DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services
1100 Commerce, Room 632
Dallas, TX 75242

September 16, 2003

Common Identification Number: A-06-03-00058

Dennis Perrotta, PhD
State Epidemiologist
Texas Department of Health
1100 West 49th Street, M-646
Austin, TX 78756-3199

Dear Dr. Perrotta:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General's report entitled "State of Texas' Efforts to Account for and Monitor Sub-recipients' Use of Bioterrorism Hospital Preparedness Program Funds". Our audit included a review of the Texas Department of Health's (Department of Health) policies and procedures, financial reports and accounting transactions during the period of April 1, 2002 through March 31, 2003. A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Our overall objective was to determine if the Department of Health has adequate procedures in place to record, summarize and report Program costs in accordance with the approved cooperative agreements. In addition, our objectives were to determine, through interviews with Department of Health officials, whether Program funding supplanted programs previously provided by other organizational sources and whether the Department of Health has established controls and procedures to monitor sub-recipient activities.

Based on our validation of the questionnaire completed by the Department of Health and our site visit, we determined that the Department of Health generally accounted for Program funds in accordance with the terms and conditions of the cooperative agreement. However, the Department of Health did not segregate expenditures by phase, within a phase, or by Priority Planning Area, and, according to the questionnaire, it has no plans at this time to track expenditures by Priority Planning Area. Although segregation was not required, budget restrictions were specified in the cooperative agreement. In addition, in the beginning of 2003, Department of Health officials identified a problem with the payroll allocation related to the Program that could, if not corrected, affect the accuracy of the first Financial Status Report for the budget period ended March 31, 2004. Officials at the Department of Health stated that they are in the process of correcting the problem and should have the problem corrected in the next two or three months and at that time the Financial Status Report will be correct.

Department of Health officials stated they did not have an established State or local bioterrorism program in place before the Federal bioterrorism program. Further, we did not identify any areas of concern related to supplanting of current State or local expenditures with Program funds. Also, the Department of Health has adequate procedures in place to monitor sub-recipient activities. We are recommending that the Department of Health segregate expenditures by phase, within a phase, and by Priority Planning Area, as well as continue its efforts to correct the allocation problem and correct any misallocations charged to the Program so that the Financial Status Report for the budget period ended March 31, 2004 will be accurate.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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

To facilitate identification, please refer to Common Identification Number A-06-03-00058 in all correspondence relating to this report.

Sincerely yours,

Gordon L. Sato

Gordon L. Sato
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

STATE OF TEXAS' EFFORTS TO ACCOUNT FOR AND MONITOR SUB-RECIPIENTS' USE OF BIOTERRORISM HOSPITAL PREPAREDNESS PROGRAM FUNDS

Inspector General

SEPTEMBER 2003
A-06-03-00058

Office of Inspector General

http://oig.hhs.gov/

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Dennis Perrotta, PhD
State Epidemiologist
Texas Department of Health
1100 West 49th Street, M-646
Austin, TX 78756-3199

Dear Dr. Perrotta:

This report provides you with the results of our review of the State of Texas' efforts to account for and monitor sub-recipients' use of Bioterrorism Hospital Preparedness Program (Program) funds. The Program, funded by the Health Resources and Services Administration, is in its first program year that began April 1, 2002 and was extended through March 31, 2004. The total amount of Federal funding awarded to the Texas Department of Health (Department of Health) for the Program since it began in 2002 is approximately $8.3 million.

Our overall objective was to determine if the Department of Health has adequate procedures in place to record, summarize and report Program costs in accordance with the approved cooperative agreements. In addition, our objectives were to determine, through interviews with Department of Health officials, whether Program funding supplanted programs previously provided by other organizational sources and whether the Department of Health has established controls and procedures to monitor sub-recipient activities.

Based on our validation of the questionnaire completed by the Department of Health and our site visit, we determined that the Department of Health generally accounted for Program funds in accordance with the terms and conditions of the cooperative agreement. However, the Department of Health did not segregate expenditures by phase, within a phase, or by Priority Planning Area, and, according to the questionnaire, it has no plans at this time to track expenditures by Priority Planning Area. Although segregation was not required, budget restrictions were specified in the cooperative agreement. In addition, in the beginning of 2003, Department of Health officials identified a problem with the payroll allocation related to the Program that could, if not corrected, affect the accuracy of the first Financial Status Report for the budget period ended March 31, 2004. Officials at the Department of Health stated that they are in the process of correcting the problem and should have the problem corrected in the next two or three months and at that time the Financial Status Report will be correct.

Department of Health officials stated they did not have an established State or local bioterrorism program in place before the Federal bioterrorism program. Further, we did not identify any areas of concern related to supplanting of current State or local expenditures with Program funds. Also, the Department of Health has adequate procedures in place to monitor sub-recipient activities. We are recommending that the Department of Health segregate expenditures by phase, within a phase, and by Priority Planning Area, as well as continue its efforts to correct the allocation problem and correct any misallocations charged to the Program so that the Financial Status Report for the budget period ended March 31, 2004 will be accurate.

In a written response to our draft report, the Department of Health concurred with our findings and recommendations. (For complete text, see Appendix A.)

INTRODUCTION

BACKGROUND

Bioterrorism Hospital Preparedness 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 fiscal years 2002 and 2003, the Department awarded amounts totaling $2.98 billion and $4.32 billion, respectively, for bioterrorism preparedness. 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 Health Resources and Services Administration announced that approximately $125 million was available in fiscal year 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. The purpose of this cooperative agreement program is to upgrade the preparedness of the Nation's hospitals and collaborating entities to respond to bioterrorism.

The Health Resources and Services Administration made awards to States and major local public health departments under Bioterrorism Hospital Preparedness Program Cooperative Agreement Guidance issued February 15, 2002. These awards were for the development and implementation of regional plans to improve the capacity of hospitals, their emergency departments, outpatient centers, EMS systems and other collaborating health care entities for responding to incidents requiring mass immunization, treatment, isolation and quarantine in the aftermath of bioterrorism or other outbreaks of infectious disease.

The Program year ran from April 1, 2002 through March 31, 2003 and the funding totaled $125 million. The cooperative agreements covered two phases during the program year. Phase 1, *Needs Assessment, Planning and Initial Implementation*, provided 20 percent of the total award ($25 million) for immediate use. Up to one-half of Phase 1 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 submitted, reviewed, and approved by Health Resources and Services Administration, at which point Phase 2, *Implementation*, could begin. Grantees were required to allocate at least 80 percent of Phase 2 funds to hospitals and their collaborating entities through contractual awards to upgrade their abilities to respond to bioterrorist events. Funds expended for health department needs were not to exceed the remaining 20 percent of Phase 2 funds.

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

Texas Department of Health Funding

The total amount of Federal funding awarded to the Texas Department of Health for the Program since it began in 2002 is approximately $8.3 million.

Program Amounts by Phase			
	Awarded	**Expended**	**Unobligated**
Phase 1	1,665,624		
Phase 2	6,662,495		
	8,328,119	(1) (2)	(2)

(1) The Department of Health does not track expenditures by phase.
(2) Because the budget period does not end until March 31, 2004, these amounts are not finalized yet.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

Our overall objective was to determine if the Department of Health has adequate procedures in place to record, summarize and report Program costs in accordance with the approved cooperative agreements. In addition, our objectives were to determine, through interviews with Department of Health officials, whether Program funding

supplanted programs previously provided by other organizational sources and whether the Department of Health has established controls and procedures to monitor sub-recipient activities.

Scope and Methodology

Our review was limited in scope and 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 the Department of Health's policies and procedures, financial reports, and accounting transactions during the period of April 1, 2002 through March 31, 2003.

We developed a questionnaire to address the objectives of the review. The questionnaire covered the areas: (i) the grantee organization, (ii) funding, (iii) accounting for expenditures, (iv) other organizational bioterrorism activities and (v) sub-recipient monitoring. Prior to our fieldwork, we provided the questionnaire for the Department of Health to complete. During our on-site visit, we interviewed Department of Health staff and obtained supporting documentation to validate the responses on the questionnaire.

Fieldwork was conducted at the Department of Health offices in Austin, Texas and the Oklahoma City Field Office during May and June 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 the Department of Health and our site visit, it appears that the Department of Health:

- Generally accounted for Program funds in accordance with the terms and conditions of the cooperative agreement except that it did not segregate expenditures by phase, within a phase, or by Priority Planning Area;
- Did not supplant current State or local expenditures with Program funds; and
- Had adequate procedures in place to monitor sub-recipient activities.

However, in the beginning of 2003, Department of Health officials identified a problem with the payroll allocation related to the Program. This problem, if not corrected, could affect the accuracy of the first Financial Status Report for the budget period ended March 31, 2004. Officials at the Department of Health stated that they are in the process of correcting the problem with the payroll allocation and the problem should be corrected in two or three months. We are recommending that the Department of Health segregate expenditures by phase, within a phase, and by Priority Planning Area, as well as continue

its efforts to correct the allocation problem and correct any misallocations charged to the Program so that the Financial Status Report for the budget period ended March 31, 2004 will be accurate.

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 Health Resources and Services Administration a means to measure the extent the program is being implemented and that the objectives are being met. Although the Department of Health was not required to segregate expenditures in the accounting system by phase, within a phase, or by Priority Planning Area, there are budgeting restrictions set forth in the Cooperative Agreement Guidance. 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 for this cooperative agreement.

Regarding Phase I funds, the Cooperative Agreement Guidance states:

> …Up to half of the Phase I funding may be allocated to planning and health department infrastructure to administer this 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, the Cooperative Agreement Guidance states:

> At least 80% of the Phase II funds must go to hospitals through written contractual agreements. To the extent justified, a portion of these funds could be made available to collaborating entities that contribute to hospital preparedness.

Without segregation of funds, the Department of Health has no assurance that funds expended do not exceed the budgeting restrictions set forth in the cooperative agreement.

The Department of Health responded on the questionnaire that they have no plans at this time to track expenditures by Priority Planning Area. Although the Department of Health did not segregate costs by phase, our review showed that the Department of Health was in compliance with the budget restrictions.

In the beginning of 2003, Department of Health officials identified a problem with the payroll allocation. The accounting system in place at that time could only allocate an employee's salary to one project budget. Therefore, if an employee did not submit a timesheet reporting where they spent their time and effort, the accounting system would allocate their time to the default project only. In addition, some employees who were submitting timesheets were incorrectly coding their time to various projects. As a result, the general ledger amounts were not accurate and, if not corrected, will impact the accurateness of the Program Year 1 Financial Status Report. The Department of Health

has a plan to correct the allocation problem and it should be corrected in two or three months. The payroll allocation from April 2003 and forward should be correct because the Department of Health has changed to a new accounting system that allows the accounting system to allocate employees' salaries to a variety of projects. In addition, the Department of Health employees are now required to submit timesheets if the employee deviates from his or her regular work profile.

Supplanting

Funds were to be used to augment current funding and focus on bioterrorism hospital preparedness activities under the Health Resources and Services Administration Cooperative Agreement. Specifically, funds were not to be used to replace existing Federal, State, or local funds for bioterrorism, infectious disease outbreaks, other public health threats and emergencies, and public health infrastructure within the jurisdiction. Page 4 of the Cooperative Agreement Guidance states:

> Given the responsibilities of Federal, State, and local governments to protect the public in the event of 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.

In response to our inquiry, Department of Health officials stated that Program funding had not been used to supplant existing Federal, State, or local funds for bioterrorism, infectious disease outbreaks, other public health threats and emergencies, and public health infrastructure in Texas.

Sub-recipient Monitoring

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

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

The Department of Health had monitoring procedures that consisted of site visits, weekly updates, and monthly reports for 2 of the 25 sub-recipients. The Department of Health contracted with these two sub-recipients to gather data, conduct surveys, and develop program guidance. A Department of Health official reported that all updates and reports were timely. In addition, the Department of Health will conduct site reviews of the remaining 23 sub-recipients. Although the Department of Health has not yet completed any of the remaining reviews, we believe its procedures will provide adequate monitoring.

RECOMMENDATIONS

We recommend that the Department of Health:

- Segregate expenditures by phase, within a phase, and by Priority Planning Area; and
- Continue its efforts to correct the allocation problem and correct any misallocations charged to the Program so that the Financial Status Report for the budget period ended March 31, 2004 will be accurate.

AUDITEE COMMENTS

In a written response to our draft report, the Department of Health concurred with our findings and recommendations. (For complete text, see Appendix A.)

TDH

Eduardo J. Sanchez, M.D., M.P.H.
Commissioner of Health

1100 West 49th Street
Austin, Texas 78756-3199

http://www.tdh.state.tx.us
1-888-963-7111

Ben Delgado
Chief Operating Officer

Nick Curry, M.D., M.P.H..
Executive Deputy Commissioner

September 1, 2003

James Hargrove
DHHS-OIG Office of Audit Services
3625 NW 56th Street, Room 101
Oklahoma City, OK 73112

RE: Common Identification Number: A-06-03-00058

Dear Mr. Hargrove:

We are in receipt of Gordon Sato's letter dated July 31, 2003 and the draft report of the review of the Texas Bioterrorism Hospital Preparedness Program.

In the draft report, you found that TDH had generally accounted for Program funds in accordance with the terms and conditions of the cooperative agreement. You found also that TDH had not segregated expenditures by phase, within a phase, or by Priority Planning Area, and that TDH had identified a problem in the payroll allocation that , if not corrected, could materially affect the accuracy of the Financial Status Report (FSR) for the period ended March 31, 2004. TDH concurs with this assessment.

TDH will complete corrections to the payroll allocations prior to the submission of the FSR. In addition, TDH will segregate expenditures by Priority Planning Area for the grant period beginning September 1, 2003. Further, TDH will institute a programmatic review on a monthly basis to ensure that future labor and expenditure charges are properly reflected in the TDH accounting system.

If you have additional questions, please call me at (512) 458-7219.

Sincerely,

Dennis M. Perrotta, PhD, CIC
State Epidemiologist