



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

DEC - 5 2006

Washington, D.C. 20201

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

FROM: Daniel R. Levinson *Daniel R. Levinson*
Inspector General

SUBJECT: Audit of Unobligated Balances of Funds Awarded Under the Public Health Preparedness and Response for Bioterrorism Program (A-05-05-00031)

The attached final report provides the results of our audit of unobligated balances of funds awarded under the Public Health Preparedness and Response for Bioterrorism Program (Bioterrorism Program). From August 31, 1999, to August 30, 2005, when the Bioterrorism Program ended, the Centers for Disease Control and Prevention (CDC) awarded almost \$3 billion to States and major local health departments (awardees). To monitor the expenditure of these funds, CDC required awardees to submit financial status reports within 90 days after the end of each budget period. The reports showed such information as the amounts expended, obligated, and unobligated.

Our objectives were to determine how much funding remained unobligated at the close of the Bioterrorism Program and what factors contributed to the unobligated balances.

At the close of the Bioterrorism Program, cumulative unobligated balances totaled more than \$157 million for the 52 awardees that submitted financial status reports for the last budget period. This amount represented 15.8 percent of the approximately \$996 million awarded for the last budget period, including cumulative carryover amounts.

Although CDC had methods in place to monitor the obligation and expenditure of funds, many awardees did not fully execute their expenditure plans or submit timely financial status reports. Thus, CDC did not always receive the information needed to encourage the expenditure of funds and to minimize unobligated balances. In addition, CDC officials did not offset (reduce) new-year awards by the amount of unobligated funds carried over from the prior budget year, even though the Department's "Awarding Agency Grants Administration Manual" (the Manual) authorizes offsets. Although CDC is not required to implement the Manual, the use of such offsets could have minimized unobligated balances and made additional new-year funding available for awardees with greater needs.

Under its new Public Health Emergency Preparedness Program, which began August 31, 2005, CDC has strengthened its guidance and established additional oversight controls. CDC also reports that it has obtained departmental approval to use carryover funds from the prior budget year to offset the amount of funding approved for the new budget period. In December 2004, CDC issued guidance to grantees stating that unobligated balances may be carried forward and used as an offset to new funding. It is too early, however, to determine whether these tools will enable CDC to assist awardees in implementing their expenditure plans and thereby minimize unobligated balances at the end of each budget year.

We recommend that CDC, in managing awards under its new program:

- ensure that awardees submit financial status reports in a timely manner;
- follow new program guidance to better manage grant funds among eligible entities and preparedness priorities; and
- when appropriate, offset new-year awards by the amount of unobligated funds carried over from the prior budget year to better manage large unobligated balances and meet program goals.

In written comments on our draft report, CDC concurred with our recommendations and stated that it had taken a number of actions that had helped to significantly reduce unobligated balances.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Joseph J. Green, Assistant Inspector General for Grants and Internal Activities, at (202) 619-1175 or through e-mail at Joseph.Green@oig.hhs.gov. Please refer to report number A-05-05-00031 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF UNOBLIGATED
BALANCES OF FUNDS AWARDED
UNDER THE PUBLIC HEALTH
PREPAREDNESS AND RESPONSE
FOR BIOTERRORISM PROGRAM**



Daniel R. Levinson
Inspector General

December 2006
A-05-05-00031

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

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

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. Specifically, these evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness in departmental programs. To promote impact, the reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties.

Office of Counsel to the Inspector General

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

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

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 the information 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 HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

Preparedness and Response Programs

From August 31, 1999, to August 30, 2005, the Public Health Preparedness and Response for Bioterrorism Program (Bioterrorism Program) funded States and major local health departments (awardees) to improve bioterrorism preparedness and response capabilities. The Centers for Disease Control and Prevention (CDC), which administered the Bioterrorism Program, awarded a total of almost \$3 billion. To monitor the expenditure of these funds, CDC required awardees to submit financial status reports within 90 days after the end of each budget period. The reports showed such information as the amounts expended, obligated, and unobligated.

Following the end of the Bioterrorism Program, CDC initiated a new program, the Public Health Emergency Preparedness Program. Participation in the new program is limited to those entities funded under the Bioterrorism Program.

Office of Inspector General Reviews

A prior Office of Inspector General report (A-05-04-00027) found that as of August 30, 2003, 15 of the 17 audited awardees had unobligated balances totaling approximately \$65 million, or 15 percent of the \$428 million in Bioterrorism Program funds awarded. The report noted that improvements were needed to ensure that funds were efficiently and effectively used. Our later work at five awardees found continuing unobligated balances as of August 30, 2004.

This current report updates the status of unobligated balances as of August 30, 2005, based on our review of awardees' financial status reports.

OBJECTIVES

Our objectives were to determine how much funding remained unobligated at the close of the Bioterrorism Program and what factors contributed to the unobligated balances.

SUMMARY OF FINDINGS

At the close of the Bioterrorism Program, cumulative unobligated balances totaled more than \$157 million for the 52 awardees that submitted financial status reports for the last budget period. This amount represented 15.8 percent of the approximately \$996 million awarded for the last budget period, including cumulative carryover amounts.

Although CDC had methods in place to monitor the obligation and expenditure of funds, many awardees did not fully execute their expenditure plans or submit timely financial status reports. Thus, CDC did not always receive the information needed to encourage the expenditure of funds and to minimize unobligated balances. In addition, CDC officials did not offset (reduce) new-year awards by the amount of unobligated funds carried over from the prior budget year, even

though the Department's "Awarding Agency Grants Administration Manual" (the Manual) authorizes offsets. Although CDC is not required to implement the Manual, the use of such offsets could have minimized unobligated balances and made additional new-year funding available for awardees with greater needs.

Under its new Public Health Emergency Preparedness Program, CDC has strengthened its guidance and established additional oversight controls. CDC also reports that it has obtained departmental approval to use carryover funds from the prior budget year to offset the amount of funding approved for the new budget period. In December 2004, CDC issued guidance to grantees stating that unobligated balances may be carried forward and used as an offset to new funding. It is too early, however, to determine whether these tools will enable CDC to assist awardees in implementing their expenditure plans and thereby minimize unobligated balances at the end of each budget year.

RECOMMENDATIONS

We recommend that CDC, in managing awards under its new program:

- ensure that awardees submit financial status reports in a timely manner;
- follow new program guidance to better manage grant funds among eligible entities and preparedness priorities; and
- when appropriate, offset new-year awards by the amount of unobligated funds carried over from the prior budget year to better manage large unobligated balances and meet program goals.

CENTERS FOR DISEASE CONTROL AND PREVENTION COMMENTS

In written comments on our draft report, CDC concurred with our recommendations and stated that it had taken a number of actions that had helped to significantly reduce unobligated balances.

CDC's comments are included in their entirety as Appendix C.

TABLE OF CONTENTS

Page

INTRODUCTION.....1

BACKGROUND1

 Public Health Preparedness and Response for Bioterrorism Program1

 Public Health Emergency Preparedness Program.....2

 Prior Work at Awardees.....2

OBJECTIVES, SCOPE, AND METHODOLOGY.....2

 Objectives2

 Scope.....2

 Methodology3

FINDINGS AND RECOMMENDATIONS3

UNOBLIGATED FUND BALANCES.....4

FACTORS CONTRIBUTING TO UNOBLIGATED BALANCES6

 Expenditure Plans Not Executed6

 Untimely and Infrequent Submission of Financial Status Reports6

 Offset Authority Not Used.....6

OVERSIGHT CONTROL IMPROVEMENTS7

 Controls for the Bioterrorism Program7

 Guidance and Controls for the Public Health Emergency Preparedness Program8

CONCLUSION.....9

RECOMMENDATIONS.....9

CENTERS FOR DISEASE CONTROL AND PREVENTION COMMENTS9

APPENDIXES

 A – AUDIT REPORTS ON FIVE AWARDEES

 B – COMPARISON OF BUDGET PERIODS 4 AND 5 BY PERCENTAGE OF FUNDS UNOBLIGATED

 C – CENTERS FOR DISEASE CONTROL AND PREVENTION COMMENTS

INTRODUCTION

BACKGROUND

Public Health Preparedness and Response for Bioterrorism Program

From August 31, 1999, to August 30, 2005, the Public Health Preparedness and Response for Bioterrorism Program (Bioterrorism Program) funded States and major local health departments (awardees) to improve bioterrorism preparedness and response capabilities. The Bioterrorism Program was authorized under sections 301(a), 317(k)(1)(2), and 319 of the Public Health Service Act (42 U.S.C. §§ 241(a), 247b(k)(1)(2), and 247d).

The Centers for Disease Control and Prevention (CDC) was responsible for administering the Bioterrorism Program. Through August 30, 2005, CDC awarded almost \$3 billion to the 50 States; the District of Columbia; the Commonwealths of Puerto Rico and the Northern Marianas Islands; American Samoa; Guam; the U.S. Virgin Islands; the Republics of Palau and the Marshall Islands; the Federated States of Micronesia; and the Nation's three largest municipalities—New York City, Chicago, and Los Angeles County. Table 1 summarizes newly appropriated funding by budget period.

Table 1: Budget Periods and Funding¹

Budget Period	Funding (in Millions)
1 (August 31, 1999, to August 30, 2000)	\$40
2 (August 31, 2000, to August 30, 2001)	41
3 (August 31, 2001, to August 30, 2003) ²	999
4 (August 31, 2003, to August 30, 2004)	970
5 (August 31, 2004, to August 30, 2005)	849
Total	\$2,899

To initiate the Bioterrorism Program, CDC published Program Announcement 99051 in the spring of 1999 and then entered into cooperative agreements with awardees. The program announcement and notice of cooperative agreement required awardees to submit financial status reports and annual progress reports within 90 days after the end of each budget period. These reports show such information as the amounts expended, obligated, and unobligated. CDC provided guidance in the program announcement, notice of cooperative agreement, and continuation guidance.

¹Funding amounts do not include carryovers subsequently reported on financial status reports.

²After the events of September 11, 2001, CDC initiated an Emergency Supplemental award funded 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 a result, CDC issued cooperative agreement amendments to extend budget period 3 from August 30, 2002, to August 30, 2003, and the program period from August 30, 2004, to August 30, 2005.

Public Health Emergency Preparedness Program

Beginning August 31, 2005, following the end of the Bioterrorism Program, CDC initiated a new program, the Public Health Emergency Preparedness Program. The purpose of the new program is to upgrade and integrate State and local public health jurisdictions' preparedness for and response to terrorism and other public health emergencies. Participation is limited to those entities funded under Program Announcement 99051.

CDC issued notices of cooperative agreement and provided guidance under Program Announcement AA154. The program announcement cites 42 U.S.C. § 247d-3 as the statutory authorization. The program is approved for a 5-year period with budget year 1 beginning August 31, 2005, and ending August 30, 2006. Approximately \$862 million is available to fund budget year 1.

Prior Work at Awardees

A prior Office of Inspector General report found that as of August 30, 2003, 15 of the 17 audited awardees had unobligated balances totaling approximately \$65 million, or 15 percent of the \$428 million in Bioterrorism Program funds awarded.³ The report noted that improvements were needed to ensure that program funds were efficiently and effectively used.

Based on the significant unobligated funds found in the prior audit, we audited five awardees (Arkansas, the District of Columbia, Massachusetts, North Carolina, and Ohio) to determine the status of unobligated funds as of August 30, 2004. We also assessed whether the awardees claimed only allowable costs and whether program funding supplemented and did not supplant existing levels of local funding. We presented the results in individual reports to the five awardees. (See Appendix A.)

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine how much funding remained unobligated at the close of the Bioterrorism Program and what factors contributed to the unobligated balances.

Scope

This report combines the data found in our prior work at awardees with our review of the 54 financial status reports submitted by the 50 States, the District of Columbia, and 3 major metropolitan areas for budget period 4 (August 31, 2003, to August 30, 2004) and the 52 financial status reports submitted for budget period 5 (August 31, 2004, to August 30, 2005).⁴

³"Nationwide Audit of State and Local Government Efforts to Record and Monitor Subrecipients' Use of Public Health Preparedness and Response for Bioterrorism Program Funds" (A-05-04-00027, issued August 5, 2004).

⁴As of the end of our fieldwork, Georgia and Iowa had not submitted financial status reports for budget period 5 because CDC had granted extensions.

We did not review CDC's overall internal control structure. We limited our internal control review to obtaining an understanding of the financial status reports. During our prior work at awardees, we reviewed the awardees' procedures to account for Bioterrorism Program funds. We conducted our fieldwork at CDC offices in Atlanta, Georgia, during 2005.

Methodology

To meet our objectives, we consolidated the unobligated balance information for budget period 5 and the identified causes of unobligated balances at the previously audited awardees.

During our visits to CDC, we obtained financial status reports for budget periods 4 and 5. Because some awardees had not submitted financial status reports at the time of our visits, CDC officials provided copies as they became available.

The purpose of gathering the financial status reports was to determine the extent of unobligated fund balances and to assess the timeliness of the reports. We obtained budget period 5 financial status reports to identify amounts reported at the close of the Bioterrorism Program and budget period 4 financial status reports to compare and contrast amounts between budget periods. We also interviewed CDC fiscal and program officials to gain an understanding of and clarify program requirements and to identify CDC's oversight activities, especially those intended to minimize unobligated balances.

We performed our review in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

At the close of the Bioterrorism Program, cumulative unobligated balances totaled more than \$157 million for the 52 awardees that submitted financial status reports for budget period 5. This amount represented 15.8 percent of the approximately \$996 million awarded for budget period 5, including cumulative carryover amounts.

Although CDC had methods in place to monitor the obligation and expenditure of funds, many awardees did not fully execute their expenditure plans or submit timely financial status reports. Thus, CDC did not always receive the information needed to encourage the expenditure of funds and to minimize unobligated balances. In addition, CDC officials did not offset (reduce) new-year awards by the amount of unobligated funds carried over from the prior budget year, even though the Department's "Awarding Agency Grants Administration Manual" (the Manual) authorizes offsets. Although CDC is not required to implement the Manual, the use of such offsets could have minimized unobligated balances and made additional new-year funding available for awardees with greater needs.

Under its new Public Health Emergency Preparedness Program, CDC has strengthened its guidance and established additional oversight controls. CDC also reports that it has obtained departmental approval to offset award amounts by carryover funds from the prior budget year. In December 2004, CDC issued guidance to grantees stating that unobligated balances may be carried forward and used as an offset to new funding. It is too early, however, to determine

whether these tools will enable CDC to assist awardees in implementing their expenditure plans and thereby minimize unobligated balances at the end of each budget year.

UNOBLIGATED FUND BALANCES

Program Announcement 99051 established a goal of fully expending authorized Bioterrorism Program funds and stated that: “The activities to be funded through this program are considered to be of application core importance to the security of the country. It is CDC’s intent that applications that are funded should be pursued vigorously with as little time lost in start-up as possible.” Although awardees submitted expenditure plans that described efficient and effective use of Bioterrorism Program funds, awardees did not fully execute their expenditure plans and did not fully use authorized funds by the end of the Bioterrorism Program.

Unobligated balances of about 15 percent of the awarded amounts occurred throughout the project period. Fifty-four awardees had unobligated balances of \$168 million as of August 30, 2004, and 52 awardees had unobligated balances of more than \$157 million as of August 30, 2005, the close of the Bioterrorism Program. These amounts represented 15.4 percent of the \$1,094 million awarded for budget period 4 and 15.8 percent of the \$996 million awarded for budget period 5. (See Appendix B for details.) Our prior audit (A-05-04-00027) reported a 14-percent unobligated rate for budget periods 1 through 3 for the 17 awardees reviewed.

Table 2 shows the 10 awardees with the largest balances of unobligated funds at the end of the Bioterrorism Program (budget period 5). Collectively, the 10 awardees received 30.2 percent of the \$996 million awarded for budget period 5.

Table 2: Budget Period 5 Top 10 Awardees by Unobligated Balance

Awardee	Federal Funds Awarded⁵	Unobligated Balance of Federal Funds	Percentage Unobligated
Texas	\$67,170,118	\$13,825,974	20.6%
District of Columbia	20,032,292	12,227,280	61.0%
Los Angeles	28,414,156	10,198,192	35.9%
Pennsylvania	50,776,737	6,448,560	12.7%
North Carolina	21,288,709	6,068,396	28.5%
Oregon	16,048,213	5,239,116	32.6%
Indiana	17,998,528	5,097,866	28.3%
Arizona	20,020,724	5,012,352	25.0%
Ohio	39,091,923	4,588,466	11.7%
Louisiana	20,235,952	4,375,905	21.6%

Table 3 shows the 10 awardees that received the largest awards and their unobligated balances for budget period 5. Collectively, the 10 awardees received 42.4 percent of the \$996 million awarded for budget period 5.

⁵Federal funds awarded include carryover amounts reported on financial status reports.

Table 3: Budget Period 5 Top 10 Awardees by Award Amount

Awardee	Federal Funds Awarded⁶	Unobligated Balance of Federal Funds	Percentage Unobligated
California	\$68,819,980	\$1,882,804	2.7%
Texas	67,170,118	13,825,974	20.6%
Pennsylvania	50,776,737	6,448,560	12.7%
Florida	43,704,396	3,471,791	7.9%
Ohio	39,091,923	4,588,466	11.7%
New York	34,254,995	4,353,356	12.7%
Michigan	30,704,353	2,294,482	7.5%
New Jersey	30,516,430	4,026,766	13.2%
Massachusetts	28,553,869	4,059,361	14.2%
Los Angeles	28,414,156	10,198,192	35.9%

Three of these top ten awardees had unobligated balances of less than 10 percent in budget period 5. Thus, the amount of yearend unobligated funds does not appear to be directly related to the size of the award. For example, California received almost \$69 million, of which only 2.7 percent was unobligated, while Texas received \$67 million, of which 20.6 percent was unobligated.

Some awardees had recurring large unobligated balances. Table 4 presents the six awardees that had double-digit percentages of unobligated funds in both budget periods 4 and 5.

Table 4: Awardees With Double-Digit Percentages of Unobligated Funds in 2 Consecutive Years

Awardee	Budget Period 4		Budget Period 5	
	Unobligated Balance of Federal Funds	Percentage Unobligated	Unobligated Balance of Federal Funds	Percentage Unobligated
Arizona	\$3,128,511	15.4%	\$5,012,352	25.0%
District of Columbia	6,984,411	41.2%	12,227,280	61.0%
Louisiana	6,252,809	36.8%	4,375,905	21.6%
Ohio	5,551,520	15.7%	4,588,466	11.7%
Pennsylvania	16,667,434	43.6%	6,448,560	12.7%
Texas	11,647,176	16.9%	13,825,974	20.6%

⁶Federal funds awarded include carryover amounts reported on financial status reports.

FACTORS CONTRIBUTING TO UNOBLIGATED BALANCES

Expenditure Plans Not Executed

For each budget period, CDC authorized funding based on established formulas, and awardees submitted expenditure plans (budgets and budget justifications) to CDC in line with their authorized funding. However, awardees did not always execute their expenditure plans by the end of the budget period.

The audited awardees experienced expenditure delays related to difficulties in recruiting and hiring personnel; coordinating the start of new activities; executing contracts; and purchasing laboratory equipment, supplies, and other materials. Recruiting and hiring difficulties were caused by unexpected staffing changes and hiring freezes, while difficulties in starting new activities were caused by an extensive needs assessment process. Expenditures related to executing contracts were delayed by the need to issue Requests for Proposals, evaluate bids, and select the contractors.

Untimely and Infrequent Submission of Financial Status Reports

CDC's notice of cooperative agreement stated: "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 needed the information in these reports to determine whether unobligated prior-year funds should be deobligated and recovered; carried forward and added to new funding; or carried forward and deducted from new funding, thereby freeing up money to be spent on awardees needing additional funding. In some cases, the information in the reports may have indicated the need for CDC to take administrative enforcement action, such as the suspension or termination of a grant (45 CFR § 92.43).

Contrary to the requirement in CDC's notice of cooperative agreement, awardees submitted 61 percent of their financial status reports for budget period 4 and 39 percent of the reports for budget period 5 more than 90 days after the budget period ended. CDC therefore did not always have sufficient information to properly oversee the Bioterrorism Program and to accurately calculate award amounts based on expended, obligated, and unobligated funds reported. Additionally, the submission of financial status reports only once a year did not provide CDC with adequate and timely information. Even when submitted within the required 90-days after the end of the budget year, the reports were not timely enough to make decisions on current-year funding allocations.

Offset Authority Not Used

CDC guidance addressed unobligated funds by encouraging awardees to submit carryover requests and by advising awardees that unjustified carryovers of unobligated balances would be offset against the next year's authorized funding level. Specifically, Program Announcement 99051's continuation guidance for budget period 4, dated May 2, 2003, stated: "Applicants are encouraged to submit carry-over requests to complete critical projects undertaken in response to prior CDC guidance that were begun but not completed in the previous budget period and/or to

support unforeseen needs within the scope of this cooperative agreement.” The continuation guidance also stated that “Estimated FY [fiscal year] 2002 supplemental unobligated funds that are not adequately justified or for which a written carry-over request is not received by July 1, 2003 will be brought forward in lieu of new (FY 2003) funds.” Despite this guidance, CDC carried forward all unobligated balances and added those funds to the full amount of new-year funding regardless of whether awardees adequately justified their unobligated balances.

Departmental policy described in the Manual provides authority to offset new-year grant awards by the amount of unobligated funds carried forward from the prior budget period. Section 2.04.104B-5E.2.a of the Manual provides that if unobligated balances are not deobligated at the end of a budget period but instead are authorized for carryover, the awarding office may:

- (1) Add the funds to the full amount otherwise approved for the non-competing continuation award for the budget period into which the funds are carried, and allow them to be used for the purpose(s) for which they were originally authorized or other purposes within the scope of the application as originally approved (the approved budget is modified and/or increased accordingly); or
- (2) Use them as an offset (reduction) to the amount of funding otherwise approved for the non-competing continuation award for the applicable budget period, reducing the amount of new Federal funds awarded while the budget and activities for the applicable budget period remain as previously approved.

Although CDC is not required to implement the Manual,⁷ it could have adopted any of the Manual’s policies. In fact, CDC stated in its continuation guidance governing budget period 4 that it intended to follow the grants management practice of offsetting the amount of new funding by the amount carried forward. Had CDC done so, it could have managed those awardees that were not spending at the anticipated rate by offsetting their continuation awards in subsequent years. CDC then could have awarded current-year funds that were not needed by awardees with large, inadequately justified carryovers to awardees with greater needs. By using this grants management tool, CDC could have minimized unobligated balances at the end of a budget period and maximized the funding available each year.

OVERSIGHT CONTROL IMPROVEMENTS

Controls for the Bioterrorism Program

Based partially on our prior report (A-05-04-00027) and subsequent audit work, CDC strengthened its monitoring and oversight controls in an attempt to reduce the level of unobligated balances under the Bioterrorism Program. CDC implemented the Unified Financial Management System to monitor each awardee’s funding level and ensure that it reflects the appropriate amount of authorized funding. CDC also implemented the Division of State and Local Readiness Management Information System, accessible by both CDC officials and awardees, to monitor the execution of expenditure plans and convened meetings to discuss

⁷See section 1.01.101-2.A, note 1, of the Manual.

awardee budget requests, funding, and program progress. In addition, CDC provided training and technical assistance to staff to share information concerning all aspects of the Bioterrorism Program and formed committees of CDC project officers and awardees to review and enhance the management information system.

Despite these efforts, unobligated balances continued to exist at the end of the Bioterrorism Program.

Guidance and Controls for the Public Health Emergency Preparedness Program

To prevent the accrual of large balances of unobligated funds under the new Public Health Emergency Preparedness Program, CDC issued stronger guidance and made additional fiscal and programmatic changes. Program Announcement AA154 states: “Grantees that fail to comply with the terms and conditions of this cooperative agreement, including responsiveness to program guidance, measured progress in meeting the performance measures, and adequate stewardship of federal funds may be subject to an administrative enforcement action.” According to the announcement, continuing large unobligated balances may indicate a failure to comply with the terms and conditions of the cooperative agreement, and CDC could take the enforcement actions described in 45 CFR § 92.43.

Additional changes in oversight controls include more frequent submissions of progress reports and financial status reports. Prior Bioterrorism Program guidance initially required annual progress reports and then changed the requirement to semiannual progress reports (February 15, 2002, guidance for FY 2002 supplemental funds). In contrast, Program Announcement AA154 requires quarterly progress reports using CDC report templates to assess outcomes under the Public Health Emergency Preparedness Program. The progress reports must be submitted through the management information system, decreasing the lag time between submission and review. The announcement also requires midyear and yearend financial status reports on expended, obligated, and unobligated balances. In addition, it requires awardees to submit estimated financial status reports with their yearly applications. These three financial status reports, plus additional information gathered from day-to-day management and oversight operations, should provide an up-to-date picture of awardee progress.

CDC officials informed us that CDC had recently obtained departmental approval to offset award amounts by carryover funds under the new program. CDC officials told us that they had not made a final decision on how to use the offset funds. Officials believed that they could award the offset funds to existing awardees without changing the scope of the awards because the funds would be used for preparedness efforts consistent with the original awards, such as regional collaboration or best practices in dealing with vulnerable populations. We note that CDC’s Web site contains guidance to grantees that mirrors the Manual’s policy permitting the carryforward of unobligated balances into a successive budget year and the offsetting of new funding by the amount carried forward.⁸ This guidance was published in December 2004, and we do not know whether CDC had any prior guidance reflecting this policy.

⁸See “Grantee’s Financial Reference Guide for Managing CDC Grants and Cooperative Agreements” (December 2004). Available online at <http://www.cdc.gov/od/pgo/funding/pubcommnt.pdf>. Accessed on July 18, 2006.

CONCLUSION

Despite CDC's monitoring of the Bioterrorism Program, significant unobligated balances continued to exist. Because most awardees that failed to fully execute their expenditure plans did not submit timely financial status reports, CDC did not have sufficient information to ensure that program funds were fully used to meet program goals. Also, although the Manual provides authority to offset new-year funds by unobligated balances carried over from the prior budget period, CDC did not use this authority.

CDC has strengthened its guidance and oversight controls and has obtained departmental approval to offset grant awards under its new Public Health Emergency Preparedness Program. However, it is too early to determine whether these steps will correct the expenditure execution problems and unobligated balances noted under the Bioterrorism Program.

RECOMMENDATIONS

We recommend that CDC, in managing awards under its new program:

- ensure that awardees submit financial status reports in a timely manner;
- follow new program guidance to better manage grant funds among eligible entities and preparedness priorities; and
- when appropriate, offset new-year awards by the amount of unobligated funds carried over from the prior budget year to better manage large unobligated balances and meet program goals.

CENTERS FOR DISEASE CONTROL AND PREVENTION COMMENTS

In its October 30, 2006, written comments on our draft report, CDC concurred with our recommendations and stated that it had taken a number of actions that had helped to significantly reduce unobligated balances. CDC also provided technical comments, which we incorporated into this final report.

CDC's comments are included in their entirety as Appendix C.

APPENDIXES

AUDIT REPORTS ON FIVE AWARDEES

Awardee	Report Number ¹	Date Issued
Arkansas Department of Health	A-06-05-00025	August 5, 2005
District of Columbia Department of Health	A-03-04-00353	June 21, 2005
Massachusetts Department of Public Health	A-01-04-01503	March 4, 2005
North Carolina Department of Health and Human Services	A-04-04-01002	July 27, 2005
Ohio Department of Health	A-05-04-00051	February 4, 2005

¹These reports are available at <http://oig.hhs.gov>.

**COMPARISON OF BUDGET PERIODS 4 AND 5
BY PERCENTAGE OF FUNDS UNOBLIGATED**

Awardee	Federal Funds Awarded ¹		Unobligated Balance of Federal Funds		Percentage Unobligated	
	Budget Period 4	Budget Period 5	Budget Period 4	Budget Period 5	Budget Period 4	Budget Period 5
District of Columbia	\$16,953,474	\$20,032,292	\$6,984,411	\$12,227,280	41.2%	61.0%
Nebraska	9,004,794	7,513,167	0	3,027,592	0.0%	40.3%
Los Angeles	30,198,783	28,414,156	1,467,285	10,198,192	4.9%	35.9%
Oregon	17,039,499	16,048,213	1,256,670	5,239,116	7.4%	32.6%
Nevada	10,953,790	13,077,219	3,293,392	3,943,518	30.1%	30.2%
Chicago	11,977,908	14,615,376	1,110,513	4,299,727	9.3%	29.4%
New Hampshire	8,725,305	8,725,305	852,780	2,534,624	9.8%	29.0%
South Dakota	6,975,546	7,794,491	2,463,937	2,222,848	35.3%	28.5%
North Carolina	26,020,533	21,288,709	738,248	6,068,396	2.8%	28.5%
Indiana	26,971,704	17,998,528	1,891,678	5,097,866	7.0%	28.3%
Delaware	9,881,459	9,673,981	4,078,223	2,593,009	41.3%	26.8%
Vermont	7,973,690	7,209,406	2,520,000	1,918,590	31.6%	26.6%
South Carolina	15,077,331	16,091,145	678,645	4,100,247	4.5%	25.5%
Arizona	20,377,936	20,020,724	3,128,511	5,012,352	15.4%	25.0%
Louisiana	17,009,305	20,235,952	6,252,809	4,375,905	36.8%	21.6%
Texas	68,858,586	67,170,118	11,647,176	13,825,974	16.9%	20.6%
Maryland	18,510,064	14,806,853	0	3,014,538	0.0%	20.4%
Wisconsin	20,255,129	17,361,517	2,163,459	3,490,789	10.7%	20.1%
North Dakota	6,423,043	5,631,748	0	991,825	0.0%	17.6%
Illinois	30,654,048	25,569,678	494,084	4,304,396	1.6%	16.8%
Wyoming	5,953,862	7,719,940	700,000	1,187,200	11.8%	15.4%
Massachusetts	32,377,306	28,553,869	11,036,537	4,059,361	34.1%	14.2%
Alabama	16,786,043	17,079,781	3,739,235	2,389,461	22.3%	14.0%
New Mexico	13,319,379	11,826,157	6,391,831	1,647,489	48.0%	13.9%
New Jersey	30,660,360	30,516,430	4,301,514	4,026,766	14.0%	13.2%
New York	35,863,566	34,254,995	1,760,148	4,353,356	4.9%	12.7%
Pennsylvania	38,212,027	50,776,737	16,667,434	6,448,560	43.6%	12.7%
Mississippi	17,112,807	14,303,036	4,631,566	1,806,822	27.1%	12.6%
Idaho	9,366,998	8,485,043	1,988,888	1,021,810	21.2%	12.0%
Kentucky	18,169,281	15,632,906	2,122,000	1,839,894	11.7%	11.8%
Ohio	35,368,314	39,091,923	5,551,520	4,588,466	15.7%	11.7%
New York City	22,019,999	25,875,515	0	3,000,218	0.0%	11.6%
Rhode Island	7,545,070	6,561,276	0	755,783	0.0%	11.5%
Alaska	6,196,964	5,412,040	117,601	575,633	1.9%	10.6%
Tennessee	20,299,547	15,929,481	3,170,562	1,676,313	15.6%	10.5%
Minnesota	18,182,765	15,129,116	562,891	1,516,784	3.1%	10.0%

¹Federal funds awarded include carryover amounts reported on financial status reports.

Awardee	Federal Funds Awarded ¹		Unobligated Balance of Federal Funds		Percentage Unobligated	
	Budget Period 4	Budget Period 5	Budget Period 4	Budget Period 5	Budget Period 4	Budget Period 5
Colorado	17,896,688	16,084,461	2,552,529	1,546,554	14.3%	9.6%
West Virginia	10,007,010	9,529,605	671,202	835,198	6.7%	8.8%
Florida	46,997,742	43,704,396	1,098,464	3,471,791	2.3%	7.9%
Virginia	29,313,295	21,790,488	625,683	1,727,866	2.1%	7.9%
Michigan	35,271,511	30,704,353	3,066,738	2,294,482	8.7%	7.5%
Connecticut	14,196,592	15,389,873	3,494,088	1,147,914	24.6%	7.5%
Maine	11,134,001	6,892,377	669,941	485,954	6.0%	7.1%
Arkansas	13,284,891	12,123,140	4,792,311	848,721	36.1%	7.0%
Montana	7,380,744	7,635,483	1,062,214	527,821	14.4%	6.9%
Missouri	19,160,450	17,324,425	11,300,788	1,039,976	59.0%	6.0%
Oklahoma	16,248,592	14,394,566	2,337,152	843,468	14.4%	5.9%
Hawaii	8,801,780	6,752,866	365,782	346,003	4.2%	5.1%
Utah	10,423,316	8,964,779	200,000	316,908	1.9%	3.5%
California	70,101,613	68,819,980	6,061,283	1,882,804	8.6%	2.7%
Washington	17,845,226	19,684,947	879,692	429,550	4.9%	2.2%
Kansas	11,551,136	9,504,019	0	0	0.0%	0.0%
Georgia ²	34,365,094		12,987,000		37.8%	
Iowa ²	12,726,247		2,178,804		17.1%	
Total	\$1,093,982,147	\$995,726,586	\$168,107,223	\$157,125,715	15.4%	15.8%

²As of the end of our fieldwork, Georgia and Iowa had not submitted financial status reports for budget period 5 because the Centers for Disease Control and Prevention had granted extensions.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Centers for Disease Control
and Prevention (CDC)
Atlanta GA 30333

OCT 30 2006

TO: Daniel R. Levinson
Inspector General

FROM: Director
Centers for Disease Control and Prevention

SUBJECT: HHS Office of Inspector General's Draft Report - Audit of Unobligated Balances of Funds Awarded under the Public Health Preparedness and Response for Bioterrorism Program (A-05-05-00031)

Thank you for the opportunity to review the subject Office of Inspector General (OIG) draft report dated August 3, 2006. Since the time that this audit was conducted, the Centers for Disease Control and Prevention (CDC) has taken a number of actions, including those recommended in the draft, that have helped to significantly reduce unobligated balances for the Public Health Preparedness and Response for Bioterrorism Program cooperative agreement.

Following are CDC's comments regarding the recommendations.

OIG Recommendation: Ensure that grantees submit financial status reports (FSR) in a timely manner.

CDC Response: CDC concurs with this recommendation. The timely submission of FSRs is a critically important component of the budgetary oversight CDC uses to monitor grantee spending. To ensure grantees submit FSRs timely and accurately, CDC Project Officers are conducting grantee budget reviews on an ongoing basis as well as at the time the FSR is submitted. This has enabled the early identification and resolution of issues so that the submission of FSRs is not delayed.

OIG Recommendation: Follow new program guidance to better manage grant funds among eligible entities and preparedness priorities.

CDC Response: CDC concurs with this recommendation. To ensure adherence to program guidance, CDC Project Officers are working aggressively with each grantee to ensure their understanding of and adherence to new program guidance regarding preparedness funding priorities. In addition, Project Officers are helping grantees to identify strategies that will enable them to spend down funds more rapidly.

OIG Recommendation: When appropriate, offset new year awards by the amount of unobligated funds carried over from the prior budget year to better manage large obligated balances and meet program goals.

Page 2 - Daniel R. Levinson

CDC Response: CDC concurs with this recommendation and has awarded carryover in fiscal year (FY) 2006 in lieu of new funding for some project areas.

CDC is also considering the addition of a performance-based component to the calculation of awards for the FY 2007 continuation budgets to further strengthen budgetary oversight and management. This new component would include a performance measure relating to the grantee's ability to expend funds within the year they are awarded.

To ensure an accurate interpretation of your findings, we would like to offer the following technical comments.

- Page i, Summary of Findings, Paragraph 1, Lines 1-2. Suggest modifying the first sentence in the first paragraph to read, "...**cumulative** unobligated balances..." and adding a footnote to the next sentence indicating that the \$996 million award figure includes cumulative carryover from prior years. The same modifications should be made to the verbiage under Findings and Recommendations on page 3 where this text is repeated.
- Page 1, Background, Paragraph 2, Lines 6-7. Change to read: "Table 1 summarizes [the] **newly appropriated** funding by budget period."
- Page 1, Table 1. Suggest the use of the following figures to reflect newly appropriated awards for all grantees including the territories: **BP 3 - \$999 million, BP 4 - \$970 million, BP 5 - \$849 million, Total - \$2.899 billion.**

CDC appreciates OIG's review of this important matter, and the agency continues to work toward greater effectiveness in achieving and maintaining low unobligated balances associated with the cooperative agreement. Please direct any questions your office may have regarding these comments to Ms. Helen Kuykendall, Program Analyst, CDC, at (404) 639-7075 or by e-mail at HKuykendall@cdc.gov.


Julie Louise Gerberding, M.D., M.P.H.