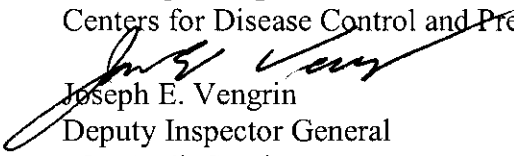




SEP - 8 2005

TO: William H. Gimson
Chief Operating Officer
Centers for Disease Control and Prevention

FROM: 
Joseph E. Vengrin
Deputy Inspector General
for Audit Services

SUBJECT: Management of HIV/AIDS Prevention Grants by the Centers for Disease Control and Prevention (A-04-03-08011)

The attached final report provides the results of our audit entitled "Management of HIV/AIDS Prevention Grants by the Centers for Disease Control and Prevention" (CDC). The objective of our audit was to determine whether CDC had complied with applicable laws, regulations, and departmental policies in managing its HIV/AIDS prevention grants.

During fiscal years (FYs) 1999 through 2003, the period of our audit, CDC's management of HIV/AIDS prevention grants did not always comply with applicable laws, regulations, and departmental policies. We reviewed records related to 15 grants and identified widespread deficiencies throughout the preaward, award, and postaward phases of CDC's grants management operations.

These conditions existed because CDC management had not provided appropriate guidance to employees involved in its grants management operations. The guidance set forth in the "CDC Assistance Management Manual" (CAMM) was not always consistent with relevant laws, regulations, and departmental policies.

Given the extent and significance of the deficiencies that we identified with respect to the 15 grants, we concluded that CDC could not be assured that its grants management operations provided appropriate direction and oversight for grantees under the HIV/AIDS prevention program. Further, because the CAMM was used throughout CDC, similar deficiencies may also have existed in other grant programs.

Subsequent to our audit fieldwork, CDC officials rescinded the CAMM and adopted the Department of Health and Human Service's Awarding Agency Grants Administration Manual.

We recommend that CDC continue to monitor its grants management operations to ensure full compliance with relevant laws, regulations, and departmental policies.

In responding to a draft of this report, CDC recognized the need for more effective grants management and expressed overall concurrence with our recommendation. However, CDC pointed out that competing priorities and limited resources made it difficult to better document all facets of its grants management operations.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Donald L. Dille, Assistant Inspector General for Grants and Internal Activities, at 202-619-1175, or e-mail him at Donald.Dille@oig.hhs.gov. Please refer to report number A-04-03-08011 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MANAGEMENT OF HIV/AIDS
PREVENTION GRANTS BY THE
CENTERS FOR DISEASE CONTROL
AND PREVENTION**



**Daniel R. Levinson
Inspector General**

**SEPTEMBER 2005
A-04-03-02011**

Office of Inspector General

<http://oig.hhs.gov>

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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

During fiscal years (FYs) 1999 through 2003, the period of our audit, the Centers for Disease Control and Prevention (CDC) used more than \$2.6 billion of HIV/AIDS prevention funds to award grants¹ for State and local health departments and community-based nonprofit organizations to carry out surveillance, testing, counseling, research, conferences, outcome evaluations, and other related activities. These grants serve as important tools in carrying out CDC's mission of preventing and controlling HIV and AIDS.

Within CDC, responsibility for managing HIV/AIDS prevention grants is shared by the Procurement and Grants Office (PGO), an organizational component within the Office of the Director, and the National Center for HIV, STD, and TB Prevention (Center). The PGO employees designated as grants management officers (GMOs) are responsible for the business and administrative aspects of grants management, whereas Center employees named to serve as project officers (POs) are responsible for providing oversight of the scientific, technical, and programmatic aspects of grants management operations.

OBJECTIVE

The objective of our audit was to determine whether CDC had complied with applicable laws, regulations, and departmental policies in managing its HIV/AIDS prevention grants.

SUMMARY OF FINDINGS

During FYs 1999 through 2003, CDC's management of HIV/AIDS prevention grants did not always comply with applicable laws, regulations, and departmental policies. We reviewed PGO and Center records related to 15 grants and identified widespread deficiencies throughout the preaward, award, and postaward phases of CDC's grants management operations. For example:

- **Preaward Phase:** Grant files contained no evidence that CDC staff had performed required cost analyses of applications from any of the 15 grantees to ensure that proposed costs were allowable and reasonable for the work to be performed.
- **Award Phase:** Awards for 14 of the 15 grants lacked clear, specific objectives providing a basis for assessing grantees' accomplishments, and, in fact, 2 of those 14 grants contained no objectives at all.

¹As mentioned in CDC's formal comments on a draft of this report, objectives for 5 of the 15 grants related to aspects of HIV/AIDS other than prevention, and the objectives of 3 grants related to sexually transmitted diseases. However, CDC's data system classified the funding for all 15 grants as HIV prevention, thus we have used the term "HIV prevention grants" for all 15 projects.

- **Postaward Phase:** CDC awarded continuation grants to 13 organizations even though they had reported few or no accomplishments or had failed to submit required accomplishment reports.

The POs and GMOs confirmed that CDC's grants management had not always complied with applicable criteria and discussed their own actions on some of the grants that we had reviewed. For example, one PO termed a grantee's performance "abysmal" but told us that he had been instructed not to restrict funding on any grants. In another example, a PO told us that he believed he had to prepare technical reports praising grantees to maintain their funding and acknowledged that he had prepared inaccurate and unsupported reports.

These conditions existed because CDC management had not provided appropriate guidance to employees involved in its grants management operations. CDC adopted a "CDC Assistance Management Manual" (CAMM) in November 2002 to provide standard policies and procedures for all its employees. However, for the most part, the CAMM simply codified inadequate grants management practices followed in the past rather than establishing new, effective, and compliant policies and procedures. Guidance for CDC employees set forth in the CAMM was not always consistent with relevant laws, regulations, and departmental policies.

Given the extent and the significance of the deficiencies that we identified with respect to the 15 grants, we concluded that CDC could not be assured that its grants management operations provided appropriate direction and oversight for the activities of grantees under the HIV/AIDS prevention program. Further, because the CAMM was used throughout CDC, similar deficiencies may also have existed in other grant programs.

Subsequent to our audit fieldwork, CDC acknowledged that policies and procedures set out in the CAMM varied significantly from relevant laws, regulations, and departmental policies. CDC advised Department of Health and Human Services (HHS) grants officials of its decision to adopt the departmental Awarding Agency Grants Administration Manual (AAGAM) in place of the CAMM. Consequently, on October 4, 2004, the HHS Office of Grants Management and Policy withdrew its earlier interim approval of the CAMM.

RECOMMENDATION

We recommend that CDC continue to monitor its grants management operations to ensure full compliance with relevant laws, regulations, and departmental policies.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

Agency Comments

In responding to a draft of this report, CDC recognized the need for more effective grants management and expressed overall concurrence with our recommendation. However, CDC pointed out that competing priorities and limited resources made it difficult to better document all facets of its grants management operations.

CDC also provided detailed comments to clarify its responsibilities and describe its current procedures relative to many of the findings discussed in our draft report and suggested that we revise the “Objective,” “Scope,” and “Methodology” sections of our report to provide additional clarification.

Office of Inspector General Response

We appreciate CDC’s recognition that its grants management operations could be improved and its concurrence with our recommendation. The decision to rescind the CAMM and adopt the departmental AAGAM in October 2004 demonstrates CDC’s commitment to improved management of its grant programs, which constitute almost 75 percent of its total budget.

Many of the detailed procedures described in CDC’s comments were implemented for grants that were initially awarded after our fieldwork and thus have not been audited. However, the described procedures appear to reflect a significantly more comprehensive control environment than was documented in CDC’s files for the grants in our review.

With respect to CDC’s suggestions that we revise the “Objective,” “Scope,” and “Methodology” sections, we have added a footnote to clarify our use of the term “HIV prevention grants” throughout the report. We do not believe that any additional clarification is necessary regarding the number of grants reviewed during our audit or our meetings with CDC officials during the audit to discuss our tentative audit findings and recommendation.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
The Department Has Placed Major Emphasis on Improving Grants Management	1
Grants Are a Major Tool in Preventing and Controlling HIV/AIDS.....	1
Centers for Disease Control and Prevention Components Share Responsibility for Managing Grants.....	1
OBJECTIVE, SCOPE, AND METHODOLOGY	1
Objective.....	1
Scope.....	2
Methodology.....	2
FINDINGS AND RECOMMENDATION	3
GUIDANCE FOR EFFECTIVE GRANTS MANAGEMENT	3
COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS, AND DEPARTMENTAL POLICIES	4
Preaward Phase	4
Award Phase	5
Postaward Phase.....	6
Noncompliance Confirmed.....	7
Appropriate Guidance Not Provided	8
Policies and Procedures in the Manual Not Consistent With Applicable Criteria	8
Manual Deficiencies Acknowledged	9
No Assurance of Adequate Direction and Oversight of Grantee Activities	9
RECOMMENDATION	10
AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE	10
Agency Comments.....	10
Office of Inspector General Response	10

APPENDIXES

A – MEMORANDUM WITHDRAWING INTERIM APPROVAL OF THE CDC
ASSISTANCE MANAGEMENT MANUAL

B – AGENCY COMMENTS

GLOSSARY OF ABBREVIATIONS AND ACRONYMS

AAGAM	Awarding Agency Grants Administration Manual
AIDS	acquired immunodeficiency syndrome
CAMM	CDC Assistance Management Manual
CDC	Centers for Disease Control and Prevention
Center	National Center for HIV, STD, and TB Prevention
FFAMIA	Federal Financial Assistance Management Improvement Act of 1993
FY	fiscal year
GMO	grants management officer
GPD	Grants Policy Directive
GPRA	Government Performance and Results Act of 1993
HHS	Department of Health and Human Services
HIV	human immunodeficiency virus
OMB	Office of Management and Budget
PGO	Procurement and Grants Office
PHS	Public Health Service
PO	project officer

INTRODUCTION

BACKGROUND

The Department Has Placed Major Emphasis on Improving Grants Management

The Department of Health and Human Services (HHS) has placed a major emphasis on improving grants management operations. For example, the HHS Office of Grants Management and Policy is developing a system of Grants Policy Directives (GPDs). In addition, HHS is updating the Awarding Agency Grants Administration Manual (AAGAM) for use by operating divisions.

Grants Are a Major Tool in Preventing and Controlling HIV/AIDS

During fiscal years (FYs) 1999 through 2003, the Centers for Disease Control and Prevention (CDC) awarded more than \$2.6 billion in grants for State and local health departments and community-based nonprofit organizations to carry out surveillance, testing, counseling, research, conferences, outcome evaluations, and other activities related to HIV/AIDS.

These grants serve as a major tool in carrying out CDC's mission of "preventing and controlling human immunodeficiency virus (HIV) and acquired immunodeficiency syndrome (AIDS)."

Centers for Disease Control and Prevention Components Share Responsibility for Managing Grants

Within CDC, responsibility for managing HIV/AIDS prevention grants is shared by the Procurement and Grants Office (PGO), an organizational component within the Office of the Director, and the National Center for HIV, STD, and TB Prevention (Center). PGO designates employees to serve as grants management officers (GMOs), who are responsible for the business and administrative aspects of grants management. The Center names employees to serve as project officers (POs), who are responsible for the scientific, technical, and programmatic aspects of grants management operations.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine whether CDC had complied with applicable laws, regulations, and departmental policies in managing HIV/AIDS prevention grants.

Scope

Our audit covered the period October 1, 1998, through September 30, 2003. Because most HIV/AIDS prevention grants are awarded on a 5-year incremental basis, this audit period allowed us to assess CDC's grants management throughout the entire grant cycle.

We limited our review of internal controls to an assessment of policies and procedures set forth in the "CDC Assistance Management Manual" (CAMM) to provide instructions for all CDC employees. We grouped these policies and procedures into major categories, or control focus areas, and then compared the guidance given to CDC employees in each area with the specific requirements established through applicable laws, regulations, and departmental policies. No additional understanding or assessment of management controls was necessary to accomplish our audit objectives.

In addition, we reviewed selected correspondence through October 2004 related to CDC's use of the CAMM to establish policies and procedures for its grants management operations.

We limited our review to CDC's grants management operations within PGO and the Center. We did not audit individual grantees to assess their actual accomplishments or to review their actual use of CDC grant funds. We did not verify the accuracy of program and financial reports that grantees submitted, but accepted the reported data on which CDC relied.

We performed our audit fieldwork from June 2003 through April 2004 at CDC offices in the Atlanta, GA, metropolitan area.

Methodology

We used a judgmental process to select 15 grants to begin our review of PGO and Center files. We selected the 15 grants by type of grantee, in an attempt to ensure an appropriate mix of State and local health departments and community-based nonprofit organizations, and by the geographic location of the grantee, in an attempt to eliminate any potential regional variances.

For each grant year, we reviewed PGO and Center records to determine whether CDC complied with applicable laws, regulations, and departmental policies related to the preaward, award, and postaward phases of grants management.

We considered the Government Performance and Results Act of 1993 (GPRA), the Federal Financial Assistance Management Improvement Act of 1999 (FFAMIA), 45 CFR parts 74 and 92, Public Health Service (PHS) policy statements, and the GPDs. We met with PGO and Center representatives, including GMOs and POs, as necessary to ensure a complete understanding of the overall grants management process at CDC. During these meetings, we discussed our findings regarding CDC's management of the

15 grants included in the audit and also discussed other factors that the representatives believed might have a bearing on the grants.

At the conclusion of our fieldwork, we met with CDC's Chief Operating Officer and Chief Financial Officer to discuss our concerns regarding our reviews of specific grants and our concerns that the CAMM did not provide appropriate guidance for either PGO or Center staff.

We conducted our audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATION

CDC's management of HIV/AIDS prevention grants during FYs 1999 through 2003 did not always comply with applicable laws, regulations, and departmental policies. The PGO and Center records related to 15 grants, including 5 grants to State agencies and 10 grants to community-based organizations, identified widespread deficiencies in the preaward, award, and postaward phases of CDC's grants management operations.

These conditions existed because CDC management had not provided appropriate guidance to employees involved in its grants management operations. The guidance set forth in the CAMM was not always consistent with relevant laws, regulations, and departmental policies.

Given the extent and the significance of deficiencies that we identified with respect to the 15 grants we reviewed, we concluded that CDC could not be assured that its grants management operations provided appropriate direction and oversight for grantees under the HIV/AIDS prevention program. Further, because the CAMM was used throughout CDC, similar deficiencies may also have existed in other grant programs.

Subsequent to our audit fieldwork, CDC officials rescinded the CAMM and adopted the Department's AAGAM.

GUIDANCE FOR EFFECTIVE GRANTS MANAGEMENT

In recent years, Federal laws and regulations have placed increased emphasis on improving grants management operations throughout the Federal Government. For example, the GPRA and the FFAMIA have required agencies to establish clear and measurable objectives for their programs and to measure grantees' progress in meeting those objectives.

To implement these laws within HHS, 45 CFR parts 74 and 92 established guidance for all components. For example, grantees must manage, monitor, and report at least annually on each project, program, function, or activity that an award supports. These reports must compare actual accomplishments with the grant goals and objectives

established for the period and, when appropriate, relate the quantifiable output to the costs of programs or projects.

COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS, AND DEPARTMENTAL POLICIES

Preaward Phase

The preaward process begins when an agency publishes a program announcement on the availability of financial assistance to carry out specified activities. It continues with the preparation of applications by entities requesting funds and the review of applications by the agency (or by external organizations if appropriate) and culminates with the decision on whether to award a grant.

- **CDC Did Not Perform Required Cost Analyses of Grant Applications:** Grant files contained no evidence that CDC personnel had performed required cost analyses of applications for either new or continuation awards to any of the 15 grantees. Instead, most of CDC's documented "cost analyses" were simple restatements of the proposed budgets with a signature.

The GPD 1.04 and chapter 4 of the PHS policy statement require cost analyses to ensure that proposed costs are reasonable, allowable, and allocable in compliance with the applicable cost standards and that the proposed budgets are appropriate for the work to be performed. The PHS policy statement specifies that "A cost analysis involves obtaining cost breakdowns, verifying cost data, evaluating specific elements of cost, and examining data to determine necessity, reasonableness, and allowability of a cost reflected in the grant budget."

CDC's files for the 15 grants in our review showed no evidence of the analysis required above. In fact, records titled as cost analyses on four grants contained, without any explanation, approvals for potentially unallowable indirect costs proposed as direct costs.

- **CDC Did Not Always Analyze Available Data on Potential Grantees:** Grant files contained little or no evidence that CDC staff had reviewed audit reports on organizations applying for HIV/AIDS prevention grants, as required under GPD 3.06, or queried departmental databases to identify auditors' findings and opinions from audits performed in accordance with Office of Management and Budget (OMB) Circular A-133.²

Files for 11 of the 15 grants did not contain an audit report for any of the 5 years in our audit period, or any evidence that the reports had been obtained, and none of the files contained audit reports for every year. Further, 14 of the 15 grant files

²OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

had no evidence that CDC personnel had queried databases that catalogued previous grant awards to identify grantees that had been debarred or placed on special restrictions because of significant operational problems. The 15th file indicated that CDC staff checked the databases for 1 of the 5 years but contained no evidence that they analyzed the data.

If CDC personnel had reviewed A-133 audit reports found at the Federal Audit Clearinghouse, they would have noted that 8 of the 15 grantees were in weak financial positions or had significant management and/or operating deficiencies. Further, they would have noted that a ninth grantee had failed to submit A-133 audit reports for 4 years and could have taken action to obtain the missing reports.

- **CDC Did Not Perform Recipient Capability Audits:** CDC personnel did not perform recipient capability audits on 8 of the 10 grantees whose initial awards from the HIV/AIDS program fell within our 5-year audit period. Although chapter 4 of the PHS grants policy statement requires reviews to assess the financial management capability of potential grantees, CDC personnel told us that they did not have a reliable, consistent method for identifying any previous or current awards to a grantee and often did not know whether a recipient capability audit should be conducted. Recipient capability audits would have given grants management staff an early alert on the findings subsequently identified in A-133 audits performed after CDC's initial grant awards. As discussed above, these audits showed that seven of the eight grantees had weak financial positions or had significant management and/or operating deficiencies, raising serious concern over their ability to properly manage Federal funds and achieve grant objectives.

Award Phase

In the award phase of grants management operations, the agency prepares a Notice of Grant Award defining the objectives and scope of the project to be funded. The Notice of Grant Award also incorporates other critical information such as the dates of the project and each budget period, the amounts of Federal funds authorized and any required matching funds, the name of the grantee officials responsible for performing project activities, and any special conditions considered necessary to protect the Government's interests.

- **CDC Did Not Always Ensure That Grants Were Based on Specific Objectives:** Award documents for 14 of the 15 grants in our sample lacked clear, specific objectives that CDC could use as a basis to assess grantees' accomplishments, as required by the FFAMIA and 45 CFR parts 74 and 92. In fact, CDC's original award documents for 2 of the 14 grants contained no objectives at all because the award documents had not incorporated either CDC's program announcement or the grantees' application for funds.

The objective of one grant, for example, was to evaluate the effectiveness of other grants and to “provide evaluation resources” to assist other grantees in measuring their own effectiveness. However, the grantee could not develop an evaluation protocol acceptable to CDC during the 3-year grant period and was unable to perform an intended study, even though it expended all grant funds. A grantee official stated that the organization never understood what CDC wanted it to do.

Another grant was awarded for an organization to “evaluate and enhance the effectiveness” of an ongoing project designed to “impact risk reduction and healthcare seeking behaviors” and “assess the process that led to the collaborative effort . . . as well as the systems that must be in place in order to implement a theory and skill-based multi-session intervention with a highly mobile population.” The grantee was unable to translate these broad objectives into a coherent plan of action until just before the end of the grant period, but was allowed a time extension to begin its work and use unexpended funds.

- **CDC Did Not Consistently Require Progress Reports:** Two of the 15 grant award documents did not include requirements and deadlines for submission of progress reports that CDC could use to evaluate the grantees’ actual progress in meeting the projects’ goals and objectives, as required by the FFAMIA, 45 CFR parts 74 and 92, and GPD 3.06.
- **CDC Did Not Require Justification for Proposed Indirect Costs:** Four of the 11 organizations that received funding from multiple sources received approval to charge indirect costs, such as space, utilities, telephones, and supplies, as direct costs to the CDC grants, although they had not submitted indirect cost proposals as required under OMB Circulars A-87³ and A-122⁴ or presented any justification for the costs in their grant applications. Additionally, CDC personnel accepted an indirect cost rate that one State health department grantee proposed, although the rate had not been reviewed and approved by the Department’s Division of Cost Allocation as required to ensure that the rates were reasonable.

Postaward Phase

The postaward phase of grants management operations entails monitoring grantees’ operations to assess their level of accomplishments and to identify potential problems or areas where technical assistance or other remedial action may be necessary. The results of this monitoring should be considered when making decisions to continue funding for multiyear grants.

³OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments.

⁴OMB Circular A-122, Cost Principles for Non-Profit Organizations.

- **CDC Awarded Continuation Grants Even Though Grantees Had Not Reported Significant Accomplishments:** CDC awarded continuation grants to all of the 13 organizations with multiyear projects even though the grantees had reported little in the way of actual accomplishments or had failed to report their accomplishments on a timely basis. Although the FFAMIA, 45 CFR parts 74 and 92, and departmental policies all require agencies to evaluate grantees' accomplishments, CDC's grant files contained no evidence that CDC personnel took any action when grantees submitted reports showing few or no accomplishments or when they submitted reports late or not at all.
- **CDC Did Not Require Correction of Grantee Deficiencies:** The grant files showed that technical reviewers had noted significant deficiencies in 10 of the 13 organizations applying for continuation grants, but CDC did not require corrective action as a condition of the awards. The files contained no evidence that CDC personnel asked 5 of the 10 grantees to provide additional information in response to the noted deficiencies. Further, although grant files contained no evidence of any response from four of the five organizations that had been requested to provide additional information, CDC took no additional action.
- **CDC's Technical Reviews Were Often Incomplete or Contradictory:** CDC's files for 3 of the 13 grantees operating multiyear projects showed that continuation grants were awarded for at least some years without any technical review to assess the extent to which grant objectives were being met. In four other instances, the files documented significant contradictions; CDC personnel had recorded observations of serious deficiencies but had subsequently prepared technical review reports stating that the grantees were performing at an acceptable level. Because the files contained no evidence that the noted deficiencies had been corrected, we could not identify any basis for concluding that the grantees' performance was adequate.

Noncompliance Confirmed

The POs responsible for the oversight of HIV/AIDS prevention grants met with us during the audit to review our tentative findings and discuss the conditions cited above. During these meetings, the POs confirmed that many aspects of CDC's grants management operations had not complied with applicable criteria and discussed their actions with respect to some of the grants that we had reviewed. For example:

- One PO who had consistently cited performance deficiencies in technical reports termed a grantee's performance "abysmal" but told us that the PGO had instructed him not to restrict funding on any grants.
- After a long series of reports citing significant performance deficiencies and a lack of accomplishment, another PO wrote a "technical report" reversing earlier citations and stating, "Grantee did a good job in meeting the overall program

objectives.” However, he prepared the report before the end of the full period covered and without any progress report addressing the program objectives. When asked why he performed the inaccurate and unsupported technical review, the PO stated that he was being “efficient.”

- A third PO who had consistently overstated grantees’ accomplishments acknowledged that he had done so because he had no choice but to characterize his grantees’ accomplishments as at least acceptable to keep his project going.

Over and above the specific grants covered in our discussions, POs identified some additional issues that they believed might have contributed to the conditions that we identified. The POs expressed the belief, for example, that a shortage of available and responsive grantees from the AIDS community curtailed their ability to take action against organizations that failed to comply with grant requirements or that reported only limited accomplishments. The POs also expressed their feeling that poor performance was better than no performance at all and that the target population would receive some benefit from the grant funding. While recognizing that CDC had funded some organizations that had significant problems, the POs stated that they wanted to continue funding with the hope that grantee performance would improve.

The POs also confirmed our observation that, in at least some instances, awards were based on the available funding levels rather than on a realistic determination of the amount actually needed to carry out specific functions. When an existing grantee failed to reapply for continuation funds, for example, the previously earmarked funds were simply reallocated among the remaining grantees regardless of specific needs.

Appropriate Guidance Not Provided

These conditions, ranging from the lack of meaningful cost analyses during the preaward phase to the failure to initiate any corrective actions in the postaward phase when grantees failed to accomplish their objectives, existed because CDC management had not provided appropriate guidance to employees involved in grants management operations.

CDC had recognized the need for improved guidance and adopted the CAMM in November 2002 to provide standard policies and procedures for all its employees. However, for the most part, the CAMM simply codified the inadequate grants management practices followed in the past rather than establishing new, effective, and compliant policies and procedures. Guidance for CDC employees set forth in the CAMM was not always consistent with relevant laws, regulations, and departmental policies.

Policies and Procedures in the Manual Not Consistent With Applicable Criteria

We compared the policies and procedures set forth in the CAMM with the laws, regulations, and departmental policies applicable to grants management. This comparison showed that the CAMM did not accurately reflect the applicable criteria in

almost every aspect of preaward, award, and postaward phases of grants management operations.

The extent of deficiencies in the CAMM is illustrated by analysis of guidance provided in relation to some of the deficiencies cited earlier in this report. For example, the CAMM did not require that grants incorporate specific and measurable objectives and stated that assisting potential grantees in developing such goals would normally be appropriate only if needed to ensure an adequate number of viable applications for review. The FFAMIA, however, requires that each Federal agency “in cooperation with recipients of Federal financial assistance, establish specific goals and objectives . . . and measure annual performance in achieving those goals and objectives”

We also noted instances in which provisions of the CAMM appeared to provide the director of PGO with discretion to waive certain statutory rules and departmental policies. For example, the CAMM stated that the director was empowered to waive appropriations restrictions regarding the carryover of unobligated funds. Similarly, the exceptions policy section of the CAMM claimed to give the director power to waive policies established by the Department’s Office of Grants Management and Policy. We found no legal basis authorizing the director of PGO to disregard applicable laws or the directives of departmental officials.

Manual Deficiencies Acknowledged

Subsequent to our audit fieldwork, CDC officials acknowledged that the policies and procedures set forth in the CAMM were not always consistent with relevant laws, regulations, and departmental policies. They rescinded the CAMM and adopted the Department’s AAGAM to provide guidance for PGO and the Center. At the request of CDC, the Department’s Office of Grants Management and Policy withdrew its provisional approval of the CAMM on October 4, 2004. (See Appendix A.)

No Assurance of Adequate Direction and Oversight of Grantee Activities

Given the extent and the significance of deficiencies identified with respect to the 15 grants, we concluded that CDC could not be assured that its grants management operations provided appropriate direction and oversight for the activities of grantees under the HIV/AIDS prevention program. Further, because the CAMM was used throughout CDC, similar deficiencies may also have existed in other grant programs.

During meetings to discuss our audit, CDC representatives recognized that grants management operations could be improved and told us that they were considering a reorganization of grants management operations with respect to State health departments and other entities receiving multiple awards.

RECOMMENDATION

We recommend that CDC continue to monitor its grants management operations to ensure full compliance with relevant laws, regulations, and departmental policies.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

Agency Comments

In formal comments responding to a draft of this report, dated May 12, 2005, CDC recognized the need for more effective grants management and expressed overall concurrence with our recommendation. However, CDC also pointed out that competing priorities and limited resources made it difficult to better document all facets of its grants management operations.

CDC provided detailed comments to clarify some of its responsibilities for grants management and describe current procedures relative to many of the findings discussed in our draft report.

CDC suggested that we revise the “Objective,” “Scope,” and “Methodology” sections of our report to provide additional clarification in three areas:

1. the objectives of eight grants included in our audit, which related to aspects of HIV/AIDS other than prevention;
2. the number of grants reviewed during our audit; and
3. the method of discussing our tentative findings with CDC officials prior to issuance of our draft report.

The agency’s response is included in its entirety as Appendix B.

Office of Inspector General Response

We appreciate CDC’s recognition that its grants management operations could be improved and its concurrence with our recommendation. The decision to rescind the CAMM and adopt the departmental AAGAM in October 2004 demonstrates CDC’s commitment to improved management of its grant programs, which constitute almost 75 percent of its total budget.

Many of the detailed grants management procedures described in CDC’s comments were implemented for grants that were initially awarded after our fieldwork and thus have not been audited. However, the described procedures appear to reflect more comprehensive controls than were documented in the official files for the grants covered in our review.

With respect to CDC's suggestions that we revise the "Objective," "Scope," and "Methodology" sections, we have added a footnote to clarify our use of the term "HIV prevention grants" throughout the report. Because all 15 grants were awarded as HIV prevention grants and the CAMM governed grants management operations for all programs during the period of our audit, no additional clarification is necessary.

Further, regarding the number of grants reviewed during our audit, the "Methodology" section of our report identifies the number of grants reviewed, and we have separately provided a listing identifying each of the grants. CDC's concern was that the number of grants did not lend itself to projection; however, we made no projections.

Similarly, we do not believe that any revision is needed to clarify our discussions of our tentative findings and conclusions with CDC officials during the audit. As cited in our report, we met with PGO and Center representatives throughout our audit and have incorporated some of their comments regarding grants in our review. In addition, we discussed our tentative findings and recommendations with CDC's Chief Operating Officer, who is organizationally responsible for PGO.

APPENDIXES



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

OCT - 4 2004

MEMORANDUM

TO: William Nichols, Acting Director
Procurement and Grants Office, CDC

FROM: Acting Director
Office of Grants Management and Policy

SUBJECT: Use of the Awarding Agency Grants Administration Manual (AAGAM)

The Office of Grants Management and Policy (OGMP) is in receipt of your memo addressing the decision for CDC to use the Awarding Agency Grants Administration Manual (AAGAM) as its implementing grants policy guidance in place of the CDC Assistance Management Manual (CAMM), and agree wholeheartedly. We are, therefore, revoking our previous interim approval (November 6, 2002) of the CDC CAMM..

This mutually agreed upon decision is based on a number of factors including ensuring that grant administration policies and practices are consistent across the Department. The current version of the CAMM is inconsistent with the Awarding Agency Grants Administration Manual (AAGAM) used by most of the other OPDIVs. In addition, establishing the AAGAM as the single source of grants policy guidance will facilitate the Department's implementation of P. L. 106-107 and E-gov streamlining initiatives. Finally, reducing the number of individual OPDIV guidance documents is consistent with one of the Secretary's top priorities--achieving administrative efficiencies by consolidating resources thereby saving time and money.

In areas of inconsistency or conflict between the CAMM and the AAGAM. (i.e. coverage of the Objective Review process) or instances of the CAMM not providing standard terminology or coverage of topics addressed in the AAGAM, we will be happy to provide assistance. We look forward to a collaborative effort as you move forward in implementing the AAGAM.

We commend your efforts in this important area of Grants Streamlining. You are making positive strides towards the Secretary's vision of one HHS as well as the President's Management Agenda.

A handwritten signature in black ink, appearing to read "R. Noonan".

Robert M. Noonan



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Centers for Disease Control
and Prevention (CDC)
Atlanta GA 30333

MAY 12 2005

TO: Joseph E. Vengrin
Deputy Inspector General for Audit Services

FROM: Chief Operating Officer, CDC

SUBJECT: Comments Regarding the Office of Inspector General's (OIG) March 10, 2005,
Draft Report, "Management of HIV/AIDS Prevention Grants by the Centers for
Disease Control and Prevention," (A-04-03-08011)

The Centers for Disease Control and Prevention (CDC) has reviewed the Office of Inspector General's (OIG) draft report "Management of HIV/AIDS Prevention Grants by CDC" (A-04-03-08011), and submits the attached comments regarding the draft for OIG consideration.

CDC recognizes an overarching need to better monitor grants and to better comply with grant administration requirements, and overall concurs with the recommendation contained in the draft report "that CDC continue to monitor its grants management operations to ensure full compliance with relevant laws, regulations, and departmental policies." At the same time, CDC recognizes that competing priorities and restricted resources hamper the ongoing ability to better document all aspects of grant administration.

CDC appreciates the opportunity to review and comment on the draft report. Please direct questions your staff may have regarding the comments to Jerry Shingleton, CDC's Procurement and Grants Office (PGO), at (770) 488-2713, or to David Hale, CDC's National Center for HIV, Sexually Transmitted Diseases, and Tuberculosis Prevention (NCHSTP).

A handwritten signature in blue ink that reads "W. Gimson".

William H. Gimson, M.B.A.

Attachment

**Comments of the Centers for Disease Control and Prevention (CDC) on the
Office of Inspector General's (OIG) Draft Report
"Management of HIV/AIDS Prevention Grants by CDC" (A-04-03-08011)**

Page 4 - CDC did not perform required cost analysis of grant applications.

Cost analysis occurs during the technical review and in preparing for and conducting the budget negotiations. The documentation typically resulting from these activities includes the technical report and a marked-up budget. There is no required format for documenting cost analysis. Program project officers conduct the initial cost analysis on budgets submitted by applicants and grantees. From a program perspective, a project officer is more aware of the actual costs of conducting proposed project activities (e.g. staff, specialized equipment, guideline documents, training, insurance, supplies, evaluation and behavioral consultants). Upon completion of the technical analysis, a project officer submits the marked-up budgets to a grant specialist. The grant specialist conducts analysis to ensure that costs are allowable, allocable, and compliant with applicable cost standards. Frequently, the project officer has already adjusted or redirected costs to another budget line item before the grant specialist reviews the budget which then requires grant specialist concurrence and approval.

Page 4 - CDC did not always analyze available data on potential grantees.

An extensive system of processes related to OMB Circular A-133 audits exists. Those processes are not performed by the grant specialist, nor is documentation of those processes in the grant files. The Federal Audit Clearinghouse is responsible for receiving audit reports, and the OIG's National External Audit Review Center is responsible for reviewing report quality and identifying findings. PGO's Oversight and Evaluation Team is responsible for resolving audit findings, following up on delinquent audits under the Departmental follow-up project. That team is also responsible for identifying high-risk grantees for placement on the Departmental Alert List. Although not primarily responsible for any of these processes, the grant specialist may interact with responsible officials. In addition, A-133 audits are not always required as is the case with grantees that have annual grant expenditures below the A-133 audit threshold of \$500,000.

Page 5 - CDC did not perform recipient capability audits.

Not every potential new grant recipient undergoes a Recipient Capability Assessment (RCA), and budget limitations preclude the ability to conduct a RCA of all potential new grant recipients. An RCA is one of many tools that can be used to assess the capability of a potential new grant recipient. PGO reviews the Departmental Alert List for applicant organizations that may be listed. Program staff conduct pre-decisional site visits with applicant organizations which have not been funded by CDC in the past and whose applications have been successful in the first step of the evaluation process. PGO conducts an RCA on applicants that have not received grant funding in the past, have not managed grant funds recently, or have experienced financial management issues while funded under prior grants. RCAs are used to examine organizations' audits and fiscal and financial management capacity. PGO conducts a process to specifically

identify those applicant organizations that need an RCA. Findings from both an RCA and a pre-decisional site visit are used to determine whether the organization should be funded, or if it should receive restriction terms such as manual draw-down.

Page 5 - CDC did not always ensure that grants were based on specific objectives.

Prior to fiscal year (FY) 2002, performance measures were not listed in Program Announcements/Request for Applications (PA/RFA). However, the PA/RFAs specified the program purpose, goals, and objectives. Grantees were required to list proposed project objectives in their applications and report accomplishments toward achieving these objectives in progress reports. In response to the President's Management Agenda, which lists five government-wide initiatives for improving government performance, CDC began in FY 2002 to identify high-quality outcome measures to more accurately monitor the performance of programs. CDC began including performance measures into all new grants and cooperative agreements as a term and condition of the award. This new requirement is consistent with Performance-Based contracting initiatives. As such, PA/RFA templates were revised to include the following language:

“Measurable outcomes of the program will be in alignment with one (or more) of the following performance goals (s) for the [INSERT CIO name]; [INSERT GPRA goal(s)]. To find your CIO's GPRA goals, see the published CDC Performance Plan on the Office of Program Planning and Evaluation (OPPE) web page: <http://www.cdc.gov/od/perfplan/INdex.htm>”

and

“Applicants are required to provide measures of effectiveness that will demonstrate the accomplishment of the various identified objectives of the [INSERT grant or cooperative agreement]. Measures of effectiveness must relate to the performance goals stated in the “Purpose” section of this announcement. Measures must be objective and quantitative, and must measure the intended outcome. These measures of effectiveness must be submitted with the application and will be an element of evaluation.”

Performance information is used to identify program progress, including high-performing programs and programs that may need to be reformed or terminated. In addition, grantees are now required to address progress toward achieving the measurable outcomes of the performance goals specified in the announcement and discuss measures of effectiveness in progress reports.

Page 5 - CDC did not consistently require progress reports.

Grants require grantees to submit quarterly, biannual, or annual reports on progress toward achieving project objectives specified in their applications and accepted by CDC. The frequency of reporting is influenced by several factors: the nature of the project, the grantee's experience in conducting the activities, and the need to obtain information to make program adjustments in a timely manner. In FY 2002, PGO asked program staff to reduce the frequency of quarterly reporting in order to reduce the burden of grantees preparing numerous reports. The frequency of reporting was reduced for many programs by requiring grantees to submit only annual and final reports, and not quarterly reports.

Page 6 - CDC did not require justification for proposed indirect costs.

Grant specialists have no control over the issuance of indirect cost rate agreements by the HHS Division of Cost Allocation. The Division of Cost Allocation, not the grant specialist, is responsible for evaluating proposed indirect cost rates and negotiating indirect cost rate agreements with grantees. The indirect cost rates used in grants are subject to audits and adjustments during the life of the grant via the negotiation of new rate agreements. In addition, indirect costs are subject to adjustment at the time of grant closeout and even after closeout in special circumstances.

Page 6 - CDC awarded continuation grants even though grantees had not reported significant accomplishments.

Standard operating procedures and protocols are in place to ensure that program staff:

- Continuously and properly monitor project activities;
- Accurately track submission of progress reports from grantees;
- Properly complete technical review, site visit, and other reports on grantee activities; and
- Properly transmit documents to PGO for inclusion in grant files.

Project officers receive periodic training and updates to ensure consistency and continuity regarding grants monitoring and oversight activities. In addition, PGO has provided the following guidance:

- PGO and program staff should not delay assessments of continuation awards to grantees in order to cite 'no performance' or 'poor performance' as reasons to restrict funding. Further, inadequate performance issues should be addressed by program staff as they occur during the budget period.
- Grantee funds should not be restricted pending corrective actions grantees should take in response to deficiencies noted in the technical review and site visit reports which are completed by project officers on applications and following site visits, respectively. Program and PGO staff should follow up in a timely fashion with grantees to obtain documented responses to recommendations and deficiencies noted in technical review and site visit reports as early as possible in the budget period.
- PGO and program staff cannot take punitive or corrective actions against grantees who are non-compliant in the conduct of program activities in the absence of sufficient documentation. This documentation must be transmitted to PGO for inclusion in the grant file.

Page 9 - Recommendation.

CDC concurs with the recommendation to continue to monitor grant operations, and is currently doing so. Corrective action in response to the findings regarding the CDC Assistance Management Manual (CAMM) was precluded by PGO rescinding the CAMM.

Audit objective, scope and methodology.

The audit objective needs clarification as only 7 of the 15 grants audited were HIV prevention grants (e.g. HIV prevention at community based organizations or states). The remaining eight grants consist of five grants in HIV areas other than prevention (e.g. HIV demonstration, research, education, and surveillance) and three grants in sexually transmitted diseases.

The grant sample needs clarification because the sample size was reduced during the audit from 100 to 15 grants. In addition, the judgmental sample does not lend itself to projection of results.

The method of discussing findings with CDC officials needs clarification. No exit conference was held prior to issuance of the draft report, and the National Center for HIV, STD, and TB Prevention and PGO officials felt that potential findings were not adequately discussed.