



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General  
Office of Audit Services

SEP 15 2008

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

Report Number: A-04-07-01047

Donald E. Williamson, M.D.  
State Health Officer  
Alabama Department of Public Health  
RSA Tower, Suite 1552, Monroe Street  
P.O. Box 303017  
Montgomery, Alabama 36130 – 3017

Dear Dr. Williamson:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled “Allowability of Costs Claimed for Reimbursement Under Alabama’s Bioterrorism and Emergency Preparedness Programs for the Period August 31, 2004, Through August 30, 2006.” We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, the final report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact John T. Drake, Audit Manager, at (404) 562-7755 or through e-mail at [John.Drake@oig.hhs.gov](mailto:John.Drake@oig.hhs.gov). Please refer to report number A-04-07-01047 in all correspondence.

Sincerely,

Peter J. Barbera  
Regional Inspector General  
for Audit Services

Enclosure

Page 2 – Donald E. Williamson, M.D.

**Direct Reply to HHS Action Official:**

Gary Teague, Acquisition & Assistance Analyst  
Office of Policy, Oversight, and Evaluation  
Centers for Disease Control and Prevention  
Procurement and Grants Office (MS E-14)  
2920 Brandywine Road, Room 1122  
Atlanta, Georgia 30341

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**ALLOWABILITY OF COSTS  
CLAIMED FOR REIMBURSEMENT  
UNDER ALABAMA'S  
BIOTERRORISM AND  
EMERGENCY PREPAREDNESS  
PROGRAMS FOR THE PERIOD  
AUGUST 31, 2004, THROUGH  
AUGUST 30, 2006**



Daniel R. Levinson  
Inspector General

September 2008  
A-04-07-01047

# ***Office of Inspector General***

<http://oig.hhs.gov>

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Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

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

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Under sections 301, 317, and 319 of the Public Health Service Act, the Centers for Disease Control and Prevention (CDC) provides funds to State and major local health departments to improve preparedness and response capabilities for bioterrorism and other public health emergencies. From August 31, 1999, to August 30, 2005, CDC provided this funding through the Public Health Preparedness and Response for Bioterrorism Program. Since August 31, 2005, CDC has provided funding through the Public Health Emergency Preparedness Program. We refer to these two programs collectively as “the Program.”

In Alabama, the Department of Public Health (the State agency), administers the Program. For the period August 31, 2004, through August 30, 2006, the State agency claimed program reimbursement totaling \$31.5 million.

### **OBJECTIVE**

The objective of our audit was to determine whether the costs that the State agency claimed for reimbursement under the Program for the period August 31, 2004, through August 30, 2006, were allowable, allocable, and reasonable.

### **SUMMARY OF FINDINGS**

Of the \$31.5 million that the State agency claimed for reimbursement for the period August 31, 2004, through August 30, 2006, \$31 million was allowable, allocable, and reasonable. However, the State agency claimed \$529,977 in expenses for budget years 2005 (\$98,893) and 2006 (\$431,084) that were not allowable:

- \$344,350 for goods and services that did not benefit the budget years in which they were expended (\$98,893 for 2005 and \$245,457 for 2006);
- \$184,223 in budget year 2006 obligations that were not liquidated within required timeframes; and
- \$1,404 in budget year 2006 indirect costs incorrectly computed.

The State agency claimed these unallowable expenses because it did not have adequate policies and procedures to ensure that costs claimed complied with applicable laws, regulations, and program guidance.

In addition, a subrecipient earned interest totaling \$40,423 on program funds and did not remit that amount to CDC as required. Neither the subrecipient nor the State agency was aware of the requirement to remit interest earned on advances of Federal funds.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund \$529,977 for unallowable expenses claimed for budget years 2005 and 2006;
- refund \$40,423 for interest earned on program funds as of May 1, 2007, as well as any additional interest earned since that date; and
- develop adequate policies and procedures to ensure that costs claimed for reimbursement comply with applicable laws, regulations, and program guidance and that interest is properly remitted to the Federal Government.

## **STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, the State agency agreed to refund all interest earned on advances to a subrecipient and \$1,404 in budget year 2006 indirect costs charged in error. The State agency did not agree with our findings that it: (1) paid \$344,350 during budget years 2005 and 2006 for goods and services that benefited future budget years and (2) paid \$184,223 in budget year 2006 obligations that were not liquidated within required timeframes. The State agency outlined three primary reasons it believes our findings were incorrect. However, nothing in the State's comments caused us to change our recommendations.

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## INTRODUCTION

### BACKGROUND

#### Preparedness for Bioterrorism and Other Public Health Emergencies

The Centers for Disease Control and Prevention (CDC) provides funds to State and major local health departments to improve preparedness and response capabilities for bioterrorism and other public health emergencies. From August 31, 1999, to August 30, 2005, CDC provided this funding through the Public Health Preparedness and Response for Bioterrorism Program. Since August 31, 2005, CDC has provided funding through the Public Health Emergency Preparedness Program. This program covered a 5-year project period, with the first budget year covering August 31, 2005, to August 30, 2006.

The Public Health Preparedness and Response for Bioterrorism Program was 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 247d), and the Public Health Emergency Preparedness Program was authorized by section 319C of the Public Health Service Act (42 U.S.C. § 247d-3). In this report, we refer to these two programs collectively as “the Program.”

CDC issues Notices of Cooperative Agreement to awardees to set forth the approved budget as well as the terms and conditions of the individual awards. To monitor the expenditure of these funds, CDC requires awardees to submit financial status reports (FSR) showing the amounts expended, obligated, and unobligated.

#### Alabama Program Funding

In Alabama, the Department of Public Health (State agency) administers the Program and distributes funds to subrecipients to carry out program objectives. For budget years 2005 and 2006 (August 31, 2004, through August 30, 2005, and August 31, 2005, through August 30, 2006, respectively), the State agency was awarded a total of \$31.6 million and claimed expenditures of \$31.5 million. Table 1 below summarizes the funding and expended amounts for each period.

**Table 1: Awarded and Expended Amounts**

<b>Budget Year</b>	<b>Budget Period</b>	<b>Awarded</b>	<b>Expended</b>
2005	08/31/2004–08/30/2005	\$14,152,078	\$14,152,078
2006	08/31/2005–08/30/2006	\$17,420,011	\$17,336,269
	<b>Total</b>	<b>\$31,572,089</b>	<b>\$31,488,347</b>

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

The objective of our audit was to determine whether costs the State agency claimed for reimbursement under the Program for the period August 31, 2004, through August 30, 2006, were allowable, allocable, and reasonable.

### **Scope**

Our audit covered claimed costs of \$31.5 million for program activities during the 2-year period August 31, 2004, through August 30, 2006 (budget years 2005 and 2006).

We did not review the overall internal control structure of the State agency or its subrecipients. We limited our review of internal controls to the following: (1) obtaining an understanding of the State agency's and selected subrecipient's procedures to account for program funds and (2) obtaining an understanding of the State agency's subrecipient monitoring procedures.

We also limited our review to nonstatistical samples of the expenses the State agency and two of its subrecipients, the Jefferson County Department of Health (Jefferson County) and the Mobile County Health Department (Mobile County), charged to the Program. Table 2 below summarizes the total expenditures and the samples selected at the respective entities.

**Table 2: Total and Sampled Expenditures**

<b>Type of Expenditure</b>	<b>Total Dollar Value</b>	<b>Sample Size</b>	<b>Dollar Value of Sample</b>
State Expenditures	\$31,488,347	127	\$9,211,297
Jefferson County Expenditures	\$402,529	121	\$323,767
Mobile County Expenditures	\$316,812	33	\$62,311

We conducted our fieldwork at State agency offices in Montgomery, Alabama, and at Jefferson County Department of Health offices in Birmingham, Alabama.

### **Methodology**

To accomplish our objective, we:

- reviewed applicable Federal and State laws, regulations, and program guidance;
- reviewed State agency and subrecipient accounting procedures and the State agency's monitoring of subrecipients;

- tested FSRs for completeness and accuracy and reconciled the amounts reported on FSRs to the accounting records and Notices of Cooperative Agreement;
- verified that the indirect cost rate used was in accordance with the State agency's federally approved indirect cost rate agreement and that the rate was applied to the appropriate base;
- interviewed officials and program employees from the Alabama Department of Public Health, Center for Emergency Preparedness and the Alabama State Examiners of Public Accounts;
- reviewed positions funded by the Program for evidence of supplanting;<sup>1</sup>
- selected and tested non-statistical samples of expenditures to determine whether the State agency and subrecipients expended program funds for reasonable, necessary, allowable, and allocable costs; and
- reviewed the subrecipients' procedures to account for funds expended.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## **FINDINGS AND RECOMMENDATIONS**

Of the \$31.5 million the State agency claimed for reimbursement for the period August 31, 2004, through August 30, 2006, \$31 million was allowable, allocable, and reasonable. However, the State agency claimed \$529,977 in expenses for budget years 2005 (\$98,893) and 2006 (\$431,084) that were not allowable:

- \$344,350 in goods and services that did not benefit the budget years in which they were expended (\$98,893 for 2005 and \$245,457 for 2006);
- \$184,223 in budget year 2006 obligations that were not liquidated within required timeframes; and
- \$1,404 in budget year 2006 indirect costs incorrectly computed.

The State agency claimed these unallowable expenses because it did not have adequate policies and procedures to ensure that costs claimed complied with applicable laws, regulations, and program guidance.

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<sup>1</sup>Program funds were meant to augment current funding and not to replace or supplant any other Federal, State or local funds provided for these activities (Section 319C-1(j)(2) of the Public Health Service Act [42 U.S.C. § 247d-3a]).

In addition, a subrecipient earned interest totaling \$40,423 on program funds and did not remit that amount to CDC as required. Neither the subrecipient nor the State agency was aware of the requirement to remit interest earned on advances of Federal funds.

### **COSTS THAT DID NOT BENEFIT BUDGET YEARS 2005 AND 2006**

Federal regulations (2 CFR § 225, Appendix A, section C (formerly OMB Circular A-87)) contain principles pertaining to State and local governments. Section C.1.b states that costs must “. . . be allocable to Federal awards under the provisions of 2 CFR part 225” and section C.3.a states that “[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.”

Pursuant to 45 CFR § 92.23(a): “Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period” (the funding period in budget years 2005 and 2006 each covered 12 months).

#### **Costs Not Claimed for Appropriate Funding Period**

The State agency paid \$344,350 during budget years 2005 and 2006 (\$98,893 for budget year 2005 and \$245,457 for budget year 2006) for goods and services that benefited future budget years. Because the State agency received no benefits during the period against which they claimed these expenses, the expenses were not allocable to budget years 2005 and 2006 and were therefore not allowable.

The \$344,350 included \$164,453 the State agency paid to the Alabama Public Health Care Authority (HCA), a public corporation organized under Alabama State law. Some of the goods and services HCA purchased (software licenses and maintenance agreements) benefited periods after budget year 2006, against which they were claimed.

The State agency paid the remaining \$179,897 directly to other providers for goods and services that were similarly not allocable to the budget years charged because the purchases were for goods and services that benefited future budget years:

- \$98,893 was claimed as an expense in budget year 2005 for software and computer maintenance to be provided after the end of budget year 2005 and
- \$81,004 was claimed as an expense in budget year 2006 for maintenance to be provided after the end of budget year 2006.

Regulations require that expenses claimed by a grantee in any given period must be for goods and services that benefit the same period. Alternatively, if awarded funds cannot be spent for benefits received in the same period, grantees may request permission to carryover funds to the subsequent budget year. The State agency did not request permission to carryover these

budget year 2005 and 2006 funds but, instead, expended these funds for periods during which benefits were not received.

The State agency claimed these unallowable program expenses because of its practices of advancing (and reporting as expenditures) funds to HCA before they were actually needed and prepaying certain other expenses for future periods. State agency officials said that they claimed expenses on a cash basis and, accordingly, reported expenses as they were incurred. These practices, however, did not result in costs being claimed in accordance with Federal regulations that require costs to benefit the budget period against which they are charged.

## **UNLIQUIDATED OBLIGATIONS**

Pursuant to 45 CFR § 92.23(b), “A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.”

### **Obligations Not Liquidated Within Required Timeframes**

HCA did not liquidate \$184,223 in obligations for budget year 2006 within 90 days after the end of the budget year. Accordingly, these amounts are not allowable expenses. This occurred because the State agency advanced these funds to HCA, reported the advance as an expenditure, and did not monitor HCA to ensure that the expenditures were in accordance with Federal regulations.

## **INDIRECT COSTS**

Pursuant to 2 CFR § 225 (formerly OMB Circular A-87) Appendix A, section F:

Indirect costs are those: Incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefited . . . . Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Pursuant to 45 CFR § 92.40(a): “Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements . . . .”

### **Unallowable Subrecipient Indirect Costs**

Mobile County, another subrecipient, overstated indirect costs by \$1,404. Indirect costs for Mobile County should have been calculated by applying the same indirect cost rate the State agency used (21.7 percent) to a base of salaries and wages. However, when computing its indirect cost reimbursement, Mobile County applied this rate to both contract costs and salaries and wages. The rate should have been applied to only salaries and wages. As a result, Mobile County overstated the indirect cost expense reported to the State agency.

The unallowable costs occurred because the State agency did not have adequate policies and procedures to ensure that costs claimed for reimbursement were in compliance with applicable Federal regulations.

## **INTEREST EARNED ON PROGRAM FUNDS**

Federal regulations (45 CFR § 92.21(c)) allow for advances but stipulate that grantees or subgrantees have the “. . . ability to maintain procedures to minimize the time elapsing between the transfer of funds and their disbursement.” In addition, pursuant to § 92.21(i), “. . . grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency.”

Federal regulations (45 CFR § 74.22(b)(1)(i)) allow for advances but stipulate that recipients “. . . maintain written procedures that minimize the time elapsing between the transfer of funds and disbursement by the recipient.” Further regulations (§ 74.22(e)) stipulate that “[r]eimbursement is the preferred method when the requirements in paragraph (b) . . . cannot be met.”

### **Interest Not Remitted to the Centers for Disease Control and Prevention**

The State agency advanced \$2,140,988 of 2006 program funds to HCA before the funds were needed. HCA did not disburse these funds timely and, as a result, earned interest totaling \$40,423 on these funds. HCA should have remitted this interest to the State agency, and the State agency should have remitted the interest to CDC.

State agency and HCA officials said that they were not aware that interest should be remitted to CDC.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund \$529,977 for unallowable expenses claimed for budget years 2005 and 2006;
- refund \$40,423 for interest earned on program funds as of May 1, 2007, as well as any additional interest earned since that date; and
- develop adequate policies and procedures to ensure that costs claimed for reimbursement comply with applicable laws, regulations, and program guidance and that interest is properly remitted to the Federal Government.

## **STATE AGENCY COMMENTS**

In written comments on our draft report, the State agency agreed to refund all interest earned on advances to the HCA and \$1,404 in budget year 2006 indirect costs that the Mobile County Health Department charged in error. The State agency did not agree with our findings that it: (1) paid \$344,350 during budget years 2005 and 2006 for goods and services that benefited future budget years and (2) paid \$184,223 in budget year 2006 obligations that were not liquidated within required timeframes. The State agency outlined three primary reasons it believes our findings were incorrect:

First, the regulation the Office of Inspector General (OIG) cited (2 CFR § 225, Appendix A, Section C.3.a) does not apply. According to the State agency, the regulation does not reference a time frame or require that a cost benefit a particular period. The State agency also said that Section C.3.a. applies to allocated costs while the costs in question are direct costs.

Second, OIG's interpretation of the regulation is contrary to commonly accepted accounting principles. The State agency said it has the option to operate on either a cash or accrual basis, and it opted to operate on a cash basis. The State agency believes all the questioned transactions were properly disbursed, expended, and reported. The State agency also said that under State law and practice, HCA had up to three years to complete their work plan.

Third, OIG's interpretation of the regulation is contrary to correct practice in a cash basis system. The State agency said that charging maintenance agreements and software licenses as expended to the grant period is appropriate in a cash system and is the required State practice. The State agency also maintained that it was required to pay for software licenses and maintenance agreements in advance to meet standards required by the grant objectives.

The State agency also said that in apparent recognition of the confusion created by OIG's interpretation of the regulation, CDC inserted a new requirement in the grant award document entitled "Special Terms and Conditions." According to the State agency, the new special terms and conditions impose the same requirements on subrecipients that they impose on grant recipients, and the State agency would comply with these new requirements.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

We maintain that 2 CFR § 225, Appendix A, section C.3.a., applies to the costs in question. Section C.3.a. applies to costs in general and not just indirect costs. Section C contains basic guidelines applicable to all costs, both direct and indirect, whereas Appendix C, which we did not cite, contains specific guidelines for indirect costs. Section C.3.a states that "[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." Furthermore, 45 CFR § 92.23(a) requires that "[w]here a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period." The HHS Departmental Appeals Board (DAB) has consistently held that "expenditures that are incurred outside the grant term are not allocable to the grant activities for which the grant was originally

awarded.” (Huron Potawatomi, Inc., DAB 1889 at p. 3 (2003) (citing earlier DAB cases); see also Arlington Community Action Program, Inc., DAB 2141 at p. 2 (2008)).

The funding period for each of the budget years 2005 and 2006 covered 12 months and the costs we questioned did not benefit the budget years in which they were charged.

Neither we nor the grant regulations prescribe a particular method of accounting – cash basis or otherwise. The State agency elected to use cash accounting and claimed expenses at the time cash was disbursed. While we do not question the State agency’s use of cash accounting, the State agency is still obligated to adhere to Federal regulations that require expenses be charged based on the relative benefits received. The State agency’s practice of claiming prepayments as expenses under cash accounting does not satisfy this requirement because some of the benefits from expenses will not be realized until later grant periods. Alternatively, the State agency should have carried funds over and expensed them within the approved budget periods.

The Notice of Cooperative Agreement gave the State agency a 12-month period to expend grant funds. When the State agency transferred the funds to HCA, the funds were still considered Federal grant funds and, as such, should have been spent within the time frame specified in the Notice of Cooperative Agreement. Even though State law may have given HCA three years to complete their work, the State agency’s funding of HCA activities should have been more precisely matched to HCA’s needs over the CDC-approved budget periods.

Regulations already existed at the time of our audit that imposed the same requirements on subrecipients as primary recipients (45 CFR §§ 74.5 and 92.4). Furthermore, the Notice of Cooperative Agreement includes by reference the “Public Health Service Grants Policy Statement.”<sup>2</sup> Pursuant to the “Subgrantees and Contractors” section of the Public Health Service Grants Policy Statement:

The information contained in this publication applies principally to the primary recipients of PHS funds. Where subgrants are authorized by the awarding office through regulations, program announcements, or through the approval of the grant application, the information contained in this publication also applies to subgrantees. PHS expects grantees to use an objective system for making subawards that is at least as rigorous as the recipient's procurement system in order to help ensure proper accountability of funds and satisfactory performance under the subaward.

We continue to recommend that the State agency refund \$529,977 for unallowable expenses claimed for budget years 2005 and 2006.

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<sup>2</sup>The PHS Grants Policy Statement was applicable to CDC grants until October 1, 2006, when it was superseded by the HHS Grants Policy Statement.

# **APPENDIX**



STATE OF ALABAMA DEPARTMENT OF  
**PUBLIC HEALTH**

Donald E. Williamson, MD  
State Health Officer

August 19, 2008

Mr. Peter J. Barbera  
Regional Inspector General for Audit Services  
Department of Health and Human Services  
Region IV  
61 Forsyth Street, S.W.  
Suite 3T41  
Atlanta, Georgia 30303

RE: OIG Report Number A-04-07-01037

Dear Mr. Barbera:

This is in response to your letter of July 22, 2008, transmitting a draft report regarding allowability of costs claimed under Alabama's Bioterrorism and Emergency Preparedness Programs for the period August 31, 2004 through August 30, 2006.

Audit Findings and Recommendations

The state of Alabama claimed \$31.5 million for reimbursement for the period. Of that amount, your audit found \$529,977 in expenses that were not allowable:

- \$344,350 that did not benefit the budget years in which they were expended;
- \$184,223 in budget year 2006 obligations that were not liquidated within required time frames and;
- \$1,404 in budget year 2006 indirect costs incorrectly computed; and
- A subrecipient earned interest totaling \$40,423 on program funds.

**Summary of Questioned Charges**

	State	APHA	Total
<u>Time Frame Disallowances</u>			
Software licenses and maintenance agreements	179,897	164,452	344,349
Facility Improvements		184,224	184,224
<i>Subtotal</i>	179,897	348,676	528,573
<u>Indirect Cost Error</u>	1,404		1,404
<u>Interest Earnings</u>		40,423	40,423
<u>Grand Total of Questioned Charges</u>	181,301	389,099	570,400

Mr. Peter Barbera  
August 19, 2008  
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In response to these findings, you recommend that the Alabama Department of Public Health (ADPH):

- Refund \$529,977 for unallowable expenses.
- Refund \$40,423 for interest earned of program funds.

The Department is also cited for failure to adequately monitor subrecipient related policies and procedures.

#### Alabama's Response

The Inspector General had adverse findings in three areas: expenditure of funds outside of allowable time frames; an indirect cost computation error; and interest earnings. The Department agrees with the indirect cost and interest earned findings but must take strong exception to the time frame disallowances finding. Each is discussed below.

#### *Time Frame Disallowances*

##### Finding:

- \$344,350 that did not benefit the budget years in which they were expended; and
- \$184,223 in budget year 2006 obligations that were not liquidated within required time frames.

Response: The Inspector General takes the position that the questioned funds either were not expended during the grant period or did not benefit the grant period and therefore must be refunded. Alabama must respectfully disagree for the following reasons:

- *The regulation cited does not apply.* 2 CFR Section 225, Appendix A, Section C. 3. a. is cited to support the assertion that cost must benefit the period of the grant. ADPH disagrees with this interpretation. The regulation states that a "cost is allocable to a particular cost objective." It does not reference a time frame or require that a cost benefit a particular period. Also, this section applies to allocated costs. The questioned costs are direct costs. As such we cannot understand how this regulation can be properly applied to this situation.
- *It is contrary to commonly accepted accounting principles.* The state of Alabama has the option to operate on a cash or accrual basis. Alabama chose the cash option. In a cash system, funds are expended when disbursed. All of the questioned transactions were properly disbursed, expended, and reported. Under state law and practice, the Alabama Public Health Care Authority (APHCA) then had up to three years to complete their work plan.

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- *It is contrary to correct practice in a cash basis system.* Charging maintenance agreements and software licenses as expended to the grant period is appropriate in a cash system and is the required state practice. Software license and maintenance agreements must be fully paid in advance and the services were required for the necessary communications and security and reliability standards required by the grant objectives.
- *It is unprecedented.* The state's cash accounting basis procedures have never been questioned by state examiners, federal auditors, program auditors or any other auditor or examiner internal or external to the Department.
- *It is impractical to administer.* Almost any purchase at any time during the course of a grant could result in items that are not fully consumed or utilized during a particular grant period. Examples would be vaccines, drugs, equipment or other supplies. In many cases these do not "benefit the grant period," yet they are rightly not questioned.
- *It would have been impossible to achieve the federal grant's objectives.* Application of this interpretation would have rendered the state incapable of achieving the grant's objectives. For example, a key element of the grant work plan was implementation of a continuity of operations program. That program required the establishment of an alternate emergency operations center for the department that would maintain the department's capabilities for data, communications, and command in the event of an emergency that rendered its headquarters unusable. To achieve this goal, the Department utilized a sub recipient, the Alabama Public Health Care Authority. The APHCA duly provided this capability through a major renovation of a facility that involved emergency power, added data lines, cooling, servers, a fueling depot, and other major improvements. It would have been impossible to plan and implement these improvements during the grant period and the grant goals would not have been attained.
- *The sub-recipient's progress in meeting its work plan was monitored.* The progress of the sub-recipient in the achievement of the work plan was monitored through regular meetings, reports and oversight by ADPH senior management. The Department was fully aware of the timeframe required to achieve the grant objectives and the sub-recipient's progress.
- *"Special terms" enforcing this interpretation were inserted in the new grant award.* In apparent recognition of the confusion created by this interpretation, a new requirement has been inserted in the grant award entitled "Special Terms and Conditions". The new award now imposes the same requirements on sub-recipients that are imposed on grant recipients. The state will comply with this new requirement. However, the imposition of "special terms and conditions" would seem unnecessary if the proposed Inspector General's interpretation was clearly supported by existing regulations.

Mr. Peter Barbera  
August 19, 2008  
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*Indirect Cost Error*

**Finding:**

- \$1,404 in budget year 2006 indirect costs incorrectly computed.

**Response:** The \$1,404 in budget year 2006 indirect costs that was charged in error by the Mobile County Health Department will be refunded, in full, immediately.

*Interest Earnings*

**Finding:**

- A subrecipient earned interest totaling \$40,423 on program funds.

**Response:** Alabama agrees to refund all interest earned on advances to the APHCA. The earnings were sequestered pending audit instructions and will be refunded, in full, immediately.

We hereby request that the draft recommendation for repayment of the time frame related exceptions and the comments on sub-recipient monitoring be removed.

In conclusion, we appreciate the professionalism and diligence of the audit staff that did the field work on this project. Although there are points on which we disagree, the audit staff was professional in working with the state and sub-recipient. We also appreciate the opportunity to provide our response and hope the state and CDC can reach an amicable agreement as to the settlement of the questioned cost.

Sincerely yours,



Donald E. Williamson, MD  
State Health Officer

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