



August 5, 2005

Report Number: A-06-05-00025

Mr. Jerry Hill
Director, Public Health Preparedness
Arkansas Department of Health
4815 West Markham
Little Rock, AR 72205

Dear Mr. Hill:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled "Review of Arkansas Department of Health's Public Health Preparedness and Response for Bioterrorism Program Funds". A copy of this report will be forwarded to the action official noted below for his 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 45 CFR Part 5.)

If you have any questions or comments about this report, please do not hesitate to call me at 214-767-8414 or through email at gordon.sato@oig.hhs.gov. To facilitate identification, please refer to Report Number A-06-05-00025 in all correspondence.

Sincerely yours,

A handwritten signature in black ink that reads "Gordon L. Sato".

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosures – as stated

Page 2 - Mr. Jerry Hill

Direct Reply to HHS Action Official:

Alvin Hall, Director
Management Analysis Branch
Management Analysis and Services Office
Office of Program Support, OD, CDC
Executive Park Drive
Building 22
Atlanta, Georgia 30329

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF ARKANSAS
DEPARTMENT OF HEALTH'S
PUBLIC HEALTH PREPAREDNESS
AND RESPONSE FOR
BIOTERRORISM PROGRAM FUNDS**



**Daniel R. Levinson
Inspector General**

**August 2005
A-06-05-00025**

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
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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 (Program). Program funding awarded to the Arkansas Department of Health (State agency) has increased from almost \$602,000 in 1999 to over \$13 million in 2003. As of August 30, 2004, cumulative awarded funds totaled \$26,884,342.

The CDC's 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

OBJECTIVES

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

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

SUMMARY OF FINDINGS

The State agency did not have sufficient internal control procedures in place to ensure that Program funds and related costs were (1) used to supplement and not supplant State and local funds, (2) recorded and reported by focus area in accordance with the cooperative agreement, and (3) necessary, reasonable, allocable, and allowable in accordance with the terms of the cooperative agreement. The State agency:

- supplanted State funds with Program funds when they transferred 16 State-funded positions, with annual salaries totaling approximately \$386,000, to the Program in June 2003, and did not replace those positions;

- did not submit a final Financial Status Report for the budget period August 31, 2001, to August 30, 2003, and did not submit the interim report by focus area;
- reported over \$2 million as unobligated on its interim Financial Status Report for budget period August 31, 2001, to August 30, 2003 (this amount represented about 16 percent of the approximately \$12.6 million award);
- was unable to (1) reconcile the Financial Status Report to the accounting records for the budget period August 31, 2000, to August 30, 2001, and (2) locate two invoices, totaling approximately \$35,000, requested for the budget period August 31, 1999, to August 30, 2000;
- did not allocate employees' time and effort to reflect the actual percentage of time devoted to the Program, as mandated by Federal requirements (the State agency had not used a time allocation system for approximately four years); and
- charged State-funded positions to the Program in two instances without the knowledge of Program officials.

As a result, there was no assurance that the State agency utilized Program funds (1) for costs that were necessary, reasonable, and allowable and (2) in a timely manner.

RECOMMENDATIONS

We recommend that the State agency provide CDC with documentation on the 16 State-funded positions that were transferred to the Program in June 2003, and request guidance on how to appropriately resolve this issue.

In addition, we recommend that the State agency implement internal control procedures and a time allocation system to ensure that Program funds and related costs are:

- used to supplement, not supplant, any current State or local funding,
- accurately reflected on the Financial Status Report,
- obligated and expended in a timely manner,
- supported by adequate documentation,
- allocated appropriately, and
- reviewed and approved by proper Program officials.

STATE AGENCY'S COMMENTS

In a written response to our draft report, State agency officials stated that:

- the transfer of 16 State-funded positions in June 2003 was not done with the intent to supplant State funds but was an effort to utilize positions that were being cut from the State budget to support the agency's overall preparedness efforts. However, State agency officials acknowledged that they did not have a system in place to document the effort that was being expended on the Program.
- the final Financial Status Report for the budget period August 31, 2001, to August 30, 2003, was submitted on June 17, 2005, by focus area.
- the delay in spending Program funds was due to the fact that they were unable to hire critical staff to address critical infrastructure needs.
- they were still unable to reconcile the Financial Status Report and find the missing invoices. These officials stated that they do plan to review these issues after the fiscal year end.
- they have been working towards the development of an acceptable method of time allocation that will more accurately document time and effort. These officials stated that the system was tested in May and June 2005 and was implemented July 1, 2005.
- they have changed their approval process to require the Director of the Program to approve all costs charged to the Program.

The State agency's full text comments are included as Appendix A to this report.

OIG RESPONSE

Although State agency officials believed they were providing more effort than was charged to the Program, the State agency acknowledged that it did not have a system in place to document the effort. In addition, according to the State agency's own assessment of its overall preparedness efforts, 10 of the 16 State-funded positions that were transferred to the Program reported that they spent 20 percent or less of their time on the Program. As a result, we believe the State agency did supplant State funds with Federal funds, and that the State agency needs to request guidance from CDC on how to resolve this issue.

With regard to the other findings, the State agency either provided explanations for its actions or explained what steps it has taken to address our findings. State agency officials also stated that they were continuing to develop internal controls with appropriate checks and balances to assure that personnel and other expenditures will be properly accounted for and applied to the Program. Although all of these explanations are helpful in understanding the State agency's actions, the fact remains that all these actions resulted in the deficiencies identified in this report. With regards to actions already taken, we commend the State agency and would encourage the State agency to continue to take actions to correct these issues and implement our recommendations.

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INTRODUCTION

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 (Program). The Program is authorized under sections 301, 317, and 319 of the Public Health Service Act. CDC initiated cooperative agreements with awardees, requiring them to report Program expenditures by focus area as directed by Program Announcement 99051.

The CDC's 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

Program funds were meant to augment current funding and be spent on public health preparedness activities under the CDC Cooperative Agreement. Program funding awarded to the Arkansas Department of Health (State agency) has increased from almost \$602,000 in 1999 to over \$13 million in 2003. As of August 30, 2004, cumulative awarded funds totaled \$26,884,342.

The table below shows the amounts the State agency was awarded each budget period.

<i>Arkansas Department of Health Program Funding from 1999-2003</i>	
Budget Period	Award Amount
August 31, 1999-August 30, 2000	\$601,905
August 31, 2000-August 30, 2001	\$637,469
August 31, 2001-August 30, 2003	\$12,612,579
August 31, 2003-August 30, 2004	\$13,032,389
Total	\$26,884,342

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

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

- ensured that Program funds were not used to supplant current State or local funding;

- recorded and reported Program funds awarded, expended, obligated, and unobligated by focus area in accordance with the cooperative agreement; and
- ensured that Program funds were used for necessary, reasonable, allocable, and allowable costs in accordance with the terms of the cooperative agreement.

Scope

Our audit covered State agency policies and procedures for accounting and financial reporting of Program funding for the following budget periods:

- August 31, 1999, to August 30, 2000;
- August 31, 2000, to August 30, 2001; and
- August 31, 2001, to August 30, 2003 (a two-year budget period).

We did not review the budget period August 31, 2003, to August 30, 2004, because the State agency had not yet submitted its Financial Status Report.

We conducted our audit for the purposes described above, which would not necessarily disclose all material weaknesses in the accounting and financial reporting of Program funding. We limited our internal control review to obtaining an understanding of the State agency's procedures to account for Program funds and to expend those funds for allowable, Program-related activities.

We conducted fieldwork between December 2004 and January 2005 at the State agency in Little Rock, AR.

Methodology

To accomplish the objectives of our audit, we conducted a site visit at the State agency. We reviewed the State agency's accounting and financial reporting systems to determine how funds were recorded and reported and to verify whether funds were expended for necessary, reasonable, and allowable costs. Specifically, we:

- addressed supplanting concerns by reviewing State budgets and expenditures versus Program budgets and expenditures and the employment history of State agency Program staff;
- reconciled the amounts reported on the State agency's Financial Status Reports to the accounting records and Notices of Cooperative Agreement, and tested the Financial Status Reports for completeness and accuracy; and
- selected and tested expenditures at the State agency to ensure that Program funds were used for necessary, reasonable, and allowable costs under the terms of the cooperative agreement.

We performed our audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

The State agency did not have sufficient internal control procedures in place to ensure that Program funds and related costs were (1) used to supplement and not supplant State and local funds, (2) recorded and reported by focus area in accordance with the cooperative agreement, and (3) necessary, reasonable, allocable, and allowable in accordance with the terms of the cooperative agreement. The State agency:

- supplanted State funds with Program funds when they transferred 16 State-funded positions, with annual salaries totaling approximately \$386,000, to the Program in June 2003, and did not replace those positions;
- did not submit a final Financial Status Report for the budget period August 31, 2001, to August 30, 2003, and did not submit the interim report by focus area;
- reported over \$2 million as unobligated on its interim Financial Status Report for budget period August 31, 2001, to August 30, 2003 (this amount represented about 16 percent of the approximately \$12.6 million award);
- was unable to (1) reconcile the Financial Status Report to the accounting records for the budget period August 31, 2000, to August 30, 2001, and (2) locate two invoices, totaling approximately \$35,000, requested for the budget period August 31, 1999, to August 30, 2000.
- did not allocate employees' time and effort to reflect the actual percentage of time devoted to the Program, as mandated by Federal requirements (the State agency had not used a time allocation system for approximately four years); and
- charged State-funded positions to the Program in two instances without the knowledge of Program officials.

As a result, there was no assurance that the State agency utilized Program funds (1) for costs that were necessary, reasonable, and allowable and (2) in a timely manner.

State Agency Transferred State-Funded Positions to the Program

In June 2003, the State agency transferred 16 State-funded positions, with annual salaries totaling approximately \$386,000, to the Program. According to State agency officials, the State-funded positions were not replaced. Because State agency officials were unable to show us where the State funds saved by the transfer were used, there was no assurance that the State funds were used for supplemental bioterrorism-related activities.

According to CDC's Continuation Guidance for the cooperative agreement, Federal funds appropriated for the Program shall be used to supplement and not supplant other Federal, State, and local public funds provided for bioterrorism-related activities. The intent of the Program was to upgrade State and local health department preparedness and response capabilities relative to bioterrorism. Therefore, State-funded positions transferred to the Program must be replaced,

or State funds saved by the transfer should be used for supplemental bioterrorism-related activities.

State agency officials believed that the time and effort agency employees spent on the Program exceeded Federal funding, especially during the budget period August 31, 2001, to August 30, 2003. Therefore, they told us that they believed they were justified in transferring the 16 State-funded positions to the Program. State agency officials acknowledged that they could not support this conclusion because they did not have a time allocation system to measure time and effort. State positions were charged to the Program from July 2003 until our site visit in January 2005. State agency officials said they would take corrective action to properly allocate all Program employees' time and effort.

Financial Status Reports Not Timely or by Focus Area

For the budget period August 31, 2001, to August 30, 2003, the State agency did not submit a final Financial Status Report and did not submit Financial Status Reports for each focus area. The State agency submitted one **interim** Financial Status Report on November 26, 2003. In addition, as of the end of our fieldwork in January 2005, the State agency had not submitted a final Financial Status Report for the budget period August 31, 2003, to August 30, 2004. This report was due November 30, 2004.

According to the requirements of the cooperative agreement, to assure proper reporting and segregation of funds for each focus area, Financial Status Reports should have been submitted for each focus area no later than 90 days after the end of each budget period. The final Financial Status Report for the budget period August 31, 2001, to August 30, 2003, therefore, was due November 30, 2003.

The State agency official responsible for preparing the Financial Status Report for the budget period August 31, 2001, to August 30, 2003, explained that he did not submit a **final** Financial Status Report because he did not believe the amounts reported on the **interim** Financial Status Report were accurate. He told us that he did not believe the reported amounts were accurate because there were no internal control procedures in place to ensure that costs charged to the Program during the budget period were allowable. He added that he could audit costs charged to the Program after the budget period ended but, due to a lack of trained personnel, he did not have time to audit costs during the budget period to determine if they were allowable. In addition, according to the official, he did not submit a Financial Status Report for each focus area because he was not aware of this requirement.

Finally, according to the State agency official who is now responsible for preparing the Financial Status Report, the State agency has not submitted the most recent Financial Status Report that was due November 30, 2004, because they have been unable to reconcile the general ledger to the fund balance.

Significant Unobligated Balance

The State agency reported over \$2 million as unobligated funds on its Financial Status Report for the budget period August 31, 2001, to August 30, 2003. This amount represented about 16 percent of the approximately \$12.6 million award.

Unobligated funds are monies that the Federal Government has awarded but the receiving entity has not obligated or expended. Program Announcement 99051 states that activities to be funded through the 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 startup as possible. Program funds should be used during the specified timeframe and only for Program purposes.

For the budget period August 31, 2003, to August 30, 2004, CDC recognized the significance of continuing, unobligated fund balances by stating in its Continuation Guidance that, "Estimated FY 2002 supplemental unobligated funds that are not adequately justified or for which a written carryover request is not received by July 1, 2003, will be brought forward in lieu of new funds."

According to each Focus Area Leader, there were a variety of reasons why the State agency reported over \$2 million as unobligated on its Financial Status Report. The reasons included:

- Several budgeted staff positions were not filled in a timely manner.
- CDC did not approve the purchase of a van that was included in the State agency's budget.
- Contracts for a Medical Director and pharmaceutical services were not carried out as planned and budgeted.
- Budget estimates were inaccurate because the application process had to be completed quickly.
- One Focus Area Leader position was vacant, which left no management to obligate funds appropriately.

Costs Reported on Financial Status Report Unsupported

The State agency was unable to reconcile the Financial Status Report to the accounting records for the budget period August 31, 2000, to August 30, 2001. The total amount of costs reported on the final Financial Status Report (less indirect costs and error corrections) was \$578,385.90. The total amount of costs reported on the general ledger was \$425,562.41, a difference of \$152,823.49. In addition, the State agency was unable to locate two invoices, totaling approximately \$35,000, requested for the budget period August 31, 1999, to August 30, 2000.

According to the Office of Management and Budget Circular A-87, for costs charged to a Federal program to be allowable, they must be adequately documented.

State agency officials were unable to provide an explanation for the reconciliation differences or the missing invoices.

State Agency's Time and Effort Not Allocated Appropriately

The State agency did not allocate employees' time and effort to the Program appropriately. In November 2004, the State agency conducted an internal survey of all employees whose positions (1) were funded with Program funds and (2) contributed 10 percent or more of their time and effort to the Program, regardless of the funding source. Seventy-six employees who charged 100 percent of their time to the Program responded to the survey. Nineteen of these 76 employees (25 percent) reported that they spent 40 percent or less of their time on the Program.

According to the Public Health Service Grants Policy Statement and Office of Management and Budget Circular A-87, for costs charged to a Federal program to be allowable, they must be allocated appropriately. The criteria also state that amounts charged for time and effort to a program should reflect the actual percentage of time devoted to the program and must be based on an adequate time allocation system. Approved systems include (1) time and attendance records for all employees and (2) time distribution records for employees whose time and effort is chargeable to more than one program. Substitute systems for allocating time and effort, such as a Random Moment Time Study, may, upon approval, be used in place of time and attendance records and time distribution records.

The State agency had not used a time allocation system in approximately four years. According to State agency officials, they implemented a new accounting system in 2001. The new accounting system was capable of allocating employees' time and effort to various programs, but it was not initially set up correctly. As a result, an employee's time and effort could only be charged 100 percent to one program. Due to a lack of internal control procedures and a high turnover in staff, no one was placed in charge of coordinating efforts to correct the accounting system so that it would allocate time and effort appropriately among the various programs.

The State agency is making some progress toward addressing this issue. In addition to the internal survey it conducted in November 2004, the State agency has decided to implement a Random Moment Time Study to allocate employees' time and effort. The State agency planned on beginning a pilot study in March 2005, and hoped to have it fully implemented agencywide by July 2005. In the interim, the State agency planned on using the internal survey to allocate employees' time and effort.

State Agency Did Not Monitor Program Costs

The State agency did not adequately monitor costs charged to the Program. In June 2002, three State-funded positions were charged to the Program through a cost transfer. Program officials did not make the cost transfer and were unaware of the error until we requested a list of cost transfers. In another instance, a State-funded position was charged to the Program for almost five months in 2004. Again, Program officials were not aware of this transaction until we reviewed payroll costs.

According to the Office of Management and Budget Circular A-87, for costs charged to a Federal program to be allowable, they must be authorized. Program officials should review and approve all costs (including cost transfers) charged to the Program to ensure that they are in accordance with the cooperative agreement.

The State agency did not have internal control procedures in place that required all costs charged to the Program to be reviewed and approved by authorized Program officials. According to a State agency official, some focus area personnel did not submit purchase requests to Program officials because they reported to a different department. As a result, those focus areas were able to charge costs to the Program without the knowledge of Program officials. In addition, there were other State agency officials who were able to charge State-funded positions to the Program without the knowledge of Program officials.

RECOMMENDATIONS

We recommend that the State agency provide CDC with documentation on the 16 State-funded positions that were transferred to the Program in June 2003, and request guidance on how to appropriately resolve this issue.

In addition, we recommend that the State agency implement internal control procedures and a time allocation system to ensure that Program funds and related costs are:

- used to supplement, not supplant, any current State or local funding,
- accurately reflected on the Financial Status Report,
- obligated and expended in a timely manner,
- supported by adequate documentation,
- allocated appropriately, and
- reviewed and approved by proper Program officials.

STATE AGENCY'S COMMENTS

In a written response to our draft report, State agency officials stated that:

- the transfer of 16 State-funded positions in June 2003 was not done with the intent to supplant State funds but was an effort to utilize positions that were being cut from the State budget to support the agency's overall preparedness efforts. In order to develop data that supported its position, in late 2004, State agency officials stated that they conducted an assessment of its overall preparedness efforts and determined that the State agency was providing more effort than was charged to the Program by approximately \$1.4 million. However, State agency officials acknowledged that they did not have a system in place to document the effort that was being expended on the Program.
- the final Financial Status Report for the budget period August 31, 2001, to August 30, 2003, was submitted on June 17, 2005, by focus area.
- the delay in spending Program funds was due to the fact that they were unable to hire critical staff to address critical infrastructure needs.

- they were still unable to reconcile the Financial Status Report and find the missing invoices. These officials stated that they do plan to review these issues after the fiscal year end.
- they have been working towards the development of an acceptable method of time allocation that will more accurately document time and effort. These officials stated that the system was tested in May and June 2005 and was implemented July 1, 2005.
- they have changed their approval process to require the Director of the Program to approve all costs charged to the Program.

The State agency's full text comments are included as Appendix A to this report.

OIG RESPONSE

Although State agency officials believed they were providing more effort than was charged to the Program, the State agency acknowledged that it did not have a system in place to document the effort. In addition, the State agency was unable to provide documentation to show that the State funds saved by the transfer of State-funded positions were used for the agency's overall preparedness efforts. Finally, according to the State agency's own assessment of its overall preparedness efforts, 10 of the 16 State-funded positions that were transferred to the Program reported that they spent 20 percent or less of their time on the Program. As a result, we believe the State agency did supplant State funds with Federal funds, and that the State agency needs to request guidance from CDC on how to resolve this issue.

With regard to the other findings, the State agency either provided explanations for its actions or explained what steps it has taken to address our findings. State agency officials also stated that they were continuing to develop internal controls with appropriate checks and balances to assure that personnel and other expenditures will be properly accounted for and applied to the Program. Although all of these explanations are helpful in understanding the State agency's actions, the fact remains that all these actions resulted in the deficiencies identified in this report. With regards to actions already taken, we commend the State agency and would encourage the State agency to continue to take actions to correct these issues and implement our recommendations.

APPENDIX



Arkansas Department of Health

4815 West Markham Street • Little Rock, Arkansas 72205-3867 • Telephone (501) 661-2000
Paul K. Halverson, DrPH, Interim Director
Mike Huckabee, Governor

July 13, 2005

Gordon Sato
Regional Inspector General for Audit Services
Office of the Inspector General
Office of Audit Services
1100 Commerce, Room 632
Dallas, TX 75242

Reference: Report Number: A-06-05-00025

Dear Mr. Sato:

I am in receipt of the Department of Health and Human Services, Office of Inspector General's draft report entitled "Review of Arkansas Department of Health's Public Health Preparedness and Response for Bioterrorism Program Funds" for the period August 31, 1999 through August 30, 2003. We appreciate the opportunity you have given us to present our views relative to the findings and recommendations in this draft report. I will respond to each of the issues that you have included under Summary of Findings by stating each finding summary and our response to each of them.

STATE AGENCY TRANSFERRED STATE-FUNDED POSITIONS TO THE PROGRAM:

FINDING:

The State Agency supplanted Program funds when they transferred 16 State-funded positions, with annual salaries totaling approximately \$386,000, to the Program in June 2003, and did not replace these positions.

RESPONSE:

In 2003 the Department of Health funded 16 State-funded positions, with annual salaries totaling approximately \$386,000, from the Bioterrorism Cooperative Agreement Budget. The funding of these positions was not done with the intent to supplant State-funded positions onto the Federal budget but was an effort to utilize positions that were being cut from the State budget to support the Agencies overall preparedness efforts. Based on our knowledge of what we were accomplishing in bioterrorism preparedness, it was our belief the Department of Health's overall preparedness effort exceeded the amount that was being charged to the CDC Bioterrorism Cooperative Agreement. However, as the audit points out, the Department of Health did not

Letter to Mr. Gordon Sato**Page 2:**

have a system in place to document the effort that was being expended on Bioterrorism Cooperative Agreement activities.

In late 2004, in order to develop data that would support this position, the Arkansas Department of Health conducted an assessment of our overall preparedness efforts down to the county health unit and program level. The result of this assessment indicated the Department of Health was providing more effort than was being charged to the Bioterrorism Cooperative Agreement Budget. Estimates, based on this assessment indicated the Department of Health was providing approximately \$1.4 million of effort, above and beyond that being charged to the Bioterrorism Cooperative Agreement Budget. This amount is based on all employees in the Department that were working in some capacity to assist with improving the Department's overall preparedness and response capability. This information was shared with the OIG auditors and they recommended that we refine this process by continuing to align effort with funding and that we maintain this system current until such time that a time allocation system could be developed and approved. While we currently do not have an accepted method to document the \$386,000 identified was used or not used for preparedness efforts, we strongly feel that based on the data that we have collected we can offer a strong argument the \$386,000 went to support our Agencies overall preparedness efforts.

FINANCIAL STATUS REPORTS NOT TIMELY OR BY FOCUS AREAS:**FINDING:**

The State Agency did not submit a final Financial Status Report (FSR) for the budget period August 31, 2001, to August 30, 2003, and did not submit the interim report by focus area.

RESPONSE:

This Financial Status Report (FSR) was sent to the Centers for Disease Control (CDC) on June 17, 2005. This FSR covered the time period August 31, 2001 through August 30, 2003 and was submitted by focus area.

SIGNIFICANT UNOBLIGATED BALANCE:**FINDING:**

The State Agency reported over \$2 million as unobligated on its interim Financial Status Report (FSR) for budget period August 31, 2001, to August 30, 2003 (this amount represented about 16 percent of the approximately \$12.6 million award).

RESPONSE:

Prior to receiving the Notice of Cooperative Agreement Award in February of 2002, the Department of Health had been receiving a small amount of funding that was dedicated to developing the Health Alert Network and to enhance Laboratory and Epidemiological capacity. There was very little, if any of that funding that was unobligated in August of 2001.

Letter to Mr. Gordon Sato**Page 3:**

The Department of Health received the Notice of Cooperative Agreement Award in February of 2002. As with all states, Arkansas was required to submit a work plan within 60 days from the receipt of the Notice of Cooperative Agreement Award. We were given 20% of the total award almost immediately with 80% being restricted until an acceptable work plan was received that satisfied the benchmarks that were identified in the Notice. We submitted an acceptable work plan by the designated time and received the additional award (80%) on May 30, 2002.

The delay in spending Cooperative Agreement funds was due to the fact that we were unable to hire critical staff in a timely manner. In the fall of 2002 the Department of Health submitted a request for Miscellaneous Federal Grant (MFG's) positions in order to fill critical Bioterrorism positions. At this same time budget hearings for state agencies were starting in preparation for the 2003 General Assembly. During this time legislative sub-committee meetings are suspended until after the General Assembly completes their agenda in early spring. In this situation, the General Assembly started meeting in mid-January and because of serious school funding issues, were required to extend the length of the legislative session. The Department of Health did not have the approval or authority to proceed with hiring critical staff until the fall of 2003. This delay contributed to salary savings as well as delaying the hiring of critical staff to address critical infrastructure needs.

COSTS REPORTED ON FINANCIAL STATUS REPORT UNSUPPORTED:**FINDING:**

The State Agency was unable to (1) reconcile the Financial Status Report to the accounting records for the budget period August 31, 2000, to August 30, 2001, and (2) locate two invoices, totaling approximately \$35,000, requested for the budget period August 31, 1999, to August 30, 2000.

RESPONSE:

This issue dates back to the previous state government accounting system. There is a work plan to review this further after this fiscal year end and the merger with the Arkansas Department of Human Services. The Agency has not been able to reconcile these issues at this time.

STATE AGENCY'S TIME AND EFFORT NOT ALLOCATED APPROPRIATELY:**FINDING:**

The State Agency did not allocate employees' time and effort to reflect the actual percentage of time devoted to the Program, as mandated by Federal requirements (the State Agency had not used a time allocation system for approximately four years).

RESPONSE:

The Department has been working towards the development of an acceptable method of time allocation that will more accurately document time and effort. This system was tested in May and June of this year and was implemented July 1, 2005.

Letter to Mr. Gordon Sato

Page 4:

STATE AGENCY DID NOT MONITOR PROGRAM COSTS:

FINDING:

The State Agency charged State-funded positions to the Program in two instances without the knowledge of Program officials.

RESPONSE:

The Department has changed its approval process to require the Director, Public Health Preparedness, to approve all Bioterrorism Cooperative Agreement expenditures. This process began July 1, 2005

As the Arkansas Department of Health merges with the Arkansas Department of Human Services, we are continuing to develop internal controls with appropriate checks and balances to assure that personnel and other expenditures are properly accounted for and applied to the Bioterrorism Cooperative Agreement. In applying for next years Bioterrorism Cooperative Agreement funds, the Department has made a point of emphasizing in its response, a central point of accountability and decision-making.

Thanks again for allowing us an opportunity to comment. If you have questions, or need additional information, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Joseph H. Bates for Paul Halverson". The signature is written in black ink and is positioned above the typed name.

Paul K. Halverson, DrPH
Interim Director
Arkansas Department of Health

Cc: John Selig, Director
Department of Health and Human Services

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