

**Memorandum**

AUG 17 1993

Date

Bryan B. Mitchell

From

Principal Deputy Inspector General

Subject

Follow-Up Report on the Office of Inspector General Review of Relationship Between the Hansen's Disease Foundation and the Gillis W. Long Hansen's Disease Center (A-06-92-00081)

To

Philip R. Lee, M.D.
Assistant Secretary for Health

Attached is our final follow-up report entitled "Follow-Up Report on the Office of Inspector General Review of Relationship Between the Hansen's Disease Foundation and the Gillis W. Long Hansen's Disease Center." This report discusses the Public Health Service's (PHS) actions in response to recommendations by our office in June, 1991. We reported then that Gillis W. Long Hansen's Disease Center (Center) employees did not seek and receive approval for engaging in outside activities as required under the Department of Health and Human Service's (HHS) Standards of Conduct; and that the Center absorbed the costs of research that should have been charged to the Hansen's Disease Foundation (Foundation). We recommended that the PHS: (1) ensure that Center employees are aware of and conform to HHS' Standards of Conduct; (2) require the Center's Director and staff to prepare a reasonable estimate of the Center's costs that should have been charged to the Foundation and request reimbursement for these charges; and (3) require the Center's Director to establish procedures to ensure that future costs identified by the Center as a result of Foundation activities are identified and reimbursed.

The PHS concurred with our recommendations and, for the most part, took appropriate corrective action. However, PHS did not adequately respond to our recommendation that it identify and recover costs that should have been charged to the Foundation. When the Center identified costs totaling \$164,727.66 that should have been charged to the Foundation, PHS authorized the Center to transfer these recovered funds into an unconditional gift fund at the Center rather than to credit an appropriation that was the original source of the funds. Based on an opinion of the HHS Office of General Counsel we are recommending that PHS require the Center to credit the \$164,727.66 recovered from the Foundation to the appropriation that originally provided those funds.

Officials in your office have concurred with our recommendation and have stated that the Center has been directed to initiate action to restore the funds recovered from the Foundation to the appropriation originally charged.

Page 2 - Philip R. Lee, M.D.

We would appreciate your views and the status of any further action taken or contemplated on our recommendations within the next 60 days. If you have any questions, please call me or have your staff contact Daniel W. Blades, Assistant Inspector General for Public Health Service Audits, at (301) 443-3583. To facilitate identification, please refer to Common Identification Number A-06-92-00081 in all correspondence relating to this report.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**FOLLOW-UP REPORT ON THE OFFICE OF
INSPECTOR GENERAL REVIEW OF
RELATIONSHIP BETWEEN THE
HANSEN'S DISEASE FOUNDATION AND
THE GILLIS W. LONG HANSEN'S
DISEASE CENTER**



AUGUST 1993 A-06-92-00081

**Memorandum**

Date AUG 17 1993

From Bryan B. Mitchell *Bryan Mitchell*
Principal Deputy Inspector General

Subject Follow-Up Report on the Office of Inspector General Review of Relationship Between the Hansen's Disease Foundation and the Gillis W. Long Hansen's Disease Center (A-06-92-00081)

To Philip R. Lee, M.D.
Assistant Secretary for Health

This memorandum provides you with the results of our final follow-up audit regarding resolution of the findings and recommendations previously reported by the Office of Inspector General (OIG), Office of Audit Services report on the relationship between the Hansen's Disease Foundation (Foundation) and the Gillis W. Long Hansen's Disease Center (Center). We reported that: (1) Center employees did not seek and receive approval for engaging in outside activities as required under the Department of Health and Human Service's (HHS) Standards of Conduct; and (2) the Center absorbed the costs of research that should have been charged to the Foundation. We recommended that the Public Health Service (PHS) ensure that the Center's employees follow the Standards of Conduct and identify and recover any costs that should have been charged to the Foundation.

Two of the recommendations from our previous report have been satisfactorily implemented or otherwise resolved by PHS. With regard to the third recommendation, Center and Foundation officials performed a coordinated review of both organizations' records and identified costs totaling \$164,727.66 that should have been charged to the Foundation. The Foundation forwarded a check for this amount to the Center on March 20, 1992. The PHS authorized the Center to transfer these recovered funds into an unconditional gift fund at the Center rather than crediting them to the appropriation that originally funded the research. Based on an opinion of the HHS Office of General Counsel (OGC), we are recommending that PHS require the Center to credit the \$164,727.66 recovered from the Foundation to the appropriation originally charged to conduct the research.

In response to our draft report, PHS concurred with our recommendation that the Center credit funds recovered from the Hansen's Disease Foundation to the appropriation originally charged.

BACKGROUND

On June 20, 1991, the OIG issued a report titled "Review of the Relationship Between the Hansen's Disease Foundation and the Gillis W. Long Hansen's Disease Center (A-06-90-00031)." Resolution of the findings and recommendations to the Center were undertaken in October 1991 by PHS. According to an amended Audit Clearance Document (ACD) dated January 22, 1992, the PHS completed its planned actions to resolve all recommendations.

SCOPE

This follow-up audit was performed in accordance with generally accepted government auditing standards. Our objective was to determine whether the financial adjustment and corrective actions recommended in the June 20, 1991, report have been implemented. Our work included reviewing the original OIG audit report, discussing our follow-up review with PHS and Center officials, and obtaining information documenting the implementation and resolution of the audit recommendations. Our review also included obtaining an OGC opinion concerning the disposition of funds recovered by the Center from the Foundation.

Our field work was performed at the Center in Carville, Louisiana, and at PHS offices in Rockville, Maryland during the months of July and August 1992.

We provided a copy of our draft report to PHS for comment on March 26, 1993. On June 25, 1993, PHS responded to our draft report, concurred with our recommendation, and indicated that corrective action will be taken.

RESULTS OF FOLLOW-UP REVIEW

The PHS has satisfactorily resolved two of the audit recommendations from our previous audit report. With regard to the third recommendation, the Center Director requested reimbursement of \$264,474 from the Foundation for costs absorbed by the Center since 1982. The Foundation officials did not agree with this amount. Subsequently, Center and Foundation officials agreed to a refund of \$164,727.66.

Center and Foundation officials performed a coordinated review of both organizations' records to determine the settlement amount. The Foundations's records of grant receipts and disbursements through December 31, 1990, and the Center's grant records for earlier years supported the Foundation's request for a downward revision of the reimbursement amount from \$264,474 to \$164,727.66. Based on their review, the officials agreed that the Foundation should reimburse the

Center a total of \$164,727.66 to cover costs that should have been charged to Foundation projects. The Foundation forwarded a check for this amount to the Center on March 20, 1992.

In response to a request from the Center for disposition of the \$164,727.66, PHS authorized the Center to transfer the funds into an unconditional gift fund where the funds would be available for the Center's discretionary use. We questioned PHS officials about the propriety of the disposition of the recovered Federal funds. They stated that they are satisfied with the resolution and considered the matter closed.

We requested an opinion from OGC regarding the proper disposition of the recovered funds. In reply to our request, the OGC concluded:

"The original donations from the Hansen's Disease Foundation to the GWLHDC were necessarily conditional gifts. ...Therefore, the \$164,727.66 received from the Foundation must be credited to the appropriation(s) originally charged to conduct the research."

RECOMMENDATION

We recommend that PHS require the Center to immediately credit the \$164,727.66 recovered from the Foundation to the appropriation originally charged.

A detailed discussion on our previous audit findings and actions taken on our recommendations by the PHS are included in Appendix A to this memorandum.

PHS COMMENTS

The PHS concurred with our recommendation and stated that the Center has been directed to initiate action to restore the funds recovered from the Foundation to the appropriation originally charged. We included a copy of PHS' comments as Appendix B to this report.

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We would appreciate being advised within 60 days on the status of corrective action taken or planned on the recommendation. If you wish to discuss this issue further, please call me or have your staff contact Daniel W. Blades, Assistant Inspector General for Public Health Service Audits, at (301)443-3583.

APPENDICES

Current Status of Findings

Review of Audit of the Relationship Between the
Hansen's Disease Foundation and the
Gillis W. Long Hansen's Disease Center
Common Identification Number A-06-90-00031
(Issued June 20, 1991)

Findings Reported

The Center employees served as officers and directors of the Foundation from 1982 until 1989 without seeking and receiving required approval for engaging in outside activities. In March 1989, Center employees requested and received approval to serve as officers and directors of the Foundation. In December 1989, the Director of the Bureau of Health Care Delivery and Assistance rescinded this approval because it conflicted with the employees' official Federal duties and responsibilities. As a result, Center employees discontinued their roles as officers and directors of the Foundation. We found no evidence that Center employees were involved in decisions resulting in any personal gain or activities that conflicted with their Center responsibilities prior to resigning their positions with the Foundation. In the future, the Center Director should ensure that Center employees are aware of and conform to the Federal policy regarding outside activities.

We also found that the costs of Foundation activities at the Center were not always distinguishable from the costs of Center activities. Although Foundation funds were often used to supplement Center activities, we believe that the Center absorbed costs that should have been charged to the Foundation. The absence of procedures for separately identifying and charging costs incurred on Foundation sponsored research precluded us from identifying the amount of such costs charged to the Center.

The report recommended that the PHS:

1. Ensure that Center employees are aware of and conform to HHS' Standards of Conduct;
2. Require the Center to establish procedures to ensure that costs incurred by the Center as a result of nonfederal activities are identified and reimbursed; and
3. Require the Center to identify and recover any costs that should have been charged to the Foundation.

In response to our draft report, PHS officials agreed with the three recommendations, and notified us that:

1. Center employees regularly receive HHS bulletins regarding standards of conduct for outside activities, including a memo that reinforced the importance of the "Standards";
2. The PHS implemented procedures to provide for the accountability of the Center's grant-related activities; and
3. The PHS will prepare a reasonable estimate of the Foundation's cost for reimbursement.

Actions Taken by PHS and the Center

The Cost and Audit Management Branch, Division of Financial Management issued an ACD on October 18, 1991. The ACD showed that PHS took actions to implement or otherwise resolve all recommendations.

Regarding the three recommendations, we found that:

- o In March 1991 and July 1992, the Center notified all employees of the HHS Standards of Conduct for outside activities. In addition, the Foundation moved its activities from the Center to Baton Rouge, Louisiana. At the time of our review, there were no Center personnel who were members of the Foundation's Board of Directors or assigned to work on Foundation grants.
- o The Center issued procedures in March 1991 to establish responsibility and accountability for research and other work conducted under outside grant agreements. These procedures were designed to assure that: (1) staff time and materials for grant funded projects were accumulated and reported monthly, and (2) grant proposals written by Center staff on Government time would be submitted on behalf of the Center.

The Foundation is currently controlling funds associated with the production and sale of monofilaments in support of the Center's rehabilitation activities. Also, the Foundation holds grant funds for a project which pays for supplies and equipment for the Center. In order to streamline the approval process for activities using funds from these and any other open restricted accounts, the Center has requested that the Foundation turn over all restricted funds. Transfer of the funds will place complete control for their use under the Center.

- o The Center Director requested reimbursement of \$264,474 from the Foundation for costs absorbed by the Center since 1982. These costs represented various research projects financed by the Center for which the Foundation held grant funds to perform.

The Foundation disagreed on the amount of the recovery. To determine the correct amount, Center and Foundation officials performed a coordinated review of both organizations' records. The Foundation's records of grant receipts and disbursements through December 31, 1990, and the Center's grant records for earlier years supported the Foundation's request for a revision of the reimbursement amount to \$164,727.66. Based on this review, Center officials agreed that the Foundation should reimburse the Center a total of \$164,727.66 to cover costs that should have been charged to Foundation projects. The Foundation forwarded a check for this amount to the Center on March 20, 1992.

The PHS authorized the Center to transfer the total amount of reimbursement from the Foundation to an unconditional gift fund. The Center officials explained that these funds should be available for use by the Center since Federal appropriations were used for work on Foundation grants in prior years. At present, these funds are available for the Center's discretionary use.

The PHS officials stated that they are satisfied with the resolution of all audit recommendations and consider the matter closed.



Memorandum

Date . JUN 25 1993

From Director
Office of Resource Management, OM

Subject Office of Inspector General (OIG) Draft Report "Follow-Up
Report on the OIG Audit of Relationship Between the Hansen's
Disease Foundation and the Gillis W. Long Hansen's Disease
Center," A-06-92-00081

To Assistant Inspector General for Public Health Service
Audits, OS

Attached are the Public Health Service comments on the subject report. We concur with the recommendation that the Gillis W. Long Hansen's Disease Center (Center) credit funds recovered from the Hansen's Disease Foundation to the appropriation originally charged. Senior Center managers have been directed to initiate action to effect this credit.

Kathleen J. Martin
for John C. West

Attachment

PUBLIC HEALTH SERVICE (PHS) COMMENTS ON THE OFFICE OF
INSPECTOR GENERAL (OIG) DRAFT REPORT "FOLLOW-UP REPORT
ON THE OIG AUDIT OF RELATIONSHIP BETWEEN THE HANSEN'S
DISEASE FOUNDATION AND THE GILLIS W. LONG HANSEN'S DISEASE
CENTER," A-06-92-00081

OIG Recommendation

We recommend that PHS require the Center [Gillis W. Long Hansen's Disease Center] to immediately credit the \$164,727.66 recovered from the Foundation [Hansen's Disease Foundation] to the appropriation originally charged.

PHS Comment

We concur. The Center, which is part of the Bureau of Primary Health Care, Health Resources and Services Administration (HRSA), has been directed to initiate action to restore these funds to the appropriation originally charged. Although the requisite paperwork to effect this credit has not yet been submitted to HRSA's Division of Fiscal Services, senior Center managers are now actively involved in this issue. The HRSA expects to resolve this matter by September 30, 1993.