



DEPARTMENT OF HEALTH AND HUMAN SERVICES

**OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601**

**REGION V
OFFICE OF
INSPECTOR GENERAL**

Report Number: A-05-04-00052

February 14, 2005

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 Bioterrorism Hospital Preparedness Program" for the period April 1, 2002, through August 30, 2004. A copy of this report will be forwarded to the action official noted below for 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-05-04-00052 in all correspondence relating to this report.

Sincerely,

A handwritten signature in cursive script that reads "Paul Swanson".

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Gail Lipton
Director, Division of Grants Policy
Parklawn Building Rm. 11A-55
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Rockville, MD 20857

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF COSTS AND
REPORTING OF FUNDS UNDER
THE BIOTERRORISM HOSPITAL
PREPAREDNESS PROGRAM**

OHIO DEPARTMENT OF HEALTH



FEBRUARY 2005
A-05-04-00052

Office of Inspector General

<http://oig.hhs.gov>

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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

BACKGROUND

States and major local health departments receive Health Resources and Services Administration (HRSA) funding to upgrade the preparedness of the Nation's hospitals and collaborating entities to respond to bioterrorism under the Bioterrorism Hospital Preparedness Program. HRSA initiated cooperative agreements with awardees for the period April 1, 2002, through March 31, 2003 as directed by the Cooperative Agreement Guidance issued February 15, 2002. This first budget period was extended through August 31, 2003. The second budget period initially covered the period September 1, 2003, through August 31, 2004, but was extended through August 31, 2005. Hospital preparedness program funding awarded to the Ohio Department of Health (State agency) has increased from \$1.4 million for period 1 to \$21.5 million for period 2. As of August 30, 2004, cumulative funds awarded totaled \$22.9 million.

OBJECTIVES

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

- recorded and reported HRSA hospital preparedness program funds awarded, expended, obligated, and unobligated in accordance with the cooperative agreement;
- ensured that the hospital 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 hospital preparedness program funds.

SUMMARY OF FINDINGS

The State agency properly recorded and reported hospital preparedness program funds awarded, expended, obligated, and unobligated in accordance with the cooperative agreement; ensured that hospital 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 hospital preparedness program funds. As of August 30, 2004, we did note unobligated fund balances of \$75,001 and \$3,206,452, for periods 1 and 2, respectively. These unused and unobligated amounts, totaling \$3,281,453, represent 14.3 percent of the \$22,883,188 awarded.

RECOMMENDATION

We recommend that the State agency ensure hospital preparedness program activities are funded in a manner to minimize unobligated fund balances and to achieve hospital preparedness program goals.

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

Bioterrorism Hospital Preparedness Program

States and major local health departments receive HRSA funding to upgrade the preparedness of the Nation's hospitals and collaborating entities to respond to bioterrorism under the Bioterrorism Hospital Preparedness Program. 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.

HRSA initiated cooperative agreements with awardees for the period April 1, 2002, through March 31, 2003, as directed by the Cooperative Agreement Guidance issued February 15, 2002. This first budget period was extended through August 31, 2003. The second budget period initially covered the period September 1, 2003, through August 31, 2004, but was extended through August 31, 2005.

The cooperative agreements identified priority planning areas to be addressed with hospital preparedness program funds. They are:

- Medication and Vaccines;
- Personal Protection, Quarantine, and Decontamination;
- Communications;
- Biological Disaster Drills;
- Personnel (including emergency increases in staffing);
- Training; and
- Patient Transfer.

Hospital preparedness program funds were meant to augment current funding and focus on bioterrorism hospital preparedness activities under the HRSA Cooperative Agreement. The Cooperative Agreement Guidance states that "...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..."

State Agency Funding

Hospital preparedness program funding awarded to the State agency has increased from \$1.4 million in period 1 to \$21.5 million in period 2. As of August 30, 2004, cumulative funds awarded totaled \$22.9 million.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

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

- recorded and reported HRSA hospital preparedness program funds awarded, expended, obligated, and unobligated in accordance with the cooperative agreement;
- ensured that the hospital 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 hospital preparedness program funds.

Scope

Our audit covered State agency policies and procedures for accounting and financial reporting of hospital preparedness program funding for the period April 1, 2002, 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.

Our review of the allowability of hospital preparedness program expenditures was limited to non-statistical samples of expenditures by the State agency and its contracted subrecipient, the Ohio Hospital Association (Association). Our non-statistical samples were intended to assess the acceptability of expenditure practices at the State agency and the subrecipient. We selected 30 sample items at the State agency, representing expenditures of \$1,422,045 from a universe of \$4,587,682. We also selected 15 sample items at the Association, representing expenditures of \$1,088,067 from a universe of \$3,731,810.

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 the subrecipient. Our internal control review was limited to obtaining an understanding of the State agency's and the subrecipient's procedures to account for hospital preparedness program funds and expending these funds for allowable program related activities.

We conducted fieldwork between March and July 2004 at State agency and Association offices in Columbus, Ohio.

Methodology

To accomplish the objectives of our audit, we conducted site visits at the State agency and its one contracted subrecipient, the Association. We reviewed the accounting and financial reporting systems at the State agency and the Association 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

hospital preparedness activities to assess whether these funds were replaced or supplanted by Federal funds provided. Specifically, we:

- reconciled period 1 amounts reported on the State agency's Financial Status Reports (FSR) to the accounting records and Notices of Cooperative Agreements and tested the FSRs for completeness and accuracy;
- reconciled period 2 amounts reported in the State agency's Reporting Database, as of the end of the audit period, to the accounting records and Notices of Cooperative Agreements;
- requested awarded, expended, obligated, and unobligated fund balances 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 Association to ensure that hospital 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 hospital preparedness program staff.

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

FINDINGS AND RECOMMENDATION

Although the State agency had recorded and reported hospital preparedness program funds in accordance with cooperative agreement guidelines, used hospital preparedness program funds for allowable costs, and did not supplant State and local funding with Federal program funds, we found significant unobligated fund balances.

UNOBLIGATED FUND BALANCE AND UNUSED AWARD AMOUNTS

As of August 30, 2004, the State agency had unobligated fund balances of \$75,001 and \$3,206,452 for periods 1 and 2, respectively. These unused and unobligated amounts, totaling \$3,281,453, represent 14.3 percent of the \$22,883,188 awarded.

Unobligated funds are monies that have been awarded but not obligated or expended. Recognizing the significance of continuing unobligated fund balances, HRSA stated in its Budget Year 2 Cooperative Agreement Guidance, "If FY 2002 funds are still unobligated, FY 2003 funds for similar priority areas will likely be awarded with a funding restriction attached. This restriction will be lifted when FY 2002 implementation efforts on specific priority areas are complete." Additional appropriations could be restricted, thus reducing the amounts provided for awardee program goals.

Funds Awarded but Not Obligated or Expended

Table 1 shows State agency balances for each budget period as of August 30, 2004. These program fund balances are based on available Notices of Cooperative Agreements, FSRs, and State agency accounting records.

Table 1
State Agency Balances as of August 30, 2004

Period	Awarded	Expended	Obligated	Unobligated
1	\$ 1,425,695	\$ 1,350,694	\$ 0	\$ 75,001
2	21,457,493	8,269,621	9,981,420	3,206,452
Total	\$ 22,883,188	\$ 9,620,315	\$ 9,981,420	\$ 3,281,453

The State agency had unobligated balances for each of the budget periods. As of August 30, 2004, the State agency had neither requested nor received approval to carry forward the unobligated fund balance of \$75,001 for period 1. On August 13, 2004, HRSA approved a one-year extension of period 2 to August 31, 2005. As a result, the State agency has until August 31, 2005 to obligate and expend the \$3,206,452 in period 2 unobligated funds.

Hospital Preparedness Program Funds Not Fully Utilized

Large unobligated balances suggest that funds may not be fully utilized to meet important hospital preparedness program goals and may indicate a need for stronger program oversight.

ALLOWABILITY OF HOSPITAL PREPAREDNESS PROGRAM COSTS

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.

We found that the hospital preparedness program funds were used for allowable costs at the State agency and the Association, under the terms of the cooperative agreement. Out of 45 total expenditures selected for review (30 at the State agency and 15 at the Association), we were able to support the necessity, reasonableness, allocability, and allowability of all sample expenditures.

SUPLANTING

The Cooperative Agreement Guidance states that "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..." Hospital preparedness program funds were meant to augment current funding and focus on bioterrorism hospital preparedness activities under the HRSA

Cooperative Agreement. The funds could not supplant existing Federal, State, or local public health funds available for emergency activities to combat threats to public health.

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 hospital preparedness program funding, we found no evidence of supplanting at the State agency or the subrecipient. 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 hospital preparedness program employees, we determined that previous duties of all hospital preparedness program employees were either absorbed by or reassigned to other staff not funded by the HRSA bioterrorism preparedness program.

RECOMMENDATION

We recommend that the State agency ensure hospital preparedness program activities are funded in a manner to minimize unobligated fund balances and to achieve hospital preparedness program goals.

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

JAN 26 2005

246 North High Street
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Bob Taft
Governor

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

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:

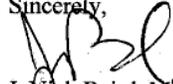
Thank you for the opportunity to respond to the draft OIG report #A-005-04-00052 dated December 17, 2004. We agree with your findings and will continue to develop and enhance current internal processes, as necessary, to minimize unobligated fund balances and to achieve Bioterrorism Hospital Preparedness program goals. Specifically, we are responding to the recommendation which is listed in bold below.

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

The Ohio Department of Health has worked hard to create preparedness for terrorism. 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. The grant period has been extended to end August 30, 2005 and the ODH anticipates expending the unobligated funds before the end of the grant period. ODH is making every effort to expend the funds in an accountable manner.

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

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.