



October 13, 2009

Report Number: A-06-09-00038

Dr. Adolfo M. Valadez
Assistant Commissioner
Prevention and Preparedness Services Division
Texas Department of State Health Services
1100 West 49th Street
Austin, Texas 78756

Dear Dr. Valadez:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Texas Department of State Health Services' Bioterrorism and Emergency Preparedness Program." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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.

Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, OIG reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act. Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (214) 767-8414 or contact Cheryl Blackmon, Audit Manager, at (214) 767-9205 or through email at Cheryl.Blackmon@oig.hhs.gov. Please refer to report number A-06-09-00038 in all correspondence.

Sincerely,

/Patricia Wheeler/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Mr. Alan Kotch
Director
Procurement and Grants Office (MS E-14)
Centers for Disease Control and Prevention
1600 Clifton Road
Atlanta, Georgia 30333

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF TEXAS DEPARTMENT
OF STATE HEALTH SERVICES'
BIOTERRORISM AND
EMERGENCY PREPAREDNESS
PROGRAM**



Daniel R. Levinson
Inspector General

(October 2009)
A-06-09-00038

Office of Inspector General

<http://oig.hhs.gov>

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EXECUTIVE SUMMARY

BACKGROUND

In accordance with sections 301, 317, and 319 of the Public Health Service Act, the Centers for Disease Control and Prevention (CDC) provides funds to State and major local health departments to improve preparedness and response capabilities for bioterrorism and other public health emergencies. From August 31, 1999, to August 30, 2005, CDC provided this funding through the Public Health Preparedness and Response for Bioterrorism Program. Since August 31, 2005, CDC has provided funding through the Public Health Emergency Preparedness Program. We refer to these two programs collectively as “the program.”

In Texas, the Department of State Health Services (the State agency) administers the program and distributes funds to subrecipients to carry out program objectives. For the period August 31, 2004, through August 30, 2006, the State agency claimed program reimbursement totaling \$125.5 million.

OBJECTIVE

Our objective was to determine whether the costs that the State agency claimed for reimbursement under the program for the period August 31, 2004, through August 30, 2006, were allowable, allocable, and reasonable.

SUMMARY OF FINDINGS

Of the \$3.1 million in program expenditures that we reviewed for the 2-year period ending August 30, 2006, the State agency claimed \$16,158 in unallowable direct program expenditures. In addition, we found that the State agency claimed \$3,918 in unallowable indirect program costs. Because the State agency credited the program for the \$16,158 in unallowable direct program expenditures, we are questioning only the \$3,918 in unallowable indirect program costs. These deficiencies occurred because the State agency did not follow its policies and procedures to ensure that all costs claimed for program reimbursement comply with applicable laws, regulations, and program guidance and because of human error.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$3,918 to CDC,
- strengthen its review process to detect future unallowable costs, and
- monitor grant-supported activities to ensure compliance with applicable Federal requirements.

STATE AGENCY COMMENTS

In its written comments on our draft report, the State agency concurred with our findings and recommendations. The State agency's comments are included in their entirety as Appendix B.

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INTRODUCTION

BACKGROUND

Preparedness for Bioterrorism and Other Public Health Emergencies

The Centers for Disease Control and Prevention (CDC) provides funds to State and major local health departments to improve preparedness and response capabilities for bioterrorism and other public health emergencies. From August 31, 1999, to August 30, 2005, CDC provided this funding through the Public Health Preparedness and Response for Bioterrorism Program. Since August 31, 2005, CDC has provided funding through the Public Health Emergency Preparedness Program.

The Public Health Preparedness and Response for Bioterrorism Program was 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)); the Public Health Emergency Preparedness Program was authorized by section 319C of the Public Health Service Act (42 U.S.C. § 247(d)(3)). We refer to these two programs collectively as “the program.”

CDC issues Notices of Cooperative Agreement to awardees to set forth the approved budget as well as the terms and conditions of the individual awards. To monitor the expenditure of these funds, CDC requires awardees to submit financial status reports (FSR) showing the amounts expended, obligated, and unobligated.

Texas Program Funding

In Texas, the Department of State Health Services (the State agency) administers the program and distributes funds to subrecipients to carry out program objectives. For the period August 31, 2004, through August 30, 2006, the State agency was awarded a total of \$145.3 million and expended \$125.5 million. The remaining funds were carried forward to subsequent years. (See Appendix A for a summary of the amounts that were awarded, expended, and carried forward.)

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the costs that the State agency claimed for reimbursement under the program for the period August 31, 2004, through August 30, 2006, were allowable, allocable, and reasonable.

Scope

Our audit covered the \$125.5 million in direct (\$121.5 million) and indirect (\$4.1 million)¹ costs that the department claimed for program activities during the 2-year period August 31, 2004,

¹The dollar amounts for direct and indirect costs do not add due to rounding.

through August 30, 2006. We limited our review of direct costs to nonstatistical samples of program expenditures totaling \$3.1 million.

We did not review the State agency's overall internal control structure. We limited our review of internal controls to obtaining an understanding of the procedures the State agency used to account for program funds and monitor subrecipients.

We performed fieldwork at the State agency from November 2006 through June 2007 and in February and March 2009.

Methodology

To accomplish our objective, we:

- reviewed the State agency's Notice of Cooperative Agreement documentation and related Federal regulations to gain an understanding of financial and program requirements;
- reviewed the State agency's accounting procedures and monitoring of subrecipients;
- identified awarded and expended funds in the State agency's accounting records;
- tested FSRs for completeness and accuracy and reconciled the amounts reported on FSRs to the accounting records and Notices of Cooperative Agreement;
- selected and tested a nonstatistical sample of department expenditures to determine whether the State agency had expended program funds for allowable, allocable, and reasonable costs;
- interviewed State agency officials and program employees;
- reviewed the State agency's contracts with subrecipients;
- obtained a list of the amounts drawn down by the State agency from the Department of Health and Human Services' Payment Management System and compared them to the amounts expended to ensure that drawdowns did not exceed expenditures; and
- verified that the State agency had claimed indirect costs using the rate and base in its "State and Local Rate Agreement" approved by the Department of Health and Human Services, Division of Cost Allocation.²

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

²The Office of Management and Budget has designated the Division of Cost Allocation as the cognizant Federal agency for reviewing and negotiating facility and administrative (indirect) cost rates that grantee institutions use to charge indirect costs associated with conducting Federal programs.

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

Of the \$3.1 million in program expenditures that we reviewed for the 2-year period ending August 30, 2006, the State agency claimed \$16,158 in unallowable direct program expenditures. In addition, we found that the State agency claimed \$3,918 in unallowable indirect program costs. Because the State agency credited the program for the \$16,158 in unallowable direct program expenditures, we are questioning only the \$3,918 in unallowable indirect program costs. These deficiencies occurred because the State agency did not follow its policies and procedures to ensure that all costs claimed for program reimbursement comply with applicable laws, regulations, and program guidance and because of human error.

UNALLOWABLE DIRECT PROGRAM COSTS

Regulations (2 CFR part 225, Appendix A, section C.1.b) state that to be allowable under Federal awards, costs must be “allocable to Federal awards under the provisions of 2 CFR part 225.”

Pursuant to 2 CFR part 225, Appendix A, section C.3.a, “[a] cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

In accordance with 45 CFR § 92.40(a), “[g]rantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements”

The State agency claimed \$16,158 in unallowable program expenditures for janitorial services and office furniture. The expenditures were charged to the program because the State agency did not follow its policies and procedures for expending program funds. A State agency official explained that the office furniture initially was charged to the program in error. The official said that she brought the error to another State agency official’s attention but was told that the State agency did not have another funding source to which it could charge the furniture. When we inquired about the janitorial services, a State agency official explained that the program to which this cost was allocable did not have funds available. Because the State agency credited the program for the \$16,158, we are not questioning any of these costs.

UNALLOWABLE INDIRECT PROGRAM COSTS

Regulations (CFR part 225, Appendix A, section F.1) state: “Indirect costs are those: Incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.”

In accordance with 2 CFR part 225, Appendix A, section C.1.b, to be allowable under Federal awards, costs must be “allocable to Federal awards under the provisions of 2 CFR part 225.”

Pursuant to 2 CFR part 225, Appendix A, section C.3.a, “[a] cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

The State agency claimed unallowable indirect costs totaling \$3,918 on its program year 2004 final FSR. The State agency was required to record expenditures and submit FSRs for each focus area. Regarding one of the focus area FSRs, the State agency claimed the budgeted amount rather than the actual amount of indirect costs. A State agency official said that claiming the budgeted amount of indirect costs was an error.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$3,918 to CDC,
- strengthen its review process to detect future unallowable costs, and
- monitor grant-supported activities to ensure compliance with applicable Federal requirements.

STATE AGENCY COMMENTS

In its written comments on our draft report, the State agency concurred with our findings and recommendations. The State agency’s comments are included in their entirety as Appendix B.

APPENDIXES

APPENDIX A

**STATE AGENCY AMOUNTS
AWARDED, EXPENDED, AND CARRIED FORWARD**

| Program Year 2004 | Amount |
|--|---------------------------------|
| Awarded amount | \$51,680,709 |
| Carried forward from program year 2002 | 3,842,233 |
| Carried forward from program year 2003 | 11,647,176 |
| Total 2004 Funding Available | \$67,170,118 |
| Expended amount | (53,177,613) |
| Amount carried forward | \$13,992,505¹ |
| | |
| Program Year 2005 | Amount |
| Awarded amount | \$58,812,098 |
| Carried forward from program year 2003 | 7,958,730 |
| Carried forward from program year 2004 | 11,345,962 |
| Total 2005 Funding Available | \$78,116,790 |
| Expended amount | (72,342,816) |
| Amount carried forward | \$5,773,974² |
| Total 2004–2005 Funding Available | \$145,286,908 |
| Total amount expended | (\$125,520,429) |

¹Of this amount, \$11,345,962 was carried forward to program year 2005 and \$2,646,542 was carried forward to program year 2006.

²Of this amount, \$2,360,936 was carried forward to program year 2006, \$3,161,587 was carried forward to program year 2007, and \$251,451 remained unobligated.



TEXAS DEPARTMENT OF STATE HEALTH SERVICES

DAVID L. LAKEY, M.D.
COMMISSIONER

P.O. Box 149347
Austin, Texas 78714-9347
1-888-963-7111
TTY: 1-800-735-2989
www.dshs.state.tx.us

August 19, 2009

Gordon L. Sato
Regional Inspector General for Audit Services
Office of Audit Services
Office of Inspector General
Department of Health and Human Services
1100 Commerce, Room 632
Dallas, Texas 75242

Report number: A-06-09-00038

Dear Mr. Sato:

We have reviewed the U.S. Department of Health and Human Services, Office of Inspector General (OIG) draft report entitled "Review of Texas Department of State Health Services Bioterrorism and Emergency Preparedness Program" and concurs with the findings and recommendations in the report.

DSHS will refund the questioned cost of \$3,918 to CDC, but would note that the department has made significant improvement in strengthening its internal control processes in order to detect unallowable costs and continues to monitor grant-supported activities to ensure compliance with applicable Federal requirements. Through on-going staff training and more thorough FSR preparation and review process, DSHS has implemented strong internal controls for grant-supported activities within the department.

If you have any questions or need additional information please contact Michelle Esquivel CPA, Audit Resolution Coordinator at 512/458-7111 ext 2201 or via email at michelle.esquivel@dshs.state.tx.us.

Sincerely,

Adolfo M Valadez

Adolfo M. Valadez MD, MPH
Assistant Commissioner
Prevention and Preparedness Services Division
Texas Department of State Health Services