



August 6, 2003

Common Identification Number: A-06-03-00057

Dennis Perrotta, PhD.  
State Epidemiologist  
Texas Department of Health  
1100 West 49<sup>th</sup> Street, M-646  
Austin, TX 78756-3199

Dear Dr. Perrotta:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General's report entitled "State of Texas' Efforts to Account for and Monitor Sub-recipients' Use of Public Health Preparedness and Response for Bioterrorism Program Funds". Our audit included a review of the Texas Department of Health's (Department of Health) policies and procedures, financial reports and accounting transactions during the period August 31, 1999 through February 28, 2003. A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

Our objectives were to determine (1) whether the Department of Health properly recorded, summarized and reported Public Health Preparedness and Response for Bioterrorism Program (Program) costs by specific focus area designated in the cooperative agreements; (2) through interviews with Department of Health officials, whether Program funding supplanted programs previously provided by other organizational sources; and (3) whether the Department of Health has established controls and procedures to monitor sub-recipients' expenditures of Program funds. We had only one concern. At the start of 2003, Department of Health officials identified a problem with the payroll allocation related to the Program that, if not corrected, could affect the accuracy of the year 3 Financial Status Report due November 30, 2003. Officials at the Department of Health stated that they were in the process of correcting the problem and should have the problem corrected in the next 2 or 3 months and that at that time the Financial Status Report will be correct.

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.)

To facilitate identification, please refer to Common Identification Number A-06-03-00057 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in black ink that reads "Gordon L. Sato". The signature is written in a cursive style with a large initial "G".

Gordon L. Sato  
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**

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



**AUGUST 2003  
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# *Office of Inspector General*

<http://oig.hhs.gov>

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

# *Notices*

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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 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 Office of Inspector General. Authorized officials of the HHS divisions will make final determination on these matters.





August 6, 2003

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Dennis Perrotta, PhD.  
State Epidemiologist  
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1100 West 49<sup>th</sup> Street, M-646  
Austin, TX 78756-3199

This report provides you with the results of our review of the State of Texas' efforts to account for and monitor sub-recipients' use of Public Health Preparedness and Response for Bioterrorism Program (Program) funds. The Program, funded by the Centers for Disease Control and Prevention, is in its third budget period that began August 31, 2001 and was extended through August 30, 2003. The total amount of Federal funding awarded to the Texas Department of Health (Department of Health) for the Program since it began in 1999 is approximately \$56.4 million.

Our overall objective was to determine whether the Department of Health properly recorded, summarized and reported Program costs by specific focus area designated in the cooperative agreements. In addition, our objectives were to determine, through interviews with Department of Health officials, whether Program funding supplanted programs previously provided by other organizational sources and whether the Department of Health has established controls and procedures to monitor sub-recipients' expenditures of Program funds.

Based on our validation of the questionnaire completed by the Department of Health and our site visit, we found that, with one exception, the Department of Health recorded, summarized and reported Program costs by focus area designated in the cooperative agreements. At the start of 2003, Department of Health officials identified a problem with the payroll allocation related to the Program that, if not corrected, could affect the accuracy of the year 3 Financial Status Report due November 30, 2003. Officials at the Department of Health stated that they are in the process of correcting the problem and should have the problem corrected in the next two or three months and that at that time the Financial Status Report will be correct.

Department of Health officials stated they did not have an established State or local bioterrorism program in place before the Federal bioterrorism program. Further, we found no evidence that Federal program funds were being supplanted. Finally, according to the Department of Health's Financial Monitoring Procedures Manual, the Department of Health performs on-site financial compliance reviews at the sub-recipient level to

evaluate compliance with contract requirements, including the Department of Health's policies and procedures, and applicable State and Federal laws, rules and regulations. We are recommending that the Department of Health continue its procedures to correct the problem with the payroll allocation related to the Program to ensure the Financial Status Report for year 3 is complete and accurate.

In a written response to our draft report, the Department of Health concurred with our findings and recommendation. (For complete text, see Appendix A.)

## **INTRODUCTION**

### **BACKGROUND**

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

The Centers for Disease Control and Prevention was designated as the entity responsible for the administration and distribution of the Federal funds to States and other eligible entities to help improve their preparedness and response capabilities for bioterrorism and other public health emergencies. The Program is referred to as the Public Health Preparedness and Response for Bioterrorism Program. 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 Centers for Disease Control and Prevention, 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.

Year 1 of the Program ran from August 31, 1999 through August 30, 2000, and the funding totaled \$40.7 million. Year 2 ran from August 31, 2000 through August 30, 2001, and award funds distributed totaled \$41.9 million. Year 3, the third budget period, was extended to run from August 31, 2001 through August 30, 2003 (a 24-month budget period). Grantees were awarded an additional 12 months to spend the year 3 funds totaling about \$49.9 million.

In addition, during year 3 of the Program, Congress authorized supplemental funds resulting from 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 Centers for Disease Control and Prevention made supplemental awards to States and major local public health departments under Program Announcement 99051-Emergency Supplemental. The year 3 supplement was approximately \$918 million. The award date of the supplemental funds was February 19, 2002. Of the awarded amount, 20 percent was made available for immediate use. The remaining 80 percent was restricted until required work plans were submitted, reviewed, and approved by Centers for Disease Control and Prevention. The Centers for Disease Control and Prevention Program funding for year 1, year 2, and year 3 (August 31, 1999 through August 30, 2003) was divided into five focus areas. Eligible 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 Centers for Disease Control and Prevention added two new focus areas. The two new focus areas were:

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

Eligible recipients under Program Announcement 99051 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 to apply included the health departments of States or their bona fide agents. All applicants were eligible and encouraged to apply for funds in all focus areas.

### ***Texas Department of Health Funding***

The amount of Program funding to the Department of Health has increased from approximately \$1.2 million in 1999 to approximately \$54 million in 2003. The following table details funding for each budget year.

<b>Program Amounts by Budget Year</b>			
	<b>Awarded</b>	<b>Expended</b>	<b>Unobligated</b>
<b>Year 1</b>	1,164,964	791,200	373,764
<b>Year 2</b>	1,144,348 <sup>(1)</sup>	894,440	313,194
<b>Year 3</b>	54,019,714 <sup>(2)</sup>	<sup>(3)</sup>	<sup>(3)</sup>

(1) Excludes year 1 carry forward funds of \$63,286.

(2) Includes \$52,774,529 of Emergency Supplemental funds and excludes year 2 carry forward funds of \$15,563.

(3) Because the budget period does not end until August 30, 2003, these amounts are not finalized yet.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

### **Objectives**

Our overall objective was to determine whether the Department of Health properly recorded, summarized and reported Program costs by specific focus area designated in the cooperative agreements. In addition, our objectives were to determine, through interviews with Department of Health officials, whether Program funding supplanted programs previously provided by other organizational sources and whether the Department of Health has established controls and procedures to monitor sub-recipients' expenditures of Program funds.

### **Scope and Methodology**

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 the Department of Health's policies and procedures, financial reports, and accounting transactions during the period August 31, 1999 through February 28, 2003.

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

Fieldwork was conducted at the Department of Health offices in Austin, Texas and the Oklahoma City Field Office during May and June 2003.

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

## **FINDINGS AND RECOMMENDATIONS**

Based on our validation of the questionnaire completed by the Department of Health and our site visit, we found that the Department of Health:

- Properly recorded, summarized and reported Program costs by specific focus area designated in the cooperative agreements.
- Did not have an established State or local bioterrorism program in place before the Federal bioterrorism program, therefore there was no evidence that Federal program funds were being supplanted.
- Has a procedure in place to perform on-site financial compliance reviews at the sub-recipient level to evaluate compliance with contract requirements, including Department of Health policies and procedures, and applicable State and Federal laws, rules and regulations.

We did note that at the start of 2003, Department of Health officials identified a problem with the payroll allocation related to the Program that, if not corrected, could affect the accuracy of the year 3 Financial Status Report due November 30, 2003. Officials at the Department of Health stated that they are in the process of correcting the problem and should have the problem corrected in the next two or three months and that at that time the Financial Status Report will be correct. We are recommending that the Department of Health continue its procedures to correct the problem with the payroll allocation related to the Program to ensure the Financial Status Report for year 3 is complete and accurate.

### **Accounting for Expenditures**

We believe an essential aspect of the Program is the need for the grantee to accurately and fully account for Program funds. Accurate and complete accounting of Program funds provides the Centers for Disease Control and Prevention with a means to measure the extent that the Program is being implemented and the objectives are being met.

According to the Office of Management and Budget Circular “Grants and Cooperative Agreements with State and Local Governments,” grantees of Federal funds are required to complete a Financial Status Report to report the status of funds for all non-construction programs. In addition, 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 which reflect the cooperative agreement number assigned to the overall project must be submitted for individual focus areas...”

The Department of Health recorded, summarized and reported Program costs by specific focus area designated in the cooperative agreements. However, according to Department of Health officials, in the beginning of 2003, the Department of Health identified a problem with the payroll allocation. The accounting system in place at that time could only allocate an employee's salary to one project budget. Therefore, if an employee did not submit a timesheet reporting the projects they were expending their time, then the accounting system would allocate their time to the default project only. In addition, some employees who were submitting timesheets were incorrectly coding their time to various projects and/or focus areas. As a result, the general ledger amounts were not accurate and, if not corrected, will affect the accuracy of the year 3 Financial Status Report. Department of Health officials believe the years 1 and 2 Financial Status Reports are not materially inaccurate. The Department of Health has a plan to correct the allocation problem and it should be corrected in two or three months. The payroll allocation from April 2003 and forward should be correct because the Department of Health has changed to a new accounting system that allows the accounting system to allocate employees' salaries to a variety of projects. In addition, the Department of Health employees are now required to submit timesheets if the employee deviates from his or her regular work profile.

### **Supplanting**

Program funds, original and supplemental, were to be used to augment current funding and focus on public health preparedness activities under the Centers for Disease Control and Prevention cooperative agreement. The funds were not to be used to replace 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.”

According to the questionnaire completed by the Department of Health, in years 2001 and 2002, the Department of Health expended approximately \$1 million in State funding for a bioterrorism program. However, according to a Department of Health official, the Department of Health did not have an established State or local bioterrorism program in place before the Federal bioterrorism program was implemented. The funds provided to the Department of Health in years 2001 and 2002 were only provided to the Department of Health to cover some of the start-up costs of the Program before the Program was officially funded by Federal funds. The State funds were not originally appropriated to a bioterrorism program but were taken from other programs. As a result, we do not consider this supplanting of Federal bioterrorism program funds.

### **Sub-recipient Monitoring**

Recipients of program grant funds were required to monitor their sub-recipients. The Public Health Services 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 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 sub-recipients 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....”

According to the Department of Health’s Financial Monitoring Procedures Manual, the Department of Health performs on-site financial compliance reviews at the sub-recipient level to evaluate compliance with contract requirements, including Department of Health policies and procedures, and applicable State and Federal laws, rules and regulations. The financial compliance reviews encompass a review of internal controls, a verification of expenditures for a selected period, a review of Program income reporting and a review of purchased equipment. The reviews should identify potential weaknesses before they result in more serious problems; establish plans for corrective actions; and prepare the sub-recipient for audits (if required) or subsequent monitoring reviews.

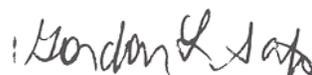
### **RECOMMENDATION**

We recommend that the Department of Health continue its procedures to correct the problem with the payroll allocation to ensure the Financial Status Report for year 3 is complete and accurate.

### **AUDITEE COMMENTS**

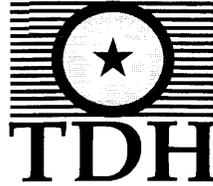
In a written response to our draft report, the Department of Health concurred with our findings and recommendation. (For complete text, see Appendix A.)

Sincerely,



GORDON L. SATO  
Regional Inspector General  
for Audit Services

# **APPENDIX**



Eduardo J. Sanchez, M.D., M.P.H.  
Commissioner of Health

1100 West 49<sup>th</sup> Street  
Austin, Texas 78756-3199

<http://www.tdh.state.tx.us>  
1-888-963-7111

Ben Delgado  
Chief Operating Officer

Nick Curry, M.D., M.P.H.  
Executive Deputy Commissioner

July 14, 2003

James Hargrove  
DHHS-OIG Office of Audit Services  
3625 NW 56<sup>th</sup> Street, Room 101  
Oklahoma City, OK 73112

RE: Common Identification Number: A-06-03-00057

Dear Mr. Hargrove:

We are in receipt of Gordon Sato's letter dated July 2, 2003 and the draft report of the review of the Texas Public Health Preparedness and Response for Bioterrorism Program.

In the draft report, you found that TDH had properly recorded, summarized, and reported BT program cost by focus area, with one exception. That exception was that TDH had identified a problem in the payroll allocation that, if not corrected, could materially affect the accuracy of the year 3 Financial Status Report (FSR) due November 30, 2003. TDH concurs with this assessment.

TDH will complete corrections to the payroll allocations for year 3 prior to the submission of the FSR. Further, TDH will institute a programmatic review on a monthly basis to ensure that future labor and expenditure charges are properly reflected in the TDH accounting system.

If you have additional questions, please call me at (512) 458-7219.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis M. Perrotta".

Dennis M. Perrotta, PhD, CIC  
State Epidemiologist