,800	-
STRAC	Unallowable administrative expenditures	1,281	Appendix E
DFWHC	Unallowable hospital expenditures	25,462	Appendix F
DFWHC	Hospital refunds not returned	8,885	Appendix G
	Total	\$459,214	
DFWHC	Undocumented hospital expenditures	\$18,237	Appendix H
DFWHC	Undocumented travel expenditures	358	-
STRAC	Undocumented administrative expenditures	3,088	-
	Total	\$21,683	
	Total Unallowable and Undocumented Expenditures	\$487,077	

**SUMMARY OF STATE AGENCY
UNALLOWABLE ADMINISTRATIVE EXPENDITURES**

<u>Program Year 2004</u>	<u>Amount</u>	<u>Reason for Disallowance</u>
Hurricane expenditures	\$150,138	Unallowable Program expenditures Not allocable to Program
Travel for another program's employee	3,240	
Total	<u>\$153,378</u>	
<u>Program Year 2005</u>	<u>Amount</u>	<u>Reason for Disallowance</u>
Vehicle tracking system	\$2,940	No approval for expenditures
Total	<u>\$2,940</u>	
Grand total for State agency		
Unallowable administrative expenditures	\$156,318	
Hurricane expenditures	<u>(150,138)</u>	
Total unallowable	<u>\$6,180</u>	

**SUMMARY OF SOUTHWEST TEXAS REGIONAL ADVISORY COUNCIL
UNALLOWABLE PAYROLL EXPENDITURES**

Program Year	Amount	Reason for Disallowance
2003	\$88,438	Timesheets do not show allocation of time for Program
2004	127,347	Timesheets do not show allocation of time for Program
2005	116,001	Timesheets do not show allocation of time for Program
Total	\$331,786	

**SUMMARY OF SOUTHWEST TEXAS REGIONAL ADVISORY COUNCIL
UNALLOWABLE ADMINISTRATIVE EXPENDITURES**

<u>Program Year 2004</u>	<u>Amount</u>	<u>Reason for Disallowance</u>
Appreciation certificates	\$1,223	Unallowable Program expenditure
Total	\$1,223	
<u>Program Year 2005</u>	<u>Amount</u>	<u>Reason for Disallowance</u>
Sympathy dinner	\$38	Unallowable Program expenditure
Parking ticket	20	Unallowable Program expenditure
Total	\$58	
Total unallowable	\$1,281	

**SUMMARY OF DALLAS-FORT WORTH HOSPITAL COUNCIL
UNALLOWABLE HOSPITAL EXPENDITURES**

<u>Program Year 2004 Hospitals</u>	<u>Amount</u>	<u>Reason for Disallowance</u>
Chillicothe		
Food and miscellaneous items	\$141	Unallowable Program expenditures
HealthSouth Rehabilitation Plano	125	DFWHC duplicate payment
Medical Center of Mesquite		
Abatement machine, personal		
computer, and laptop	12,544	Duplicate Program expenditures
Total	<u>\$12,810</u>	
<u>Program Year 2005 Hospitals</u>	<u>Amount</u>	<u>Reason for Disallowance</u>
Nocona General	\$812	Not allocable to Program
Seymour		
Birthing bed	10,000	Unallowable Program expenditure
Wilbarger		
Training	1,840	Purchase after the program year
Total	<u>\$12,652</u>	
Total unallowable	<u><u>\$25,462</u></u>	

**SUMMARY OF DALLAS-FORT WORTH HOSPITAL COUNCIL
HOSPITAL REFUNDS NOT RETURNED**

<u>Program Year 2004 Hospitals</u>	<u>Amount</u>	<u>Reason for Disallowance</u>
Glen Oaks Hospital	\$7,483	Funds not returned to State agency
Green Oaks Hospital	1,245	Funds not returned to State agency
HealthSouth Rehabilitation-Arlington	157	Funds not returned to State agency
Total	<u><u>\$8,885</u></u>	

**SUMMARY OF DALLAS-FORT WORTH HOSPITAL COUNCIL
UNDOCUMENTED HOSPITAL EXPENDITURES**

<u>Program Year 2004 Hospitals</u>	<u>Undocumented Amount</u>	<u>Reason for Disallowance</u>
Bowie Memorial	\$6,269	No support
Texas Specialty-Wichita Falls	275	No support
Total	\$6,544	
<u>Program Year 2005 Hospitals</u>	<u>Undocumented Amount</u>	<u>Reason for Disallowance</u>
Bowie Memorial	\$197	No support
Graham Regional	4,626	No support
Medical Center of Mesquite	6,197	No support
Nocona General	1,725	No support
Texas Specialty Hospital of Dallas	3,736	No support
Total	\$16,481	
Total undocumented	\$23,025	
Texas Specialty-Wichita Falls	(4,788)	*See note below
Grand Total undocumented	\$18,237	

*DFWHC refunded the State in error. The hospital provided support for this amount.



TEXAS DEPARTMENT OF STATE HEALTH SERVICES

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September 10, 2008

Gordon Sato, Regional Inspector General for Audit Services
Office of Inspector General
Office of Audit Services
Department of Health and Human Services
1100 Commerce, Room 632
Dallas, TX 75242

Re: Report A-06-07-00011

Dear Mr. Sato:

The Department of State Health Services (DSHS) has received and reviewed your agency's draft report entitled "Review of Texas Bioterrorism Hospital Preparedness Program." Our response to the findings and recommendations included in the report is attached to this correspondence.

We appreciate your staff's willingness to provide assistance and information during this review process. We look forward to working with you to improve the Hospital Preparedness program in Texas.

If you have any questions or comments concerning this response, please contact Ms. Patricia Melchior, Director, Contract Management Unit. Ms. Melchior may be reached by telephone at 1-888-963-7111, extension 2115, or by e-mail to patty.melchior@dshs.state.tx.us.

Sincerely,

A handwritten signature in black ink, appearing to read "Adolfo M. Valadez".

Adolfo M. Valadez, M.D., M.P.H.
Assistant Commissioner for Prevention and Preparedness
Texas Department of State Health Services

**Management Response
To
Report A-06-07-00011
Review of Texas Bioterrorism Hospital Preparedness Program**

The Department of State Health Services provides the following management response to the findings regarding unallowable expenditures; undocumented expenditures; interest earned on federal funds; accounting records; and monitoring of hospitals by a former DSHS sub-recipient.

UNALLOWABLE EXPENDITURES

The draft report details unallowable expenditures totaling \$485,930. Of these expenditures, \$26,716 is related to costs incurred by DSHS as the state administrative agency; \$424,867 is related to costs incurred by a sub-recipient, Southwest Texas Regional Advisory Council (STRAC); and the remaining \$34,347 is related to costs incurred by a former sub-recipient, Dallas-Fort Worth Hospital Council (DFWHC).

DSHS Expenditures

Of the original \$176,854 in unallowable DSHS expenditures as determined by OIG, \$150,138 has been reimbursed to the funding agency. The remaining \$26,716 consists of \$23,476 for a tracking system (\$20,536 in Program Year 2003 and \$2,940 in Program Year 2005) and \$3,240 for travel expenses.

DSHS requests reconsideration of the disallowed tracking system costs in the amount of \$23,476 as the system supports hospitals' ability to respond and place resources in the event of an emergency. The "Track your Truck" program allows emergency managers and local public health officials to identify locations of radiological emergency response vehicles, fire rescue vehicles and ambulances. This ability allows field monitoring leaders to strategically place and track medical and radiological monitoring teams, medical facility liaisons, couriers and contamination control teams in response to events involving radiological dispersal devices (dirty bombs) and other radiological incidents throughout Texas. Field teams are equipped to provide radioisotope identification and transmit results in the field to team leaders. This information is to be provided to the medical facility liaison in order to assist hospital emergency room staff to treat contaminated/injured victims. The ability to track vehicles provides status of their deployment and provides for more efficient placement of resources to aid in the emergency response.

The disallowed travel expenses in the amount of \$3,240 were inadvertently charged to FY2005 Hospital Preparedness funding. If required, DSHS will refund this amount.

Southwest Texas Regional Advisory Council Expenditures (STRAC)

The unallowable expenditures reported for STRAC total \$424,867. Of this amount, \$331,786 is related to payroll expenditures, \$91,800 is related to program expenditures, and \$1,281 is related to administrative expenditures.

DSHS concurs with the issue of non-compliance regarding STRAC timesheets and agrees that STRAC must maintain a compliant timekeeping system. DSHS requests reconsideration of the request to recoup \$331,786 for questioned payroll costs. DSHS regularly reports this type of non-compliance finding in its monitoring of DSHS sub-recipients and questions the payroll costs. Typically, the amounts disallowed and recouped are minimal due to documentation, in lieu of timesheets, that substantiates the majority of questioned payroll costs were expended for the contract. DSHS will ensure that STRAC establishes a compliant timekeeping system.

Of the questioned amount of \$91,800 for program expenditures related to WEB EOC development, \$79,611 was expended by August 31, 2006. The remaining \$12,189 has been expended on costs for WEB EOC. This project is a HRSA/OASPR approved project to increase grant communications and interoperability; the work done by STRAC is a vital part of the completion and success of these efforts. The period of availability was extended for this funding and there was discussion of further extensions. In consideration of the importance of the project, its completion and implementation and questions regarding funding periods, DSHS requests an extension of the funding so that the questioned amount of \$91,800 may be applied to costs incurred during the completion of this project.

DSHS concurs with disallowed administrative expenditures in the amount of \$1,281, and will request refund of this amount from STRAC.

Dallas-Fort Worth Hospital Council (DFWHC)

The unallowable expenditures reported for DFWHC are comprised of \$25,462 for unallowable hospital expenditures and \$8,885 for hospital refunds not returned to DSHS.

DSHS concurs with these unallowable amounts and intends to pursue recoupment. DSHS requests confirmation from DHHS OIG that these unallowable amounts were not previously repaid to DSHS in response to costs disallowed by a DSHS financial monitoring review finalized in 2007.

Controls

DSHS concurs with recommendations regarding documentation requirements for salary charges. DSHS provided training on financial requirements, including required documentation, to current hospital preparedness contractors in Spring 2008 and will continue to provide technical assistance to contractors as needed and requested. DSHS monitoring activities will continue to address documentation requirements.

DSHS concurs with recommendations regarding requirements to follow GAAP in expending program funds. More recently, the funding periods for this program have been more stable and, as a result, DSHS and the contractors can better prepare and plan for completion of program activities and expenditure of funds.

UNDOCUMENTED EXPENDITURES

The draft report details undocumented expenditures in the amount of \$21,683. Of this amount, \$18,595 is related to expenditures incurred by DFWHC, and \$3,088 is related to amounts incurred by STRAC.

DFWHC

The undocumented expenditures for DFWHC include \$18,237 for hospital expenditures and \$358 for travel expenditures.

DSHS concurs with these disallowed amounts and intends to pursue recoupment of these amounts. DSHS requests confirmation from DHHS OIG that these unallowable amounts were not previously repaid to DSHS in response to costs disallowed by a DSHS financial monitoring review finalized in 2007.

STRAC

The undocumented expenses for STRAC are \$3,088 for a refund to STRAC from a contractor.

DSHS agrees that STRAC received this refund after the funding expired on August 31, 2006, and, therefore, was unable to utilize the funds for allowable expenses. DSHS requests an extension of these funds to allow STRAC to utilize them for hospital preparedness-related expenses.

INTEREST EARNED ON FEDERAL FUNDS

STRAC

OIG identified interest in the amount of \$29,924 that was earned by STRAC but not returned.

DSHS agrees that interest earned by STRAC was not returned as required. Subsequent to the OIG fieldwork, additional interest was identified, for a total of \$43,171 in unreturned interest earned. DSHS will request repayment of this amount.

Controls

DSHS agrees that interest earned in excess of \$250 per year must be returned in accordance with federal requirements. DSHS has communicated this requirement to

contractors in regularly-scheduled meeting and will continue to ensure that contractors comply with these requirements.

ACCOUNTING RECORDS

The draft report indicates that all concerns were resolved prior to issuing the report. DSHS concurs.

Controls

DSHS concurs that future costs should be adequately documented and will continue efforts to ensure that this requirement is satisfactorily met.

MONITORING OF HOSPITALS BY DALLAS-FORT WORTH HOSPITAL COUNCIL

The draft report noted insufficient monitoring of hospitals by a former sub-recipient, Dallas-Fort Worth Hospital Council.

DSHS agrees that monitoring of hospitals to track expenditures is vital to the program. In late 2007 and early 2008, DSHS convened a workgroup comprised of DSHS personnel from program, legal, financial and contracting areas and external stakeholders with the goal of improving contract compliance with financial requirements. As a result of the work of this group, DSHS provided training on contract financial requirements to current hospital preparedness contractors. In addition, DSHS is working with all of the current contractors to transition to a regional pooling of purchases. This would require that the contractors to make all program-funded purchases for the hospitals in their service area and will centralize accounting and documentation with the contractor.

Controls

DSHS concurs with recommendations requiring monitoring of subrecipients and their contractors. DSHS will continue its monitoring of hospital preparedness contractors. In addition, the DSHS workgroup (mentioned in the paragraph above) focused on monitoring requirements for the sub-recipients' contractors and provided the subrecipients with monitoring tools to assist in their efforts.