



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

REGION V
OFFICE OF
INSPECTOR GENERAL

November 20, 2003

Report Number: A-05-03-00088

Dr. Pamela Diaz, M.D.
Department of Public Health
West Side Center for Disease Control
2160 West Ogden Avenue
Chicago, Illinois 60612

Dear Dr. Diaz,

The attached final report provides the results of our self-initiated review of the "City of Chicago's Efforts to Account for and Monitor Sub-recipients' Use of 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/her review and any action deemed necessary.

Our objectives were to determine whether the Chicago Department of Public Health (Department): (i) properly recorded, summarized and reported bioterrorism preparedness transactions by specific focus area designated in the cooperative agreements and (ii) has established controls and procedures to monitor sub-recipient expenditures of Centers for Disease Control and Prevention (CDC) funds. In addition, we inquired as to whether bioterrorism program (Program) funding supplanted programs previously funded by other organizational sources.

Based on our validation of the questionnaire completed by Department officials and our site visit, we found that the Department generally accounted for Program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines, with two exceptions. During Year 1 of the Program, the Department did not record, summarize and report transactions by specific focus area. We verified that the Department took corrective action and segregated expenditures by focus area during the succeeding Program years. In addition, Year 3 original and supplemental funds were not segregated in the accounting system. Although the cooperative agreement does not require separate accounting for original and supplemental funds, separate reporting of the funds is required.

Based on the results of the questionnaire and interviews with Department officials, we found the Department had adequate controls and procedures to monitor sub-recipient expenditures of CDC funds. In response to our inquiry as to whether the Department reduced funding to existing public health programs, Department officials replied that Program funding had not been used to supplant existing programs.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We would appreciate your views and the status of any further action taken or contemplated on our recommendations within 15 days. Your response should present any

comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General reports are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

If you have any questions or comments about this report, please contact Leon Siverhus, Audit Manager, at 651-290-3762.

To facilitate identification, please refer to Report Number A-05-03-00088 in all correspondence relating to this report.

Sincerely,



Paul Swanson
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Joseph E. Salter, Director
Management Procedures Branch
Management Analysis and Services Office
Centers for Disease Control and Prevention
1600 Clifton Road, N.E., MS E-11
Atlanta, Georgia 30333

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

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

DEPARTMENT OF PUBLIC HEALTH



**NOVEMBER 2003
A-05-03-00088**

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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 awarding agency will make final determination on these matters.



EXECUTIVE SUMMARY

OBJECTIVES

Our objectives were to determine whether the Chicago Department of Public Health (Department): (i) properly recorded, summarized and reported bioterrorism preparedness transactions by specific focus area designated in the cooperative agreements and (ii) whether the Department has established controls and procedures to monitor sub-recipient expenditures of Centers for Disease Control and Prevention (CDC) funds. In addition, we inquired as to whether bioterrorism program (Program) funding supplanted programs previously funded by other organizational sources.

FINDINGS

Based on our validation of the questionnaire completed by Department officials and our site visit, we found that the Department generally accounted for program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines, with two exceptions. During Year 1 of the Program, the Department did not record, summarize and report transactions by specific focus area. We verified that the Department took corrective action and segregated expenditures by focus area during the succeeding Program years. In addition, Year 3 original and supplemental funds were not segregated in the accounting system. Although the cooperative agreement does not require separate accounting for original and supplemental funds, separate reporting of the funds is required.

Based on the results of the questionnaire and interviews with Department officials, we found the Department had adequate controls and procedures to monitor sub-recipient expenditures of CDC funds. In response to our inquiry as to whether the Department reduced funding to existing public health programs, Department officials replied that Program funding had not been used to supplant existing programs.

RECOMMENDATION

We recommend the Department implement procedures to record, summarize, and report expenditures for original and supplemental grant funds separately.

DEPARTMENT COMMENTS

In a written response dated October 27, 2003 to our draft report, Department officials generally concurred with our findings and recommendation and stated that they have procedures in place to record, summarize, and report expenditures for original and supplemental grant funds separately. The Department's response is included in its entirety as an appendix to this report.

TABLE OF CONTENTS

INTRODUCTION.....	1
BACKGROUND	1
The Program.....	1
Annual Program Funding.....	1
Focus Areas.....	1
Eligible Recipients.....	2
Department Funding	2
OBJECTIVE, SCOPE AND METHODOLOGY	2
Objectives	2
Scope.....	3
Methodology	3
FINDINGS AND RECOMMENDATION.....	3
Accounting for Expenditures	4
Sub-recipient Monitoring.....	5
Supplanting	5
RECOMMENDATION.....	6
DEPARTMENT COMMENTS	6
APPENDIX	

INTRODUCTION

BACKGROUND

The Program

The CDC was designated as the entity responsible for the Program to improve state and other eligible entity preparedness and response capabilities for bioterrorism and other public health emergencies. This program is authorized under Sections 301(a), 317(k)(1)(2), and 319 of the Public Health Service Act [42 U.S.C. sections 241(a), 47b(k)(1)(2), and 247(d)]. The U.S. Code states, in part:

...The Secretary may make grants to States, political subdivisions of States, and other public and nonprofit private entities for – (A) research into the prevention and control of diseases that may be prevented through vaccination; (B) demonstration projects for the prevention and control of such diseases; (C) public information and education programs for the prevention and control of such diseases; and (D) education, training, and clinical skills improvement activities in the prevention and control of such diseases for health professionals (including allied health personnel)....

The CDC, under Program Announcement 99051, initiated a cooperative agreement program to fund states and major local public health departments to help upgrade their preparedness and response capabilities in the event of a bioterrorist act.

Annual Program Funding

Years 1 and 2 of the Program covered the period August 31, 1999 through August 30, 2000 and 2001, respectively. Annual funding totaled \$40.7 million and \$41.9 million. Although Year 3 covered the period August 31, 2001 through August 30, 2002, it was extended through August 30, 2003 with funds totaling \$49.9 million. During Year 3 of the program, Congress authorized approximately \$918 million in supplemental funds under the Department of Defense and Emergency Supplemental Appropriations for Recovery from and Response to Terrorist Attacks on the United States Act, 2002, Public Law 107-117. The funds were available on February 19, 2002 and were awarded to states and major local public health departments, under Program Announcement 99051-Emergency Supplemental. Of the awarded amount, 20 percent was available for immediate use. The remaining 80 percent was restricted until the CDC approved the required work plans.

Focus Areas

Applicants requested support for activities under one or more of the following focus areas:

- Focus Area A - Preparedness Planning and Readiness Assessment
- Focus Area B - Surveillance and Epidemiology Capacity
- Focus Area C - Laboratory Capacity - Biologic Agents
- Focus Area D - Laboratory Capacity - Chemical Agents

Focus Area E - Health Alert Network/Communications and Information Technology

In Year 3, the CDC added two new focus areas:

Focus Area F - Communicating Health Risks and Health Information Dissemination and
Focus Area G - Education and Training.

Eligible Recipients

Grant recipients included all 50 states, the District of Columbia, the commonwealths of Puerto Rico and the Northern Marianas Islands, American Samoa, Guam, the U.S. Virgin Islands, the republics of Palau and the Marshall Islands, the Federated States of Micronesia, and the nation's three largest municipalities (New York, Chicago, and Los Angeles County). Those eligible applicants included the health departments of states or their bona fide agents. Applicants were encouraged to apply for funds in all focus areas.

Department Funding

The amount of Program funding awarded to the City of Chicago has increased from approximately \$365,500 in 1999 to \$12.5 million in 2003. The following table shows funding for each budget year.

Program Amounts by Budget Year as of Year End			
	Awarded	Expended	Unobligated
Year 1	365,456	339,535	25,921
Year 2	649,714 ⁽¹⁾	564,153	107,633
Year 3	12,520,307 ⁽²⁾	⁽³⁾	⁽³⁾

- (1) Excludes Year 1 carry forward funds of \$22,072.
- (2) Includes \$11,618,218 of Emergency Supplemental funds and excludes \$82,417 of funds carried forward from Year 2.
- (3) The budget year does not end until August 31, 2003, therefore, these amounts are not final.

OBJECTIVE, SCOPE AND METHODOLOGY

Objectives

Our objectives were to determine whether the Department: (i) properly recorded, summarized and reported bioterrorism preparedness transactions by specific focus area designated in the cooperative agreements and (ii) whether the Department has established controls and procedures to monitor sub-recipient expenditures of CDC funds. In addition, we inquired as to whether Program funding supplanted programs previously funded by other organizational sources.

Scope

Our review was limited in scope and conducted for the purpose described above and would not necessarily disclose all material weaknesses. Accordingly, we do not express an opinion on the system of internal accounting controls. In addition, we did not determine whether costs charged to the Program were allowable.

Our audit included a review of Department policies and procedures, financial reports, and accounting transactions during the period August 31, 1999 through February 28, 2003.

Methodology

We developed a questionnaire to address the objectives of the review. The questionnaire covered the areas of: (i) grantee organization, (ii) funding, (iii) accounting for expenditures, (iv) supplanting, and (v) sub-recipient monitoring. Prior to our fieldwork, we provided the questionnaire for Department officials to complete. During our site visit, we interviewed Department staff and obtained supporting documentation to validate their responses on the questionnaire.

Fieldwork was conducted at Department offices in Chicago, Illinois, and our field office in St. Paul, Minnesota during June and July 2003. Our review was performed in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATION

Based on our validation of the questionnaire completed by Department officials and our site visit, we found that the Department generally accounted for program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines, with two exceptions. During Year 1 of the Program, the Department did not record, summarize and report transactions by specific focus area. We verified that the Department took corrective action and segregated expenditures by focus area during the succeeding Program years. In addition, Year 3 original and supplemental funds were not segregated in the accounting system. Although the cooperative agreement does not require separate accounting for original and supplemental funds, separate reporting of the funds is required.

Based on the results of the questionnaire and interviews with Department officials, we found the Department had adequate controls and procedures to monitor sub-recipient expenditures of CDC funds. In response to our inquiry as to whether the Department reduced funding to existing public health programs, Department officials replied that Program funding had not been used to supplant existing programs.

Accounting for Expenditures

An essential aspect of the Program is the need for the grantee to accurately and fully account for bioterrorism funds. Accurate and complete accounting of Program funds provides the CDC with a means to measure the extent that the program is being implemented and the objectives are being met.

In that regard, recipients of Program grant funds are required to track expenditures by focus area. Note 3: Technical Reporting Requirements of the original Cooperative Agreement states:

...To assure proper reporting and segregation of funds for each focus area, Financial Status Reports (FSR's) which reflect the cooperative agreement number assigned to the overall project must be submitted for individual focus areas...

In addition, the terms and conditions of the Cooperative Agreement that included the supplemental award stated that progress reports should report, at a minimum:

“...funds awarded by each focus area not to include the supplemental award...

...supplemental funds awarded by each focus area...

... funds which were expended (or obligated) during the current period...

...supplemental funds which were expended (or obligated) during the current period...”

Based on our validation of the questionnaire completed by Department officials and our site visit, we found that the Department generally accounted for program funds in accordance with the terms and conditions of the cooperative agreement and applicable departmental regulations and guidelines, with two exceptions. During Year 1 of the Program, the Department did not record, summarize and report transactions by specific focus area. During Year 3, the original and supplemental funds were not segregated in the accounting system.

Although the Department was awarded funds for all five focus areas at the inception of the Program, its accounting system was not organized to record, summarize and report expenditures by focus area. Department officials stated that during the first budget year they were not aware of the requirement to segregate expenditures by focus area. At the end of Year 1, Department officials discovered they could not accurately summarize and report focus area expenditures. As a result, they submitted focus area FSR's based on budgeted amounts. However, we were able to verify that the FSR's were accurate in total by tracing expenditures to the central accounting records. We also determined that the Department took corrective action for Years 2 and 3 of the Program by tracing focus area expenditures to the central accounting records.

Although the cooperative agreement does not require separate accounting for original and supplemental funds, separate reporting of the funds is required. Progress reports were due on a

semi-annual basis and were to include separate original and supplemental awarded and expended (or obligated) funds. Department officials stated they were unsure of accounting and reporting requirements when supplemental funds were awarded. To meet the reporting requirement, we believe that it would be beneficial to segregate original and supplemental funds into individual accounts.

Sub-recipient Monitoring

Recipients of Program grant funds were required to monitor their sub-recipients. The Public Health Service Grants Policy Statement requires that: “grantees employ sound management practices to ensure that program objectives are met and that project funds are properly spent.” It states that recipients must:

...establish sound and effective business management systems to assure proper stewardship of funds and activities....

In addition, the Policy Statement states that grant requirements apply to subgrantees and contractors under the grants.

...Where subgrants are authorized by the awarding office through regulations, program announcements, or through the approval of the grant application, the information contained in this publication also applies to subgrantees. The information would also apply to cost-type contractors under grants....

Based on the results of the questionnaire and interviews with Department officials, we found that the Department had established adequate controls and procedures to monitor sub-recipient expenditures of Program funds. Department officials provided a detailed and thorough explanation with supporting documentation of their sub-recipient monitoring activities. Specifically, Department officials perform site audits on a quarterly basis. They additionally communicate directly with sub-recipients by phone and do a monthly reconciliation of sub-recipient purchase orders, invoices and other expenditure documentation.

Supplanting

Program funds, original and supplemental, were to be used to augment current funding and focus on public health preparedness activities under the CDC Cooperative Agreement. The funds were not to be used to supplant existing federal, state, or local funds for bioterrorism, infectious disease outbreaks, other public health threats and emergencies, and public health infrastructure within the jurisdiction. Program Announcement 99051 states:

...Cooperative agreement funds under this program may not be used to replace or supplant any current state or local expenditures of the Public Health Service Act....

In response to our inquiry as to whether the Department reduced funding to existing health programs, Department officials replied that Program funding had not been used to supplant existing programs.

RECOMMENDATION

We recommend the Department implement procedures to record, summarize, and report expenditures for original and supplemental grant funds separately.

DEPARTMENT COMMENTS

In a written response to our draft report dated October 27, 2003, Department officials generally concurred with our findings and recommendation and stated that they have procedures in place to record, summarize, and report expenditures for original and supplemental grant funds separately. The Department's response is included in its entirety as an appendix to this report.

APPENDIX



City of Chicago
Richard M. Daley, Mayor

Department of Public Health

John L. Wilhelm, M.D., M.P.H.
Commissioner

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Chicago, Illinois 60604
(312) 747-9884
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(312) 744-2960 (TTY)
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October 27, 2003

Mr. Leon Silverhus
Audit Manager
U.S. Department of Health & Human Services
Office of Inspector General
Office of Audit Services
380 Jackson Street, Suite 727
St. Paul, MN 55101

RE: Report Number A-05-03-00088, Centers for Disease Control and Prevention

Dear Mr. Silverhus:

We are in receipt of your August 26, 2003 findings and recommendations for the Centers for Disease Control and Prevention funds (CDC). Following below are your recommendations and our plan of action to comply.

FINDINGS AND RECOMMENDATIONS:

- Based on our validation of the questionnaire completed by Department officials and our site visit, we found that the Department generally accounted for program funds in accordance with the terms and conditions of the cooperative agreement and applicable regulations and guidelines, with two exceptions. During Year 1 of the Program, the Department did not record, summarize and report transactions by specific focus area. We verified that the Department took corrective action and segregated expenditures by focus area during the succeeding Program years. In addition, Year 3 original and supplemental funds were not segregated in the accounting system. Although the cooperative agreement does not require separate accounting for original and supplemental funds, separate reporting of the funds is required.
- We recommend the Department implement procedures to record, summarize, and report expenditures for original and supplemental grant funds separately.



Please Recycle!



PLAN OF ACTION

We now have procedures in place to record, summarize, and report expenditures for original and supplemental grant funds separately and will be doing so for all new and future grant funds according to the cooperative agreement.

Hopefully, we have addressed your questions and answered your recommendations. If you should have additional questions, please contact: Ms. Perlita Santos at 312/747-8805.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter Gribble". The signature is written in a cursive, somewhat stylized font.

Peter Gribble
Managing Deputy Commissioner

Cc: Pamela Diaz MD – CDPH, BT Program Manager
Carlos Barrios – CDPH, Fiscal Section
Perlita Santos – CDPH, Fiscal Section

ACKNOWLEDGEMENTS

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

Leon Siverhus, *Audit Manager*

Brent Storhaug, *Senior Auditor*

Shirley Loos, *Auditor*

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