

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

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



**OCTOBER 2003
A-05-03-00080**

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.





DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601
October 7, 2003

REGION V
OFFICE OF
INSPECTOR GENERAL

Report Number: A-05-03-00080

Dr. Jacqueline Scott, D.V.M, Ph.D.
Director, Office of Public Health Preparedness
Michigan Department of Community Health
33423 N. Martin Luther King Jr. Blvd.
P.O. Box 30195
Lansing, Michigan 48909

Dear Dr. Scott,

The attached report provides the results of our self-initiated review of the "State of Michigan's Efforts to Account for and Monitor Sub-recipients' Use of Public Health Preparedness and Response for Bioterrorism Program Funds."

Our objectives were to determine whether the Michigan Department of Community Health (State agency): (i) properly recorded, summarized and reported bioterrorism preparedness transactions by specific focus area designated in the cooperative agreements and (ii) had controls and procedures to monitor sub-recipient expenditures of Centers for Disease Control and Prevention (CDC) funds. In addition, we inquired as to whether bioterrorism 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. Specifically, the State agency recorded, summarized and reported transactions by each focus area. In addition, we found that the State agency had adequate controls and procedures in place to monitor sub-recipient expenditures of CDC funds. In response to our inquiry as to whether the State agency reduced funding to existing public health programs, State officials replied that Program funding had not been used to supplant existing State or local programs.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We would appreciate your views and the status of any further action taken or contemplated on our recommendations within 15 days. 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), Office of Inspector General reports 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 contact Leon Siverhus, Audit Manager, at 651-290-3762.

To facilitate identification, please refer to Report Number A-05-03-00080 in all correspondence relating to this report.

Sincerely,



Paul Swanson
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

EXECUTIVE SUMMARY

OBJECTIVES

Our objectives were to determine whether the Michigan Department of Community Health (State agency): (i) properly recorded, summarized and reported bioterrorism preparedness transactions by specific focus areas designated in the cooperative agreements and (ii) whether the State agency had controls and procedures to monitor sub-recipient expenditures of Centers for Disease Control and Prevention (CDC) funds. In addition, we inquired as to whether bioterrorism 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. Specifically, the State agency recorded, summarized and reported transactions by each focus area. In addition, we found that the State agency had adequate controls and procedures in place to monitor sub-recipient expenditures of CDC funds. In response to our inquiry as to whether the State agency reduced funding to existing public health programs, State officials replied that Program funding had not been used to supplant existing State or local programs.

RECOMMENDATION

We recommend that the State agency continue to comply with the terms and conditions of the cooperative agreements.

STATE AGENCY

In a written response to our draft report received September 3, 2003, the State agency concurred with our findings and 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
Focus Areas.....	1
Eligible Recipients	2
State Agency Funding.....	2
OBJECTIVE, SCOPE AND METHODOLOGY	2
Objectives	2
Scope.....	3
Methodology	3
FINDINGS AND RECOMMENDATION.....	3
Accounting for Expenditures	3
Sub-recipient Monitoring.....	4
Supplanting	4
RECOMMENDATION.....	5
STATE AGENCY COMMENTS	5
APPENDIX	

INTRODUCTION

BACKGROUND

The Program

The CDC was designated as the entity responsible for the program to improve state and other eligible entity preparedness and response capabilities for bioterrorism and other public health emergencies. The program is referred to as the Public Health Preparedness & Response to Bioterrorism Program (Program). This program is authorized under Sections 301(a), 317(k)(1)(2), and 319 of the Public Health Service 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)....

The 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 bioterrorist act.

Annual Program Funding

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.

Focus Areas

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 and
 Focus Area G - Education and Training.

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, the republics of Palau and the Marshall Islands, the Federated States of Micronesia, and the nation's three largest municipalities (New York, 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.

State Agency Funding

The amount of Program funding awarded to the State agency has increased from approximately \$1.1 million in 1999 to \$30 million in 2003. The following table shows funding for each budget year.

Program Amounts by Budget Year			
	Awarded	Expended	Unobligated
Year 1	1,100,617	853,295	247,322
Year 2	1,156,125 ⁽¹⁾	1,282,049	18,742
Year 3	30,057,446 ⁽²⁾	15,902,809 ⁽³⁾	1,611,508 ⁽³⁾

- (1) Excludes Year 1 carry forward funds of \$144,666.
- (2) Includes \$27,125,655 of Emergency Supplemental funds.
- (3) As of June 30, 2003.

OBJECTIVE, SCOPE AND METHODOLOGY

Objectives

Our objectives were to determine whether the State agency: (i) properly recorded, summarized and reported bioterrorism preparedness transactions by specific focus area designated in the cooperative agreements and (ii) whether the State agency had controls and procedures to monitor sub-recipient expenditures of CDC funds. In addition, we inquired as to whether 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's policies and procedures, financial reports, and accounting transactions during the period August 31, 1999 through February 28, 2003.

Methodology

We developed a questionnaire to address the objectives of the review. The questionnaire covered the areas of: (i) 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 officials and obtained supporting documentation to validate their responses to the questionnaire.

Fieldwork was conducted at State agency offices in Lansing, Michigan, and in our St. Paul, Minnesota field office, during May and June 2003.

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

FINDINGS AND RECOMMENDATION

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. Specifically, the State agency recorded, summarized and reported bioterrorism transactions by each focus area. In addition, we found the State agency had adequate controls and procedures in place to monitor sub-recipient expenditures of CDC funds. In response to our inquiry as to whether the State agency reduced funding to existing public health programs, State 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 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 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 which reflect the cooperative agreement number assigned to the overall project must be submitted for individual focus areas...

The State agency recorded, summarized and reported transactions by specific focus areas designated in the cooperative agreements.

Sub-recipient Monitoring

Recipients of 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 further provides that grant requirements apply to subgrantees and contractors under the grants, as follows:

...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....

Based on the results of the questionnaire and interviews with State officials, we found the State agency had adequate controls and procedures to monitor sub-recipient expenditures of CDC funds. The Michigan Public Health Institute (Institute) performed the needs assessment for the Program for each of the focus areas. The Institute submitted a final Quarterly Report to the State agency which provided a summary of project progress, financial status, difficulties and solutions, personnel changes, planned activity, and an evaluation of the ability to complete the remainder of the project. In addition, each emergency preparedness coordinator at the local health department is required to submit a programmatic progress report and quarterly Financial Status Report to the State agency for monitoring. The State agency sent a questionnaire to the coordinators to verify the appropriateness of expenditures for future justifications to the CDC. The questionnaire was also used to clarify sub-recipient reporting requirements.

Supplanting

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 bioterrorism, 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 the State agency reduced funding to existing public health programs, State officials replied that Program funding had not been used to supplant existing State or local programs.

RECOMMENDATION

We recommend that the State agency continue to comply with the terms and conditions of the cooperative agreements.

STATE AGENCY COMMENTS

In a written response to our draft report received September 3, 2003, the State agency concurred with our findings and recommendation. The State agency's response is included in its entirety as an appendix to this report.

APPENDIX



STATE OF MICHIGAN

DEPARTMENT OF COMMUNITY HEALTH
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

JANET OLSZEWSKI
DIRECTOR

Report Number A-05-03-00080

Mr. Paul Swanson, Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Audit Services
233 North Michigan Avenue
Chicago, IL 60601

Dear Mr. Swanson:

In response to receipt and review of the draft report of the recent audit of the Michigan Department of Community Health, Office of Public Health Preparedness use and disposition of federal funds received under the Public Health Preparedness and Response to Bioterrorism Program Funds, we concur with the factual content of the report and accept the reasonableness of the recommendation presented.

We welcome the findings that we were and are in compliance with the requirements of grant participation and reconfirm our commitment of continued compliance with all terms and conditions as required by this Cooperative Agreement.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Jacqueline S. Scott".

Jacqueline S. Scott, D.V.M., Ph.D.
Director
Office of Public Health Preparedness
Telephone: 517-335-8150
Fax: 517-335-9434
Email: scottjac@michigan.gov

ACKNOWLEDGEMENTS

This report was prepared under the direction of Paul Swanson, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

Leon Siverhus, *Audit Manager*

Brent Storhaug, *Senior Auditor*

Shirley Loos, *Auditor*

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

DISTRIBUTION SCHEDULE

	<u>Number Of Copies</u>
AUDITEE	
Dr. Jacqueline S. Scott, D.V.M., Ph.D. Director, Office of Public Health Preparedness Michigan Department of Community Health 3423 North Martin Luther King Jr. Blvd. P.O. Box 30195 Lansing, Michigan 48909	2
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	2
HHS AUDIT LIAISON	
Helen Kuykendall Director, Audit Liaison Staff Centers for Disease Control and Prevention 1600 Clifton Road, N.E. Atlanta, Georgia 30333	2
OFFICE OF AUDIT SERVICES	
Director, Audit Planning and Implementation	1
Grants and Internal Activities Audit Division	3
Regional Office	2
St. Paul, Minnesota Field Office	3
POSTED ON THE WEB	Yes