



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General  
Office of Audit Services

JUL 27 2005

REGION IV  
61 Forsyth Street, S.W., Suite 3T41  
Atlanta, Georgia 30303

Report Number: A-04-04-01002

Carmen Hooker Odom, Secretary  
North Carolina Department of Health  
and Human Services  
Adams Building, 101 Blair Drive  
Raleigh, North Carolina 27603

Dear Secretary Odom:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Audit of Costs and Reporting of Funds Under the Public Health Preparedness and Response for Bioterrorism Program." A copy of this report will be forwarded to the HHS action official noted below for review and any action deemed necessary.

The HHS action official will make final determination regarding actions taken on all matters reported. We request that you respond to the HHS action official within 30 days. Your response should present any additional information that you believe may have a bearing on the final determination.

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If you have any questions or comments about the report, you may contact me at (404) 562-7750 or Jeff Bullock, Audit Manager, at (404) 562-7761. Please refer to report number A-04-04-01002 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori S. Pilcher", with a long horizontal flourish extending to the right.

Lori S. Pilcher  
Regional Inspector General  
for Audit Services, Region IV

Enclosures: As stated

**Direct Reply to HHS Action Official:**

Analysis Management Team Lead  
Management Analysis and Services Office  
Office of the Chief Operating Officer  
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**

**AUDIT OF COSTS AND REPORTING OF  
FUNDS UNDER THE PUBLIC HEALTH  
PREPAREDNESS AND RESPONSE FOR  
BIOTERRORISM PROGRAM**



**Daniel R. Levinson  
Inspector General**

**JULY 2005  
A-04-04-01002**

# *Office of Inspector General*

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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 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 under sections 301 and 319 of the Public Health Service Act to improve their bioterrorism preparedness and response capabilities under the Public Health Preparedness and Response for Bioterrorism Program (the Program). The North Carolina Department of Health and Human Services (the State) entered into a cooperative agreement with CDC to carry out Program activities and, for the period August 31, 1999, through August 31, 2004, received Program funds totaling \$50.9 million.

### **OBJECTIVES**

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

- recorded and reported Program funds awarded, expended, obligated, and unobligated by focus area in accordance with the cooperative agreement;
- ensured that Program funds were used for necessary, reasonable, allocable, and allowable costs in accordance with the terms of the cooperative agreement and applicable Federal regulations; and
- supplanted current State or local funding with Program funds.

### **SUMMARY OF RESULTS**

The State recorded and reported Program funds awarded, expended, obligated, and unobligated by focus area in accordance with the CDC cooperative agreement.

Costs incurred by the State for administering the Program were necessary, reasonable, allocable, and allowable. However, the two subrecipients we reviewed claimed reimbursement for \$98,929 in unallowable costs that, for the most part, were incurred for operations with little or no discernible relationship to Program activities, as established in State agency subagreements and CDC program guidance. We believe this occurred because the State had not completed development of a monitoring system adequate to ensure that its 85 subrecipients charged the Program for only necessary, reasonable, allocable, and allowable costs. Thus, in at least some instances, subrecipients expended Program funds for purposes that did not enhance public health preparedness and response capabilities to protect the citizens of North Carolina in the event of a bioterrorism attack.

We found no evidence of supplanting of State or local expenditures with Program funds.

## **RECOMMENDATIONS**

We recommend that the State:

- refund \$98,929 to the CDC and
- continue to strengthen subrecipient monitoring efforts to ensure that Program funds are used only for necessary, reasonable, allocable, and allowable costs.

## **AUDITEE RESPONSE**

Of the \$98,929 of subrecipient costs we recommended for financial adjustment, the State concurred with only \$17,289. The State disagreed with our findings that the remaining \$81,640 had been incurred for purposes with little or no discernible relationship to Program activities and was therefore unallowable. Instead, the State asserted that the \$77,396 of general purpose equipment and supplies purchased by the two subrecipients were actually used for Program related activities and the \$4,244 of salary costs incurred by one of the two subrecipients was applicable to individuals actually performing Program activities.

The State also disagreed with our conclusions that it had not maintained an adequate subrecipient monitoring system during much of our audit period and that it had not required subrecipients to submit financial reports containing sufficient detailed information to allow effective monitoring.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

Despite the State's assertions, we continue to believe the entire \$98,929 is unallowable in accordance with Office of Management and Budget (OMB) Circular A-87. The State has tried to show that these general purpose equipment, materials, and supplies have or could have some relationship to the Program. However, the State's assertions do not reflect documentation prepared at the time the costs were actually incurred: documentation that cited no relationship to Program activities or that cited justification why the items were purchased with Program funds. Similarly, the State asserts that the salary costs recommended for recovery were justified by the efforts of the involved employees, but the employees' time sheets at that time provided no evidence of that effort. The salaries were not supported in accordance with OMB Circular A-87.

While acknowledging that the State began to make significant improvements to its subrecipient monitoring during our audit period, we believe the questionable expenditures discussed above demonstrate that its monitoring capacity was not adequate for much of that period. In fact, the recruitment of a grants-monitoring specialist during the course of our audit shows that the State also recognized the need for more effective monitoring of its subrecipients.

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## INTRODUCTION

### BACKGROUND

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

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 (the Program) as 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)).

CDC initiated cooperative agreements requiring recipients to report Program expenditures by focus area, as directed by Program Announcement 99051. Specifically, the notice of cooperative agreement states: “To assure proper reporting and segregation of funds for each focus area, Financial Status Reports...must be submitted for individual focus areas not later than 90 days after the end of the budget period.”

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 focus on public health preparedness activities under CDC cooperative agreement. Program Announcement 99051 states that “... cooperative agreement funds under this program may not be used to replace or supplant any current State or local expenditures.”

#### **State Agency Funding**

In North Carolina, the State manages the Program through its Division of Public Health, Office of Public Health Preparedness and Response. Annual funding increased from \$336,435 in 1999 to \$25.8 million in 2004. The North Carolina Department of Health and Human Services (the State) received cumulative funding of \$50.9 million for the period August 31, 1999, through August 31, 2004. Of the \$50.9 million awarded, the State had expended \$37.0 million and had obligated \$12.9 million.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

### **Objectives**

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

- recorded and reported Program funds awarded, expended, obligated, and unobligated by focus area in accordance with the cooperative agreement;
- ensured that Program funds were used for necessary, reasonable, allocable, and allowable costs in accordance with the terms of the cooperative agreement and applicable Federal regulations; and
- supplanted current State or local funding with Program funds.

### **Scope**

Our audit covered State policies and procedures for accounting and financial reporting of Program funding for the period August 31, 1999, through August 31, 2004. We limited cost testing to transactions occurring between August 31, 1999, and March 31, 2004.

We conducted our audit for the purposes described above, which would not necessarily disclose all material weaknesses. We did not review the overall internal control structure of the State or its subrecipients. We limited the review of internal controls to the following: 1) obtaining an understanding of the State's and selected subrecipients' procedures to account for Program funds and 2) obtaining an understanding of the State's subrecipient monitoring procedures.

We also limited our review to non-statistical samples of Program expenditures incurred by the State and two of its Aid-to-County subrecipients, the Onslow County Health Department (Onslow County) and the Mecklenburg County Health Department (Mecklenburg County). The two subrecipients we reviewed included one rural subrecipient and one urban subrecipient. The table below summarizes the total expenditures and the samples selected at the respective agencies.

<b>Summary of Expenditure Universe and Sample Expenditures Selected</b>			
<b>Type of Expenditure</b>	<b>Sample Size</b>	<b>Dollar Value of Universe</b>	<b>Dollar Value of Sample</b>
<i>State</i>			
Payroll	<b>21</b>	\$3,187,329	\$280,889
Non-Payroll	30	21,441,595	893,080
<b>Total</b>	<b>51</b>	<b>\$24,628,924</b>	<b>\$1,173,969</b>
<i>Onslow County</i>			
Payroll	15	\$4,244	\$4,244
Non-Payroll	33	164,084	147,592
<b>Total</b>	<b>48</b>	<b>\$168,328</b>	<b>\$151,836</b>
<i>Mecklenburg County</i>			
Payroll	15	\$335,628	\$91,330
Non-Payroll	15	799,620	313,744
<b>Total</b>	<b>30</b>	<b>\$1,135,248</b>	<b>\$405,074</b>

## **Methodology**

To accomplish the objectives of our review, we evaluated State and subrecipient accounting procedures and, in addition, we:

- tested Financial Status Reports (FSRs) for completeness and accuracy and reconciled the amounts reported on FSRs to the accounting records and Notices of Cooperative Agreement;
- reviewed cost transfers, the timing of budget reductions versus bioterrorism funding, and costs reported during fiscal years prior and subsequent to receiving Program funding;
- reviewed employment history for a sample of State personnel with salaries charged to the Program to determine whether any employee had been relocated from other programs and, if so, whether the previous position was filled;
- selected and tested a nonstatistical sample of 21 payroll expenditures and 30 other Program expenditures to determine whether the State expended Program funds for reasonable, necessary, allocable, and allowable costs under the terms of the cooperative agreement; and
- reviewed the subrecipients' procedures to account for funds expended, tested nonstatistical samples of expenditures for allowability as detailed in the above table, interviewed subrecipient officials, and reviewed payroll records to ascertain whether subrecipients supplanted expenditures with Program funds.

We conducted our fieldwork between March 2004 and February 2005 at State offices in Raleigh, NC, at Mecklenburg County offices in Charlotte, NC, and at Onslow County offices in Jacksonville, NC.

On May 12, 2005, we provided a draft of this report to State officials. The State's formal response to our findings and recommendations, dated June 11, 2005, is paraphrased in the SUMMARY OF RESULTS section and is included in its entirety as the Appendix.

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

## **SUMMARY OF RESULTS**

The State recorded and reported Program funds awarded, expended, obligated, and unobligated by focus area in accordance with the CDC cooperative agreement.

Costs incurred by the State for administering the Program were necessary, reasonable, allocable, and allowable. However, the two subrecipients we reviewed claimed reimbursement for \$98,929 in unallowable costs that, for the most part, were incurred for operations with little or no discernible relationship to Program activities, as established in State agency subagreements and CDC program guidance. We believe this occurred because the State had not completed development of a monitoring system adequate to ensure that its 85 subrecipients charged the Program for only necessary, reasonable, allocable, and allowable costs. Thus, in at least some instances, subrecipients expended Program funds for purposes that did not enhance public health preparedness and response capabilities to protect the citizens of North Carolina in the event of a bioterrorism attack.

We found no evidence of supplanting of State or local expenditures with Program funds.

## **RECORDING AND REPORTING OF PROGRAM FUNDS**

The State recorded and reported Program funds awarded, expended, obligated, and unobligated by focus area in accordance with the cooperative agreements. Through August 31, 2004, the State had received \$50.9 million of Program funds, of which \$37.0 million was reported as expended and \$12.9 was reported as obligated. The remaining \$1.0 million was unobligated at the time we conducted our fieldwork.

Within the North Carolina Accounting System, the State established unique accounting codes to separately record and track the funds budgeted, expended, obligated, and unobligated for each focus area.

The State's official accounting policies and procedures were adequate for proper administration of Program funds. The State was able to support Program fund balances reported on FSRs either through automated accounting system records or through documentation of non-automated transactions.

## **UNALLOWABLE PROGRAM COSTS**

Costs incurred by the State for administering the Program were necessary, reasonable, allocable, and allowable. However, the two subrecipients we reviewed claimed reimbursement for \$98,929 in unallowable costs that, for the most part, were incurred for operations with little or no discernible relationship to Program activities, as established in State agency subagreements and CDC program guidance. We believe this occurred because the State had not completed development of a monitoring system adequate to ensure that subrecipients charged the Program for only necessary, reasonable, allocable, and allowable costs. Thus, in at least some instances, subrecipients expended Program funds for purposes that did not enhance public health preparedness and response capabilities to protect the citizens of North Carolina in the event of a bioterrorism attack.

### **Allowable Costs Must Be Necessary, Reasonable, and Allocable**

Attachment A to Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments," provides basic standards governing the allowability of costs claimed for reimbursement under Federal grants, contracts, and other agreements with State and local governments. Among these standards, Section C to the Attachment specifies that allowable costs must be necessary for the performance of activities under the agreement and must also be allocable and reasonable, as follows:

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.

A cost is reasonable if it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

### **Subrecipients Charged Unallowable Costs to the Program**

Contrary to the requirements of OMB Circular A-87 and other applicable guidelines, both Onslow County and Mecklenburg County claimed reimbursement for costs that were unallowable.

#### **Onslow County**

During the period December 2002 through March 2004, the Onslow County Health Department claimed \$80,522 in unallowable equipment (\$76,278) and salaries (\$4,244).

#### **Equipment**

Onslow County claimed reimbursement of \$76,278 for general purpose equipment, materials, and supplies even though procurement documentation showed that the items were needed for

general health department operations rather than for the performance of Program activities as described in State agency subagreements and CDC program guidance.

The health department used Program funds to purchase such items as: a new fax machine for use in its billing and purchasing operations; an electronic sign to display educational offerings, special announcements, and clinic information for patients in the lobby area; a new photocopier with an extended maintenance agreement; a new postage mailing system; a new auditorium sound system; and a new switchboard and phone system.

In some instances, the health department purchased items in quantities that seemed far in excess of amounts that might actually be needed for Program activities. For example, the health department used program funds to purchase 20 personal computers and 25 software packages even though only 3 employees were regularly working on Program activities at the time.

Procurement records provided by the health department often documented the use of Program funds for items with little or no apparent relationship to Program activities. For example, a purchase request noted that a new switchboard was “needed to replace current switchboard – keys sticking, needed for appt [sic] room for phone calls to roll over and held in queue.”

A request to purchase office chairs for personnel in the health department’s registration, appointment, and billing operations simply stated that the chairs were “needed to accommodate long periods of being seated while doing data entry, client interviews, and telephone contacts. Help to provide comfort in pressure point areas – back, legs, etc. from extended periods of sitting.” Another purchase of office chairs for two employees who were not working on Program activities was justified by a statement that “[b]oth staff members have ongoing back problems. . . . Both have most of the day sitting at desk jobs.”

Justifications such as these provide no evidence that the Program funds used to purchase general purpose equipment, materials, and supplies were necessary for the performance of Program activities.

## **Salaries**

Onslow County claimed reimbursement of \$4,244 for the salary costs of four employees even though health department records showed that the individuals had actually devoted their time and effort to other activities.

Contrary to provisions of OMB Circular A-87 that require that salaries and wages be supported by personnel activity reports, Onslow County claimed reimbursement for the salary costs based on an estimate of 33 percent of the total time reported by the employees as working on the health department’s communicable disease and immunization programs during the period December 2002 through February 2003. Although health department representatives maintained that the charges reflected effort related to developing a bioterrorism response plan and associated training, personnel activity reports for the period showed no record of this effort.

## **Mecklenburg County**

During the period December 2002 through March 2004, the Mecklenburg County Health Department claimed \$18,407 in unallowable consultant costs (\$12,864), websites (\$4,425), and office furniture (\$1,118).

### **Consultant Costs**

Mecklenburg County claimed reimbursement for \$12,864 of excessive and unallowable personal services costs for the consultant retained to direct Program activities for the health department.

The PHS Grants Policy Statement stipulates that employee bonus payments are allowable charges to Federal programs only if the payments are made in accordance with a formal policy consistently applied by the recipient organization. Contrary to this requirement; however, the health department used \$12,973 of Program funds to pay a portion of the consultant's bonus payment even though the individual's employer had no formal policy in place with regard to the timing and amount of bonus payments.

Over and above the unallowable bonus payments, Mecklenburg County also claimed reimbursement for \$3,405 of excessive social security taxes on the consultant's earnings during the period. The health department paid for social security on salaries that exceeded the applicable annual earnings caps set at \$84,900 in 2002, \$87,000 in 2003, and \$87,900 in 2004.

The overcharges discussed above were partially offset by errors in the computations related to other fee components including the consultant's base salary and certain fringe benefits. These offsetting errors resulted in undercharges totaling \$3,514.

### **Websites**

Mecklenburg County claimed reimbursement for \$4,425 of costs incurred for maintaining websites that were not related to Program activities as established in State agency subagreements and CDC program guidance. For example, the health department charged the Program for the costs of monitoring and improving its "Fit City Challenge" website, a site intended to encourage residents to increase their level of physical activity and consumption of fruits and vegetables. Similarly, the health department used Program funds for the costs of other general monthly web updates and maintenance that had no relationship to Program activities.

### **Office Furniture**

Mecklenburg County claimed reimbursement for \$1,118 expended to purchase office furniture for two contract employees who were not working exclusively on the Program. The county purchased office furniture for five employees when only three employees were actually working on Program activities.

## **Program Funds Were Not Always Used to Enhance Protection of North Carolina's Citizens**

Thus, in at least some instances, subrecipients expended Program funds for purposes that did not enhance public health preparedness and response capabilities to protect the citizens of North Carolina in the event of a bioterrorism attack. We identified \$98,929 in unallowable costs at the two subrecipients that we visited.

## **The State Did Not Adequately Monitor Subrecipients**

These conditions occurred because the State did not have controls to ensure that subrecipients claimed only necessary, reasonable, allocable, and allowable costs. Subrecipients did not submit financial reports containing sufficient detailed information to permit the State to assess the allowability of costs charged to the Program or to relate those costs to Program activities actually performed by the subrecipients.

During our audit, the State began to develop improved controls for monitoring the financial and programmatic activities of subrecipients and required subrecipients to begin reporting financial and programmatic results on a quarterly basis. Additionally, the State hired an individual with the specific duties of tracking Program funds and monitoring Program activities.

We believe these measures will help ensure that the use of future Program funds is consistent with the requirements of the cooperative agreement and applicable Federal regulations.

## **SUPPLANTING**

We found no evidence of supplanting at the State or subrecipients based on reviews of cost transfers, the timing of State and local budget reductions versus Federal bioterrorism funding, and costs reported for fiscal years prior and subsequent to receiving Program funding. Further, we found that the State and one applicable subrecipient properly filled prior positions held by employees transferred to the Program.

## **RECOMMENDATIONS**

We recommend that the State:

- refund \$98,929 to the CDC and
- continue to strengthen subrecipient monitoring efforts to ensure that Program funds are used only for necessary, reasonable, allocable, and allowable costs.

## **AUDITEE RESPONSE**

Of the \$98,929 of subrecipient costs we recommended for financial recovery, the State concurred with only \$17,289. The State disagreed with our findings that the remaining \$81,640, including \$77,396 of general purpose equipment, materials and supplies and \$4,244 of salary costs, had



been incurred for activities with little or no discernible relationship to Program operations. The State added: “Lack of on-site documentation of costs supporting program activities does not alter the fact that the costs actually supported program activities.”

The State’s response addresses each individual item of equipment, materials, and supplies and either asserts that the items had been used for activities directly related to Program purposes or explains how the items could be used for such activities. In many instances, the State’s response points out that the subrecipients had disclosed their intention to purchase the equipment and supplies when applying for Program funds. The State also maintains that the salary costs we had recommended for adjustment were incurred for individuals who actually performed Program activities.

The State also disagreed with our conclusions that it had not maintained an adequate subrecipient monitoring system during much of our audit period and that it had not required subrecipients to submit financial reports containing sufficient detailed information to allow effective monitoring. The response stated, in part: “Local Health Departments are ...clearly responsible for expending funds according to grant guidance, as articulated in the Agreement Addenda documents.”

## **OFFICE OF INSPECTOR GENERAL COMMENTS**

Despite the State’s assertions, we continue to believe the entire \$98,929 of general purpose equipment, materials, supplies, and salary costs are unallowable in accordance with OMB Circular A-87.

As mentioned above, the State asserts that the equipment, materials, and supplies cited in our report had been used for activities directly related to Program purposes or explains how the items could be used for such activities. However, the State’s assertions and explanations do not reflect documentation prepared by the subrecipients at the time the questionable costs were actually incurred.

In discussing a fax machine purchased by Onslow County, for example, the State discusses the capability to immediately communicate with medical providers in the event of a bioterrorism event. The purchase request used to justify purchase of the machine, however, stated simply “Fax machine for billing/purchasing area” without any mention of Program activities. The purchase request for a new switchboard cited “...keys sticking...” without any mention of Program activities while the purchase of new chairs for staff in the registration, appointment and fee sections was based on the need to “...accommodate long periods of being seated while doing data entry, client interviews and telephone contacts.” In no instance did the documentation supporting these purchases show any relationship to Program activities.

Similarly, the State’s response asserts that the \$4,244 of salary costs recommended for financial adjustment represents the actual effort of health department employees preparing a series of presentations related to bioterrorism preparedness. However, time sheets prepared by the employees at the time provided no evidence of these presentations or other effort related to the Program. The salaries charged by the subrecipient were not supported in accordance with OMB Circular A-87.

While acknowledging that the State began to make significant improvements to its subrecipient monitoring during our audit period, we believe the questionable expenditures discussed above demonstrate that its monitoring capacity was not adequate for much of that period. In fact, the recruitment of a grants-monitoring specialist during the course of our audit shows that the State recognized the need for more effective monitoring of its subrecipients.

# **APPENDIX**



**North Carolina Department of Health and Human Services**

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Michael F. Easley, Governor

Carmen Hooker Odom, Secretary

June 11, 2005

Ms. Lori S. Pilcher  
Regional Inspector General for Audit Services, Region IV  
U.S. Department of Health & Human Services  
61 Forsyth Street, S.W., Suite 3T41  
Atlanta, Georgia 30303-8909

Dear Ms. Pilcher:

We have reviewed the draft report entitled "*Audit of Costs and Reporting of Funds under the Public Health Preparedness and Response for Bioterrorism Program—North Carolina Department of Health and Human Services*" [Audit A-04-04-01002]. Our response to the draft findings is indicated in the following narrative.

**NCDHHS Response**

The Department agrees with the draft audit report comments that state:

- *"The State recorded and reported Program funds awarded, expended, obligated, and unobligated by focus areas in accordance with the CDC cooperative agreement."*
- *"We found no evidence of supplanting of State or local expenditures with Program funds."*
- *"Costs incurred by the State for administering the Program were necessary, reasonable, allocable, and allowable."*

However, the Department disagrees in general with the findings relative to the two subrecipients.

- **General Finding.** *"The two subrecipients we reviewed claimed reimbursement for \$98,929 in unallowable costs that, for the most part, were incurred for operations with little or no discernible relationship to Program activities, as established in State agency subagreements and CDC program guidance. We believe this occurred because the State had not completed development of a monitoring system adequate to ensure that its 85 subrecipients charged the Program for only necessary, reasonable, allocable, and allowable costs. Thus, in at least some instances, subrecipients expended Program funds for purposes that did not enhance public health preparedness and response capabilities to protect the citizens of North Carolina in the event of a bioterrorism attack."*



The Department disagrees with the finding. A large number of subrecipient costs approved by the Division of Public Health (for both Onslow County and Mecklenburg County) actually mirror costs incurred by the State, which were previously approved by the CDC. The CDC approved these costs to improve public health infrastructure and thus North Carolina's ability to respond to acts of bioterrorism, emerging infections, and other public health emergencies, per grant guidelines. DPH extended this same approval to local health departments for similar costs to improve core local public health preparedness capacity.

The Department further disagrees that the *"unallowable costs, for the most part, were incurred for operations with little or no discernible relationship to Program activities"*. The audit cites examples of *"general purpose equipment, materials, and supplies"* for which procurement documentation does not support program activities. Lack of on-site documentation of costs supporting program activities does not alter the fact that the costs actually supported program activities. The following is a summary of the audit findings and responses which documents the relationship of the questioned costs to Program activities in Onslow and Mecklenburg Counties.

### Onslow County

**Equipment.** *"Onslow County claimed reimbursement of \$76,278 for general purpose equipment, materials, and supplies even though procurement documentation showed that these items were needed for general health department operations rather than for the performance of Program activities as described in State agency subagreements and CDC program guidance."*

#### Fax Machine (\$100)

- Prior to this purchase, the Local Health Department's (LHD) existing fax machine did not have the capability to pre-program all of the fax numbers of the local physicians in the community. The new fax machine has the capacity to hold all of the fax numbers of the community medical providers to blast fax crucial information to them in an expedient manner in the event of a bioterrorism event or communicable disease outbreak situation. Additionally, the fax is also routinely used for receiving reports of possible communicable disease cases from area physicians.
- DPH Office of Public Health Preparedness and Response Agreement Addenda for period August 2003 – August 2004, specifically states that BT funds may be used to pay for "the purchase of telephone equipment and fax machines where such equipment is to be used, at least in part, for communicating bioterrorism preparedness efforts before an event, or communicating response information during an actual event, with the public and/or the media."

#### Electronic Sign (Actually, LED Display Sign, \$4,425)

- LED display sign is mounted in the health department lobby and displays important patient education information relating to bioterrorism (such as "What to Do With Suspicious Packages") and prevention of communicable disease outbreaks (such as the importance of hand washing, flu clinic schedules, cover your cough messages, etc). In the case of a local emergency, the sign can be programmed to provide patient

information upon entry. In this manner, patients receive important bioterrorism and communicable disease information while they are a “captive audience” in the lobby.

#### Photocopier & Maintenance Agreement (\$5,150 + \$1,348)

- This photocopier is utilized to make copies of bioterrorism educational information for the public and other medical providers, copy announcements of training flyers for medical providers on bioterrorism topics, and make copies of bioterrorism plans / policies/ and procedures for reference purposes. The maintenance agreement for the photocopier is necessary to ensure that equipment is maintained in good working condition.

#### Postage Mailing System (\$7,810)

- The postage machine is necessary in order to provide mass mailings to the community and area physicians regarding bioterrorism information, such as educational literature, and bioterrorism training opportunities. New postal service regulations require that all metered mail have a bar code on it, which this machine can provide.

#### Auditorium Sound System (\$19,370)

- Item included in original “Proposal to Upgrade Public Health Preparedness and Response” plan submitted by Onslow County to the Office of Public Health Preparedness and Response on December 30, 2002 and subsequently approved by the state for funding. In this proposal, under the heading of “Bioterrorism Education” funds Onslow County requested to purchase equipment / supplies to facilitate education regarding bioterrorism for the general public and medical community. These equipment purchases *specifically* listed videoconferencing equipment for Health Department Auditorium and other AV equipment.

#### Switchboard and Phone System (\$4,233)

- The new switchboard is necessary to provide risk communication and telephone access between health department staff, medical providers, first responders, state consultants, and the general public regarding communicable diseases and potential bioterrorism events. Previous switchboard was very old and frequently malfunctioned resulting in keys sticking and citizen phone calls being dropped.
- DPH Office of Public Health Preparedness and Response Agreement Addenda for period August 2003 – August 2004, specifically states that BT funds may be used to pay for “the purchase of telephone equipment and fax machines where such equipment is to be used, at least in part, for communicating bioterrorism preparedness efforts before an event, or communicating response information during an actual event, with the public and/or the media.”

20 personal computers (\$24,580)

- Computers were purchased for all nursing staff (20) who share responsibility for responding to actual or potential bioterrorism events, communicable disease outbreaks, or natural disasters. This duty is explicitly written in each Public Health Nurse's position description and is acknowledged by all nursing staff. For example, all nurses have been trained in smallpox vaccination, all participate in various bioterrorism drills, all attend training related to bioterrorism, all participate in PH Training Survey, etc. The computers are utilized by the Public Health Registered Nurses for preparing and giving presentations regarding the county's bioterrorism preparedness efforts, for database management of surveillance and investigational information in communicable disease outbreaks, and for accessing web-based bioterrorism training and other communicable disease sites (such as the CDC, WHO, etc)
- DPH Office of Public Health Preparedness and Response Agreement Addenda for period August 2003 – August 2004, specifically states that funds may be used to pay for *“the purchase of PCs, laptops, and software where such equipment is to be used, at least in part, for preparing or giving presentations regarding the county's bioterrorism preparedness efforts.”*

25 software packages (Windows Software, \$3,277)

- This purchase permitted Onslow Health Department to upgrade software in existing management support computers in order to prepare bioterrorism educational information and to provide database management of surveillance and investigative information in communicable disease outbreaks. For example, all of management support staff have been trained in the computerized entry of patient information that is necessary in the event of deployment of the SNS. Clerical staff have participated in SNS exercises that tested their ability to provide this computerized data entry in a POD site. Additionally, many of LHD management support staff have also completed training in Epi Info 2000 and other data base management software (ACCESS).
- DPH Office of Public Health Preparedness and Response Agreement Addenda for period August 2003 – August 2004, specifically states that funds may be used to pay for *“the purchase of PCs, laptops, and software where such equipment is to be used, at least in part, for preparing or giving presentations regarding the county's bioterrorism preparedness efforts.”*

*Office chairs for personnel - Page 6 of the draft report does not itemize these purchases, but the list of questioned costs provided by the audit team consists of the following desk/chair/furniture items:*

#### Office Chairs (\$285)

- One desk chair was purchased to provide seating for Bioterrorism Nurse Coordinator. As this was a new position, there was no existing office furniture for her to utilize.

#### 6 desks (\$2,077)

- Additional small desks were purchased for nursing staff to use as computer work stations since they previously did not have computers and had no place in their office to set up the new computers. These computers are utilized by the Public Health Registered Nurses for preparing and giving presentations regarding the county's bioterrorism preparedness efforts, for database management of surveillance and investigational information in communicable disease outbreaks, and for accessing web-based bioterrorism training and other communicable disease sites (such as the CDC, WHO, etc).

#### Computer cabinets, hinges, slides, etc (\$258)

- These supplies were necessary to build a cabinet to safely and securely store expensive audiovisual equipment in the Health Department auditorium. Such equipment is utilized to facilitate education regarding bioterrorism for the general public and medical community (see Auditorium Sound System).

#### 2 computer workstations (\$365)

- Two additional small computer workstations were purchased for nursing staff since they previously did not have computers and had no place in their office to set up the new computers. These computers are utilized by the Public Health Registered Nurses for preparing and giving presentations regarding the county's bioterrorism preparedness efforts, for database management of surveillance and investigational information in communicable disease outbreaks, and for accessing web-based bioterrorism training and other communicable disease sites, such as the CDC, WHO, etc.

The Onslow County equipment items listed on pages 5 and 6 of the OIG draft report total only \$73,278 (not the \$76, 278 listed on page 5 of the report). The following items are reflected in the \$76,278 total referenced in the report and were not itemized in the report, but were itemized in the list of questioned costs provided by the audit team during their visit:

#### Rolling Carrying Cases (\$600)

- The rolling carrying cases were purchased in order to facilitate carrying heavy equipment for staff to off-site locations and to protect from damage the PowerPoint projector and lap top computers that were purchased with bioterrorism funds. Such equipment is utilized to provide bioterrorism education to various community groups and medical providers and to provide data management necessary during SNS exercises, communicable disease outbreaks, and potential bioterrorism events.



### Laptop Computer (\$1,826)

- Laptop computers were included in Onslow County's original "Proposal to Upgrade Public Health Preparedness and Response" plan submitted on December 30, 2002 and subsequently approved by the state for funding. In this proposal, under the heading of "Portable System for Data Entry" funds were requested to purchase a portable system of data entry to collect epidemiological data for surveillance and contract tracing, to enter immunization data, and to communicate same information through HAN for state dissemination. These equipment purchases *specifically* listed the purchase of wireless, laptop computers with accompanying software.
- DPH Office of Public Health Preparedness and Response Agreement Addenda for period August 2003 – August 2004, specifically states that funds may be used to pay for "the purchase of PCs, laptops, and software where such equipment is to be used, at least in part, for preparing or giving presentations regarding the county's bioterrorism preparedness efforts."

### Data Drops (\$575)

- The purchase of the additional computers for nursing staff who had not previously had access to a computer necessitated the need to run additional computer / printer hookups at new locations in the Onslow Health Department building. The computers are utilized by the Public Health Registered Nurses for preparing and giving presentations regarding the county's bioterrorism preparedness efforts, for database management of surveillance and investigational information in communicable disease outbreaks, and for accessing web-based bioterrorism training and other communicable disease sites (such as the CDC, WHO, etc).

### Salaries

*"Onslow County claimed reimbursement of \$4,244 for the salary costs of four employees even though health department records showed that the individuals had actually devoted their time and effort to other activities."*

- During the time period referenced (December 2002 – February 2003), the Health Department's Bioterrorism Coordinator position was vacant. Therefore, the Nursing Director, Nursing Supervisor, Communicable Disease Nurse Manager, and Immunization Coordinator shared responsibility for all BT activities and outreach during this three-month time period. During this time, there were over twenty (20) presentations on bioterrorism topics and emerging infectious disease presentations made to the community (example: Rotary Club, Kiwanis Club, Sheriff's Department, Fire Department, EOC staff, Home Health and Hospice, Red Cross, etc) and medical providers (primary care physicians, Onslow Memorial Hospital, Onslow Home Health and Hospice, etc). The personnel time spent preparing and providing for these presentations, in addition to attendance at various BT related meetings / trainings (Epidemiology Team Meeting,

PHRST Team Training, Smallpox Vaccination training, etc), was allocated to the bioterrorism program and consisted of approximately 230 staff hours.

### Mecklenburg County

#### **Consultant Costs**

*“Mecklenburg County claimed reimbursement for \$12,864 of excessive and unallowable personal services costs for the consultant retained to direct Program activities for the health department.”*

The reason for this disallowance was an annual bonus payment with no documentation of a formal policy of recipient organization (Carolinas Health Care System) which was consistently applied. Social security tax amounts exceeded Federal cap on earnings. The Department agrees with these findings and is willing to work with Mecklenburg County to facilitate repayment of \$12,864, to encourage establishment of proper written policies regarding bonus payments by this vendor, and to monitor payments for Social Security taxes.

#### **Websites**

*“Mecklenburg county claimed reimbursement for \$4,425 of costs incurred for maintaining websites that were not related to Program activities as established in State agency subagreements and CDC program guidance.”*

- The Department agrees with this finding. Mecklenburg County reports that Tasks 16, 17, and 18 on the invoice for these website services were for non-BT services charged in error to the BT grant. The Department is willing to work with Mecklenburg County to facilitate repayment of \$4,425.

#### **Office Furniture**

*“Mecklenburg County claimed reimbursement for \$1,118 expended to purchase office furniture for two contract employees who were not working exclusively on the Program. The county purchased office furniture for five employees when only three employees were actually working on Program activities.”*

- The Department disagrees with this finding. Mecklenburg County indicates the items questioned are 5 desks, 5 hutches, and 5 chairs. These items were purchased for use by the local BT coordinator, 2 regional team members (PHRST), and Carmel Clements and Bobby Cox (LHD employees who manage the BT program but do not charge their salaries to the grant).

### **Subrecipient Monitoring Finding**

The Department disagrees with the following audit finding:

*“These conditions occurred because the State did not have controls to ensure that subrecipients claimed only necessary, reasonable, allocable, and allowable costs. Subrecipients did not submit financial reports containing sufficient detailed information to permit the State to assess the allowability of costs charged to the Program or to relate those costs to Program activities actually performed by the subrecipients. During our audit, the State began to develop improved controls for monitoring the financial and programmatic activities of subrecipients and required subrecipients to begin reporting financial and programmatic results on a quarterly basis. Additionally, the State hired an individual with the specific duties of tracking Program funds and monitoring Program activities.”*

The State’s Aid-to-County Consolidated Agreement and Agreement Addenda provide clear guidance regarding spending to all local health departments receiving funding through this mechanism. Local Health Departments are therefore clearly responsible for expending funds according to grant guidance, as articulated in the Agreement Addenda documents.

The Division of Public Health’s Subrecipient Grants Monitoring Specialist was hired in June 2004. Prior to this hiring, an Expenditures Monitoring Report (EMR) was established for monthly expenditure reporting of local health departments. Quarterly program reports were in use for subrecipient monitoring of local health department program outcomes associated with expenditures.

### **Conclusion**

The North Carolina Department of Health and Human Services agrees with the audit findings regarding accurate and appropriate recording of expenditure and obligations by the State and agrees with the audit findings regarding no evidence of supplantation of funds. The Department further agrees with the audit findings regarding unallowable costs for Mecklenburg County totaling \$17,289 (\$12,864 for consultant costs and \$4,425 for website costs). However, the Department disagrees with the remaining audit findings regarding unallowable costs, totaling \$81,640 for Onslow County and Mecklenburg County.


We trust that the foregoing response addresses the various report recommendations. If additional information is needed, please contact Dan Stewart, Assistant DHHS Secretary (Acting) at (919) 733-4534 or [Dan.Stewart@ncmail.net](mailto:Dan.Stewart@ncmail.net) . Lastly, we would like to express our appreciation to the audit staff that worked on this project. Although there are some points on which we disagree, the audit staff was professional in working with the State and subrecipients.

Lori S. Pilcher  
June 11, 2005

APPENDIX  
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We are also appreciative of the opportunity to provide the above comments and hope that the State and CDC can reach an amicable agreement as to the settlement of these questioned costs.

Sincerely,

A handwritten signature in black ink, appearing to read "Carmen Hooker Odom". The signature is fluid and cursive, with the first name "Carmen" being the most prominent.

Carmen Hooker Odom

Cc: Dr. Leah Devlin  
Dr. Steve Cline  
Dan Stewart  
Bob Fitzgerald