DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES
150 S. INDEPENDENCE MALL WEST
SUITE 316
PHILADELPHIA, PENNSYLVANIA 19106-3499

OCT 15 2003

Report Number: A-03-03-00382

Mr. Michael Huff, R.N.
Acting Director, Office of Public Health Preparedness
Pennsylvania Department of Health
Room 833, Health and Welfare Building
Hamsburg, Pennsylvania 17108

Dear Mr. Huff:

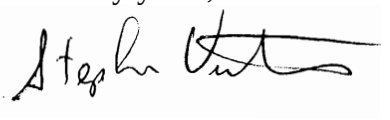
Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled " Commonwealth of Pennsylvania's Efforts to Account For and Monitor Sub-Recipients' Use of Bioterrorism Hospital Preparedness Program Funds."

A copy of this report will be forwarded to the action official noted below for her review and any action deemed necessary. 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.)

If you have any questions or comments about this report, please do not hesitate to call me or Leon Skros, Audit Manager, at 215-861-4472 or through e-mail at 1skros@oig.hhs.gov. To facilitate identification, please refer to report number A-03-03-00382 in all correspondence.

Sincerely yours,



Stephen Virbitsky
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

COMMONWEALTH OF PENNSYLVANIA

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

OCTOBER 2003
A-03-03-00382

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 OIG's 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 in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

Office of Evaluation and Inspections

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the Department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

Office of Investigations

The OIG's 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. The OI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

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. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, 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 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 Pennsylvania Department of Health (State agency) properly recorded, summarized and reported bioterrorism preparedness transactions in accordance with the terms and conditions of the cooperative agreements and whether the State agency 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 provided by other organizational sources.

FINDINGS

Based on our validation of the questionnaire completed by the State agency and our site visit, we determined that the State agency generally accounted for Program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines. However, the State agency 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. The State agency reported that it had only received Phase II funding, but that it has procedures which make it possible to separately account for different funding sources, if necessary.

Our review showed that the State agency was in compliance with budget restrictions. However, in responding to the questionnaire, State agency officials indicated that the fee paid to the Hospital and Healthsystem Association of Pennsylvania (Association) was charged to Phase II funding and allocated to hospitals. The fee was in consideration for services the Association performed in the areas of hospital bioterrorism coordination, education, construction and renovation guidance, communications and funding. HRSA may not consider some or the entire fee as an eligible cost under the 80 percent requirement that Phase II funds be allocated to hospitals. State agency officials were not certain how the fee should be recorded or reported.

The State agency had a reporting system to track and monitor sub-recipient activities. The State agency contracted with the Association to assist in the disbursement of funds awarded by HRSA to Pennsylvania for hospital sub-recipients. Hospitals were required to submit to the Association, by expenditure category, a report accounting for the expenditures made using the HRSA/State agency cooperative agreement funding. The recording of actual expenditures that were incurred by each hospital was done through each hospital sub-recipient's accounting system. The Association reported cumulative totals to the State agency. There was no site visit component as part of the reporting system developed by the State agency. We believe that development of a site visit component, combined with the reporting system already in place, will provide adequate monitoring and oversight of State agency sub-recipients.

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

RECOMMENDATIONS

We recommend that the State agency:

1) segregate Program expenditures by phase, within phase, and by priority area.

2) request HRSA provide additional guidance concerning the reporting of the fee paid to the Association.

3) implement a site visit component as part of its sub-recipient activities tracking and monitoring system and address problem areas, as they are identified.

STATE AGENCY'S COMMENTS

In a written response to our draft report, the State agency concurred with our findings and our recommendations. The State agency's response is included in its entirety as an appendix to this report.

TABLE OF CONTENTS

INTRODUCTION 1

BACKGROUND 1
- The Program 1
- Annual Program Funding 1
- Budget Restrictions 1
- Eligible Recipients 2
- State Agency Funding 2

OBJECTIVE, SCOPE AND METHODOLOGY 2
- Objectives 2
- Scope 2
- Methodology 3

FINDINGS AND RECOMMENDATIONS 3
- Accounting for Expenditures 4
- Sub-recipient Monitoring 5
- Supplanting 5

RECOMMENDATIONS 6

STATE AGENCY'S COMMENTS 6

APPENDIX

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, 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, 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. The purpose of this cooperative agreement program is to upgrade the preparedness of the Nation's hospitals and collaborating entities to respond to bioterrorism.

HRSA made awards to States and major local public health departments under Program 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 management 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 agreements 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. Grantees 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 management systems, health centers and poison control centers work with the applicable health department for funding through the Program.

State Agency Funding

The following table details Program funding for budget year one:

Program Year 1 Amounts			
	Awarded	**Expended**	**Unobligated**
Year 1	$ 5,007,754	$ 4,291,049	$ 545,900

OBJECTIVE, SCOPE AND METHODOLOGY

Objectives

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

Scope

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 State agency policies and procedures, financial reports, and accounting transactions during the period of April 1, 2002 through March 31, 2003.

Methodology

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) supplanting, and (v) sub-recipient monitoring. Prior to our fieldwork, we provided the questionnaire for the State agency to complete. During our on-site visit, we interviewed State agency staff and obtained supporting documentation to validate the responses on the questionnaire.

Fieldwork was conducted at the State agency offices in Harrisburg, Pennsylvania and the HHS Office of Inspector General Regional Office in Philadelphia, Pennsylvania during May and June 2003. The State agency's comments on the draft report are included in their entirety as an appendix to this report. A summary of the State agency's comments follows the *Findings and Recommendations* section.

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 State agency and our site visit, we determined that the State agency generally accounted for Program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines. However, the State agency 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. The State agency reported that it only received Phase II funding, but that it has procedures which make it possible to separately account for different funding sources, if necessary.

Our review showed that the State agency was in compliance with budget restrictions. However, in responding to the questionnaire, State agency officials indicated that the fee paid to the Association was charged to Phase II funding and allocated to hospitals. The fee was in consideration for services it performed in the areas of hospital bioterrorism coordination, education, construction and renovation guidance, communications and funding. HRSA may not consider some or the entire fee as an eligible cost under the 80 percent requirement that Phase II funds be allocated to hospitals. State agency officials were not certain how the fee should be recorded or reported.

The State agency had a reporting system to track and monitor sub-recipient activities. Hospitals were required to submit to the Association, by expenditure category, a report accounting for the expenditures made using the HRSA/State agency cooperative agreement funding. The recording of actual expenditures incurred was through each hospital sub-recipient's accounting system. There was no site visit component as part of the State agency reporting system. We believe that development of a site visit component, combined with the reporting system already in place, will provide adequate monitoring and oversight of State agency sub-recipients.

In response to our inquiry as to whether the State agency reduced funding to existing public health programs, State agency officials replied that Program funding had not been used to supplant existing State or local 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 HRSA a means to measure the extent the program is being implemented and that the objectives are being met. Although the State agency 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 HRSA Program 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. 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, the Summary Application Guidance for Award and First Allocation states:

> …Grantees will be required to allocate at least 80 percent 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….

Expenditures at the State agency were not segregated in the central accounting system by phase, within phase, or by priority area. Although segregation was not required, budget restrictions were specified in the cooperative agreement. Specifically, expenditures for health department infrastructure and planning were not to exceed 50 percent of Phase I and 20 percent of Phase II funds. Without segregation of funds, the State agency has no assurance that funds expended do not exceed the budgeting restrictions set forth in the cooperative agreement. The State agency reported that it only received Phase II funding, but that it has procedures which make it possible to separately account for different funding sources, if necessary.

Our review showed that the State agency was in compliance with budget restrictions. However, in responding to the questionnaire, State agency officials indicated that the fee paid to the Association was charged to Phase II funding and allocated to hospitals. The fee was in consideration for services it performed in the areas of hospital bioterrorism coordination, education, construction and renovation guidance, communications and funding. HRSA may not consider some or the entire fee as an eligible cost under the 80 percent requirement that Phase II

funds be allocated to hospitals. State agency officials were not certain how the fee should be recorded or reported.

We also noted indirect costs were claimed at a rate significantly less than the ten percent ceiling stipulated by the cooperative agreement. The rate could be greater if a portion of the Association fee is included in indirect cost calculations. Our limited review did not ascertain how much of the Association fee, if any, should be considered in the indirect cost calculation.

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 states that grant requirements apply to subgrantees and contractors under the grants.

> …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….

The State agency had a reporting system to track and monitor sub-recipient activities. The State agency contracted with the Association to assist in the disbursement of funds awarded by HRSA to Pennsylvania for hospital sub-recipients and to assist in developing and conducting a hospital needs assessment survey. Hospitals were required to submit to the Association a report accounting for the expenditures made using the HRSA/State agency cooperative agreement funding. The Association, in turn, was required to submit to the State agency a summary of hospital expenditures. There was no site visit component as part of the reporting system developed by the State agency. We believe that development of a site visit component, combined with the reporting system already in place, will provide adequate monitoring and oversight of State agency sub-recipients.

Supplanting

Program funds were to be used to augment current funding and focus on bioterrorism hospital preparedness activities under the HRSA Cooperative Agreement Guidance. Specifically, funds were not to be used to supplant 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….

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 State reduced funding to existing public health programs, State agency officials stated that HRSA funding had not been used to supplant existing State or local funds for bioterrorism, infectious disease outbreaks, other public health threats and emergencies.

During our review of sub-recipient expenditures reported to the State agency, one sub-recipient notified us that it would be revising its report to the Association. The revised report decreased expenditures of HRSA Program funds by approximately $14,000 because some of the expenditures initially claimed were incurred prior to the sub-recipient signing the memorandum of agreement with the Association. The State agency had provided specific guidance to sub-recipients stating that expenditures incurred prior to the agreement signing were unallowable.

Due to the limited scope of our review we did not ascertain whether the expenditures initially claimed by the sub-recipient were for expenses the sub-recipient intended to incur prior to receiving Program funds. We do believe, however, that this example underscores the need for a site visit component to be added to the State agency's sub-recipient activities tracking and monitoring system.

RECOMMENDATIONS

We recommend that the State agency:

1) segregate Program expenditures by phase, within phase, and by priority area.

2) request HRSA provide additional guidance concerning the recording and reporting of the fee paid to the Association.

3) implement a site visit component as part of its sub-recipient activities tracking and monitoring system and address problem areas, as they are identified.

STATE AGENCY'S COMMENTS

In a written response to our draft report, the State agency concurred with our findings and our recommendations. The State agency's response is included in its entirety as an appendix to this report.

APPENDIX

Commonwealth of Pennsylvania

DEPARTMENT OF HEALTH

DEPUTY SECRETARY FOR ADMINISTRATION

August 22, 2003

Leon Skros, Audit Manager
DHHS-OIG Office of Audit Services
150 South Independence Mall West, Suite 316
Philadelphia, Pennsylvania 19106

Reference: Report Number A-03-03-00381
Report Number A-03-03-00382

Dear Mr. Skros:

The Pennsylvania Department of Health (State Agency) has listed below its resolution of the recommendations in the reports titled "Commonwealth of Pennsylvania, Efforts to Account for and Monitor Sub-Recipients' Use of Public Health Preparedness and Response for Bioterrorism Program Funds," (Report Number A-03-03-00381) and "Commonwealth of Pennsylvania, Efforts to Account for and Monitor Sub-Recipients' Use of Bioterrorism Hospital Preparedness Planning Program Funds," (Report Number A-03-03-00382), dated August 2003.

Efforts to Account for and Monitor Sub-Recipients' Use of Public Health Preparedness and Response for Bioterrorism Program Funds
(Report Number A-03-03-00381)

Recommendation: We recommend that the State Agency implement the addition of reviews of Program funds to current audits of sub-recipients and address problem areas, as they are identified.

Action: As noted in the report, the State Agency has a system in place to track and monitor sub-recipient activities. Specifically, award processes, grant conditions, ongoing fiscal activities and reporting of funds allocated to County and Municipal Health Departments are monitored closely. Going forward, additional reviews will be implemented, and sub-recipient vendors will be tracked through the Commonwealth's accounting system and through established internal tracking systems.

Reviews of Program funds for all sub-recipients will be conducted by the State Agency on a quarterly basis or more frequently, if necessary. Sub-recipient activities will be reviewed for compliance with critical benchmarks, in accordance with an initial budget submitted to, and approved by, the State Agency.

The State Agency has requested additional staff in the Year 04 grant application which will provide additional oversight of sub-recipient activities. In addition, a Budget Analyst has been requested to be dedicated to the financial oversight of grant funds.

Efforts to Account for and Monitor Sub-Recipients' Use of Bioterrorism Hospital Preparedness Planning Program Funds
(Report Number A-03-03-00382)

Recommendation: We recommend that the State Agency segregate Program expenditures by phase, within phase, and by priority area.

Action: Using the Commonwealth's accounting system and established internal tracking systems, the State Agency will maintain the tracking expenditures by Priority Area, by Critical Benchmark, and by funds allocated to hospitals and other health care entities.

Recommendation: We recommend that the State Agency request HRSA provide additional guidance concerning the recording and reporting of the fee paid to the Hospital and Health Systems Association of Pennsylvania (HAP).

Action: Year 02 HRSA funding will be awarded directly to hospitals eliminating the HAP pass through. Contracted work performed by the Hospital and Health Systems Association of Pennsylvania will comply with Grant Guidance and will not be a portion of the 80% distribution to health care facilities.

Recommendation: We recommend that the State Agency implement a site visit component as part of its sub-recipient activities tracking and monitoring system and address problem areas as they are identified.

Action: The State Agency plans to hire one full-time position identified as the Hospital Grants Administrator, who will be responsible for monitoring the reporting of expenditures by the sub-recipient hospitals, including site visits to verify submitted expense reports and will include a site component. In addition, six field staff will be responsible for onsite technical assistance, as needed.

Should a problem area be identified through a sub-recipient audit, the sub-recipient will be notified in writing and further grant funding will be restricted until remediation is demonstrated to the satisfaction of the State Agency.

If you have any questions or comments, please direct them to Michael Huff, Acting Director for Office of Public Health Preparedness, at (717) 787-4366.

Sincerely,

Michael C. Ball
Acting Deputy Secretary for Administration