



JUL 30 2009

Region IX
Office of Audit Services
90 – 7th Street, Suite 3-650
San Francisco, CA 94103

Report Number: A-09-08-01006

Mr. John Erickson
Director, Public Health Emergency Preparedness and
Response Program
Washington State Department of Health
P.O. Box 47890
Olympia, Washington 98504-7890

Dear Mr. Erickson:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled “Review of Washington State’s Pandemic Influenza Expenditures for the Period August 31, 2005, Through June 30, 2008.” 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 Freedom of Information Act, 5 U.S.C. § 552, OIG reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act. Accordingly, this 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 at (415) 437-8360, or contact Doug Preussler, Audit Manager, at (415) 437-8360 or through email at Doug.Preussler@oig.hhs.gov. Please refer to report number A-09-08-01006 in all correspondence.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Mr. Alan A. Kotch
Director
Procurement and Grants Office
Centers for Disease Control and Prevention
2920 Brandywine Road (Mailstop E-14)
Atlanta, Georgia 30341

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF
WASHINGTON STATE'S
PANDEMIC INFLUENZA
EXPENDITURES FOR THE PERIOD
AUGUST 31, 2005, THROUGH
JUNE 30, 2008**



Daniel R. Levinson
Inspector General

July 2009
A-09-08-01006

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

BACKGROUND

The Centers for Disease Control and Prevention (CDC) provides funding to States, territories, and certain large cities through cooperative agreements to improve preparedness and response capabilities for bioterrorism and other public health emergencies. Beginning in 2005, Congress appropriated funds specifically to upgrade capabilities to prepare for and respond to pandemic influenza (pan flu). Through the existing cooperative agreements, CDC awarded \$500 million in pan flu funding in three phases:

- In Phase I (August 31, 2005, through August 30, 2006), awardees were to identify unmet needs and develop and exercise a pan flu preparedness plan and an antiviral drug distribution plan.
- In Phase II (August 31, 2006, through August 30, 2007), awardees were to complete and submit to CDC a work plan and progress reports and develop a pan flu exercise schedule.
- In Phase III (August 31, 2007, through August 9, 2008), awardees were to fill gaps identified in Phases I and II.

For each phase, CDC issued to awardees supplemental guidance setting forth the deadline for submitting a budget application to CDC and the required activities. The supplemental guidance also required awardees to submit interim and final financial status reports that summarized the amount of funding awarded, spent, and unspent for each phase.

In Washington State, the Department of Health (the State agency) administers the pan flu award. The State agency received a total of \$10,170,420 in pan flu funding for the three phases.

OBJECTIVE

Our objective was to determine (1) the extent to which the State agency spent its pan flu funding and (2) what types of costs it charged to the pan flu award and whether these costs complied with Federal cost requirements.

SUMMARY OF RESULTS

As of June 30, 2008, the State agency had spent \$7,371,252 of the \$10,170,420 in pan flu funding that it received from CDC. Unspent funds totaled \$2,799,168, or 27.5 percent of the cumulative awarded amount. The State agency attributed the unspent funds to delays in receiving supplemental guidance and funding from CDC for Phases I and II. The State agency also attributed the unspent funds to its decision to spend other funding that could not be carried forward into future years, including CDC's funding for general public health emergency preparedness and response and the State's funding for pan flu response activities.

The costs that the State agency charged to the pan flu award were in three major categories: compensation costs; costs related to contracts with local health jurisdictions; and other costs, including personal services contracts, travel expenses, equipment costs, and supplies. Of the \$7,371,252 that the State agency charged to the award, \$6,620,074 complied with Federal cost requirements. The remaining \$751,178 was either unsupported or unallowable, consisting of:

- \$588,649 of compensation costs (salaries, fringe benefits, and related indirect costs) that were not supported by the required employee certifications;
- \$158,416 of contract costs, including a local health jurisdiction's unsupported allocation of direct costs to the pan flu award and another local health jurisdiction's incorrect charging of indirect costs to the pan flu award; and
- \$4,113 of unallowable other costs related to the allocation of indirect costs to an equipment purchase.

The State agency did not have procedures for its employees who worked on multiple public health emergency preparedness and response activities to certify the work they performed or for local health jurisdictions to identify actual costs incurred under the pan flu award. State agency officials explained that these procedures were unnecessary because the State's emergency preparedness and response activities, which included pan flu response activities, had an overall common purpose.

RECOMMENDATIONS

We recommend that the State agency:

- either refund \$747,065 of unsupported compensation and contract costs or provide appropriate documentation to CDC for these costs,
- refund \$4,113 in unallowable other costs, and
- develop and implement procedures for employees who work on multiple public health emergency preparedness and response activities to certify the actual work they perform and for local health jurisdictions to identify actual costs incurred under the pan flu award.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In comments on our draft report (included in their entirety as Appendix B), the State agency commented that it partially concurred with the first recommendation and will work with CDC to resolve \$706,643 of the questioned contract and compensation costs. Regarding the remaining \$40,422 of contract costs, the State agency commented that it concurred with the finding but will work with the local health jurisdiction to provide documentation to CDC to resolve the questioned costs. The State agency concurred with the second and third recommendations. Nothing in the State agency's comments caused us to revise our findings or recommendations.

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INTRODUCTION

BACKGROUND

Funding for Pandemic Influenza Preparedness and Response Activities

Since 1999, the U.S. Department of Health and Human Services (HHS), Centers for Disease Control and Prevention (CDC), has provided funding to 62 jurisdictions (States, territories, and certain large cities) through cooperative agreements to improve preparedness and response capabilities for bioterrorism and other public health emergencies. Beginning in 2005, Congress appropriated funds specifically to upgrade capabilities to prepare for and respond to pandemic influenza (pan flu). Through the existing cooperative agreements, CDC awarded \$500 million in pan flu funding in three phases:¹

- In Phase I (August 31, 2005, through August 30, 2006), awardees were to identify unmet needs and develop and exercise a pan flu preparedness plan and an antiviral drug distribution plan.
- In Phase II (August 31, 2006, through August 30, 2007), awardees were to complete and submit to CDC a work plan and progress reports and develop a pan flu exercise schedule.
- In Phase III (August 31, 2007, through August 9, 2008), awardees were to fill gaps identified in Phases I and II.

For each phase, CDC issued to awardees supplemental guidance setting forth the deadline for submitting a budget application to CDC and the required activities. The supplemental guidance also required awardees to submit interim and final financial status reports (FSR) that summarized the amount of funding awarded, spent, and unspent for each phase.

For the current cooperative agreement budget year (August 10, 2008, through August 9, 2009), CDC has not provided any funding specifically for pan flu activities even though CDC requires awardees to continue these activities.

Washington State Department of Health

In Washington State, the Department of Health (the State agency) administers the pan flu award. The State agency received a total of \$10,170,420 in pan flu funding for the three phases.

¹CDC has cited to various authorities for the bioterrorism program and the pan flu supplement. Initially, CDC's grant announcements for the bioterrorism program provided that funding was authorized under sections 301(a), 317(k)(1)(2), and 319 of the Public Health Service (PHS) Act (42 U.S.C. §§ 241(a), 247b(k)(1)(2), and 247(d)). Beginning in August 2005, CDC provided that funding was authorized under section 319C of the PHS Act (42 U.S.C. § 247d-3), which was subsequently repealed by the Pandemic and All-Hazards Preparedness Act, P.L. No. 109-417 (Dec. 19, 2006). The pan flu grant announcements and guidance do not consistently describe the statutory authorizations, but the CDC grant award documents list sections 301(a), 317(k)(1)(2), and 319 of the PHS Act for Phases I and II and sections 319(a) and 317(k) of the PHS Act for Phase III. CDC is currently relying on section 319C-1 of the PHS Act (42 U.S.C. § 247d-3a) for all of these grant awards.

CDC approved the State agency's requests to carry forward unspent pan flu funds from Phases I through III into future budget years as part of CDC's funding for general public health emergency preparedness and response.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine (1) the extent to which the State agency spent its pan flu funding and (2) what types of costs it charged to the pan flu award and whether these costs complied with Federal cost requirements.

Scope

We analyzed the State agency's pan flu funding of \$10,170,420 for Phases I through III and pan flu expenditures of \$7,371,252 incurred for the period August 31, 2005, through June 30, 2008.

We reviewed the State agency's accounting system to determine how funds were recorded and segregated and whether funds were spent for allowable activities and costs under Federal requirements, the cooperative agreement, and the supplemental pan flu guidance. We limited our review of internal controls to the process that the State agency used to claim pan flu funds.

We performed our fieldwork from July 2008 to May 2009 at the State agency in Tumwater, Washington, and at selected local health jurisdictions.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal regulations, the cooperative agreement, the supplemental pan flu guidance, pan flu budget applications, and the State agency's accounting policies and procedures;
- reviewed the State agency's chart of accounts, related account descriptions, and accounting records to gain an understanding of how the State agency accounted for its pan flu expenditures;
- reconciled the CDC-approved pan flu budget application for each phase to the State agency's summary expenditure reports to determine the extent to which the State agency spent its pan flu funding;
- analyzed the State agency's summary expenditure reports and reconciled all summarized costs to detailed transaction listings;

- categorized expenditures as compensation costs, costs related to contracts with local health jurisdictions, or other costs (including personal services contracts, travel expenses, equipment costs, and supplies) and:
 - traced compensation transactions to completed time certifications or approved timesheets,
 - reconciled all costs related to contracts with local health jurisdictions to CDC-approved pan flu expenditures and reviewed supporting documentation for selected local health jurisdictions, and
 - reconciled other costs to supporting documentation;
- reconciled the State agency's summary expenditure reports to the FSRs submitted to CDC as of June 30, 2008; and
- discussed our findings with State agency and local health jurisdiction officials.

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.

RESULTS OF REVIEW

As of June 30, 2008, the State agency had spent \$7,371,252² of the \$10,170,420 in pan flu funding that it received from CDC. Unspent funds totaled \$2,799,168, or 27.5 percent of the cumulative awarded amount. The State agency attributed the unspent funds to delays in receiving supplemental guidance and funding from CDC for Phases I and II. The State agency also attributed the unspent funds to its decision to spend other funding that could not be carried forward into future years, including CDC's funding for general public health emergency preparedness and response and the State's funding for pan flu response activities.

The costs that the State agency charged to the pan flu award were in three major categories: compensation costs; costs related to contracts with local health jurisdictions; and other costs, including personal services contracts, travel expenses, equipment costs, and supplies. Of the \$7,371,252 that the State agency charged to the award, \$6,620,074 complied with Federal cost requirements. The remaining \$751,178 was either unsupported or unallowable, consisting of:

- \$588,649 of compensation costs (salaries, fringe benefits, and related indirect costs) that were not supported by the required employee certifications;

²This amount represents the totals shown on the State agency's final FSRs for Phases I and II and the State agency's summary expenditure reports through June 30, 2008, for Phase III.

- \$158,416 of contract costs, including a local health jurisdiction's unsupported allocation of direct costs to the pan flu award and another local health jurisdiction's incorrect charging of indirect costs to the pan flu award; and
- \$4,113 of unallowable other costs related to the allocation of indirect costs to an equipment purchase.

The State agency did not have procedures for its employees who worked on multiple public health emergency preparedness and response activities to certify the work they performed or for local health jurisdictions to identify actual costs incurred under the pan flu award. State agency officials explained that these procedures were unnecessary because the State's emergency preparedness and response activities, which included pan flu activities, had an overall common purpose.

UNSPENT FUNDS

Federal regulations (45 CFR § 92.23(a)) require a grantee to charge to the award only those costs that result from obligations of the funding period unless the awarding agency permits the grantee to carry over unobligated balances into the subsequent funding period.

As of June 30, 2008, the State agency had not spent \$2,799,168 of the \$10,170,420 awarded for pan flu activities. (See Appendix A.) Specifically:

- *Phase I:* CDC awarded \$1,990,994. The State agency spent \$1,454,008 during Phase I and carried forward, with CDC's approval, \$536,986 of unspent pan flu funds.
- *Phase II:* CDC awarded \$4,612,085. The State agency spent \$3,932,121 during Phase II and carried forward, with CDC's approval, \$679,964 of unspent pan flu funds.
- *Phase III:* CDC awarded \$3,567,341. The State agency spent \$1,985,123 and had \$1,582,218 in unspent funds as of June 30, 2008, 40 days before Phase III ended. The State agency submitted the final FSR for Phase III on May 14, 2009, showing unspent funds of \$255,594. The entire amount was carried forward with CDC's approval.

State agency officials said that delays in receiving supplemental guidance and funding from CDC for Phases I and II were a major factor contributing to the unspent funds. Because the periods between the issuance of guidance and the award of funding were compressed, the State agency may not have had adequate time to determine how best to spend the funds. The table on the following page shows the timing of the awards.

Timing of Pan Flu Awards

	Budget Year	Guidance Issued	Budget Application Deadline	Funds Awarded³
Phase I	08/31/05 – 08/30/06	03/14/2006	04/08/2006	03/07/2006
Phase II	08/31/06 – 08/30/07	07/10/2006	07/15/2006 ⁴	09/26/2006
Phase III	08/31/07 – 08/09/08	09/21/2007	10/24/2007	09/25/2007

Congress appropriated pan flu funding in December 2005. CDC issued Phase I guidance to awardees in March 2006, which was more than 6 months into the budget year. The State agency received the funding from CDC for Phase I before receiving the guidance and received the funding for Phase II within 3 months after receiving the guidance. In addition, the deadline for the Phase II budget application was only 5 days after the State agency received new and more comprehensive pan flu guidance from CDC. As a result, the State agency had little time to determine how best to allocate and spend the funds.

According to State agency officials, the unspent pan flu funds were also attributable to the State agency's decision to spend other funding that could not be carried forward into future years, including CDC's funding for general public health emergency preparedness and response and the State's funding for pan flu response activities.

COSTS CHARGED TO AWARD

Federal cost principles applicable to States, now codified in regulations (2 CFR part 225, "Cost Principles for State, Local, and Indian Tribal Governments," Appendix A) (Office of Management and Budget Circular A-87), establish principles for determining the allowability of costs. These principles state that to be allowable under Federal awards, costs must be necessary and reasonable for the proper and efficient performance and administration of Federal awards, must be allocable to Federal awards under the provisions of 2 CFR part 225, and must be adequately documented.

The \$7,371,252 that the State agency charged to the pan flu award consisted of compensation costs; costs related to contracts with local health jurisdictions; and other costs, including personal services contracts, travel expenses, equipment costs, and supplies. Although \$6,620,074 of these costs complied with Federal cost requirements, the remaining \$751,178 did not. The \$751,178 consisted of \$588,649 of unsupported compensation costs, \$158,416 of unsupported or incorrectly charged contract costs, and \$4,113 of unallowable other costs.

³These dates represent the dates of the original awards. Subsequent revisions were made to release additional funds after review and approval of a detailed budget.

⁴Pursuant to the Public Health Preparedness and Response Cooperative Agreement, the initial application date for funding was July 15, 2006. However, a request for redirection of the pan flu Phase II funds was due by August 31, 2006.

Compensation Costs

Pursuant to 2 CFR part 225, Appendix B, section 8.h.(3):

Where 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. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

In addition, section 8.h.(4) states: “Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation, which will be required where employees work on more than one Federal award.”

The State agency charged \$1,150,825 to the pan flu award for compensation costs (salaries, fringe benefits, and related indirect costs). Of this amount, \$562,176 was correctly charged to the pan flu award for the costs of employees who worked solely on the pan flu grant or who submitted timesheets certifying the actual time that they worked on pan flu activities.

The remaining \$588,649 in compensation costs was not supported by employee certifications. The employees for whom these costs were charged had certified that they worked 100 percent of their time on public health emergency preparedness and response activities, including pan flu response activities, other CDC-funded emergency preparedness and response activities, and an Office of the Assistant Secretary for Preparedness and Response (ASPR) award. Contrary to Federal regulations, these certifications did not identify the time spent on each cost objective; i.e., each emergency preparedness and response area and the ASPR award. According to State agency officials, based on guidance from the Washington State Auditor’s Office, the State agency considered all emergency preparedness and response funding sources as a single cost objective for the purpose of meeting the certification requirements of 2 CFR part 225. However, during our audit, the State Auditor’s Office revised its position and advised State agency officials that there were multiple and separate cost objectives under CDC’s public health emergency preparedness and response program.

Contract Costs

Pursuant to 2 CFR part 225, Appendix A, section E.1.: “Direct costs are those that can be identified specifically with a particular final cost objective.” Section F.1. states: “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 benefitted, without effort disproportionate to the results achieved.” Section C.3.a. states: “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.”

The State agency charged \$4,683,262 to the pan flu award for costs related to contracts with local health jurisdictions and associated indirect costs. These contracts were awarded for such

pan flu activities as developing regional health care coalitions, enhancing emergency preparedness and response plans, developing disease surveillance and communications systems, enhancing risk communication capacity, and providing related education and training. Of this amount, \$4,524,846 was properly documented and allowable under the award, but \$158,416 was not, as explained below.

- Costs totaling \$117,994 were unsupported. To arrive at this amount, the local health jurisdiction totaled all direct costs related to public health emergency preparedness and response activities and used a percentage to calculate how much to allocate to the pan flu award. The percentage was based on a ratio of budgeted pan flu funding to total budgeted funding for the public health emergency preparedness and response program. The local health jurisdiction could not provide documentation to support that the costs allocated to the pan flu award were identified specifically with that cost objective.
- Costs totaling \$38,389 represented a portion of the salaries of two executives and miscellaneous expenditures for printing, supplies, and travel that another local health jurisdiction charged to the award as direct costs. Because these costs benefited more than one cost objective, they should have been included in the indirect cost rate.
- Costs totaling \$2,033 represented the State agency's indirect costs related to the unsupported or incorrectly charged contract costs described above.

State agency officials explained that they had established a single cost objective to capture all emergency preparedness and response funding sources and saw no conflict with 2 CFR part 225.

Other Costs

The State agency's negotiated indirect cost agreement with HHS specified that equipment costs should be excluded from the base when calculating and allocating indirect costs.

The State agency charged \$1,537,165 to the pan flu award for other costs, such as personal service contracts, travel expenses, equipment costs, and supplies. Of this amount, \$1,533,052 was properly documented and allowable under the award. However, the remaining \$4,113 represented unallowable indirect costs claimed on an equipment purchase.

RECOMMENDATIONS

We recommend that the State agency:

- either refund \$747,065 of unsupported compensation and contract costs or provide appropriate documentation to CDC for these costs,
- refund \$4,113 in unallowable other costs, and
- develop and implement procedures requiring employees who work on multiple public health emergency preparedness and response activities to certify the actual work they

perform and for local health jurisdictions to identify actual costs incurred under the pan flu award.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In comments on our draft report, the State agency commented that it partially concurred with the first recommendation and will work with CDC to resolve the questioned contract and compensation costs:

- For the \$588,649 of compensation costs, the State agency emphasized that it had followed guidance from the Washington State Auditor's Office (SAO) indicating that pan flu response activities, the public health and emergency preparedness program, and the ASPR award were properly classified as a single cost objective. The State agency commented that it believed that the reported costs were valid when considered in aggregate.
- For the \$158,416 of contract costs charged by local health jurisdictions, the State agency commented that \$117,994 of these costs were treated as a single cost objective because State and local program managers had followed guidance from the SAO. For the remaining \$40,422, the State agency commented that it concurred with the finding but will work with the local health jurisdiction to provide documentation to CDC to resolve the questioned costs.

The State agency concurred with the second and third recommendations. The State agency's comments are included in their entirety as Appendix B.

Nothing in the State agency's comments caused us to revise our findings or recommendations.

APPENDIXES

**WASHINGTON STATE'S PANDEMIC INFLUENZA
FUNDS, BY CATEGORY
August 31, 2005--June 30, 2008**

Category	Total Awarded	Total Spent	Unspent Funds
Compensation Costs:			
Personnel	\$906,921	\$745,363	\$161,558
Fringe Benefits	240,182	204,603	35,579
Costs Related to Contracts With Local Health Jurisdictions			
	6,703,000	4,623,161	2,079,839
Other Costs:			
Personal Services Contracts	1,628,894	1,152,052	476,842
Travel	0	21,953	(21,953)
Equipment	25,000	19,157	5,843
Supplies	<u>217,728</u>	<u>266,707</u>	<u>(48,979)</u>
Total Direct Costs	\$9,721,725	\$7,032,996	\$2,688,729
Indirect Costs	448,695	338,256 ¹	110,439
Total Award	\$10,170,420	\$7,371,252	\$2,799,168

¹The \$338,256 of indirect costs are related to the cost categories for compensation (\$200,859), contracts (\$60,101), and other costs (\$77,296).



STATE OF WASHINGTON

DEPARTMENT OF HEALTH

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July 14, 2009

Lori Ahlstrand
Office of Audit Services
Office of Inspector General
U.S. Department of Health and Human Services
90 – 7th St. Suite 3 – 650
San Francisco, CA 94103

We appreciate the opportunity to respond to the Department of Health and Human Services, Office of Inspector General (OIG) draft report entitled "Review of Washington State's Pandemic Influenza Expenditures for the Period August 31, 2005, Through June 30, 2008".

Concerning the questioned cost of \$588,649 for compensation costs that were charged by the Washington State Department of Health to the grouped pan flu, bioterrorism focus areas, and HHS Office of Assistant Secretary for Preparedness and Response (ASPR) award; we wish to emphasize that our agency was following guidance received from our Washington State Auditors Office, as acknowledged in your report.

The Washington State Auditor's Office had reviewed time and effort reporting for the Public Health and Emergency Preparedness Program (PHEPR) in each of the preceding three years before the OIG Pan Flu program audit, as a part of the federal Single Wide State Audit (SWSA). Accordingly, we were advised that the program components of Pan Flu, PHEPR and ASPER were properly classified as a single cost objective, allowing our staff to report 100% of their time via semi - annual certifications per OMB Circular A-87 requirements.

Work on either PHEPR or Pan Flu projects can easily result in a benefit to both programs. It is not always easy to tease out the value-added portion of completed work and assign the cost to one or the other of these projects.

In the initial year of the pan flu program, DOH chose not to charge staff time to the Pan Flu program despite work on pan flu-related activities to get the program up and running at the Department of Health. Staff work during the first year was used to establish and assign an allocation between PHEPR and Pan Flu in the two subsequent periods. Based on these continuing requirements of staff time in subsequent years, we did not see the need to change these allocations during the period of the grant. We believe that the reported costs are valid when considered in aggregate.

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With respect to questioned costs of \$158,416 charged by local health jurisdictions, \$117,994 was charged in direct salary in substantially the same manner as did the State Department of Health, in that Pan Flu and PHEPR costs were treated as a single cost objective. Again, our state and local program managers were simply following our State Auditor's Office guidance.

We partially concur with the recommendation provided by DHHS OIG audit team, and will work with CDC to resolve \$706,643 of the questioned cost.

With respect to the remaining \$40,422 resulting from improperly classified distributed direct costs, we concur with the auditor's finding, but will work with our local agency to provide documentation to CDC to resolve this questioned cost as well.

We also concur with the \$4,113 in unallowable indirect costs claimed on an equipment purchase.

Lastly, we concur with the recommendation, provided by OIG, that our agency develop and implement procedures requiring employees who work on multiple public health emergency preparedness and response activities to segregate compensation costs, now that the issue of separate cost objective has been sufficiently clarified.

We thank the Department of Health and Human Services, Office of Inspector General audit team for the professional work by their staff. Please contact Charles Satterlund, DOH Internal Auditor at (360) 236-4536 if you have any questions.

Sincerely,



John L. Erickson
Director of Emergency Preparedness
and Response