



JUL 7 2003

Office of Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203
(617) 565-2684

Report Number: A-01-03-01500

Mr. Rudy Feudo, Ph.D.
Executive Director
Greater Bridgeport Adolescent Pregnancy Program
200 Mill Hill Avenue
Bridgeport, CT 06610

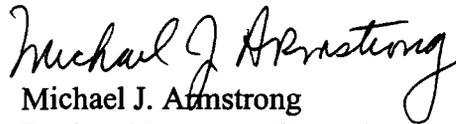
Dear Mr. Feudo:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services' (OAS) report entitled "Audit of HIV/AIDS Activities at the Greater Bridgeport Adolescent Pregnancy Program for the Period October 1, 2000 through June 30, 2002." A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), OIG, OAS reports issued to Department's grantees and contractors are made available to members of the press and general public to the extent information therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5). To facilitate identification, please refer to Report Number A-01-03-01500 in all correspondence relating to this report.

Sincerely yours,


Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosures – As stated

Direct Reply to HHS Action Official

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

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF HIV/AIDS ACTIVITIES AT
THE GREATER BRIDGEPORT ADOLESCENT
PREGNANCY PROGRAM
FOR THE PERIOD
OCTOBER 1, 2000 THROUGH JUNE 30, 2002**



July 2003
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Office of Inspector General

<http://oig.hhs.gov>

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In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.





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Region I
John F. Kennedy Federal Building
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Report Number: A-01-03-01500

Rudy Feudo, Ph.D.
Executive Director
Greater Bridgeport Adolescent Pregnancy Program
200 Mill Hill Avenue
Bridgeport, CT 06610

Dear Dr. Feudo:

This final report presents the results of our self-initiated audit at the Greater Bridgeport Adolescent Pregnancy Program (GBAPP), located in Bridgeport, Connecticut. This audit was performed as part of a nationwide Office of Inspector General review of HIV/AIDS-related programs and grantees of the Centers for Disease Control and Prevention (CDC). The objectives of our audit were to determine whether the GBAPP: (1) met grant performance expectations during the period October 1, 2000 through June 30, 2002 for a grant funded by CDC; and (2) spent CDC funding in accordance with federal guidelines.

The GBAPP had generally met its overall performance expectations by conducting intensive street outreach to over 560 clients and recruiting over 200 clients into counseling and testing programs.

However, the GBAPP needs to improve its financial management system to ensure grant funds are used for their intended purposes. Specifically, we found that the GBAPP:

- Charged the CDC grant for personnel costs that it could not support because it had not developed a system for allocating salaries and wages to federal grants and contracts based on personnel activity reports, as required by federal guidelines. As a result, grant expenditure reports were overstated by \$45,227.
- Could not provide documentation or a rationale to support selected costs benefiting more than one project, including program materials, rent, lease payments, office supplies, and local mileage reimbursement. This occurred because the GBAPP had not established a system, as required by federal guidelines, for allocating costs used by more than one project. As a result, the GBAPP cannot ensure that jointly used costs were allocated to the CDC grant in reasonable proportion to the benefits received.

During the course of our review, GBAPP officials advised us that they are aware that improvements to their financial management system are necessary and had already begun corrective action. However, we believe additional steps are necessary to ensure costs are charged to federal grants in reasonable proportion to the benefits received.

We recommend that the GBAPP:

- 1) Continue its efforts to strengthen its financial management system by: 1) fully implementing its revised time and effort reporting system requiring all employees working on sponsored projects to indicate on their time sheet the percentage of effort spent on each federal award; and 2) establishing written policies and procedures for allocating costs benefiting more than one project in compliance with federal guidelines.
- 2) Reimburse CDC for the unsupported personnel costs, which total \$45,227; however, because actual grant expenditures exceeded the grant award by \$4,139 (\$489 in fiscal year (FY) 2001 and \$3,650 in FY 2002), we've adjusted the amount recommended for reimbursement to \$41,088.

In its June 2, 2003 response to our draft report, GBAPP concurred with our finding and recommendation that it strengthen its financial management system; however, it maintains that personnel costs charged to the CDC grants were appropriate.

INTRODUCTION

BACKGROUND

The Greater Bridgeport Adolescent Pregnancy Program

The GBAPP is a comprehensive, regional, and coordinating organization created in 1980 as a public/private partnership to address the serious problem of adolescent pregnancy in the greater Bridgeport area. The mission of GBAPP was broadened in 1992 to include issues related to the prevention and early intervention of HIV/AIDS among youth, women, and children. The GBAPP seeks to achieve its mission through direct service delivery, coordination of services, education, resource development, training, and advocacy.

HIV/AIDS Funding at GBAPP

For the FY ending June 30, 2002, the GBAPP had over \$1.7 million in expenditures charged to federal awards for HIV/AIDS programs funded by CDC, the Substance Abuse and Mental Health Services Administration, and the Health Resources and Services Administration. The GBAPP received direct funding from CDC, the subject of this review, in the amount of \$246,809 for FY ending September 30, 2001 and \$211,107 for FY ending June 30, 2002. CDC provided these funds to GBAPP under a program entitled "Community-Based Strategies to Increase HIV Testing of Persons At High Risk In Communities of Color." With these funds, GBAPP supports its Sisters and Brothers Prevention Project.

The Sisters and Brothers Prevention Project

The goal of the GBAPP's Sisters and Brothers Prevention Project is to increase the number of high-risk persons who receive HIV counseling, testing, and referral services among racial/ethnic minority adolescents and young adults ages 13 – 24 in Bridgeport, Connecticut. The program works closely with local and state health departments and the existing network of providers.

Federal Financial Guidelines

The standards and administrative requirements for financial management systems for nonprofit organizations are contained in Office of Management and Budget (OMB) Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*; cost principles are found in OMB Circular A-122 *Cost Principles for Non-Profit Organizations*, and program guidance is published by CDC.

Federal guidelines require recipients of federal grants and contracts to establish financial management systems that provide for:

- Records that identify adequately the source and application of funds for federally-sponsored activities, and
- Written policies regarding the reasonableness, allocability, and allowability of costs.

To be allowable under an award, costs must meet the following general criteria:

- Be reasonable and allocable for the performance of the award,
- Conform to any limitations or exclusions set forth in the cost principles or in the award as to types or amount of cost items, and
- Be adequately documented.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objectives

Our audit objectives were to determine whether the GBAPP: (1) met grant performance expectations during the period October 1, 2000 through June 30, 2002 for a grant funded by the CDC; and (2) spent CDC funds in accordance with federal guidelines.

Scope

We reviewed costs charged to the GBAPP's Sisters and Brothers Prevention Project, funded by CDC, during the period October 1, 2000 through June 30, 2002.

Methodology

To accomplish our objectives, we:

- Reviewed grant progress reports, internal reviews, and evaluations conducted by CDC to determine whether the GBAPP was achieving grant objectives.
- Reviewed all salaries and wages charged to the grant during FYs 2001 (\$153,940) and 2002 (\$118,111).

- Reconciled salaries and wages to payroll records and determined whether the charges were supported by time and effort reports.
- Reviewed a judgmentally selected sample of 14 other direct cost transactions totaling \$13,219 for FY 2001 and 12 totaling \$31,874 for FY 2002.
- Assessed GBAPP's internal controls related to its financial management systems.
- Interviewed GBAPP officials and reviewed applicable supporting documentation to determine whether the selected costs were reasonable, allowable and allocable.

We performed our field work at the GBAPP in Bridgeport, Connecticut and OIG offices in Boston, Massachusetts during the period December 2002 through February 2003. We conducted our audit in accordance with generally accepted government auditing standards. On May 12, 2003, we provided the GBAPP with a copy of a draft report. The GBAPP's written comments are summarized in the Findings and Recommendations section of this report and also attached as an appendix.

FINDINGS AND RECOMMENDATIONS

The GBAPP had generally met its overall performance expectations by conducting intensive street outreach to over 560 clients and recruiting over 200 clients into counseling and testing programs.

However, the GBAPP needs to improve its financial management system to ensure grant funds are used for their intended purposes. Specifically, we found that the GBAPP:

- Charged the CDC grant for personnel costs that it could not support because it had not developed a system for allocating salaries and wages to federal grants and contracts based on personnel activity reports, as required by federal guidelines. As a result, grant expenditure reports were overstated by \$45,227.
- Could not provide documentation or a rationale to support selected costs benefiting more than one project, including program materials, rent, lease payments, office supplies, and local mileage reimbursement. This occurred because the GBAPP had not established a system, as required by federal guidelines, for allocating costs used by more than one project. As a result, the GBAPP cannot ensure that jointly used costs were allocated to the CDC grant in reasonable proportion to the benefits received.

During the course of our audit, GBAPP officials advised us that they are aware that improvements to their financial management system are necessary and had already begun corrective action. However, we believe additional steps are necessary to ensure costs are charged to federal grants in reasonable proportion to the benefits received.

THE GBAPP GENERALLY MET ITS PERFORMANCE EXPECTATIONS UNDER THE CDC GRANT

We determined that the GBAPP is making progress toward achieving grant objectives. Our review of quarterly reports submitted by the GBAPP for FYs 2001 and 2002, as well as CDC's technical reviews of the project, disclosed that in FY 2002 the GBAPP conducted intensive street outreach in high-risk areas and reached over 560 clients. In addition, over 200 clients were successfully recruited into counseling and testing. All clients who tested positive for HIV/AIDS were referred to appropriate services.

In its technical review, the CDC stated that the GBAPP developed an action plan to restructure objectives. It also noted the GBAPP made progress in: 1) providing individuals client-centered prevention counseling, testing, and referral services; 2) following up with clients who did not return to GBAPP to inquire about test results or to receive post-test counseling; and 3) gathering information on clients' activities and providing that information to the appropriate health department and CDC.

GBAPP DID NOT HAVE DOCUMENTATION TO SUPPORT ADDITIONAL PERSONNEL COSTS CHARGED TO THE CDC GRANT

The GBAPP charged the CDC grant \$181,775 in personnel costs (salaries, wages, and fringe benefits) during FY 2001 and \$145,995 during FY 2002. Our review disclosed that the GBAPP did not have supporting documentation for personnel costs totaling \$33,432 in FY 2001 and \$11,794 in FY 2002. As discussed below, the unsupported costs pertain to GBAPP charging the grant for: 1) a higher percentage of employee effort than was originally budgeted; and 2) personnel costs of employees assigned to other projects.

- The GBAPP charged the grant for personnel costs of two employees based on a higher percentage of effort than originally budgeted during FY 2001 and for one employee during FY 2002. Specifically, the GBAPP's applications for funding for 2001 and 2002 included personnel costs of the Executive Director based on a 20 percent level of effort and Project Coordinator based on a 50 percent level of effort. However, the GBAPP charged the grant for the Executive Director's personnel costs based on a 30 percent level of effort for 13 biweekly pay periods during FY 2001 and 8 pay periods during FY 2002. In addition, during 2002, the GBAPP allocated 45 percent of the Executive Director's bonus to the grant. The GBAPP also charged personnel costs of the Project Coordinator based on a 60 percent level of effort, rather than the budgeted 50 percent, for 11 pay periods during FY 2001. The GBAPP officials stated these individuals spent more time than anticipated on the grant. However, we were unable to substantiate their explanation.
- The GBAPP charged the grant for additional personnel costs applicable to employees (five employees in FY 2001 and two employees in FY 2002) not assigned to the CDC grant without any supporting documentation, and charged the grant for payroll taxes pertaining to 3 additional employees who were not assigned to the grant. Documentation provided by the GBAPP indicates that those individuals were assigned to other projects. The GBAPP officials stated that those individuals who were assigned to other projects often assisted less experienced employees working on various projects.

For each concern detailed above, the GBAPP did not provide any documentation justifying the charging of personnel costs to the grant at higher levels of effort than originally budgeted.

OMB Guidance Requires Costs to be Adequately Documented

The OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, states that, to be allowable, costs must be adequately documented. With regard to personnel, charges must be based on documented payrolls and the distribution of such costs must be supported by personnel activity reports. Specifically, OMB Circular A-122, Attachment B, Section 7(m) states:

*...The reports must reflect an after-the-fact determination of the actual activity of each employee. **Budget estimates...do not qualify as support** ...The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee...The reports must be prepared at least monthly...*

GBAPP Had Not Established a System for Allocating Personnel Costs

For the period under audit, the GBAPP had not established a system for allocating personnel costs to federal grants based on after-the-fact activity reports certifying employees' level of effort on federal grants. The GBAPP officials advised us that they are aware improvements to their financial management system are necessary and had already begun corrective action prior to our audit. In this regard, the GBAPP officials provided us with revised policies for documenting employees' time and effort. Those policies (effective April 1, 2003) require individuals, whose salaries are supported by multiple sources, to indicate the percentage of effort related to each source. Although we have not tested the revised system, it appears to be in compliance with OMB Circular A-122. While we commend the GBAPP for its efforts to improve its financial management system and acknowledge that some improvements in the allocation of personnel costs from 2001 to 2002 have been made, we believe additional steps are necessary to ensure that Federal grants and contracts pay only their fair share of program expenses.

GBAPP Cannot Ensure Charges for Personnel Were Based on Employees' Actual Activity

The GBAPP cannot ensure that the unsupported salaries, wages, and related fringe benefits totaling \$45,227 (\$33,432 for FY 2001 and \$11,795 for FY 2002) charged to the CDC grant were based on employees' actual activity. We also noted the GBAPP's actual program expenditures related to the CDC grant exceeded the grant award amount for the two years reviewed by \$4,139 (\$489 for the period ending September 30, 2001 and \$3,650 for the period ending June 30, 2002); resulting in net unsupported costs of \$41,088.

Recommendation:

We recommend that the GBAPP:

- 1) Continue the implementation of its effort reporting system and monitor all personnel expenses charged to grants to ensure charges are based on actual grant activity.

2) Reimburse CDC for the unsupported personnel costs which total \$45,227; however, because actual grant expenditures exceeded the grant award by \$4,139 (\$489 in FY 2001 and \$3,650 in FY 2002), we've adjusted the amount recommended for reimbursement to \$41,088.

GBAPP Response

The GBAPP admits that additional improvements are necessary to ensure that personnel costs are charged to federal grants based on actual activity levels; nonetheless GBAPP believes that, based on the system used during the audit period, the personnel costs charged to CDC were appropriate. The GBAPP asserts that as a result of implementing a new employee time sheet and other allocation procedures, GBAPP's personnel charges would now comply with federal guidelines requiring documentation supporting the actual activity levels for personnel costs. Further, GBAPP indicated that it would continue to refine the implementation of its reporting system and monitor all personnel expenses charged to grants to ensure charges are based on actual grant activity.

Additional OAS Comments

Although GBAPP believes the personnel costs were charged appropriately, the GBAPP did not provide documentation supporting its claim that personnel devoted higher levels of effort to the CDC grant than originally budgeted.

GBAPP DID NOT ALLOCATE COSTS USED BY MORE THAN ONE PROJECT IN ACCORDANCE WITH OMB CIRCULAR A-122

The GBAPP's allocation of jointly used costs to the CDC grant was not in compliance with OMB Circular A-122. In this respect, the GBAPP could not provide documentation or a rationale to support its allocation of costs benefiting more than one project, including costs for program materials, rent, lease payments, office supplies, and local mileage reimbursement. While the CDC grant was charged less than the total cost of each item, the GBAPP could not demonstrate that the charges were reasonable and in proportion to the benefits received.

The GBAPP officials stated the items in question were used by numerous projects funded by various sources. In addition, the GBAPP officials noted that jointly used costs are only allocated to the benefiting projects. However, they acknowledged that these costs are not allocated according to an established written policy and in accordance with OMB Circular A-122.

OMB Guidance Requires Grantees to Allocate Jointly Used Costs To Benefiting Projects in Proportion To The Benefits Received

The OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, states:

“A cost is allocable to a...cost objective, such as a grant, contract...or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: is incurred specifically for the award...benefits both the award and other work and can be distributed in reasonable proportion to benefits received...”

Further, regarding indirect costs, OMB Circular A-122 states:

“...joint costs, such as depreciation, rental costs, operations and maintenance...and the like are prorated... as direct costs...to each activity using a base most appropriate to the particular cost...This method is acceptable, provided each joint cost is prorated using a base which accurately measures the benefits provided to each award or activity...”

GBAPP Did Not Have Policies For Allocating Costs Used by More Than One Project

The GBAPP officials apprised us that they had not yet developed written policies and procedures for allocating jointly used costs. Further, the GBAPP did not properly monitor the allocations of jointly used costs to ensure that each project paid only its fair share of such costs.

GBAPP Cannot Ensure That Jointly Used Costs Were Allocated In Reasonable Proportion to the Benefits Received

Without a system for allocating jointly used costs, there is a risk that CDC, as well as other federal awarding agencies, paid for more than their fair share of those costs.

Recommendations

We recommend that the GBAPP establish written policies and procedures for allocating costs benefiting more than one project in compliance with Federal guidelines.

GBAPP Response

The GBAPP admits that additional financial management system improvements are necessary to ensure that costs are charged to federal grants in reasonable proportion to the benefits received. The GBAPP asserts that as a result of implementing new procedures for documenting cost allocations it will now meet the requirements contained in the federal guidelines.

We appreciate the courtesy and cooperation extended to our audit team by GBAPP management and staff during the course of the audit.

Sincerely,



Michael J. Armstrong
Regional Inspector General
for Audit Service

APPENDIX

**THE GREATER BRIDGEPORT ADOLESCENT PREGNANCY PROGRAM, INC.**

200 Mill Hill Avenue, Bridgeport, CT 06610

(203) 384-3629 / Fax (203) 384-4034

Robyn Oliver*Chairman of the Board***Rudy Feudo, PhD***President/Executive Director*

June 2, 2003

Mr. Michael J. Armstrong
Department of Health & Human Services
Office of Inspector General
Regional Inspector General for Audit Services
Office of Audited Services, Region I
John F. Kennedy Federal Building
Boston, MA. 02203

Dear Mr. Armstrong:

I am writing in response to the Office of Audit Services report entitled, "Audit of HIV/AIDS Activities at the Greater Bridgeport Adolescent Pregnancy Program for the Period October 1, 2000 through June 30, 2002."

We are pleased that the audit conducted by your office found that the Greater Bridgeport Adolescent Pregnancy Program (GBAPP) generally met its overall performance expectations under the period of October 1, 2000 through June 30, 2002 for a grant funded by CDC. With respect to the findings related to allocation of personnel and other program costs, we have a brief response:

- Although GBAPP began improvements to its financial management system and had already begun corrective action prior to the audit, we admit that additional improvements need to be made to ensure that costs are charged to federal grants in reasonable proportion to the benefits received. A new employee time sheet reflecting specific employee time and effort was implemented on April 1, 2003 upon recommendations of your auditors. As a result of this change and other allocations procedures, GBAPP will now be able to supply documentation for the allocation of personnel and other costs to the proper funding sources as required by federal regulations. GBAPP will continue to refine the implementation of its reporting system and monitor all personnel expenses charged to grants to ensure charges are based on actual grant activity.

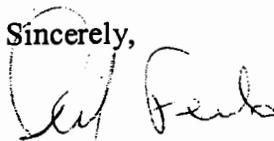
- Although GBAPP did not have a documented system in place during the audit, GBAPP to the best of its ability did try to allocate costs used by more than one project in accordance with OMB Circular A-122 and therefore GBAPP believes that costs charged to the CDC were based on employees' actual activity. In conclusion, GBAPP believes it did expense all costs from CDC appropriately, even though it was not supported according to OMB Circular-122.

Please let us know when the final report is issued.

Finally, we would like to make known our appreciation to Steve Sawyer and his staff for their professionalism in conducting the audit at GBAPP. They made a stressful situation for my staff and me a little easier.

Please do not hesitate to contact me at 203-384-3629 if you have any questions.

Sincerely,



Rudy Feudo, PhD
Executive Director