DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

November 18, 2003

Report Number: A-05-03-00089

Dr. Pamela Diaz, M.D.
Department of Public Health
West Side Center for Disease Control
2160 West Ogden Avenue
Chicago, Illinois 60612

Dear Dr. Diaz,

The attached final report provides the results of our self-initiated review of the "City of Chicago's Efforts to Account for and Monitor Sub-recipients' Use of Bioterrorism Hospital Preparedness Program Funds." A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

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

Based on our validation of the questionnaire completed by Department officials and our site visit, we determined that the Department generally accounted for program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines. However, the Department did not segregate expenditures by phase, within phase, or by priority area. Although segregation was not required, budget restrictions were specified in the cooperative agreement. Department officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. Under the new guidelines that will be in effect August 31, 2003, grantees will be required to develop and maintain a financial accounting system capable of tracking expenditures by priority area, by critical benchmark, and by funds allocated to hospitals and other health care entities. Department officials indicated that that they were looking at new software, which would enable them to comply with the new requirements.

In its response to our questionnaire, the Department included indirect costs of $62,360, or approximately 14 percent of the total costs expended. HRSA guidance restricts grantees to indirect costs of 10 percent of the Phase I and Phase II total. Therefore, if the Department provided a Financial Status Report based on the data provided in the questionnaire, they would exceed the 10 percent restriction for indirect costs contained in the cooperative agreement guidance. The Department needs to monitor its indirect costs to ensure that it does not exceed the 10 percent limitation.

We also found the Department had established controls and procedures to monitor sub-recipient expenditures of Program funds. In response to our inquiry as to whether the Department reduced funding to existing public health programs, Department officials replied that Program funding had not been used to supplant existing programs.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We would appreciate your views and the status of any further action taken or contemplated on our recommendations within 15 days. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General reports are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

If you have any questions or comments about this report, please contact Leon Siverhus, Audit Manager, at 651-290-3762.

To facilitate identification, please refer to Report Number A-05-03-00089 in all correspondence relating to this report.

Sincerely,

Paul Swanson

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:
Nancy J. McGinness
Director, Office of Financial Policy and Oversight
Room 11A55, Parklawn Building
5600 Fishers Lane
Rockville, Maryland 20857

Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

CITY OF CHICAGO'S EFFORTS TO ACCOUNT FOR AND MONITOR SUB-RECIPIENTS' USE OF BIOTERRORISM HOSPITAL PREPAREDNESS PROGRAM FUNDS

DEPARTMENT OF PUBLIC HEALTH

NOVEMBER 2003
A-05-03-00089

Office of Inspector General

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In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

OBJECTIVE

Our objectives were to determine whether the Chicago Department of Public Health (the Department): (i) properly recorded, summarized and reported bioterrorism preparedness transactions by specific focus area designated in the cooperative agreements and (ii) whether the Department has established controls and procedures to monitor sub-recipient expenditures of Health Resources and Services Administration (HRSA) funds. In addition, we inquired as to whether Bioterrorism Hospital Preparedness Program (Program) funding supplanted programs previously funded by other organizational sources.

FINDINGS

Based on our validation of the questionnaire completed by Department officials and our site visit, we determined that the Department generally accounted for program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines. However, the Department did not segregate expenditures by phase, within phase, or by priority area. Although segregation was not required, budget restrictions were specified in the cooperative agreement. Department officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. Under the new guidelines that will be in effect August 31, 2003, grantees will be required to develop and maintain a financial accounting system capable of tracking expenditures by priority area, by critical benchmark, and by funds allocated to hospitals and other health care entities. Department officials indicated that that they were looking at new software, which would enable them to comply with the new requirements.

In its response to our questionnaire, the Department included indirect costs of $62,360, or approximately 14 percent of the total costs expended. HRSA guidance restricts grantees to indirect costs of 10 percent of the Phase I and Phase II total. Therefore, if the Department provided a Financial Status Report based on the data provided in the questionnaire, it would exceed the 10 percent restriction for indirect costs contained in the cooperative agreement guidance. The Department needs to monitor its indirect costs to ensure that it does not exceed the 10 percent limitation on indirect costs.

We also found the Department had established controls and procedures to monitor sub-recipient expenditures of Program funds. In response to our inquiry as to whether the Department reduced funding to existing public health programs, Department officials replied that Program funding had not been used to supplant existing programs.

RECOMMENDATIONS

We recommend that the Department:

- implement procedures to comply with the new requirements effective August 31, 2003 and begin tracking expenditures by priority area, critical benchmark, and by funds allocated to hospitals and other health care entities, and

- monitor indirect costs to ensure that it does not exceed the 10 percent restriction imposed by HRSA guidance.

DEPARTMENT COMMENTS

In a written response to our draft report dated October 27, 2003, Department officials generally concurred with our findings and recommendations. They are aware of the new requirements for tracking expenditures, however, they have received little guidance from HRSA on how to implement the requirements. They also stated that indirect costs will be monitored to ensure compliance with the 10 percent indirect cost restriction imposed by HRSA. Their response is included in its entirety as an appendix to this report.

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INTRODUCTION

BACKGROUND

The Program

Since September 2001, the U.S. Department of Health and Human Services has significantly increased its spending for public health preparedness and response to bioterrorism. For FYs 2002 and 2003, it awarded amounts for bioterrorism preparedness totaling $2.98 and $4.32 billion, respectively. Through this funding, some of the attention has been focused on the ability of hospitals and emergency medical services systems to respond to bioterrorist events.

Congress authorized funding to support activities related to countering potential biological threats to civilian populations under the Department of Defense and Emergency Supplemental Appropriations for Recovery from and Response to Terrorist Attacks on the United States Act, 2002, Public Law 107-117. As part of this initiative, the HRSA made available approximately $125 million in FY 2002 for cooperative agreements with State, territorial, and selected municipal offices of public health. The program is referred to as the Bioterrorism Hospital Preparedness Program (Program). The purpose of the Program is to upgrade the preparedness of the Nation's hospitals and collaborating entities to respond to bioterrorism.

The HRSA made awards to states and major local public health departments under Cooperative Agreement Guidance issued February 15, 2002. These awards provided funds for the development and implementation of regional plans to improve the capacity of hospitals, their emergency departments, outpatient centers, emergency medical systems and other collaborating health care entities for responding to incidents requiring mass immunization, treatment, isolation and quarantine in the aftermath of bioterrorism or other outbreaks of infectious disease.

Annual Program Funding

The Program year covered the period April 1, 2002 through March 31, 2003 and the funding totaled $125 million. It has since been extended to cover the period through March 31, 2004.

Budget Restrictions

During the program year, the cooperative agreement covered two phases. Phase I, *Needs Assessment, Planning and Initial Implementation*, provided 20 percent of the total award ($25 million) for immediate use. Up to one-half of Phase I funds could be used for development of implementation plans, with the remainder to be used for implementation of immediate needs. The remaining 80 percent of the total award ($100 million) was not made available until required implementation plans were approved by HRSA, at which point, Phase II, *Implementation*, could begin. Grantees were allowed to roll over

unobligated Phase I funds to Phase II. They were required to allocate at least 80 percent of Phase II funds to hospitals and their collaborating entities through contractual awards to upgrade their abilities to respond to bioterrorist events. Funds expended for health department infrastructure and planning were not to exceed the remaining 20 percent of Phase II funds.

Eligible Recipients

Grant recipients included all 50 states, the District of Columbia, the commonwealths of Puerto Rico and the Northern Marianas Islands, American Samoa, Guam, the U.S. Virgin Islands, and the nation's three largest municipalities (New York, Chicago, and Los Angeles County). Those eligible to apply included the health departments of states or their bona fide agents. Individual hospitals, emergency medical systems, health centers and poison control centers work with the applicable health department for funding through the Program.

Department Funding

The Department received funding of approximately $1.4 million for the first year of the Program. Department officials reported $532,301 expended and $839,633 unobligated Program funds as of June 30, 2003 (61.2 percent).

OBJECTIVE, SCOPE AND METHODOLOGY

Objectives

Our objectives were to determine whether the Department: (i) properly recorded, summarized and reported bioterrorism preparedness transactions in accordance with the terms and conditions of the cooperative agreements and (ii) has established controls and procedures to monitor sub-recipient expenditures of HRSA funds. In addition, we inquired as to whether Program funding supplanted funds previously provided by other organizational sources.

Scope

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

Our audit included a review of Department policies and procedures, financial reports, and accounting transactions during the period of April 1, 2002 through May 31, 2003.

Methodology

We developed a questionnaire to address the objectives of the review. The questionnaire covered the areas of: (i) grantee organization, (ii) funding, (iii) accounting for expenditures, (iv) supplanting, and (v) sub-recipient monitoring. Prior to our fieldwork, we provided the

questionnaire for the department to complete. During our site visit, we interviewed Department officials and obtained supporting documentation to validate their responses to the questionnaire.

Fieldwork was conducted at Department offices in Chicago, Illinois and our field office in St. Paul, Minnesota, during June and July 2003.

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

FINDINGS AND RECOMMENDATIONS

Based on our validation of the questionnaire completed by Department officials and our site visit, we determined that the Department generally accounted for program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines. However, the Department did not segregate expenditures by phase, within phase, or by priority area. Although segregation was not required, budget restrictions were specified in the cooperative agreement. Department officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. Under the new guidelines that will be in effect August 31, 2003, grantees will be required to develop and maintain a financial accounting system capable of tracking expenditures by priority area, by critical benchmark, and by funds allocated to hospitals and other health care entities. Department officials indicated that that they were looking at new software, which would enable them to comply with the new requirements.

In its response to our questionnaire, the Department included indirect costs of $62,360, or approximately 14 percent of the total costs expended. HRSA guidance restricts grantees to indirect costs of 10 percent of the Phase I and Phase II total. Therefore, if the Department provided a Financial Status Report based on the data provided in the questionnaire, it would exceed the 10 percent restriction for indirect costs contained in the cooperative agreement guidance. The Department needs to monitor its indirect costs to ensure that it does not exceed the 10 percent limitation on indirect costs.

The Department had controls and procedures to monitor sub-recipient expenditures of Program funds. In response to our inquiry as to whether the Department reduced funding to existing public health programs, Department officials replied that Program funding had not been used to supplant existing programs.

Accounting for Expenditures

An essential aspect of the Program is the need for the grantee to accurately and fully account for bioterrorism funds. Accurate and complete accounting of Program funds provides the HRSA with a means to measure the extent that the program is being implemented and whether the objectives are being met. Although the Department was not required to segregate expenditures in the accounting system by phase, within phase, or by priority area, there are budgeting restrictions set forth in the Cooperative Agreement Guidance and Summary Application Guidance for Award and First Allocation. Twenty percent of a grantee's total award will be

made available in Phase I. Page 7 of the Cooperative Agreement Guidance states that indirect costs will be "limited to 10 percent of the Phase I and Phase II total."

Regarding Phase I funds:

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

Regarding Phase II funds, page 2 of the Summary Application Guidance for Award and First Allocation states:

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

Without a segregation of funds, the Department had no assurance that funds expended were in accordance with the budgeting restrictions set forth in the cooperative agreement. Department officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. Our review showed that the Department was in compliance with the Phase I and II budget restrictions except for indirect costs. We noted indirect costs amounted to 14 percent, which exceeded the 10 percent ceiling stipulated by the cooperative agreement.

In addition, Department officials were addressing the new requirements in the 2003 HRSA Cooperative Agreement guidance, effective August 31, 2003. The guidance states the grantee must:

> …Develop and maintain a financial accounting system capable of tracking expenditures by priority area, by critical benchmark, and by funds allocated to hospitals and other health care entities….

Department officials indicated that they were looking at software options that will enable them to comply with the new HRSA requirements for financial accountability. They were also discussing with their project officer and peer HRSA recipients as to what the best procedures and practices are to implement the new tracking and reporting requirements.

Sub-recipient Monitoring

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

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

In addition, the Policy Statement further provides that grant requirements apply to subgrantees and contractors under the grants, as follows:

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

Based on the results of the questionnaire and interviews with Department officials, we found that the Department had established adequate controls and procedures to monitor sub-recipient expenditures of Program funds. Department officials provided a detailed description with supporting documentation of their sub-recipient monitoring activities. The Department requires sub-recipients to submit periodic Program Progress Reports. Department officials communicate directly with sub-recipients by phone and review sub-recipient purchase orders, invoices and other expenditure documentation.

Supplanting

Program funds were to be used to supplement current funding and focus on bioterrorism hospital preparedness activities under the HRSA Cooperative Agreement. Specifically, funds were not to be used to supplant existing Federal, State, or local public health funds available for emergency activities to combat threats to public health. Page 4 of the Cooperative Agreement Guidance states:

> …Given the responsibilities of Federal, State, and local governments to protect the public in the event of bioterrorism, funds from this grant must be used to supplement and not supplant the non-Federal funds that would otherwise be made available for this activity….

OMB Circular A-87 also states:

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

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

RECOMMENDATIONS

We recommend that the Department:

- implement procedures to comply with the new requirements, effective August 31, 2003 and begin tracking expenditures by priority area, critical benchmark, and by funds allocated to hospitals and other health care entities, and

- monitor indirect costs to ensure that it does not exceed the 10 percent restriction imposed by HRSA guidance.

DEPARTMENT COMMENTS

In a written response to our draft report dated October 27, 2003, Department officials generally concurred with our findings and our recommendations. They are aware of the new requirements for tracking expenditures, however, they had received little guidance from HRSA on how to implement the requirements. They also stated that indirect costs will be monitored to ensure compliance with the 10 percent indirect cost restriction imposed by HRSA. Their response is included in its entirety as an appendix to this report.

OTHER MATTERS

The Department received funding of approximately $1.4 million for the first year of the Program. Department officials reported $532,301 expended and $839,633 unobligated Program funds as of June 30, 2003 (61.2 percent). Department officials did not provide an explanation why the funds were unobligated.

DEPARTMENT COMMENTS

Department officials stated that the unobligated balance was attributable to a time lag in posting expenditures.

APPENDIX

City of Chicago
Richard M. Daley, Mayor

Department of Public Health

John L. Wilhelm, M.D., M.P.H.
Commissioner

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Chicago, Illinois 60604
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October 27, 2003

Mr. Leon Silverhus
Audit Manager
U.S. Department of Health & Human Services
Office of Inspector General
Office of Audit Services
380 Jackson Street, Suite 727
St. Paul, MN 55101

RE: Report Number A-05-03-00089, HRSA

Dear Mr. Silverhus:

We are in receipt of your August 26, 2003 findings and recommendations for the Health Resources and Services Administration (HRSA). Following below are your recommendations and our plan of action to comply.

RECOMMENDATIONS:

- Implement procedures to comply with the new requirements, effective August 31, 2003 and begin tracking expenditures by priority area, critical benchmark, and by funds allocated to hospitals and other health care entities, and

- Monitor indirect costs to ensure that it does not exceed the 10 percent restriction imposed by HRSA guidance.

PLAN OF ACTION

The Chicago Department of Public Health is aware of the new requirements to track expenditures by priority area, critical benchmark, and by funds allocated to hospitals and other health care entities. To date, we have received no template and little guidance on how to accomplish these new tracking requirements. Please forward this documentation so we can comply. If assistance is needed in developing guidance, please do not hesitate to call.

The Chicago Department of Public Health will monitor its indirect costs to ensure that we do not exceed the 10% indirect cost restriction imposed by HRSA at the end of the grant period.

OTHER MATTERS

- The Department received funding of approximately $1.4 million for the first year of the Program. Department officials reported $532,301 expended and $839,633 unobligated Program funds as of June 30, 2003 (61.2 percent). Department officials did not provide an explanation why the funds were unobligated.

RESPONSE

Because the City reports lag behind due to sheer volume and timing, there is always a difference in what has actually been expended and what is really unobligated. For example, the City is three pay periods behind in posting payrolls. Additionally, the contract with our fiscal agent is an unencumbered contract so expended amounts are reflected upon receipt of actual invoices. Both of these issues make it appear that the funds are unobligated. Since the majority of HRSA monies flow from our fiscal agent, by the time vouchers are signed and the money from the City hits the fiscal agent's bank, the time lag can be weeks. As of the end of April 30, 2003, we had obligated a total of $955,000 in contracts to area hospitals. This will be resolved via the FSR and all of the funds will be drawn down appropriately. We will be happy to provide quarterly reports that show the drawn down amounts on an accrual basis.

Hopefully, we have addressed your questions and answered your recommendations. If you have any questions, please contact Ms. Perlita Santos at: 312/747-8805.

Sincerely,

Peter Gribble
Managing Deputy Commissioner

Cc: Pamela Diaz MD – CDPH, BT Program Manager
Carlos Barrios – CDPH, Fiscal Section
Perlita Santos – CDPH, Fiscal Section

ACKNOWLEDGEMENTS

This report was prepared under the direction of Paul Swanson, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

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Brent Storhaug, *Senior Auditor*
Shirley Loos, *Auditor*

For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.