



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General  
Office of Audit Services  
REGION IV  
61 Forsyth Street, S.W., Room 3T41  
Atlanta, Georgia 30303-8909

JUN 12 2006

Memorandum

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

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

**Subject:** Audit of Selected Procurements Under Contract 200-2005-11533  
With Merck Vaccine Division (Report Number A-04-06-01025)

The attached final report discusses our audit of selected procurements under Centers for Disease Control and Prevention (CDC) contract 200-2005-11533 with Merck Vaccine Division. We performed this audit as part of the Inspector General's broad evaluation of procurements by CDC and other components of the Department of Health and Human Services (HHS) during relief operations in response to Hurricanes Katrina and Rita.

Our objectives were to determine whether CDC:

1. complied with applicable parts of the Federal Acquisition Regulation (FAR) while making the involved procurements and
2. accurately computed amounts claimed for reimbursement from the Federal Emergency Management Agency (FEMA) based on the actual costs incurred.

We found that CDC complied with applicable parts of the FAR while issuing delivery orders to Merck Vaccine Division for emergency shipments of vaccines to the Louisiana Department of Health and Hospitals and the Mississippi Department of Health. Further, CDC's claims for reimbursement from FEMA, totaling \$2,270,300 accurately reflected the costs actually incurred as evidenced by vendor invoices.

As the report contains no recommendations, no response is necessary. However, if you have any questions or comments about the report, please do not hesitate to call me, or have your staff contact Jeff Bullock, Audit Manager, by telephone at (404) 562-7761 or by e-mail at [jeff.bullock@oig.hhs.gov](mailto:jeff.bullock@oig.hhs.gov). To facilitate identification, please refer to report number A-04-06-01025 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF SELECTED  
PROCUREMENTS BY  
CENTERS FOR DISEASE  
CONTROL AND PREVENTION  
UNDER CONTRACT  
200-2005-11533 MERCK  
VACCINE DIVISION**



Daniel R. Levinson  
Inspector General

June 2006  
A-04-06-01025

# ***Office of Inspector General***

<http://oig.hhs.gov>

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

## ***Office of Audit Services***

The Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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# *Notices*

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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.





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**BACKGROUND**

CDC awarded contract 200-2005-11533, which became effective April 1, 2005, to Merck Vaccine Division. The purpose of this indefinite delivery, indefinite quantity contract was to establish unit prices and terms for subsequent purchases of certain vaccines for delivery to State and local health departments as directed by CDC.

As part of the Federal Government's relief operations in response to Hurricane Katrina, CDC issued three delivery orders under contract 200-2005-11533 for emergency shipments of vaccines to the Louisiana Department of Health and Hospitals and the Mississippi Department of Health.

Task Order <u>Number</u>	<u>Date</u>	<u>Amount</u>
0002	September 10, 2005	\$ 829,300 <sup>1</sup>
0003	September 16, 2005	<u>1,441,000</u>
Total		<u>\$2,270,300</u>

Because CDC made its procurements in response to formal requests (mission assignments) from the Federal Emergency Management Agency (FEMA), costs incurred by CDC for the delivery orders were reimbursable from FEMA.

<sup>1</sup>Delivery order 0001 was authorized in the amount of \$850,500 for Hepatitis A Pediatric Vaccine, but was canceled in its entirety via Mod 00001 dated September 19, 2005.

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

### **OBJECTIVES**

Our objectives were to determine whether CDC:

1. complied with applicable parts of the Federal Acquisition Regulation (FAR) while making the involved procurements and
2. accurately computed amounts charged to FEMA based on the actual costs incurred.

### **SCOPE**

We performed our audit fieldwork at CDC's Procurement and Grants Office (PGO) and Financial Management Office (FMO) in Atlanta, Georgia from January through April 2006.

We limited our work at PGO to the three delivery orders issued to Merck Vaccine Division under contract 200-2005-11533. We did not perform an assessment of the overall internal control environment at PGO or an evaluation of their overall compliance with the FAR during normal procurement activities.

Similarly, we limited our work at FMO to accounting and financial management activities related to the three delivery orders. We did not assess the overall internal control environment at FMO or evaluate their overall compliance with all applicable laws, regulations, and departmental policies.

We used part 15 of the FAR as criteria in evaluating the actions PGO took during the procurement process.

### **METHODOLOGY**

To accomplish our audit objectives, we met with CDC's Contracting Officer and Project Officer to ensure we understood the actions PGO took during the procurement process and the basis for those actions.

Within PGO, we examined the records of negotiation and other documents related to the award of the Merck Vaccine Division contract to establish whether the Contracting Officer required cost or pricing data or based the award on exemptions specified in the FAR parts 15.403-1 and 15.403-2. We also reviewed documentation related to the mission assignments from FEMA and to the delivery orders issued to carry out those assignments. We examined shipping records, inventory records, and other documents related to the procurements.

Within FMO, we met with employees to gain an understanding of the methods used to account for hurricane-related costs and the methods used to determine the amounts to be claimed for reimbursement from FEMA. We reviewed accounting records related to CDC's payments to Merck Vaccine Division and CDC's claims for reimbursement from FEMA.

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

### **RESULTS OF AUDIT**

CDC complied with applicable parts of the FAR while issuing the three delivery orders to Merck Vaccine Division for emergency deliveries of vaccines to the Louisiana Department of Health and Hospitals and the Mississippi Department of Health. Further, CDC's claims for reimbursement from FEMA, totaling \$2,270,300, accurately reflected the costs actually incurred as evidenced by vendor invoices.

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Our reviews of procurements by CDC and other HHS components are being conducted in conjunction with the President's Council on Integrity and Efficiency (PCIE) as part of its examination of relief efforts provided by the Federal Government in the aftermath of Hurricane Katrina. Accordingly, we will forward a copy of this report to the PCIE Homeland Security Working Group, which is coordinating Inspectors General audits of these relief efforts.

To facilitate identification, please refer to report number A-04-06-01025 in all correspondence. Direct inquiries concerning this report to Jeff Bullock, Audit Manager, at (404) 562-7761 or through e-mail at [jeff.bullock@oig.hhs.gov](mailto:jeff.bullock@oig.hhs.gov).