

REGION IV
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November 12, 2003

Report Number: A-04-03-01012

Kathleen E. Toomey, M.D., M.P.H.
Director, Division of Public Health
Georgia Department of Human Resources
2 Peachtree Street – 15th Floor
Atlanta, Georgia 30303

Dear Dr. Toomey:

Enclosed are two copies of our report that provides the results of our self-initiated ***Review of the State of Georgia's Efforts to Account for and Monitor Sub-recipients' Use of Bioterrorism Hospital Preparedness Program Funds, Georgia Department of Human Resources.***

Our objectives were to determine whether the Georgia Department of Human Resources (State agency): (1) properly recorded, summarized and reported bioterrorism preparedness transactions in accordance with the terms and conditions of the cooperative agreements; and (2) whether the State agency has established controls and procedures to monitor sub-recipient expenditures of Health Resources and Services Administration funds. In addition, we inquired as to whether Bioterrorism Hospital Program (Program) funding supplanted programs previously funded by other organizational sources.

Based on our validation of the questionnaire completed by the State agency and our site visit, we found 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. State agency officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. As a result, they said they would make changes to the accounting system that would provide a method to segregate costs by phase, within phase, and by priority area in the future.

The State agency monitored its sub-recipients by requiring them to report their activities in monthly expenditure reports, quarterly programmatic reports, and ongoing contacts. Although the State agency had not completed any site visits to sub-recipients, it was in the process of developing a site visit component. We believe that the development of the site visit component, combined with sub-recipient reporting, and Office of Management and Budget Circular A-133 audit will provide adequate monitoring and oversight of its sub-recipients.

In response to our inquiry as to whether the State agency reduced funding to existing public health programs, State officials stated that Program funds were not used to supplant any existing State or local programs.

Final determination as to actions taken on all matters reported will be made by the Department of Health and Human Services (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 United States Code 552, as amended by Public Law 104-231), Office of Inspector General 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 Code of Federal Regulations Part 5).

If you have any questions or comments about this report, please contact Don Czyzewski, Audit Manager, at 305-536-5309, extension 10.

To facilitate identification, please refer to report number A-04-03-01012 in all correspondence relating to this report.

Sincerely,



Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Enclosures – as stated

Direct Reply to HHS Action Official:

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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 GEORGIA'S EFFORTS TO
ACCOUNT FOR AND MONITOR
SUB-RECIPIENTS' USE OF PUBLIC
HEALTH PREPAREDNESS AND
RESPONSE FOR BIOTERRORISM
PROGRAM FUNDS**



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Notices

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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

OBJECTIVE

Our objectives were to determine whether the Georgia Department of Human Resources (State agency): (1) properly recorded, summarized and reported bioterrorism preparedness transactions in accordance with the terms and conditions of the cooperative agreements; and (2) 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 Program (Program) funding supplanted programs previously funded by other organizational sources.

FINDINGS

Based on our validation of the questionnaire completed by the State agency and our site visit, we found 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. State agency officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. As a result, they said they would make changes to the accounting system that would provide a method to segregate costs by phase, within phase, and by priority area in the future.

The State agency monitored its sub-recipients by requiring them to report their activities in monthly expenditure reports, quarterly programmatic reports, and ongoing contacts. Although the State agency had not completed any site visits to sub-recipients, it was in the process of developing a site visit component. We believe that the development of the site visit component, combined with sub-recipient reporting, and Office of Management and Budget (OMB) Circular A-133 audit will provide adequate monitoring and oversight of its sub-recipients.

In response to our inquiry as to whether the State agency reduced funding to existing public health programs, State officials stated that Program funds were not used to supplant any existing State or local programs.

RECOMMENDATIONS

We recommend the State agency:

- Segregate expenditures by phase, within phase, and by priority area; and
- Implement the site visit component 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 recommendation. 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

 Georgia 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

OTHER MATTERS..... 6

APPENDIX

INTRODUCTION

BACKGROUND

The Program

Since September 2001, the Department of Health and Human Services has significantly increased its spending for public health preparedness and response to bioterrorism. For fiscal years (FY) 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 the 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 medical services 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 Mariana Islands, American Samoa, Guam, the U.S. Virgin Islands, and the Nation’s three largest municipalities (New York, Chicago, and Los Angeles County). Those eligible to apply included the health departments of States or their bona fide agents. Individual hospitals, emergency medical services systems, health centers and poison control centers work with the applicable health department for funding through the Program.

Georgia Funding

For budget year 1, the period April 1, 2002 through March 31, 2004, the amount of the State agency program funding awarded to the State agency was \$3.4 million. The following table details the funding for budget year 1.

Program Amounts for Budget Year 1			
	Awarded	Expended	Unobligated
Year 1	\$3,421,481 ⁽¹⁾	223,674 ⁽²⁾	3,068,257 ⁽³⁾

- (1) Amount verified to the Notice of Cooperative Agreement.
- (2) Amount reconciled to the accounting records.
- (3) Unobligated funds are a calculated amount as of April 30, 2003.

OBJECTIVE, SCOPE AND METHODOLOGY

Objectives

Our objectives were to determine whether the State agency: (1) properly recorded, summarized and reported bioterrorism preparedness transactions in accordance with the terms and conditions of the cooperative agreements; and (2) whether the State agency has established controls and procedures to monitor sub-recipient expenditures of HRSA funds. In addition, we inquired as to whether bioterrorism program funding supplanted programs previously funded 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 the State agency policies and procedures, financial reports, and summary of accounting transactions during the period of April 1, 2002 through April 30, 2003.

Methodology

We developed a questionnaire to address the objectives of the review. The questionnaire covered the areas: (1) the grantee organization; (2) funding; (3) accounting for expenditures; (4) supplanting; and (5) sub-recipient monitoring. Prior to our fieldwork, we provided the questionnaire for the State agency to complete. During our on-site visit, we interviewed the State agency staff and obtained supporting documentation to validate the responses on the questionnaire.

Fieldwork was conducted at the State agency offices in Atlanta, Georgia and our Tallahassee, Florida field office during 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 State agency and our site visit, we found 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. State agency officials acknowledged the importance of tracking expenditures in order to comply with the budget restrictions. As a result, they said they would make changes to the accounting system that would provide a method to segregate costs by phase, within phase, and by priority area in the future.

The State agency monitored its sub-recipients by requiring them to report their activities in monthly expenditure reports, quarterly programmatic reports, and ongoing contacts. Although the State agency had not completed any site visits to sub-recipients, it was in the process of developing a site visit component. We believe that the development of the site visit component, combined with sub-recipient reporting, and OMB Circular A-133 audit will provide adequate monitoring and oversight of its sub-recipients.

In response to our inquiry as to whether the State agency reduced funding to existing public health programs, State officials stated that Program funds were not used to supplant any 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 HRSA Bioterrorism Hospital Preparedness 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. Page 7 of the Cooperative Agreement Guidance states that indirect costs will be "limited to 10 percent of the Phase I and Phase II total."

Regarding Phase I funds:

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

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

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

Without segregation of funds, the State agency had no assurance that funds expended do not exceed the budgeting restrictions set forth in the cooperative agreement. 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. State agency officials acknowledged the importance of tracking expenditures in order to ensure compliance with budget restrictions. As a result, they said they would make changes to the accounting system that would provide a method to segregate costs by phase, within phase, and by priority area in the future. With regards to Phase I and II separation, the State agency was under the impression that Phase I and II were based on a date and not an activity or amount of spending. State agency officials anticipate that 85-90 percent of the funds will be allocated to hospitals and other health care entities. Because the State agency had spent only 12 percent of the funds, we were unable to determine whether it will meet the budget restrictions.

We noted no indirect costs were claimed.

Sub-recipient Monitoring

Recipients of Program grant funds are required to monitor their sub-recipients. The Public Health Service 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 monitored its sub-recipients by requiring them to report their activities in monthly expenditure reports, quarterly programmatic reports, and ongoing contacts. State agency staff utilized these reports and contacts in conjunction with releasing funds to sub-recipients. Although the State agency had not completed any site visits to sub-recipients, it was in the process of developing a site visit component. We believe that the development of the site visit component, combined with sub-recipient reporting, and the OMB Circular A-133 audit will provide adequate monitoring and oversight of its 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. 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 agency reduced funding to existing public health programs, State officials stated that Program funds were not used to supplant any existing State or local funds for bioterrorism, infectious disease outbreaks, other public health threats and emergencies, and public health infrastructure in Georgia.

RECOMMENDATIONS

We recommend the State agency:

- Segregate expenditures by phase, within phase, and by priority area; and
- Implement the site visit component 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 recommendation. The State agency's response is included in its entirety as an appendix to this report.

OTHER MATTERS

The State agency received funding of approximately \$3.4 million for the first year of the Program. According to the questionnaire completed by the State agency approximately \$3.1 million (91 percent) was unobligated as of April 30, 2003 due to delays in the State's processes involved in the start-up of new activities; such as, extensive planning and coordinating concerned parties, and delays in hiring. State agency officials stated that approximately \$3 million (88 percent) in Program funds were still unobligated as of June 30, 2003. The State officials indicated they would submit a request to carryover one-time funds not used.

APPENDIX



Jim Martin, Commissioner

Georgia Department of Human Resources • Division of Public Health • Kathleen E. Toomey, M.D., M.P.H., Director
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404-657-2700 • FAX: 404-657-2715

October 20, 2003

Charles J. Curtis
Regional Inspector General for
Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, Georgia 30303

OCT 24 2003
DIVISION OF PUBLIC HEALTH

Dear Mr. Curtis:

We are in receipt of your recent audit report. As you noted, the use of site visits to monitor sub-recipients strengthens the overall accountability process. While we have been conducting visits during the past year, they have not been formally incorporated into a monitoring process. We are presently in the process of establishing a monitoring policy, structure, and process that will include regular site visits.

We anticipate that this will address the concern raised in your Review of the State of Georgia's efforts to account for and monitor sub-recipients' use of Public Health Preparedness and Response for Bioterrorism Program funds.

Sincerely,

A handwritten signature in black ink, appearing to read "Kathleen E. Toomey", is written over a circular stamp. The signature is fluid and cursive.

Kathleen E. Toomey, M.D., M.P.H.
Director
Georgia Division of Public Health

ACKNOWLEDGMENTS

This report was prepared under the direction of Charles Curtis, Regional Inspector General for Audit Services, Region IV. Other principal Office of Audit Services' staff who contributed includes:

Don Czyzewski, *Audit Manager*

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Mervyn Carrington, *Auditor in Charge*

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