



DEPARTMENT OF HEALTH & HUMAN SERVICES OFFICE OF INSPECTOR GENERAL

Office of Audit Services
Region II
Jacob K. Javits Federal Building
26 Federal Plaza
New York, NY 10278
(212) 264-4620

October 15, 2003

Report Number: A-02-03-02011

Clifton R. Lacy, M.D., Commissioner
New Jersey Department of Health and Senior Services
John Fitch Plaza
P.O. Box 360
Trenton, New Jersey 08625-0360

Dear Dr. Lacy

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), report entitled "*Review of New Jersey's Efforts to Account for and Monitor Sub-recipients' Use of Public Health Preparedness and Response to Bio-terrorism Program Funds.*" A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.


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 CFR Part 5.)

Page 2 – Clifton R. Lacy, M.D.

To facilitate identification, please refer to report Number A-02-03-02011 in all correspondence relating to this report.

Sincerely,



Timothy J. Horgan
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Joseph E. Salter, Director
Management Procedures Branch
Management Analysis and Services Office
Centers for Disease Control and Prevention
1600 Clifton Road, N.E., MS E-11
Atlanta, Georgia 30333

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF NEW JERSEY'S EFFORTS TO
ACCOUNT FOR AND MONITOR
SUB-RECIPIENTS' USE OF PUBLIC HEALTH
PREPAREDNESS AND RESPONSE TO
BIO-TERRORISM PROGRAM FUNDS**



**October 2003
A-02-03-02011**

Office of Inspector General

<http://oig.hhs.gov>

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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.

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Clifton R. Lacy, M.D., Commissioner
New Jersey Department of Health and Senior Services
John Fitch Plaza
P.O. Box 360
Trenton, New Jersey 08625-0360

Dear Dr. Lacy:

This final report presents the results of the Office of Inspector General's self-initiated audit entitled, "*Review of New Jersey's Efforts to Account for and Monitor Sub-recipients' Use of Public Health Preparedness and Response for Bio-Terrorism Program Funds.*"

EXECUTIVE SUMMARY

OBJECTIVES

The objectives were to determine whether the State of New Jersey Department of Health and Senior Services (DHSS) properly recorded, summarized and reported bio-terrorism preparedness transactions by specific focus areas designated in the cooperative agreements. In addition, we inquired as to whether bio-terrorism funding supplanted programs previously funded by other organizational sources and whether DHSS established controls and procedures to monitor sub-recipients' expenditures of Centers for Disease Control and Prevention (CDC) funds.

SUMMARY OF FINDINGS

Our review found that DHSS accounted for bio-terrorism program funds in accordance with the terms and conditions of the cooperative agreements with CDC. Further, DHSS recorded, summarized and reported transactions by specific focus area in discrete accounts established to account for bio-terrorism funding. In response to our inquiry as to whether DHSS reduced funding to existing public health programs, DHSS officials stated that CDC funding had not been used to supplant existing State or local programs.

DHSS did not perform site visits to its sub-recipients. We believe site visits are an effective way to verify that sub-recipients have established sound and effective business management systems to assure proper stewardship of funds and activities.

RECOMMENDATION

We recommend that DHSS consider implementing a site visit component to its procedures for monitoring sub-recipients and address problem areas, as they are identified.

AUDITEE'S COMMENTS

In comment's dated October 2, 2003, New Jersey officials concurred with our recommendation to consider conducting site visits of sub-recipients as part of sub-recipient monitoring activities and intend to incorporate this component into its work plan for the upcoming agreement period.

In addition, regarding the "Other Matters" section of the report, New Jersey officials stated that the unobligated balance as of February 28, 2003 included in our report has been reduced. According to the Financial Status Report filed with the CDC as of June 30, 2003, this un-obligated has been reduced from \$16,430,098 to \$5,224,334. The State's response is included as an APPENDIX to this report.

INTRODUCTION

BACKGROUND

The Public Health Preparedness And Response to Bio-terrorism Program

CDC was designated as the entity responsible to improve State, and other eligible entities, preparedness and response capabilities for bio-terrorism and other public health emergencies. The Public Health Preparedness And Response to Bio-terrorism Program (the Program) is authorized under Sections 301(a), 317(k)(1)(2), and 319 of the Public Health Service (PHS) Act [42 U.S.C. sections 241(a), 47b(k)(1)(2), and 247(d)]. The U.S. Code states, in part:

...The Secretary may make grants to States, political subdivisions of States, and other public and nonprofit private entities for – (A) research into the prevention and control of diseases that may be prevented through vaccination; (B) demonstration projects for the prevention and control of such diseases; (C) public information and education programs for the prevention and control of such diseases; and (D) education, training, and

clinical skills improvement activities in the prevention and control of such diseases for health professionals (including allied health personnel)...

CDC, under Program Announcement 99051, initiated a cooperative agreement program to fund states and major local public health departments to help upgrade their preparedness and response capabilities in the event of a bio-terrorist act.

Years 1 and 2 of the Program covered the period August 31, 1999 through August 30, 2000 and 2001, respectively. Annual funding totaled \$40.7 million and \$41.9 million. Although Year 3 covered the period August 31, 2001 through August 30, 2002, it was extended through August 30, 2003 with funds totaling \$49.9 million. During Year 3 of the Program, Congress authorized approximately \$918 million in supplemental funds 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. The funds were available on February 19, 2002 and were awarded to States and major local public health departments, under Program Announcement 99051-Emergency Supplemental. Of the awarded amount, 20 percent was available for immediate use. The remaining 80 percent was restricted until CDC approved the required work plans.

Applicants requested support for activities under one or more of the following focus areas:

- Focus Area A - Preparedness Planning and Readiness Assessment
- Focus Area B - Surveillance and Epidemiology Capacity
- Focus Area C - Laboratory Capacity - Biologic Agents
- Focus Area D - Laboratory Capacity - Chemical Agents
- Focus Area E - Health Alert Network/Communications and Information Technology

In Year 3, the CDC added two new focus areas:

- Focus Area F - Communicating Health Risks and Health Information Dissemination
- Focus Area G - Education and Training

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, 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). Those eligible applicants included the health departments of States or their bona fide agents. Applicants were encouraged to apply for funds in all focus areas.

Related Reports

In March 2003, the Office of Inspector General (OIG) performed a review (Number A-09-02-01007) which identified one State that; (1) did not account for

the Program funds by focus area and (2) could not adequately support the Program expenditures on Financial Status Reports (FSRs) submitted to CDC. As a result, OIG initiated limited scope reviews of the Program funds provided to 13 State and 4 local Governments including New Jersey.

New Jersey's Program Administration

DHSS is responsible for the administration of the Program. As shown in the following table, funding for the Program totaled \$28,398,963 and covered the period August 31, 1999 through August 30, 2003.

Focus Area	Budget Year 1 (8/31/99–8/30/00)	Budget Year 2 (8/31/00–8/30/01)	Budget Year 3 (8/31/01–8/30/03)	Total
A	-	-	\$12,564,678	\$ 12,564,678
B	\$ 178,805	\$ 219,242	\$ 3,721,297	\$ 4,119,344
C	\$ 225,275	\$ 250,841	\$ 3,284,822	\$ 3,760,938
D	-	-	-	-
E	\$ 604,364	\$ 604,364	\$ 3,249,005	\$ 4,457,733
F	-	-	\$ 1,083,241	\$ 1,083,241
G	-	-	\$ 2,413,029	\$ 2,413,029
TOTAL	\$ 1,008,444	\$ 1,074,447	\$ 26,316,072	\$ 28,398,963

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objectives were to determine whether DHSS properly recorded, summarized and reported bio-terrorism preparedness transactions by specific focus areas designated in the cooperative agreements. In addition, we inquired as to whether bio-terrorism funding supplanted programs previously funded by other organizational sources and whether DHSS established controls and procedures to monitor sub-recipients' expenditures of CDC funds.

Scope

Our review was limited to obtaining DHSS responses to the questionnaire we provided and performing limited validation of the data contained therein. We did not assess the adequacy of the internal control structure of DHSS, nor did we determine whether costs charged to the Program were allowable. Consequently, our review would not necessarily disclose all material weaknesses.

In addition, our review was limited to DHSS policies and procedures, financial reports, and accounting transactions for the period August 1999 through February 2003.

Methodology

We developed a questionnaire to address the objectives of the review. The questionnaire covered the following 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 DHSS to complete. To accomplish our objectives, we:

- reconciled CDC grant awarded, expended and obligated amounts, as reported on the completed questionnaire, to DHSS' Notice of Grant Awards, Financial Status Reports and Reports of Pre-encumbrances, Encumbrances and Expenditures,
- relied on the completed questionnaire and interviews with DHSS officials to assess whether:
 - bio-terrorism funding supplanted programs previously funded by other organizational sources, and
 - DHSS established controls and procedures to monitor sub-recipients' expenditures of CDC funds.

Fieldwork was conducted at DHSS offices in Trenton and Mercerville New Jersey during May 2003.

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

FINDINGS & RECOMMENDATION

Based on our validation of the questionnaire completed by State officials and our site-visit, we found that DHSS accounted for the Program funds in accordance with the terms and conditions of the cooperative agreements with CDC. DHSS recorded, summarized and reported transactions in discrete accounts established to account for CDC bio-terrorism funding. In response to our inquiry as to whether DHSS reduced funding to existing public health programs, DHSS officials stated that CDC funding had not been used to supplant existing State or local programs. DHSS did not perform site visits to its sub-recipients. We believe site visits are an effective way to verify that sub-recipients have established sound and effective business management systems to assure proper stewardship of funds and activities.

Accounting for Expenditures

An essential aspect of the Program is the need for the grantee to accurately and fully account for bio-terrorism funds. Accurate and complete accounting of the Program funds provides the CDC with a means to measure the extent that the Program is being implemented and the objectives are being met.

In that regard, recipients of the Program grant funds are required to track expenditures by focus area. Note 3: Technical Reporting Requirements of the original Cooperative Agreement states:

...To assure proper reporting and segregation of funds for each focus area, Financial Status Reports (FSR's) which reflect the cooperative agreement number assigned to the overall project must be submitted for individual focus areas...

Based on our validation of the completed questionnaire, we found that DHSS accounted for the Program funds in accordance with the terms and conditions of the cooperative agreement with CDC. DHSS recorded, summarized and reported transactions in discrete accounts established to account for CDC bio-terrorism funding.

Supplanting

The Program funds, original and supplemental, were to be used to augment current funding and focus on public health preparedness activities under the CDC Cooperative Agreement. The funds were not to be used to supplant existing Federal, State, or local funds for bio-terrorism, infectious disease outbreaks, other public health threats and emergencies, and public health infrastructure within the jurisdiction. Program Announcement 99051 states:

“Cooperative agreement funds under this program may not be used to replace or supplant any current state or local expenditures of the Public Health Service Act.”

In response to our inquiry as to whether DHSS reduced funding to existing public health programs, DHSS officials stated that CDC funding had not been used to supplant existing State or local programs. Further, in DHSS' response to our questionnaire and our interviews, they stated that prior to receiving bio-terrorism funding in August 1999, the State did not have the Program.

Sub-Recipient Monitoring

Recipients of the Program grant funds were 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 states 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...

In response to our questionnaire, DHSS officials indicated that its monitoring procedures included a requirement for the preparation and submission of quarterly reports of expenditure, and grant management progress reports. DHSS officials advised us that these reports were reviewed and discussed at monthly meetings by the DHSS bio-terrorism team. DHSS did not perform site visits to the sub-recipients. We believe that site visits are an effective way to verify that sub-recipients have establish sound and effective business management systems to assure proper stewardship of funds and activities.

RECOMMENDATION

We recommend that DHSS consider implementing a site visit component to its procedures for monitoring sub-recipients and address problem areas, as they are identified.

OTHER MATTERS

Un-obligated funds represent budget authority previously granted to an agency, which has not yet been committed, but continue to be available for commitment in the future. DHSS provided us with its un-obligated fund balances for the Program, as of February 28, 2003, for each budget year, as shown in the following table.

Focus Area	Budget Year 1 (8/31/99-8/30/00)	Budget Year 2 (8/31/00-8/30/01)	Budget Year 3 (8/31/01-8/30/02)
A			\$4,432,392
B	\$88,948	\$64,972	\$3,268,411
C	\$147,929	\$26,613	\$2,943,870
D			
E	\$188,483	\$209,426	\$2,289,949
F			\$1,082,611
G			\$2,412,865
TOTAL	\$425,360	\$301,011	\$16,430,098

We were advised by a DHSS official that these un-obligated balances were the result of start-up delays resulting from the magnitude of the associated work plan, staff turn over, and difficulties and delays in recruiting in excess of 150 new State and local public health professionals. Further, DHSS encountered difficulty and delays in executing contracts, and purchasing lab equipment, supplies, and other materials.

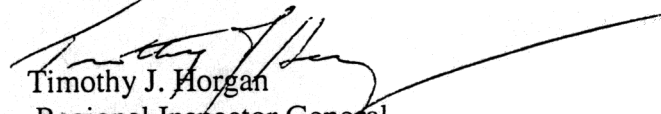
AUDITEE'S COMMENTS

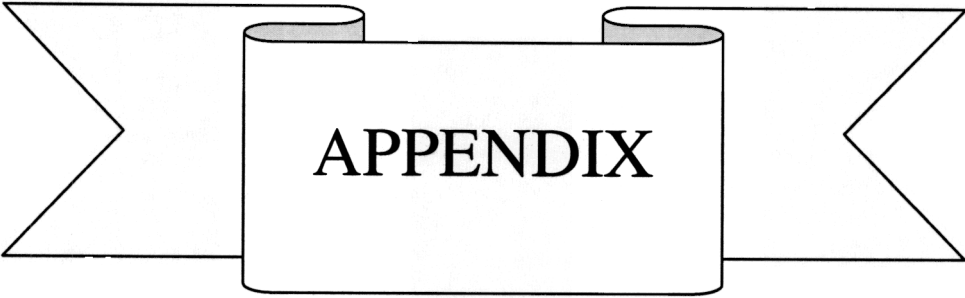
In comment's dated October 2, 2003, New Jersey officials concurred with our recommendation to consider conducting site visits of sub-recipients as part of sub-recipient monitoring activities and intend to incorporate this component into its work plan for the upcoming agreement period.

In addition, regarding the "Other Matters" section of the report, New Jersey officials stated that the unobligated balance as of February 28, 2003 included in our report has been reduced. According to the Financial Status Report filed with the CDC as of June 30, 2003, this un-obligated has been reduced from \$16,430,098 to \$5,224,334. The State's response is included as an APPENDIX to this report.

To facilitate identification, please refer to report number A-02-03-02011 in all correspondence relating to this report.

Sincerely yours,


Timothy J. Horgan
Regional Inspector General
For Audit Services





State of New Jersey
DEPARTMENT OF HEALTH AND SENIOR SERVICES
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JAMES E. MCGREEVEY
Governor

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CLIFTON R. LACY, M.D.
Commissioner

October 2, 2003

Timothy J. Horgan
Regional Inspector General for Audit Services
Office of Inspector General
Jacob K. Javits Federal Building
New York, New York 10278

Re: Report Number: A-02-03-02011

Dear Mr. Horgan:

Thank you for the opportunity to review and comment on the U.S. Department of Health and Human Services, Office of the Inspector General's (OIG) draft report entitled "*Review of New Jersey's Efforts to Account for and Monitor Sub-recipients' Use of Public Health Preparedness and Response for Bioterrorism Program Funds.*" This draft was provided to the Department under your cover letter dated August 28, 2003.

The Department accepts OIG's principal finding that the Department appropriately accounted for the Program funds in accordance with the terms and conditions of the Cooperative Agreement with the Centers for Disease Control and Prevention (CDC). Furthermore, we concur with the recommendation to consider conducting site visits of sub-recipients as part of sub-recipient monitoring activities. The Department intends to incorporate this component into its work plan for the upcoming agreement period.

Lastly, in the "Other Matters" section, reference is made to un-obligated funds in the amount of \$16,430,098 for Budget Year 3, as of February 28, 2003. As stated in a recently completed interim Financial Status Report filed with the CDC, as of June 30, 2003, total expenditures and obligations amounted to \$24,585,617, leaving an un-obligated fund balance of \$5,224,334. Again, please note that the Cooperative Agreement period runs through August 30, 2003.

Should you have any questions or require additional information, please contact Mr. James S. Blumenstock, the Department's Acting Deputy Commissioner for Public Health Protection and Prevention/Emergency Response and Preparedness, at (609) 292-3018.

Sincerely,

Clifton R. Lacy, M.D.
Commissioner

c: James S. Blumenstock