

**A Special Performance Audit**

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**C**ommonwealth  
**U**niversal  
**R**esearch  
**E**nhancement Program

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*Administered by the Department of Health*



**COMMONWEALTH OF PENNSYLVANIA**  
**Department of the Auditor General**  
**Bureau of State & Federal Audits**

**EUGENE A. DEPASQUALE, AUDITOR GENERAL**



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

October 15, 2014

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania  
Room 225 Main Capitol Building  
Harrisburg, PA 17120

Dear Governor Corbett:

This report contains the results of the Department of the Auditor General's special performance audit of the Commonwealth Universal Research Enhancement (CURE) program, administered by the Department of Health (DOH), for grants awarded during the period of July 1, 2009 through June 30, 2013, including follow-up procedures performed and concluded as of August 29, 2014. The audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code, 72 P.S. §§ 402-403, and in accordance with applicable 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 conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

We performed our audit to determine whether DOH ensured that CURE grant expenditures were used for their intended purposes in accordance with the grant agreements and as specified by law and DOH policy for the following CURE grant recipients:

1. Children's Hospital of Philadelphia
2. Children's Hospital of Pittsburgh
3. Geisinger Clinic
4. Magee-Womens Research Institute
5. Pennsylvania State University (Hershey Medical Center)

The CURE program, authorized by the Tobacco Settlement Act, 35 P.S. § 5701.101 *et seq.* (Act 77 of 2001, as amended), provides grants to research facilities for health-related research projects. CURE grants are fully funded through the Commonwealth's Tobacco Settlement funds, which are received annually from tobacco companies that agreed to pay states as part of the 1998 Master Settlement Agreement. Since 2001, nearly \$800 million in CURE grants have been awarded.

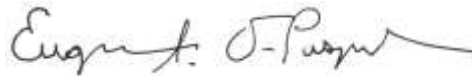
However, in recent years, the Pennsylvania General Assembly has repealed certain portions of Act 77, as amended, and added provisions to The Fiscal Code that have resulted in the reduction of CURE program funding. This can be attributed to weak economic conditions and the loss of a significant portion of the Commonwealth's 2014 tobacco settlement payment after an arbitration board ruled that the Commonwealth violated certain provisions of the Master Settlement Agreement.

We chose to conduct the audit because the CURE program provides research critical to health care, as well as economic benefits for the Commonwealth. Additionally, although DOH executes CURE grants with hospitals and research universities, we concentrated our efforts on hospitals because we believe the risks related to ensuring CURE funds are appropriately spent are greater for hospitals.

Our auditors found no significant deficiencies regarding DOH oversight of CURE grant expenditures. Therefore, we acknowledge that DOH adequately ensured that CURE grant funds were spent in accordance with the grant agreements, law, and DOH policy.

We thank DOH for cooperating fully with our auditors throughout the execution of this special performance audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Eugene A. DePasquale  
Auditor General

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## *Background*

In November 1998, an agreement, referred to as the Master Settlement Agreement, was reached between the state Attorneys General of 46 states, 5 U.S. territories, the District of Columbia and the five largest tobacco companies in America concerning the advertising, marketing and promotion of tobacco products. The tobacco companies agreed to pay the settling states annually for the indefinite future, including a minimum of \$206 billion through 2025.<sup>1</sup> Pennsylvania receives a portion of this amount as codified in the Tobacco Settlement Agreement Act.<sup>2</sup>

Act 77 of 2001, as amended (Act 2001-77), entitled the Tobacco Settlement Act,<sup>3</sup> authorized the Pennsylvania Department of Health (DOH) to establish the Commonwealth Universal Research Enhancement (CURE) program to fund health research using 19 percent of the tobacco settlement monies.<sup>4</sup> According to the 2012-2013 Annual CURE Report prepared by DOH, approximately \$797 million in tobacco funds have been granted for more than 1,900 health research projects.

The CURE program provides broad-based health research grants to Pennsylvania-based researchers, universities, hospitals, and other institutions. Research projects may focus on basic biomedical research, patient-oriented clinical investigations or health services research. Health research funds are awarded for projects that are consistent with the program's research priorities, as determined by DOH in conjunction with the Health Research Advisory Committee, a nine-member committee required by Act 2001-77. It is comprised of the DOH Secretary, four members appointed by the Governor, and one member appointed by the President pro tempore of the Senate, Speaker of the House, and each of the minority leaders of the Senate and the House of Representatives.<sup>5</sup>

Act 2001-77, as amended, stipulates that approximately 70 percent of the CURE grant funds be awarded based on a formula (CURE Formula Grants). To be eligible, a research organization must have received research funding from either the National Institutes of Health or the National Cancer Institute during each of the previous three years. The remaining funds (approximately 30 percent) are competitively awarded (CURE Non-Formula Grants).<sup>6</sup> Regardless of the grant type, organizations provide DOH with detailed descriptions of the research projects that will utilize the grant funds. The project descriptions are incorporated into the organizations' grant agreements, which may span up to a 48-month period and contain multiple projects. Also included in the agreements are organization-prepared budgets showing how the grant funds will be spent.

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<sup>1</sup> Joy Johnson Wilson, "Summary of the Attorneys General Master Settlement Agreement," March 1999, <<http://academic.udayton.edu/health/syllabi/tobacco/summary.htm>> (September 11, 2014).

<sup>2</sup> 35 P.S. § 5671 *et seq.* (Act 54 of 2000, as amended).

<sup>3</sup> 35 P.S. § 5701.101 *et seq.*

<sup>4</sup> 35 P.S. § 5701.306(b)(1)(iv) (REPEALED by Act 71 of 2013, effective July 18, 2013). *See also* 35 P.S. § 5701.901 *et seq.*

<sup>5</sup> 35 P.S. § 5701.903.

<sup>6</sup> 35 P.S. § 5701.906.

*Background (Continued)*

In recent years, the General Assembly has amended or even repealed entire portions of the Tobacco Settlement Act and/or The Fiscal Code, thereby reducing CURE program funding. Act 87 of 2012 prohibited DOH from awarding any CURE Non-Formula Grants during the 2012-13 fiscal year.<sup>7</sup> Additionally, Act 71 of 2013 reduced the percentage of Tobacco Settlement Act funds for the CURE program from 19 to 13.6 percent.<sup>8</sup> During the 2013-14 fiscal year, no CURE grants were awarded.

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<sup>7</sup> 72 P.S. § 1715-G.

<sup>8</sup> 72 P.S. § 1713-A.1, recently amended by Act 126 of 2014, effective July 10, 2014.

*Audit Procedures and Results – The Department of Health Adequately Ensured that  
CURE Grant Funds Were Properly Spent*

The Department of Health’s (DOH) Office of Health Research administers the Commonwealth Universal Research Enhancement (CURE) program.<sup>9</sup> Health research organizations receive grant funds through grant agreements with DOH that may contain multiple research projects. Each project is described in detail and includes organization-prepared budget summaries showing how the grant funds will be spent. Once a grant agreement is approved, DOH advances the entire grant amount to the grantee. Throughout the grant period and upon grant expiration, grantees must submit various reports.

For each fiscal year ended June 30, grantees must submit an Annual/Final Expenditure Report, Report of Infrastructure Expenditures, Report of Interest Earned and Expenditures on Interest Earned, and an Annual Progress Report to DOH for each CURE grant. DOH ensures that the reported expenditures are consistent with the approved grant budget summary and that the research activities described in the progress report are consistent with the project descriptions in the grant agreements. Grantees with a Non-Formula grant may be required to appear before an assembled panel of medical research experts to provide a presentation describing the interim progress of their research. The panel issues an Interim Performance Review Summary Report, which includes the panel’s rating of the grantee’s progress of the research projects. This interim review process provides DOH with valuable and timely feedback enabling them to react to potential problems and guide the grantee to ensure compliance with the grant agreement.

Grantees that spend \$500,000 or more for a particular CURE grant during a fiscal year are required to submit a program-specific audit from an independent accounting firm to DOH. These audits determine if the grant expenditures are presented fairly and include consideration of internal controls over financial reporting and compliance with certain provisions of the grant agreements. DOH reviews the audits for any findings, internal control deficiencies, or issues of noncompliance reported and, if necessary, would take appropriate action to ensure grant funds are spent properly or returned. These independent audit reports provide DOH with a high level of assurance that grant funds are being properly spent.

After a grant expires, DOH requires the grantees to provide a Final Expenditure Report and Final Progress Report in order to evaluate the grantee’s performance. These final reports, as well as the annual grant reports, are sent to DOH’s subcontractor, who coordinates DOH’s performance review process. The subcontractor assigns at least three medical research experts to independently document their review of the grantee’s projects. This review identifies the strengths and weaknesses of the research, and a rating for each project and for the grant overall. The subcontractor combines the results into a Final Performance Review Report and provides the report to DOH and the grantees.

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<sup>9</sup> See 35 P.S. § 5701.901 *et seq.*

***Audit Procedures and Results – The Department of Health Adequately Ensured that CURE Grant Funds Were Properly Spent (Continued)***

Grantees provide a response and DOH posts the final reports to its website. If a grantee receives an unfavorable rating, DOH may require the grantee to remit all or a portion of the grant funds expended on the projects or determine them ineligible for future health research funding. This process provides DOH with a credible and impartial evaluation of the grantee's performance and use of the grant funds.

During the period July 1, 2009 through June 30, 2013 (audit period), 144 CURE grants were awarded to 40 grantees, collectively totaling more than \$234 million. As of June 30, 2013, DOH reported that grantees spent approximately \$123.5 million (53 percent) of these funds.

The five hospital-affiliated grantees selected for the audit were awarded 23 CURE grants totaling nearly \$57.5 million during the audit period, to conduct 135 health research projects. As of June 30, 2013, approximately \$24 million had been spent. Our audit focused on DOH's oversight of the grantees' spending, recording, and reporting of grant funds.

For the five grantees selected, we reviewed each Annual/Final Expenditure Report required during the audit period to identify any anomalies. We determined that all reports were submitted and nothing unusual came to our attention. Additionally, we found that approximately \$21.5 million (90 percent) of the total grant expenditures for the five selected grantees received a program-specific audit. Consequently, we developed separate audit procedures for the audited and unaudited portions of the total grant expenditures.

***Grant Expenditures Included Within a Program-Specific Audit***

We found that the five grantees submitted 15 audit reports to DOH, in compliance with DOH policy, encompassing the \$21.5 million in grant expenditures. In addition to reviewing the Annual/Final Expenditure Reports noted above, we reviewed the audit reports and verified that each audit was a program-specific audit for the required grant and fiscal year. We also found that the audit reports contained unqualified opinions and no findings were issued. As a result, the risk of these expenditures being improperly spent is minimal; therefore, we determined that no additional expenditure procedures were necessary.

Furthermore, with regard to the results of the grantees' research, we also reviewed all available Final Performance Review Reports prepared by DOH's subcontractor and found that all grant ratings given were favorable.

***Grant Expenditures Not Included Within a Program-Specific Audit***

As noted above, we determined that approximately \$2.5 million (10 percent) of the total grant expenditures for the five selected grantees were not included within a program-specific audit. Thus, we applied additional audit procedures to this portion of the total grant expenditures.



***Audit Procedures and Results – The Department of Health Adequately Ensured that  
CURE Grant Funds Were Properly Spent (Continued)***

In addition to reviewing the Annual/Final Expenditure Reports noted above, we obtained from the grantees listings of transactions that supported these reports for grants that incurred \$100,000 or more in expenditures for respective fiscal years. These reports represented nearly \$2.4 million (96 percent) of the total unaudited amount. We reviewed each listing for anomalies and found 13 unusual transactions. Using auditors' judgment, we selected 7 additional transactions for a total of 20 transactions, amounting to more than \$143,500. We obtained and reviewed the source documents and found that all 20 transactions were accurately recorded, properly classified, and in accordance with the grant agreements.

Furthermore, we verified that all required progress/performance reports were submitted and reviewed to ensure DOH had addressed any potential issues that may have necessitated the repayment of grant funds. No potential issues were identified and all grant ratings given were favorable.

***Auditors' Conclusion***

Our audit procedures found no significant control weaknesses or instances of errors, or noncompliance with applicable grant agreements, laws, or DOH policy. DOH oversight and monitoring procedures were adequately designed and operated effectively to ensure CURE grant expenditures were properly spent in accordance with the grant agreements, laws, and DOH policy.

## Appendix A: Objective, Scope, and Methodology

### Objective

The objective of this special performance audit included the following:

- Determine whether the Department of Health (DOH) ensured that Commonwealth Universal Research Enhancement (CURE) grant expenditures were used for their intended purposes in accordance with the grant agreements and as specified by law and DOH policy for the following CURE grant recipients:
  1. Children’s Hospital of Philadelphia
  2. Children’s Hospital of Pittsburgh
  3. Geisinger Clinic
  4. Magee-Womens Research Institute
  5. Pennsylvania State University (Hershey Medical Center)

### Scope

Our audit focused on DOH’s duties and responsibilities to ensure that Tobacco Settlement Fund monies awarded for health related research were properly expended by grant recipients. The period under audit was July 1, 2009 through June 30, 2013, including follow-up procedures that were performed and concluded as of August 29, 2014. The audit was performed in accordance with applicable generally accepted government auditing standards issued by the Comptroller General of the United States.

### Methodology

The methodology in support of the audit objective included the following:

- Review the Tobacco Settlement Act, Act 77 of 2001, and relevant provisions of The Fiscal Code as amended by Act 87 of 2012, Act 71 of 2013, and Act 126 of 2014, to identify provisions applicable to the CURE program and DOH.
- Assess the impact of the Tobacco Settlement Fund financial statements audits for the fiscal years ended 2010 – 2013.
- Review DOH’s Policies and Procedures in the Health Research Program manual (Updated March 31, 2014) to support our evaluation of DOH’s controls designed to ensure compliance with the Tobacco Settlement Act, as amended.

**Appendix A: Objective, Scope, and Methodology (Continued)**

- Interview and correspond with DOH management from the Office of Health Research and Office of the Deputy Secretary for Administration to assess controls and gain an understanding of the CURE program procedures.
- Verify the amount of Tobacco Settlement funds awarded for health research grants after July 1, 2009 by reconciling DOH reports to the Status of Appropriations, and determine the number of grants awarded and grantees that received the funds.
- Determine the population of grant awards and grant expenditures reported for the five selected grantees (noted in the objective).
- Review all Annual/Final Expenditure Reports submitted for the period July 1, 2009 and June 30, 2013, for the five selected grantees to identify and investigate any potential reporting anomalies.
- Review program-specific audit reports of CURE grant expenditures for the five selected grantees totaling approximately \$21.5 million to determine if all required audits were completed and assess the results for impact on our audit procedures.
- Determine the unaudited portion of grant expenditures for the five selected grantees and perform the following additional procedures:
  - ☑ Review grant agreements to ensure they were properly executed and to identify applicable grantee requirements related to the audit objective.
  - ☑ Reconcile detailed listings of expenditures that supported the Annual Expenditure Reports submitted to DOH and review the reports to identify and investigate any potential anomalies.
  - ☑ Review source documentation obtained from grantees for 20 judgmentally selected grant expenditures to ensure they were accurately recorded, properly classified, and within the scope of the research project.
  - ☑ Ensure various required reports (e.g., grant expenditure reports, research progress reports, etc.) were submitted to DOH and review them to ensure DOH identified and reacted to any potential problems reported, which could have required the repayment of grant funds.

**Distribution List**

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This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).