

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NORTH CAROLINA DEPARTMENT OF
HEALTH AND HUMAN SERVICES DID
NOT ALWAYS CLAIM COSTS UNDER
CDC PREVENTION AND PUBLIC
HEALTH FUND AWARDS IN
ACCORDANCE WITH FEDERAL
REQUIREMENTS**

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January 2016
A-04-14-04028

Office of Inspector General

<http://oig.hhs.gov>

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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

The North Carolina Department of Health and Human Services claimed costs under fiscal years 2010 through 2013 CDC Prevention and Public Health Fund awards that were not always in accordance with Federal requirements, resulting in an estimated \$493,401 of funds that the State could have more effectively used to further the award objectives.

WHY WE DID THIS REVIEW

The U.S. Department of Health and Human Services (HHS) is the largest grant-making organization in the Federal Government. Accordingly, the HHS Office of Inspector General (OIG) has identified grants management as a top management and performance challenge.

The Patient Protection and Affordable Care Act of 2010 (ACA) established a funding stream known as the Prevention and Public Health Fund (PPHF) to provide for national investment in prevention and public health programs to improve health and help restrain the growth rate of private- and public-sector health care costs. The ACA made HHS responsible for administering the PPHF and directed HHS to distribute PPHF funding to various prevention, wellness, and public health programs.

As part of OIG's body of work related to the ACA, and to help address OIG's top management and performance challenges, OIG is conducting audits of HHS grants and cooperative agreements (awards) financed by the PPHF.

From Federal fiscal year (FY) 2010 through FY 2013, HHS directed the majority of available PPHF funding, totaling \$2.2 billion, to the Centers for Disease Control and Prevention (CDC). During this time, CDC awarded \$668 million of this funding to State health departments.

Between FYs 2010 and 2013, the North Carolina Department of Health and Human Services (NC DHHS), Division of Public Health (State agency), received \$40 million in CDC PPHF award funds, which was more than all but one other State.

The objective of our audit was to determine whether the State agency claimed costs under FYs 2010 through 2013 CDC PPHF awards were in accordance with applicable Federal requirements.

BACKGROUND

North Carolina Department of Health and Human Services, Division of Public Health

NC DHHS, a department of the North Carolina State Government located in Raleigh, North Carolina, is responsible for ensuring the health, safety, and well-being of all North Carolinians by meeting human service needs for special populations, including individuals who are deaf, blind, developmentally disabled, or mentally ill, and by helping low-income North Carolinians achieve economic independence.

The State agency is part of NC DHHS, whose mission is to promote the highest possible level of health for the people of North Carolina and to reduce the impact of chronic and oral diseases. The State agency accomplishes this mission by assessing community health problems, developing policies in support of community health efforts, and assuring the availability of health services, competency of the health care workforce, and effectiveness of research-based health solutions.

As of June 2014, the State agency had claimed reimbursement for \$24.9 million in costs it had charged to the 19 PPHF awards it received from CDC from October 1, 2009, through September 30, 2013.

Federal Requirements

By accepting CDC PPHF awards, the State agency agreed to comply with regulations governing the use of Federal funds and to ensure that costs charged to those awards are allowable under the cost principles established in 2 CFR part 225 (Office of Management and Budget Circular A-87). These cost principles require that, to be allowable, costs must be reasonable for the proper and efficient administration of the program; be allocable; be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the State agency; be adequately documented; be in compliance with any exclusions or limitations set forth in the cost principles or awards; and be authorized or not prohibited under State or local laws or regulations. The application of these cost principles is based on the premise that the State agency is responsible for the efficient and effective administration of Federal awards through sound management practices.

WHAT WE FOUND

The State agency claimed costs under FYs 2010 through 2013 CDC PPHF awards that were not always in accordance with Federal requirements. Of the 135 sample items with transactions totaling \$3,425,255 in our statistical sample, 126 totaling \$3,397,935 were allowable, but 9 totaling \$27,320 were not. In addition, of the 156 subgrantee transactions totaling \$846,985 in our judgmental sample, 152 totaling \$823,820 were allowable, but 4 totaling \$23,165 were not.

The State agency claimed unallowable costs under CDC PPHF awards because it did not have adequate controls to ensure that all costs charged to the awards were allowable. On the basis of our statistical sample results, we estimated that the State agency could have more effectively used \$493,401 of Federal funds for allowable expenditures that would have furthered the award objectives.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government the \$50,485 in unallowable costs and

- improve its controls, which would have saved an estimated \$493,401 of costs charged to CDC PPHF awards, to ensure that:
 - costs charged to Federal awards comply with Federal requirements and
 - Federal funds are used efficiently and effectively to advance Federal award goals and objectives.

NORTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES COMMENTS

In written comments on our draft report, the State agency concurred with our recommendation to improve its controls and described the corrective actions it would take towards implementing stronger controls. State agency officials said that they would investigate the \$50,485 in questioned costs, confer with CDC, and pay back the funds as required. The officials also said that they would obtain recoupments from subgrantees as deemed necessary.

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INTRODUCTION

WHY WE DID THIS REVIEW

The U.S. Department of Health and Human Services (HHS) is the largest grant-making organization in the Federal Government. Accordingly, the HHS Office of Inspector General (OIG) has identified grants management as a top management and performance challenge.

The Patient Protection and Affordable Care Act of 2010 (ACA) established a funding stream known as the Prevention and Public Health Fund (PPHF) to provide for national investment in prevention and public health programs to improve health and help restrain the growth rate of private- and public-sector health care costs. The ACA made HHS responsible for administering the PPHF and directed HHS to distribute PPHF funding to various prevention, wellness, and public health programs.

As part of OIG's body of work related to the ACA (see *Affordable Care Act Reviews* at the OIG Web site)¹ and to help address OIG's top management and performance challenges, OIG is conducting audits of HHS grants and cooperative agreements (awards) financed by the PPHF.

From Federal fiscal year (FY) 2010 through FY 2013, HHS directed the majority of available PPHF funding, totaling \$2.2 billion, to the Centers for Disease Control and Prevention (CDC). During this time, CDC awarded \$668 million of this funding to State health departments.

Between FYs 2010 and 2013, the North Carolina Department of Health and Human Services (NC DHHS), Division of Public Health (State agency), received \$40 million in CDC PPHF award funds, which was more than all but one other State.

OBJECTIVE

Our objective was to determine whether costs that the State agency claimed under FYs 2010 through 2013 CDC PPHF awards were in accordance with applicable Federal requirements.

BACKGROUND

North Carolina Department of Health and Human Services, Division of Public Health

NC DHHS, a department of the North Carolina State Government located in Raleigh, North Carolina, is responsible for ensuring the health, safety, and well-being of all North Carolinians by meeting human service needs for special populations, including individuals who are deaf, blind, developmentally disabled, or mentally ill, and by helping low-income North Carolinians achieve economic independence.

The State agency is part of NC DHHS, whose mission is to promote the highest possible level of health for the people of North Carolina and to reduce the impact of chronic and oral diseases. The State agency accomplishes this mission by assessing community health problems;

¹ Available online at: <http://oig.hhs.gov/reports-and-publications/aca/>.

developing policies in support of community health efforts; and ensuring the availability of health services, competency of the health care workforce, and effectiveness of research-based health solutions.

As of June 2014, the State agency had claimed reimbursement for \$24.9 million in costs it had charged to the 19 PPHF awards it received from CDC from October 1, 2009, through September 30, 2013.

Federal Requirements

By accepting CDC PPHF awards, the State agency agreed to comply with regulations governing the use of Federal funds and to ensure that costs charged to those awards are allowable under the cost principles established in 2 CFR part 225 (Office of Management and Budget (OMB) Circular A-87). These cost principles require that, to be allowable, costs must be reasonable for the proper and efficient administration of the program; be allocable; be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the State agency; be adequately documented; be in compliance with any exclusions or limitations set forth in the cost principles or awards; and be authorized or not prohibited under State or local laws or regulations. The application of these cost principles is based on the premise that the State agency is responsible for the efficient and effective administration of Federal awards through sound management practices.

HOW WE CONDUCTED THIS REVIEW

Our audit covered approximately \$24.9 million in costs recorded in the State agency's accounting records and claimed for reimbursement on Federal Financial Reports (FFRs)² from December 2010 through June 2014.

We selected a stratified random sample of 135 document identification numbers (sample items)³ with transactions totaling \$3,425,255 for review. We evaluated the allowability of the costs associated with each of the selected sample items by interviewing State agency employees and reviewing documentation including grant application packages, notices of award, contracts, invoices, payment vouchers, purchase orders, and other documentation that the State agency provided to support the items. In addition, we visited 2 of the State agency's subgrantees and reviewed 156 judgmentally selected⁴ transactions totaling \$846,985.

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

² The State agency reported some expenditures using the Financial Status Report (FSR). HHS adopted the FFR in February 2011, which replaced the FSR.

³ Each sample item was composed of one or more transactions with a unique accounting document identification number. See Appendix C for additional detail regarding our sampling methodology.

⁴ We used a risk-based approach to select transactions. Our selection criteria included dollar amount, transaction description, transaction date, account type, and award charged.

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A contains the details of our audit scope and methodology, Appendix B lists the Federal and State requirements related to awards, Appendix C contains the statistical sampling methodology, Appendix D contains the sample results and estimate, and Appendix E contains a table of PPHF awards and amounts claimed that we included in our audit scope.

FINDINGS

The State agency claimed costs under FYs 2010 through 2013 CDC PPHF awards that were not always in accordance with Federal requirements. Of the 135 sample items with transactions totaling \$3,425,255 in our statistical sample, 126 totaling \$3,397,935 were allowable, but 9 totaling \$27,320 were not. In addition, of the 156 subgrantee transactions totaling \$846,985 in our judgmental sample, 152 totaling \$823,820 were allowable, but 4 totaling \$23,165 were not.

The State agency claimed unallowable costs under CDC PPHF awards because it did not have adequate controls to ensure that all costs charged to the awards were allowable. On the basis of our statistical sample results, we estimated that the State agency could have more effectively used \$493,401 of Federal funds for allowable expenditures that would have furthered the award objectives.

THE STATE AGENCY CLAIMED COSTS THAT WERE NOT ALWAYS IN ACCORDANCE WITH FEDERAL REQUIREMENTS

Of the 135 sample items in our statistical sample, 9 sample items with transactions totaling \$27,320 were not allowable. The unallowable costs included:

- \$22,544 for training costs that did not comply with the State’s regulations, policies, and procedures, including \$3,330 for training costs that were also not adequately documented;
- \$2,369 for travel costs that did not conform to the terms and conditions of the award;
- \$1,405 for a severance payment that was not allowable as a direct cost; and
- \$1,002 for the costs of office supplies that were not allocable.

Training

Federal and State Requirements

In accordance with Federal cost principles, to be allowable, costs must be reasonable, authorized, and not prohibited under State laws and regulations; be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit; and be adequately documented (OMB Circular A-87, Appendix A, §§ C. 1. a., c., e., and j.).

Additionally, in determining the allowability of professional service costs, the adequacy of the contractual agreement should be considered (OMB Circular A-87, Appendix B, § 32. b.(8)). Finally, HHS regulations state that when procuring services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds (45 CFR § 92.36).

The North Carolina Administrative Code requires that a party receiving State or Federal funds from a State department or division must sign a contract containing the obligations of the parties to the agreement (10A NCAC 01A .0601). Likewise, the State agency's policies and procedures require that "all contracts, agreements, or other similar arrangements involving the expenditure of state and/or federal funds shall be in writing and signed by the authorized individual" (NC DHHS Policies and Procedures, General Contracting Manual, chapter 1).

Training Costs Did Not Comply with Federal and State Requirements

For two sample items, the State agency charged \$22,544 for training provided to subgrantee and State agency employees that was not allowable because the State agency did not properly establish contracts for the services, pay fees that were allowed under the State's policies and procedures, or maintain supporting documentation of the actual costs incurred.

The State agency paid a consulting firm \$19,214 to provide training to subgrantee employees from two regions within its PPHF-funded Community Transformation Grant project, but it did not establish a contract with the vendor. State agency officials told us that they did not follow their usual contracting procedures because they would not have been able to procure the services within the necessary period. The officials also said that they had made an error by not establishing a contract for the services.

In addition, the cost for the subgrantee training did not comply with the State agency's policies and procedures. The charge included two 3-day training sessions provided by two speakers. The vendor charged fees of \$8,800 per session or \$1,467 per speaker per day. By comparison, the rates the State agency allowed under personal services contracts for training, consultation, or other services were limited to \$50 per hour or \$400 per day (NC DHHS Policies and Procedures, General Contracting Manual, chapter 4). The State agency described the need for the training in its supporting documentation but did not justify why it exceeded the maximum rates allowed under its policies and procedures.

The State agency also paid \$3,330 to an individual to provide conflict resolution training to State agency employees without establishing a contract with the individual for the service. Moreover, the State agency's documentation of the service was limited to a State agency conference authorization form, a training agenda, and biographical information on the individual. This documentation did not support the actual costs incurred (through, for example, a vendor invoice). Finally, the fee that the State agency paid to the individual was based on a rate of \$75 per hour, exceeding the State agency's allowed maximum rate of \$50 (NC DHHS Policies and Procedures, General Contracting Manual, chapter 4). Again, the State agency did not justify why it exceeded the maximum rates allowed under its policies and procedures.

Travel

Federal Requirements

To be allowable, costs must conform to any limitations or exclusions set forth in the terms and conditions of the Federal award (OMB Circular A-87, Appendix A, § C.1.d). A grantee indicates acceptance of an award and its associated terms and conditions by requesting and accepting funds (HHS Grants Policy Statement, Part II, page 1). The PPHF award terms and conditions stated that travel costs were allowable only “for personnel directly charged and approved on the [award]” (CDC Award Number 5U50CI000885-02, Terms and Conditions, Note 11) or who impart a direct benefit on the activities of the award (CDC Award Number 5U50CI000885-02S3, Terms and Conditions, Note 13).

Travel Costs Did Not Conform to the Terms and Conditions of the Award

The State agency claimed \$2,369 for travel costs that did not adhere to the terms and conditions of the PPHF awards. These costs were associated with five sample items.

The State agency claimed \$2,067 in travel costs for employees who had not been directly charged and approved or who had not imparted a direct benefit on the activities of the PPHF awards charged. The travel costs were for disease intervention specialists who, according to the State agency, travel under blanket travel orders funded by approximately 20 different sources. However, these funding sources did not include the PPHF awards charged, and the employees did not work directly on PPHF award activities. State agency officials told us that the primary responsibility of these employees was to contact individuals diagnosed with a communicable disease to conduct tracing, counseling, and data collection; however, the employees had not charged these efforts to the PPHF awards, and CDC had not approved the travel costs for these employees. Nevertheless, State agency officials told us that they believed that it was appropriate to charge the PPHF awards for these costs in consideration of the activities that the individuals performed and based on the availability of the funds.

In addition, the State agency charged \$302 in travel costs for an employee to attend a conference required under a PPHF contract⁵ between the State agency and CDC. The State agency charged the travel costs to a PPHF award when it should have charged the costs to the contract that actually required the travel. CDC stated in a letter to the State agency that, under the contract, CDC would pay the travel costs for certain State agency employees required to attend the conference, including the travel costs of the employee in our sample item. Thus, the travel costs should have been allocated to the contract. The State agency told us that, because the employee worked exclusively on the PPHF award and the employee’s attendance at the conference was not mandatory, it had charged the PPHF award for these travel costs.

⁵ This contract was not part of the scope of our audit.

Severance Payment

Federal Requirements

Severance payments associated with normal turnover are allowable as long as the State agency allocated the payments to all activities of the agency as an indirect cost (OMB Circular A-87 Appendix B, § 8. g.(2)).

Severance Payment Not Allowable as a Direct Cost

For one sample item, the State agency charged \$1,405⁶ for severance pay of an individual who had formerly worked on a PPHF award and whom the State agency released through a reduction in force. The State agency charged the severance payment cost to the PPHF award as a direct cost; however, a CDC Grants Management Officer had advised the State agency that the severance payment would be an allowable expense as long as the payment was allocated to all activities of the State agency as an indirect cost. Nevertheless, the State charged the severance payment as an unallowable direct cost to the award.

Office Supplies

Federal Requirements

To be allowable under Federal awards, costs must be allocable; that is, the cost must be chargeable or assignable to the cost objectives that received the benefits of the purchased goods or services (OMB Circular A-87, Appendix A, §§ C. 1. b. and 3. a).

Office Supplies Did Not Directly Benefit PPHF Awards

For one sample item, the State agency charged the cost of office supplies totaling \$1,002 that were not allocable to the PPHF award charged. The invoice for the cost showed that the State agency purchased 30 cases of paper (representing a 3-month supply) for “day-to-day operations” of the State agency’s Office of Vital Records. Because the cost was for the general operations of the Office of Vital Records and not for the specific benefit of the PPHF award charged, the cost was not allocable and therefore, not allowable.

THE STATE AGENCY CLAIMED SUBGRANTEE COSTS THAT WERE NOT ALWAYS ALLOWABLE

To carry out the objectives of some of its CDC PPHF awards, the State agency granted subawards⁷ to local county health departments (subgrantees). Grantees are required to monitor subgrant supported activities to assure compliance with applicable Federal requirements (45 CFR § 92.40). Subgrantees may use grant funds only for allowable costs (45 CFR § 92.22(a)(1)).

⁶ This amount is the Federal share portion. The actual severance payment amount was \$1,756.

⁷ The State agency has an aid-to-county agreement with each county health department and grants subawards through “addenda” to these agreements.

The scope of our audit included reviewing CDC PPHF subaward costs claimed by two of these subgrantees: Appalachian District County Health Department (Appalachian) and Pitt County Health Department (Pitt). Each subgrantee received \$3.4 million in PPHF subawards. At the time of our fieldwork, the State agency reported that Appalachian and Pitt had each expended \$2.3 million of the \$3.4 million in PPHF subawards.⁸ We judgmentally selected⁹ for review 156 transactions totaling \$846,985 at these subgrantees (87 transactions totaling \$437,993 at Appalachian and 69 transactions totaling \$408,992 at Pitt).

Of the 156 subgrantee transactions, totaling \$846,985 in our judgmental sample, 152 transactions totaling \$823,820 were allowable (86 transactions totaling \$422,493 at Appalachian and 66 transactions totaling \$401,327 at Pitt), but 4 transactions totaling \$23,165 were not. See Table 1 below for a summary of the unallowable subgrantee costs:

Table 1: Unallowable Subgrantee Costs

Cost Type	Unallowable Costs			Reason(s) for Disallowance
	Appalachian	Pitt	Total	
Administrative salary costs	\$15,500	-	\$15,500	(a) and (b)
Planning (personnel compensation)	-	\$6,080	6,080	(a) and (b)
Office supplies	-	949	949	(a)
Computer equipment	-	636	636	(a)
		Total	\$23,165	

- a. Costs were not adequately documented.
- b. Compensation costs were not supported by personnel activity reports or equivalent documentation.

Federal Requirements

To be allowable under Federal awards, costs must be allocable and adequately documented (OMB Circular A-87, Appendix A, § C. 1. b. and j). In support of compensation costs, where employees work on multiple activities or cost objectives, personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual employee’s activity; budget estimates determined before services are performed do not qualify as support for charges (OMB Circular A-87, Appendix B, § 8. h.(5)(a) and (e)).

Unallowable Subgrantee Costs – Appalachian

Appalachian charged and the State agency claimed \$15,500 for administrative compensation costs to a CDC PPHF award that were not adequately supported and were therefore unallowable.

⁸ The State agency claimed the \$6.8 million it had awarded to these subgrantees on FFRs.

⁹ We used a risk-based approach to select transactions. Our selection criteria included dollar amount, transaction description, transaction date, account type, and award charged.

Specifically, Appalachian did not maintain personnel activity reports reflecting an after-the-fact distribution of the salaries and wages that made up the administrative compensation costs. A budget estimate determined before the services were performed and incorporated in a memorandum of understanding (MOU) between Appalachian and a nonprofit entity created by Appalachian, called Appalachian Partners in Public Health (Partners), was the only documentation supporting the costs.¹⁰ Per the MOU, Partners was to aid in the facilitation of Community Transformation Grant project goals by acting as a contractor for a portion of the funding and managing the development and execution of subcontracts.

Upon execution of the MOU (and two amendments), Appalachian transferred funds to a Partners bank account. We reviewed a sample of cost items from records that Appalachian maintained for Partners' cost activities, including Partners bank statements. One of the items involved the transfer of \$15,500 from Partners to Appalachian that Partners included in the MOU budget to cover Appalachian's costs of administering the MOU. However, Partners did not adequately document the \$15,500 charged to this PPHF award, and neither the documentation in Appalachian's records nor documentation it maintained on behalf of Partners supported the costs (OMB Circular A-87, Appendix A, § C.1.j.).

Unallowable Subgrantee Costs – Pitt

Pitt charged and the State agency claimed costs under a CDC PPHF award for planning (\$6,080), office supplies (\$949), and computer equipment (\$636) accounts that were inadequately documented and, therefore, unallowable.

Pitt charged \$6,080 of an employee's salary to a PPHF award on the basis of an estimate and did not otherwise adequately document this amount. The costs were associated with an employee of the county's planning department and resulted from a reclassification from the county's general fund to the PPHF award; however, Pitt did not maintain a personnel activity report that reflected the time the employee worked on the PPHF award. The only record of the hours the employee worked was provided in an email, which stated that the employee worked at least 200 hours from January 1 through June 30, 2012. The employee's timesheets did not reflect this effort because, according to the employee, the county had not anticipated having PPHF funding available for full-time staff salaries.

Pitt also charged costs to one of its PPHF awards that were not allocable (OMB Circular A-87, Appendix A, § C.1.b.). Pitt charged \$949 for office supply costs that included binders (\$245) and toner cartridges (\$704). Unlike other transactions for office supplies that we reviewed, Pitt had not maintained a "request for supplies/equipment" form for this transaction indicating how the items benefited the PPHF award charged. The only supporting documentation that Pitt maintained for the charges was vendor invoices. One invoice showed 36 binders (with a subtotal

¹⁰ Partners was set up by Appalachian as a nonprofit entity that was an instrumentality of Appalachian, a local district county health department. Partners would be considered a "local government" under OMB Circular A-87 because the definition of local government includes a county, local public authority, council of governments (whether or not incorporated as a nonprofit corporation under State law), any other regional or interstate government entity, or any agency or instrumentality of a local government. Thus, the principles of OMB Circular A-87 apply to Partners.

of \$245) requested by, and to be delivered to, the health department, and the other invoice showed 4 toner cartridges (totaling \$1,308) requested by, and to be delivered to, the county's planning department. The invoice for the toner cartridges had a handwritten note showing the \$1,308 charge split between Pitt's PPHF awards (\$704) and the planning department (\$604).

Additionally, Pitt charged \$636 for costs it recorded as computer equipment; however, it could not provide documentation that showed what item(s) it purchased or how they related to the PPHF award charged.

THE STATE AGENCY COULD HAVE USED FEDERAL FUNDS MORE EFFECTIVELY FOR AWARD OBJECTIVES

The State agency claimed unallowable costs under CDC PPHF awards because it did not have adequate controls to ensure that all costs charged to the awards were allowable. By claiming unallowable costs, the State agency did not always use Federal funds effectively. On the basis of our statistical sample results, we estimated that the State agency could have more effectively used \$493,401 of Federal funds for allowable expenditures that would have furthered the CDC PPHF award objectives.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government the \$50,485 in unallowable costs and
- improve its controls, which would have saved an estimated \$493,401 of costs charged to CDC PPHF awards, to ensure that:
 - costs charged to Federal awards comply with Federal requirements and
 - Federal funds are used efficiently and effectively to advance Federal award goals and objectives.

NORTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES COMMENTS

In written comments on our draft report, the State agency concurred with our recommendation to improve its controls and described the corrective actions it would take towards implementing stronger controls. State agency officials said that they would investigate the \$50,485 in questioned costs, confer with CDC, and pay back the funds as required. The officials also said that they would obtain recoupments from subgrantees as deemed necessary.

The State agency's comments are included in their entirety as Appendix F.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered approximately \$24.9 million in costs recorded in the State agency's accounting records and claimed for reimbursement on FFRs and FSRs from December 2010 through June 2014. We limited the audit to grants and cooperative agreements funded by the PPHF that CDC awarded to the State agency during FYs 2010 through 2013.

We limited our assessment of internal controls to the State agency's policies and procedures for charging costs to Federal awards. We conducted our fieldwork at the State agency offices in Raleigh, North Carolina, and at subgrantee offices in Greenville and Sparta, North Carolina, from June 2014 through May 2015.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal requirements;
- reviewed the State agency's policies and procedures for charging costs to Federal awards;
- reviewed State of North Carolina Single Audit Reports for FYs 2010 through 2013;
- reviewed the State agency's HHS-approved cost allocation plan;
- reviewed all PPHF awards, including funding opportunity announcements, applications, notices of award, and amendments that the State agency received from CDC during FYs 2010 through 2013;
- reviewed transaction schedules exported from the North Carolina Accounting System (NCAS) provided by the State agency showing costs it charged to CDC PPHF award accounts from December 2010 through June 2014;
- reconciled expenditure detail contained in the NCAS schedules to FFRs and FSRs NC DHHS submitted to CDC for each award;
- removed transactions from the NCAS schedules with Documentation Identification (Doc ID) numbers¹¹ that:

¹¹ A Doc ID is an accounting system code used to identify the accounting documents related to the transactions.

- were composed of costs that had not yet been claimed on FFRs or FSRs,
- were charged to accounts for redistributed costs and subaward costs,¹²
- were composed of offsetting¹³ transactions, and
- had a Federal share of less than \$100;
- selected a stratified random sample of 100 Doc IDs with transactions valued between \$100 and \$42,000 and 35 Doc IDs with transactions valued at greater than \$42,000 from the remaining \$10,738,796 of transactions;
- determined the allowability of the costs associated with the selected Doc IDs by reviewing documentation including invoices, purchase orders, payroll documentation, travel authorizations, contracts and contract expenditure reports, and other documentation supporting the items;
- estimated the amount of savings the State agency could have achieved using more economical and efficient business practices;
- interviewed State agency employees regarding their roles and responsibilities under awards;
- conducted a risk assessment and identified two subgrantees at which to perform onsite audit procedures;
- performed the following audit procedures at the selected subgrantees:
 - reviewed the terms and conditions of the PPHF subawards that the State agency issued;
 - interviewed subgrantee employees regarding their roles and responsibilities under the subawards;
 - reconciled subaward funding drawdowns to subgrantee accounting records;
 - reviewed 156 judgmentally selected¹⁴ transactions totaling \$846,985;

¹² We performed separate audit procedures to test these items.

¹³ Offsetting transactions are expenditures charged to an award that were subsequently adjusted by transferring the costs to another funding source(s) or otherwise zeroed out.

¹⁴ We used a risk-based approach to select transactions. Our selection criteria included dollar amount, transaction description, transaction date, account type, and award charged.

- determined the allowability of each transaction by reviewing available supporting documentation, including purchase orders, invoices, receipts, credit card statements, bank statements, payroll records, and contracts; and
- discussed our tentative findings with subgrantee officials; and
- discussed our findings with State agency officials on June 11, 2015.

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 objectives.

APPENDIX B: FEDERAL AND STATE REQUIREMENTS

FEDERAL REGULATIONS

The HHS grant administration rules state that “there is a set of Federal principles for determining allowable costs under grants” and that “allowable costs will be determined in accordance with cost principles applicable to the organization incurring the costs” (45 CFR § 92.22(b)).

The HHS grant administration rules also state that “[g]rant funds may be used only for ... [t]he allowable costs of ... subgrantees ...” and that “[g]rantees must monitor ... subgrant supported activities to assure compliance with applicable Federal requirements ...” (45 CFR §§ 92.22(a)(1) and 92.40(a)).

The HHS grant administration rules state further that “[w]hen procuring ... services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds” (45 CFR § 92.36(a)).

The cost principles for State and local governments are established in 2 CFR part 225 (OMB Circular A-87, hereafter referred to as the Circular). These cost principles state:

to be allowable under Federal awards, costs must ... be necessary and reasonable for proper and efficient performance and administration of Federal awards ...; be allocable to Federal awards ...; be authorized or not prohibited under State or local laws or regulations ...; conform to any limitations or exclusions set forth in the terms and conditions of the Federal award ...; be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit ...; and be adequately documented (OMB Circular A-87, Appendix A, §§ C.1.a., b., c., d., e., and j.).

The Circular also provides principles for determining the allowability of specific items of cost (OMB Circular A-87 § A.1). For example:

- The Circular stipulates that “[c]harges to Federal awards for salaries and wages ... will be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official(s) of the governmental unit.” Additionally, it states that “[w]here employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification” and that “[t]hese certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.” It adds that, “[w]here employees work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation ... unless a statistical sampling system ... or other substitute system has been approved by the cognizant Federal agency.” The Circular also states that “personnel activity reports or

equivalent documentation must ... reflect an after-the-fact distribution of the actual activity of each employee ..." and that "budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards ..." (OMB Circular A-87, Appendix B, §§ 8. h.(1), (3), (4), and (5)(a)(e)).

- The Circular stipulates that "[s]everance payments (but not accruals) associated with normal turnover are allowable" and that "[s]uch payments shall be allocated to all activities of the governmental unit as an indirect cost" (OMB Circular A-87, Appendix B, § 8.g).
- The Circular also provides that in determining the allowability of professional and consultant services costs, the "adequacy of the contractual agreement for the service" is a relevant factor (OMB Circular A-87, Appendix B, § 32. b.(8)).

HHS GRANT REQUIREMENTS

The HHS Grants Policy Statement states that a grantee indicates acceptance of an award and its associated Terms and Conditions by requesting and accepting funds. The Notice of Award is binding unless and until it is modified by a revised Notice of Award signed by the Grants Management Officer (Part II, page 1).

- The PPHF award terms and conditions states that travel costs are allowable only "for personnel directly charged and approved on the [award]" (CDC Award Number 5U50CI000885-02, Terms and Conditions, Note 11) or who impart a direct benefit on the activities of the award (CDC Award Number 5U50CI000885-02S3, Terms and Conditions, Note 13).

STATE REQUIREMENTS

The North Carolina Administrative Code states that "[i]n consideration of receiving either state or federal funds, the receiving party ... shall sign a contract with the department or division which shall contain the obligations of the parties to the agreement" (10A NCAC 01A .0601(a)).

The State agency's policies and procedures also require that "all contracts, agreements, or other similar arrangements involving the expenditure of state and/or federal funds shall be in writing and signed by the authorized individual" (NC DHHS Policies and Procedures, General Contracting Manual, Chapter 1, Implementation, Requirements, 2.).

The State agency's policies and procedures allow that "[a]ny person providing training, consultation and/or other services may be paid a maximum of \$50 per hour, not to exceed \$400 for any one day's service" (NC DHHS Policies and Procedures, General Contracting Manual, Chapter 4, Policy, Personal Services Contract Rates, 3.).

APPENDIX C: STATISTICAL SAMPLING METHODOLOGY

POPULATION

The population consisted of all costs that NC DHHS claimed for reimbursement under CDC PPHF grants and cooperative agreements awarded during FYs 2010 through 2013.

SAMPLING FRAME

We received 38 Excel files from the Section Chief of the Budget and Administrative Services division in the NC DHHS, Office of the Controller, containing all transactions related to CDC PPHF grants and cooperative agreements awarded to NC DHHS during FYs 2010 through 2013. We combined the 38 Excel files into a single Excel spreadsheet containing 19,788 transactions totaling \$27,127,878 (\$26,849,979 Federal share). From this listing of transactions, we identified and removed:

- 2,525 transactions, totaling \$1,968,505 (\$1,968,505 Federal share),¹⁵ that NC DHHS had not yet claimed for reimbursement on Federal Financial Reports;
- 377 transactions, totaling \$13,533,726 (\$13,460,322 Federal share), related to subawards; and
- 10,974 transactions, totaling \$773,294 (\$726,314 Federal share), for indirect cost items.¹⁶

We combined the remaining 5,912 transactions, totaling \$10,852,353 (\$10,694,838 Federal share) of costs charged directly to the award, by the transaction's Doc ID number. This resulted in 2,213 unique Doc IDs.

From these 2,213 Doc IDs, we removed 20 Doc IDs that were composed of offsetting transactions totaling \$0. We also removed 352 Doc IDs that had a Federal share amount less than \$100 (including negative values), which totaled -\$46,375 (-\$43,958 Federal share).

The resulting Excel spreadsheet contained 1,841 Doc IDs, totaling \$10,898,728 (\$10,738,796 Federal share), of direct charges and represented our sampling frame.

SAMPLE UNIT

The sample unit was a Doc ID.

¹⁵ Only one of the grants included in our sampling frame had a cost-sharing requirement. However, there were no transactions related to that grant in this category of transactions that had not yet been claimed for reimbursement.

¹⁶ Because of the unique nature of indirect costs, we used other audit procedures to test their allowability. We reviewed NC DHHS's application of approved indirect cost rates to assess the allowability of indirect costs.

SAMPLE DESIGN

We used a stratified sample containing two strata and divided the sampling frame based on transaction amounts associated with Doc IDs as follows:

Table 2: Strata and Document Identification Amounts

Stratum	Range (Federal Share)	Number of Doc IDs	Total Dollars (Federal Share)
1	\$100 through \$42,000	1,806	\$7,895,344
2	Greater than \$42,000	35	2,843,452
	Total	1,841	\$10,738,796

SAMPLE SIZE

We selected a sample size of 135 Doc IDs. The sample size by stratum was:

Table 3: Sample Size by Stratum

Stratum	Number of Sample Items
1	100
2	35
Total	135

SOURCE OF RANDOM NUMBERS

We used the Office of Inspector General, Office of Audit Services (OIG/OAS), statistical software to generate the random numbers.

METHOD OF SELECTING SAMPLE UNITS

We consecutively numbered the items in stratum 1. After generating the random numbers for stratum 1, we selected the corresponding frame items. For stratum 2, we selected all 35 items.

ESTIMATION METHODOLOGY

We used the OIG/OAS statistical software to estimate costs that could have been used more economically and efficiently. The upper and lower limits for this estimate were calculated in Microsoft Excel using the empirical likelihood method.

APPENDIX D: SAMPLE RESULTS AND ESTIMATE

Table 4: Sample Results

Stratum	Frame Size	Value of Frame	Sample Size	Value of Sample	Number of Unallowable Transactions	Value of Unallowable Transactions
1	1,806	\$7,895,344	100	\$513,778	9	\$27,320
2	35	2,843,452	35	2,843,452	0	0
Total	1,841	\$10,738,796	135	\$3,357,230	9	\$27,320

Table 5: Estimated Value of Cost Savings and the Associated 90-Percent Confidence Interval

Point estimate	\$493,401
Lower limit	153,268
Upper limit	1,396,646

**APPENDIX E: STATE AGENCY CDC PREVENTION AND PUBLIC HEALTH FUND
AWARDS RECEIVED THROUGH SEPTEMBER 30, 2013, AND
RELATED COSTS CLAIMED**

Award Number	Award Title¹⁷	Federal Share of Claimed Costs
3U58DP001498-05W1	<i>The Goal of The NC Nutrition, Physical Activity and Obesity Program is to Prevent</i>	\$22,186
1U58DP004122-01	<i>Breast and Cervical Cancer Screening Opportunity Financed Solely by 2012 Preventi</i>	216,494
1U58DP003053-01	<i>Communities Putting Prevention to Work</i>	3,778,867
3U58DP001981-03W1	<i>Healthy Communities, Tobacco Control, Diabetes Prevention and Control, and Behavi</i>	22,713
3U58DP001981-03W2	<i>Health Communities, Tobacco Control, Diabetes Prevention and Control, and Behavi</i>	17,351
1H23IP000538-01	<i>PPHF: Capacity Building Assistance to Strengthen Public Health Imm</i>	213,375
1U58DP003511-01	<i>NC Community Transformation Grant</i>	13,357,221
5U58DP003511-02 ¹⁸	<i>NC Community Transformation Grant</i>	0
3U50CI000885-02S3	<i>PPFH: Building Epidemiology Laboratory Capacity (ELC)</i>	529,337
1U58DP004025-01	<i>2012 Prevention and Public Health Funds-State Public Health Approaches for Ensuri</i>	703,950
3U58SO000057-02W1	<i>SO11-1101, Behavioral Risk Factor Surveillance System (BRFSS)</i>	100,986
1U58CD001291-01	<i>CD10-1011 Strengthening Public Health Infrastructure for Improved Health Outcomes</i>	821,736
5U58CD001291-02	<i>CD10-1011 Strengthening Public Health Infrastructure for Improved Health Outcomes</i>	1,593,847
5U58CD001291-03	<i>CD10-1011 Strengthening Public Health Infrastructure for Improved Health Outcomes</i>	1,123,770
5U58CD001291-04	<i>CD10-1011 Strengthening Public Health Infrastructure for Improved Health Outcomes</i>	286,465
1U580CI00885-01	<i>The Affordable Care Act: Building Epidemiology, Laboratory</i>	105,655
5U50CI000885-02	<i>The Affordable Care Act: Building Epidemiology, Laboratory</i>	845,552
3U50CI000885-02S2	<i>The Affordable Care Act: Building Epidemiology, Laboratory</i>	26,798
5U58DP001498-05	<i>The Goal of the NC Nutrition, Physical Activity and Obesity Program is To Prevent</i>	1,111,592
	Total	\$24,877,895

¹⁷ The award titles shown here appear exactly as they appeared on the Notices of Award that CDC issued, including the truncated words and abbreviations.

¹⁸ The Federal share of claimed costs for this award was included in award number U58DP003511-01.

APPENDIX F: NORTH CAROLINA DEPARTMENT OF
HEALTH AND HUMAN SERVICES COMMENTS



North Carolina Department of Health and Human Services

Pat McCrory
Governor

Richard O. Brajer
Secretary

November 16, 2015

Lori S. Pilcher, Regional Inspector
General for Audit Services
Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3t41
Atlanta, GA 30303

Re: Report Number: A-04-14-04028

Dear Ms. Pilcher:

We have reviewed your draft report entitled *North Carolina Department of Health and Human Services Did Not Always Claim Costs Under CDC Prevention and Public Health Fund Awards in Accordance With Federal Requirements*. The following represents our response and corrective action plan to the Findings and Recommendations.

FINDINGS

THE STATE AGENCY CLAIMED COSTS THAT WERE NOT ALWAYS IN ACCORDANCE WITH FEDERAL REQUIREMENTS

Of the 135 sample items in our statistical sample [totaling \$3,425,255], 9 sample items with transactions totaling \$27,320 were not allowable. The unallowable costs included:

- *\$22,544 for training costs that did not comply with the State's regulations, policies and procedures, including \$3,330 for training costs that were also not adequately documented;*
- *\$2,369 for travel costs that did not conform to the terms and conditions of the award;*
- *\$1,405 for a severance payment that was not allowable as a direct cost; and*
- *\$1,002 for the costs of office supplies that were not allocable.*

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THE STATE AGENCY CLAIMED SUBGRANTEE COSTS THAT WERE NOT ALWAYS ALLOWABLE

To carry out the objectives of some of its CDC PPHF awards, the State agency granted subawards to local county health departments (subgrantees). Grantees are required to monitor subgrant supported activities to assure compliance with applicable Federal requirements (45 CFR § 92.40). Subgrantees may only use grant funds for allowable costs (45 CFR § 92.22(a)(1)).

The scope of our audit included reviewing CDC PPHF subaward costs claimed by two of these subgrantees: Appalachian District County Health Department (Appalachian) and Pitt County Health Department (Pitt). Each subgrantee received \$3.4 million in PPHF subawards. At the time of our fieldwork, the State agency reported that Appalachian and Pitt had each expended \$2.3 million of the \$3.4 million in PPHF subawards. We judgmentally selected for review 156 transactions totaling \$846,985 at these subgrantees (87 transactions totaling \$437,993 at Appalachian and 69 transactions totaling \$408,992 at Pitt).

Of the 156 subgrantee transactions, totaling \$846,985 in our judgmental sample, 152 transactions totaling \$823,820 were allowable (86 transactions totaling \$422,493 at Appalachian and 66 transactions totaling \$401,327 at Pitt), but 4 transactions totaling \$23,165 were not. See Table 1 below for a summary of the unallowable subgrantee costs:

Table 1: Unallowable Subgrantee Costs

<u>Cost Type</u>	<u>Unallowable Costs</u>			<u>Reason(s) for Disallowance</u>
	<u>Appalachian</u>	<u>Pitt</u>	<u>Total</u>	
<u>Administrative salary costs</u>	<u>\$15,500</u>	<u>=</u>	<u>\$15,500</u>	<u>(a) and (b)</u>
<u>Planning (personnel compensation)</u>	<u>=</u>	<u>\$6,080</u>	<u>6,080</u>	<u>(a) and (b)</u>
<u>Office supplies</u>	<u>=</u>	<u>949</u>	<u>949</u>	<u>(a)</u>
<u>Computer equipment</u>	<u>=</u>	<u>636</u>	<u>636</u>	<u>(a)</u>
		<u>Total</u>	<u>\$23,165</u>	

- a. Costs were not adequately documented
- b. Compensation costs were not supported by personnel activity reports or equivalent documentation.

THE STATE AGENCY COULD HAVE USED FEDERAL FUNDS MORE EFFECTIVELY FOR AWARD OBJECTIVES

The State agency claimed unallowable costs under CDC PPHF awards because it did not have adequate controls to ensure that all costs charged to the awards were allowable. By claiming unallowable costs, the State agency did not always use Federal funds effectively. On the basis of our statistical sample results, we estimated that the State agency could have more effectively used \$493,401 of Federal funds for allowable expenditures that would have furthered the CDC PPHF award objectives.

RECOMMENDATIONS

We recommend that the State agency:

- *refund to the Federal Government the \$50,485 in unallowable costs and*
- *improve its controls, which would have saved an estimated \$493,401 of costs charged to CDC PPHF awards, to ensure that:*
 - *costs charged to Federal awards comply with Federal requirements and*
 - *Federal funds are used efficiently and effectively to advance Federal award goals and objectives.*

DHHS RESPONSE

The State Agency Claimed Costs That Were Not Always In Accordance With Federal Requirements

The Department concurs that the State Agency's established procedures and controls should be adhered to and strengthened to ensure that only allowed costs are charged to the PPHF awards.

As a standard practice, the Division of Public Health PPHF policy section (State Agency) uses conference authorization forms to plan and authorize training conference details, including the selection and payment terms of speakers. In two occurrences noted, State Agency staff did not obtain proper contracts for speakers' fees as required by Department policy, relying instead on the conference authorization forms. Additionally, there were two occurrences when State Agency staff did not include the required justifications on conference authorization forms for costs that exceeded the maximum rates per the Department's policy. The unallowable costs charged to the PPHF program for travel, severance (due to a reduction in force) and office supplies were due to State Agency staff's misunderstanding of when certain costs are charged as direct or indirect per the federal requirements.

The State Agency will enhance its review and approval procedures to ensure that contracts are consistently established prior to issuing payments for speaking engagements, fees paid in excess of maximum rates allowed have written justification, and all program costs are allocable, properly classified and sufficiently documented. Additionally, the State Agency will provide refresher training to staff to ensure compliance with Federal and State regulations impacting PPHF award requirements.

The State Agency Claimed Subgrantee Costs That Were Not Always Allowable

The State Agency understands its responsibility to monitor sub-grantees' supported activities and use of Federal funds as allowed per the CDC PPHF award and other applicable Federal requirements. The PPHF program staff effectively monitored the programmatic activities of sub-grantees but will strengthen the fiscal monitoring policies and procedures in place to ensure that grant funds are only used for allowable costs. The State Agency will restructure its fiscal monitoring activities including modifying monitoring tools and implementing on-site or desk reviews of sub-grantee program costs. The reviews will be structured to identify sub-grantee program costs that do not comply with program requirements or are insufficiently documented. The State Agency has obtained assistance internally from the Department

to review and enhance its sub-grantee monitoring practices. Additionally, the State Agency will conduct sub-grantee training.

The State Agency Could Have Used Federal Funds More Effectively For Awards Objectives

The Department is committed to administering and managing the PPHF program with the highest degree of accuracy, integrity, and accountability. The Department acknowledges that with stronger controls in place, the PPHF program funds will be used more effectively to further meet the CDC program objectives. The Department will monitor the progress of the aforementioned internal control enhancements and management practices to ensure that Federal awards are administered efficiently and effectively by the State Agency.

The recommendation to refund the \$50,485 is taken under advisement and the question costs identified will be further reviewed and investigated. The State Agency will confer with the CDC and payback Federal funds as required. Recoupments will be obtained from sub-grantees as deemed necessary.

The anticipated completion date for the above corrective action is March 31, 2016.

We greatly appreciate the professionalism of your review staff and the analysis and recommended corrective actions provided in your review report.

If you need any additional information, please contact Mary R. Johnson at (919) 855-3738.

Sincerely,

/Richard O. Brajer/

Richard O. Brajer

ROB:mrj

cc: Randall Williams, MD, Deputy Secretary of Health Services
Danny Staley, Acting Director, Division of Public Health
Ruth Petersen, Section Chief, Division of Public Health
Allen Hawks, Business Director, Division of Public Health
Emery E. Milliken, General Counsel
Laketha M. Miller, Controller
Chet Spruill, Director, Office of Internal Audit
John E. Thompson, Manager, Risk Mitigation & Audit Monitoring