



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

REGION V  
OFFICE OF  
INSPECTOR GENERAL

February 4, 2005

Report Number: A-05-04-00051

J. Nick Baird, M.D.  
Director of Health  
Ohio Department of Health  
246 North High Street  
Columbus, Ohio 43216

Dear Dr. Baird,

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General's report entitled "Audit of Costs and Reporting of Funds Under the Public Health Preparedness and Response for Bioterrorism Program" for the period August 31, 1999, through August 30, 2004. 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 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, 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 CFR Part 5.)

To facilitate identification, please refer to report number A-05-04-00051 in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink that reads "Paul Swanson".

Paul Swanson  
Regional Inspector General  
for Audit Services

Enclosures – as stated

**Direct Reply to HHS Action Official:**  
Analysis Management Team Lead  
Management Analysis and Services Office  
Office of the Chief Operating Officer  
Centers for Disease Control and Prevention  
1600 Clifton Road, N.E., MS E-11  
Atlanta, GA 30333

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF COSTS AND  
REPORTING OF FUNDS  
UNDER THE PUBLIC HEALTH  
PREPAREDNESS AND RESPONSE  
FOR BIOTERRORISM PROGRAM**

**OHIO DEPARTMENT OF HEALTH**



**FEBRUARY 2005  
A-05-04-00051**

# ***Office of Inspector General***

**<http://oig.hhs.gov>**

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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 the information 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 HHS divisions will make final determination on these matters.



## **EXECUTIVE SUMMARY**

### **BACKGROUND**

States and major local health departments receive Centers for Disease Control and Prevention (CDC) funding to improve their bioterrorism preparedness and response capabilities under the Public Health Preparedness and Response for Bioterrorism Program. Bioterrorism preparedness program funding awarded to the Ohio Department of Health (State agency) has increased from \$1.1 million in 1999 to \$34 million in 2004. As of August 30, 2004, cumulative funds awarded totaled \$68,544,961.

### **OBJECTIVES**

The objectives of our audit were to determine whether the State agency:

- recorded and reported CDC bioterrorism preparedness program funds awarded, expended, obligated, and unobligated by focus area in accordance with the cooperative agreement;
- ensured that the bioterrorism preparedness program funds were used for necessary, reasonable, allocable, and allowable costs in accordance with the terms of the cooperative agreement; and
- did not supplant current State or local funding with bioterrorism preparedness program funds.

### **SUMMARY OF FINDINGS**

The State agency properly recorded and reported bioterrorism preparedness program funds awarded, expended, obligated, and unobligated by focus area in accordance with the cooperative agreement; generally ensured that bioterrorism preparedness program funds were used for necessary, reasonable, allocable, and allowable costs under the terms of the cooperative agreement; and did not supplant current State or local expenditures with bioterrorism preparedness program funds. We did note that \$5,557,352 of the unobligated fund balance at August 30, 2003, was not carried forward or used for program expenditures and that the fund balance as of August 30, 2004, amounted to \$4,734,875. These unused and unobligated amounts, totaling \$10,292,227, represent 15 percent of the \$68,544,961 awarded. Based on a non-statistical assessment of the expenditures charged to the program, we could not determine the allowability of three sampled expenditures totaling \$4,154 at the Jefferson County Health District (Jefferson County), which were not adequately documented.

## **RECOMMENDATIONS**

We recommend that the State agency:

- ensure bioterrorism preparedness program activities are funded in a manner to minimize unobligated fund balances and to achieve bioterrorism preparedness program goals, and
- ensure the inadequately documented costs of \$4,154 at the Jefferson County subrecipient are properly resolved.

## **AUDITEE RESPONSE**

In a written response dated January 26, 2005, the State agency concurred with our findings and recommendations. The State agency's response is included in its entirety as Appendix A to this report.

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## INTRODUCTION

### BACKGROUND

#### **Public Health Preparedness and Response for Bioterrorism Program**

States and major local health departments receive CDC funding to improve their bioterrorism preparedness and response capabilities under the Public Health Preparedness and Response for Bioterrorism Program. The bioterrorism preparedness program is authorized under sections 301(a), 317(k)(1)(2), and 319 of the Public Health Service Act (42 U.S.C. §§ 241(a), 247b(k)(1)(2), and 247(d)).

CDC initiated cooperative agreements with awardees requiring them to report the bioterrorism preparedness program expenditures by focus area as directed by Program Announcement 99051. Specifically, the notice of cooperative agreement states: “To assure proper reporting and segregation of funds for each focus area, Financial Status Reports...must be submitted for individual focus areas not later than 90 days after the end of the budget period.”

The CDC’s bioterrorism preparedness program funding is divided into seven focus areas. Eligible applicants could request funds for activities under one or more of these 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/Training
- Focus Area F - Communicating Health Risks and Health Information Dissemination
- Focus Area G - Education and Training

Bioterrorism preparedness program funds were meant to augment current funding and focus on public health preparedness activities under the CDC Cooperative Agreement. Program Announcement 99051 states “...cooperative agreement funds under this program may not be used to replace or supplant any current state or local expenditures.”

#### **State Agency Funding**

Bioterrorism preparedness program funding awarded to the State agency has increased from \$1.1 million in 1999 to \$34 million in 2004. As of August 30, 2004, cumulative funds awarded totaled \$68,544,961.

### OBJECTIVES, SCOPE, AND METHODOLOGY

#### **Objectives**

The objectives of our audit were to determine whether the State agency:

- recorded and reported CDC bioterrorism preparedness program funds awarded, expended, obligated, and unobligated by focus area in accordance with the cooperative agreement;
- ensured that the bioterrorism preparedness program funds were used for necessary, reasonable, allocable, and allowable costs in accordance with the terms of the cooperative agreement; and
- did not supplant current State or local funding with bioterrorism preparedness program funds.

## Scope

Our audit covered State agency policies and procedures for accounting and financial reporting of bioterrorism preparedness program funding for the period August 31, 1999, to March 31, 2004. After completion of our on-site fieldwork, we also obtained balances for awarded, expended, obligated, and unobligated funds as of August 30, 2004, the end of the latest budget period.

Our review of the allowability of bioterrorism program expenditures was limited to non-statistical samples of expenditures by the State agency and two of its subrecipients, the Columbus City Health Department (Columbus) and the Jefferson County Health District (Jefferson County). Our non-statistical samples were intended to assess the acceptability of expenditure practices at the State agency and one large urban and one rural subrecipient. Table 1 shows a summary of the universe of expenditures and the samples selected at the respective agencies.

**Table 1**

<b>Summary of Expenditure Universe and Sample Expenditures Selected</b>			
<b>Type of Expenditure</b>	<b>Sample Size</b>	<b>Dollar Value of Universe</b>	<b>Dollar Value of Sample</b>
<i>State Agency</i>			
Payroll	30	\$ 4,930,874	\$ 128,859
Non-Payroll	36	36,516,247	2,448,986
<b>Total</b>	<b>66</b>	<b>\$ 41,447,121</b>	<b>\$ 2,577,845</b>
<i>Columbus</i>			
Payroll	6	\$ 492,222	\$ 10,763
Non-Payroll	8	497,193	160,454
<b>Total</b>	<b>14</b>	<b>\$ 989,415</b>	<b>\$ 171,217</b>
<i>Jefferson County</i>			
Payroll	3	\$ 59,953	\$ 35,155
Non-Payroll	11	119,695	30,446
<b>Total</b>	<b>14</b>	<b>\$ 179,648</b>	<b>\$ 65,601</b>

Our audit was conducted for the purposes described above and would not necessarily disclose all material weaknesses. We did not review the overall internal control structure of the State agency or its subrecipients. Our internal control review was limited to obtaining an understanding of the

State agency and selected subrecipients' procedures to account for bioterrorism preparedness program funds and expending these funds for allowable program related activities.

## **Methodology**

To accomplish the objectives of our audit, we conducted site visits at the State agency and the two subrecipients. We reviewed the State agency's and selected subrecipients' accounting and financial reporting systems to determine how funds were recorded and reported and to verify whether funds were expended for necessary, reasonable, allocable, and allowable costs. We also reviewed the prior and current levels of State and local funding of bioterrorism preparedness activities to assess whether these funds were replaced or supplanted by Federal funds provided. Specifically, we:

- reconciled the amounts reported on the State agency's Financial Status Reports (FSR) for Period 1, 2, and 3 to the accounting records and Notices of Cooperative Agreements and tested the FSRs for completeness and accuracy;
- requested awarded, expended, obligated, and unobligated fund balances for Period 4, as of August 30, 2004, and verified the balances to accounting records provided by the State agency;
- selected and tested a non-statistical sample of expenditures at the State agency and the Columbus and Jefferson County subrecipients to ensure that bioterrorism preparedness program funds were used for necessary, reasonable, allocable, and allowable costs under the terms of the cooperative agreement; and
- addressed supplanting concerns by selectively reviewing cost transfers, State budget reductions versus Federal bioterrorism funding, and the employment history of State agency and subrecipient bioterrorism preparedness program staff.

We conducted fieldwork between March and July 2004 at the State agency office in Columbus, Ohio, and at subrecipient offices in Columbus and Steubenville, Ohio.

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

## **FINDINGS AND RECOMMENDATIONS**

Although the State agency had recorded and reported bioterrorism preparedness program funds in accordance with cooperative agreement guidelines, generally used bioterrorism program funds for allowable costs, and did not supplant State and local funding with Federal program funds, we found significant and recurring unobligated fund balances and some instances of inadequately documented costs for which the allowability could not be determined.

## UNOBLIGATED FUND BALANCES AND UNUSED AWARD AMOUNTS

As of August 30, 2004, the State agency had not carried forward or used \$5,557,352 of the funds awarded for Period 3 and had not expended \$4,734,875 of the funds awarded for Period 4. These unused and unobligated amounts, totaling \$10,292,227, represent 15 percent of the \$68,544,961<sup>1</sup> awarded. The State agency had significant and recurring unobligated balances at the end of each budget period. During the three initial budget periods, unobligated funds amounting to \$2,047,150 had been carried forward to subsequent periods.

Unobligated funds are monies that have been awarded but have not been obligated or expended. Program Announcement 99051 states that activities to be funded through the bioterrorism preparedness program are considered to be of core importance to the security of the country and that funded applications should be pursued vigorously with as little time lost in start-up as possible. Bioterrorism preparedness program funds should be used during the specified timeframe and only for program purposes. For example, Period 1 funds should have been obligated or expended for specific purposes by August 30, 2000.

In its Period 4 Continuation Guidance, CDC recognized the significance of continuing unobligated fund balances by stating: "estimated FY 2002 supplemental unobligated funds that are not adequately justified or for which a written carry-over request is not received by July 1, 2003 will be brought forward in lieu of new funds."

### Funds Awarded but Not Obligated or Expended

Table 2 shows State agency balances at the end of each budget period. These program fund balances are based on available Notices of Cooperative Agreements, FSRs, and State agency accounting records.

**Table 2**

<b>State Agency Balances at Budget Period End<sup>2</sup></b>						
<b>Period</b>	<b>Awarded: Including Carry Forward</b>	<b>Expended</b>	<b>Obligated</b>	<b>Unobligated</b>	<b>Carried Forward</b>	<b>Unused Awards</b>
<b>1</b>	\$1,116,275	\$698,217	\$0	\$418,058	\$418,058	\$0
<b>2</b>	1,383,012	1,103,921	0	279,091	279,091	0
<b>3</b>	32,724,507	25,817,154	0	6,907,353	1,350,001	5,557,352
<b>4</b>	35,368,314	23,377,852	7,255,587	4,734,875		
<b>Total</b>	<b>\$70,592,108</b>	<b>\$50,997,144</b>	<b>\$7,255,587</b>		<b>\$2,047,150</b>	

<sup>1</sup> \$68,544,961 represents the total amount of awards excluding carry forward.

<sup>2</sup> Although there were 4 budget periods at the time of our review, the bioterrorism preparedness program was actually a five-year project period, August 31, 1999, through August 30, 2004. Budget periods were annual, except for Period 3, which covered the two-year period August 31, 2001, through August 30, 2003.

The State agency had significant and recurring unobligated balances and funds carried forward at the end of each budget period. The CDC approved the State agency's carry forward of \$2,047,150 in unobligated bioterrorism preparedness program fund balances representing the entire unobligated balances for Period 1 and 2 and a carry forward of \$1,350,001 in Period 3 funds to Period 4. These carry forward amounts were traced to the Notices of Cooperative Agreements. As of August 30, 2004, the State agency had not carried forward or used award amounts of \$5,557,352 for Period 3. In addition, the unobligated fund balance for Period 4 was \$4,734,875. A formal request for carry forward of the unused award or the unobligated balance had not been made.

### **Awarded Funds Were Not Expended for Various Reasons**

We attribute the unobligated fund balances and resulting carry forwards in Periods 1 and 2 to delays in the start up of new activities. Delays were caused by lengthy State processes for hiring and executing contracts and a decision to postpone renovation of a laboratory. These causes for delays in obligating funds continued into Period 3. As noted in previous audits, many awardees across the nation found it difficult to obligate large sums of money in such a short time period. The State agency confirmed there were problems associated with properly obligating large awards in a short period of time.

### **Bioterrorism Preparedness Program Funds Not Fully Utilized**

Recurring unobligated balances and carry forwards resulted in unused award amounts, suggesting that funds were not fully utilized to meet important bioterrorism preparedness program goals and stronger program oversight may be needed.

### **ALLOWABILITY OF BIOTERRORISM PREPAREDNESS PROGRAM COSTS**

Although the bioterrorism preparedness program funds were generally used for allowable costs under terms of the cooperative agreement, supporting documentation in the form of receipts, invoices, or vouchers for three sample expenditures totaling \$4,154 at the Jefferson County subrecipient were incomplete and unavailable. Without adequate documentation, we could not determine the allowability of these expenditures.

Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments provides basic guidelines for the allowability of costs under Federal awards by providing that costs must "...be allocable to..." and "...be necessary and reasonable for proper and efficient performance and administration of..." the award. In addition, the guidelines state costs must be adequately documented.

Complete documentation in the form of receipts, invoices, or vouchers was unavailable for three non-payroll expenditures at Jefferson County. Out of 39 payroll and 55 non-payroll expenditures selected for review for three locations, we were able to support the necessity, reasonableness, allocability, and allowability of all but 3 of the 11 non-payroll transactions (totaling \$30,446) for Jefferson County. These unsupported non-payroll items totaled \$4,154. All other sampled

expenditures at Jefferson County and those selected for review at the State agency and the Columbus subrecipient were supported and accepted.

## **SUPLANTING**

Program Announcement 99051 states "...cooperative agreement funds under this program may not be used to replace or supplant any current state or local expenditures." Both original and supplemental bioterrorism preparedness program funds were meant to augment current funding and focus on public health preparedness activities under the CDC Cooperative Agreement. The funds could not supplant existing Federal, State, or local funds for bioterrorism, infectious disease outbreaks, other public health threats and emergencies, or public health infrastructure within the jurisdiction.

Based on reviews of cost transfers, the timing of State and local budget reductions versus Federal bioterrorism funding, and costs reported for fiscal years prior and subsequent to receiving bioterrorism preparedness program funding, we found no evidence of supplanting at the State agency or the subrecipients reviewed. We did not find significant decreases in State and other funded disbursements corresponding with increases in Federally-funded disbursements. In regard to our assessment of the employment history for a sample of bioterrorism preparedness program employees, we determined that previous duties of all bioterrorism preparedness program employees were either absorbed by or reassigned to other staff not funded by the CDC bioterrorism preparedness program.

## **RECOMMENDATIONS**

We recommend that the State agency:

- ensure bioterrorism preparedness program activities are funded in a manner to minimize unobligated fund balances and to achieve bioterrorism preparedness program goals, and
- ensure the inadequately documented costs of \$4,154 at the Jefferson County subrecipient are properly resolved.

## **AUDITEE RESPONSE**

In a written response dated January 26, 2005, the State agency concurred with our findings and recommendations. The State agency's response is included in its entirety as Appendix A to this report.

# **APPENDIX**

# OHIO DEPARTMENT OF HEALTH

246 North High Street  
Post Office Box 118  
Columbus, Ohio 43216-0118  
Telephone: (614) 466-3543



Bob Taft  
Governor  
J. Nick Baird, M.D.  
Director of Health

JAN 26 2005

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

Dear Mr. Swanson:

Thank you for the opportunity to respond to the draft OIG report #A-005-04-00051. We agree with your findings and will continue to develop and enhance current internal processes, as necessary, to minimize unobligated fund balances and to achieve bioterrorism preparedness program goals. Specifically, we are responding to the recommendations both of which are listed in bold below.

**Ensure bioterrorism preparedness program activities are funded in a manner to minimize unobligated fund balances and to achieve bioterrorism preparedness program goals.**

The Ohio Department of Health has worked hard to create preparedness for bioterrorism. This includes state and local public health and the medical care system. ODH is acutely aware that this preparedness must be built while maintaining fiscal accountability. Ensuring fiscal accountability creates a process which delays the expenditure of funds. ODH has requested and received the unused award from period 3 (\$5,557,352) and 78% of the unobligated award from period 4 (\$3,693,970 of \$4,734,875). These funds were provided in the period 5 Notice of Grant Award. ODH plans on asking for the balance of the period 4 unobligated funds, and any other funds that were unexpended, before the April 1, 2005 cut-off date. ODH is making every effort to expend the funds in an accountable manner.

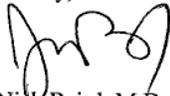
Page 2  
Mr. Paul Swanson

**Ensure the inadequately documented costs of \$4,154 at the Jefferson County sub-recipient are properly resolved.**

ODH will resolve the issue of inadequately documented costs of \$4,154 at the Jefferson County General Health District through procedures established by the ODH Grants Administration Policy and Procedure Manual (GAPP). Jefferson County General Health District has been given the opportunity to produce additional documentation to support the questioned costs. If the documentation is not satisfactory, the costs will be disallowed and the Jefferson County General Health District will be invoiced. Any funds returned to ODH as a result of this action will be forwarded to the CDC as the federal awarding agency.

We appreciated the professional interaction provided by all the staff of your office. If you have any questions, please feel free to contact me or my Bureau Chief, Steve Wagner at 614-466-1390.

Sincerely,



J. Nick Baird, M.D.  
Director of Health

JNB/ac

Cc Audit Unit

## ACKNOWLEDGMENTS

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:

Mike Barton, *Audit Manager*  
Brent Storhaug, *Senior Auditor*  
Shirley Loos, *Auditor-in-Charge*  
Lisa Martz, *Auditor*

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