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TO: Mayor Michael D. Antonovich
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FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **PUBLIC HEALTH'S BIOTERRORISM GRANT PROGRAM AUDIT REPORT**

In February 2006, the Department of Health Services (DHS) Public Health (PH or Department) requested an audit of the bioterrorism grant program and on March 7, 2006, your Board directed the Auditor-Controller and Chief Administrative Officer to conduct an audit and review of the PH federal grants and funds earmarked for bioterrorism preparedness and the utilization of the funds provided. The principal concern was Public Health's spending of bioterrorism (BT) program funds to ensure that grant monies are used for their intended purposes. Your Board requested we report back in 30 days.

We reviewed the grant guidelines, discussed federal policies with the Centers for Disease Control and Prevention (CDC), interviewed managers from the federal Office of Inspector General to obtain an understanding of their BT grant auditing processes, reviewed a sample of grant purchases highlighted in recent press articles, and tested a sample of transactions to determine whether PH is spending grant funds for their intended purposes.

Summary

Based on our review, the Department is generally using CDC grant funding for the program's intended purposes. However, we noted areas where PH could improve their documentation/justification to support how certain purchases are related to grant activities. We also noted that PH could better document their consultations with CDC regarding unusual or potentially sensitive purchases.

It should be noted that our conclusion on the few expenditures which could be better documented/justified, is based on our years of experience in auditing the use of federal grants. As with many other federal grants we have audited in the past, CDC grant guidelines are broad and lack specificity in the proper use of grant funds and terms and are subject to interpretation. In most cases, the final decision is made by the grantor.

Background

As part of their Public Health Emergency Preparedness Cooperative Agreement, DHS receives federal grant funding from CDC to upgrade local public health jurisdictions' preparedness in their response to bioterrorism, outbreaks of infectious disease and other public health threats and emergencies.

DHS PH has received over $100 million in CDC grant funds for emergency preparedness against a bioterrorism attack since federal Fiscal Year (FFY) 2002-03. Below is a summary of PH's program expenditures from August 31, 2004 through January 31, 2006 for the FFY 2004-05 and FFY 2005-06 federal grants.

Los Angeles County's Bioterrorism Grant Expenditures
From August 31, 2004 to January 31, 2006
(Rounded)

Category	Expenditure Amount	Percent of Budget
Salaries & Employee Benefits	$ 12,400,000	59.62%
Services & Supplies	$ 1,800,000	8.65%
Consortium/Contractual	$ 4,600,000	22.12%
Indirect Costs	$ 2,000,000	9.62%
Total	$ 20,800,000	100.00%

According to CDC's grant guidelines, the funds are to be spent to upgrade and integrate State and local health jurisdictions' preparedness for and response to terrorism and other public health emergencies, and to support the National Response Plan and the National Incident Management System. Examples of program related activities include funding for public health nurses to conduct training sessions on bioterrorism and smallpox immunizations, an epidemiology analyst to maintain a database of potential bioterrorist events, and a contract for maintenance and enhancements of the County's Health Alert Network Notification System.

Grant Expenditures

CDC's grant guidelines describe in broad terms the allowable activities for cities, counties and states who receive grant funds. In addition, the Office of Management and Budget (OMB) Circulars, Code of Federal Regulations and Public Health Services

(PHS) Grant Policy Statements also provide basic standards on the allowability of costs claimed for reimbursement under all federal programs. Generally, the regulations indicate that to be allowable, expenditures must be allocable; necessary and reasonable; adequately documented; and conform to the terms and conditions of the federal award. As discussed further below, the bioterrorism grant guidelines do not always provide specific information/criteria on allowable or unallowable grant expenditures.

We compared PH's expenditures to the above grant guidelines and noted that for the majority of the cost categories, PH's expenditures appear to be appropriate and in compliance with the intent of the grant. Below is a brief summary of these cost categories.

- **Salaries and Employee Benefits** – Examples of PH's expenditures include: Disaster Services Analysts, Environmental Health Specialists, Public Health Nurses, etc.

  We reviewed 50 (20%) of the 250 positions charged to the BT program from FFY 2004-05 to FFY 2005-06 and noted that all positions and their grant related functions were well documented in PH's budget request which was approved by CDC. We also contacted ten employees/managers who charged time to the BT grant and noted that all ten were performing BT related functions/activities. In addition, we compared payroll reports to grant salary charges and verified that that the amount of time and salaries charged to the BT grant program were accurate.

- **Consortium/Contractual** – These costs consist of PH's agreements with vendors to help deliver BT related services. Examples of services include: consulting/maintenance services, education and outreach, training, and technological support. In addition, contractual costs include PH's bioterrorism sub-agreements with the City of Long Beach and the City of Pasadena. As part of the sub-agreements, the cities are required to perform activities similar to those provided directly by Los Angeles County.

  We reviewed documentation for a sample of PH's vendor contracts and noted the services provided are in compliance with the intent of the BT grant and are generally well documented in PH's detailed budget request that CDC approved. We also reviewed PH's city sub-agreements and noted that they include detailed explanations of each city's required tasks/activities, evaluation plans for the activities, and a budget for the cities' allowable costs. Further, the Department conducts audits for these contracts to ensure that cities meet administrative, programmatic and invoice processing requirements. The Department's sub-agreement reviews indicate that cities are providing services in accordance with grant/contract guidelines.

- **Indirect Costs.** The federal government and PH negotiate an indirect cost rate (e.g., facilities, administrative costs, etc.) which is included as part of the grant budget to account for indirect costs required to operate the BT program. The rate is expressed as a percentage and applied to all direct staffing expenses.

  We noted that PH informed CDC and applied the appropriate rate for FFY 2004-05 and FFY 2005-06.

Combined, these three categories comprise approximately 91% of PH's total grant expenditures, and as indicated, PH's expenditures in these categories appear to be appropriate.

Services and Supplies

The remainder of our review covered the Services and Supplies (S&S) grant category. PH's BT S&S budget consists of consultant fees, travel, equipment and supplies. S&S represents less than 9% of the total grant expenditures from August 31, 2004 through January 31, 2006. Based on recent press articles questioning the County's S&S spending for several grant expenditures, we performed a detailed review of a sample of issues the press identified. We also reviewed a separate sample of S&S expenses incurred in FFY 2005-06.

Our review disclosed that PH can better document their justifications that certain equipment and supply purchases are appropriate and are BT grant related. Details are discussed below.

Press Article Issues

- PH purchased 800 computers even though only 171 staff members are funded by the BT grant. PH management indicated that these computer purchases were required to build-up the Department's public health infrastructure for disease reporting, alert notification, and emergency communications. CDC management told us that equipment purchased with grant funds may be used for other public health related functions "as long as the primary purpose of the equipment is to support public health emergency preparedness activities." Therefore, it may be appropriate for PH to purchase computers for staff not directly charging to the grant. However, as discussed below, PH did not always include adequate justification for these purchases in their purchasing files.

  We reviewed documentation for purchases of 447 computers totaling approximately $728,000 and noted that PH's justification for 320 of the computers totaling $476,000 could be improved. Specifically, for 250 of the computers PH's documentation only indicates "new computers are needed to replace obsolete ones in Public Health." In addition, for 80 computers purchased PH's justification for the purchase only indicates "equipment." The documentation in the purchasing files does not support

how the computers will enhance public health infrastructure or how they will enhance emergency preparedness. Department staff have subsequently explained that computers of a sufficient capacity are needed for staff in area health offices and programs to report and access information related to surveillance and early notification as well as communication during any emergency. However, this information needs to be documented in the purchasing files.

- PH spent $42,000 for 70 desk chairs costing approximately $600 each. We reviewed four purchases for 13 desk chairs and noted that the Department appropriately purchased the chairs through a County agreement vendor. However, the Department's documentation did not contain full justification to indicate the use of these chairs.

- The Department spent over $128,000 on promotional items (e.g., flashlights, magnets, notepads, etc.) that were distributed at health fairs, conferences and other events from FFY 2003-04 to FFY 2004-05. We reviewed a sample of 21 promotional item transactions totaling $80,000 and noted that the items generally provide appropriate BT educational program information such as the bioterrorism website and other emergency information.

  Based on our discussion with CDC managers, the promotional items that PH purchased were allowable under the Cooperative Agreement since they were developed to better prepare and inform the public for emergency preparedness. In addition, CDC approved PH's budget request for the purchase of educational materials.

- PH spent over $57,000 to hire approximately 800 extras from a casting agency to conduct a mass vaccination smallpox exercise. The Department paid an additional $23,400 for plastic printed bags with BT promotional items and gift certificates for each exercise volunteer/extra, $8,600 for breakfast foods for all participants, $3,200 for lunch for the 200 BT staff that worked the exercise and $2,100 for transportation costs for all participants to the site location.

  Based on our review and discussions with CDC management, the smallpox exercise was an appropriate use of grant funds and the Department appropriately consulted with CDC on the use of actors for the exercise. PH informed CDC that it was more cost effective to hire actors at minimum wage than to use County employees for the exercise. PH management also indicated that volunteers they contacted were not willing to come in at the times requested or stay for the length of time requested.

  CDC management indicated that PH's purchase of the plastic printed bags, BT promotional materials and gift certificates for the exercise were allowable program expenditures since they were educational in nature. In addition, we determined that the additional costs for food and transportation were allowable program expenditures according to the Cooperative Agreement and federal guidelines. CDC guidelines

allow for food purchases when participants must work through regular meal times, and participant transportation costs are reasonable costs of the exercise.

- The County's PH Laboratory Relocation Project is expected to cost $15.2 million. This is an increase of $6.1 million (67%) over the $9.1 million that was originally budgeted. The project is also 22 months behind schedule. The Internal Services Department (ISD) and PH documentation indicate that the delays and increased project costs resulted primarily from unanticipated costs for upgrades required for the projects' mechanical and utilities systems, increases in construction costs, additional laboratory furnishings and accommodating CDC's request to include a chemistry laboratory for the project. PH received Board approval for the additional County and grant funding required to complete the project and the Department has also kept CDC informed on the revised project schedule. Based on our review, the additional costs were appropriately approved and delays in the project were appropriately communicated to the Board and CDC.

Review of Additional S&S Expenditures

In addition to the issues raised in the press, we reviewed 15 S&S purchases from FFY 2005-06, totaling approximately $402,000 and noted that the Department appropriately documented 14 of the transactions. For one purchase, the Department's grant justification does not appear to support the number of items purchased. Specifically, the Department purchased 40 portable computer memory drives, but for only ten physicians at a total cost of over $4,000. Purchasing files indicated that the items will be used to back up "...frequent files from computer to laptops at the office and in the field."

While purchasing computer memory drives appears allowable, without adequate documentation/justification in the purchasing files, the purchase of more computer-related items than required could be questionable. Computer equipment/supplies generally become obsolete faster than other types of supplies and, as a result, inventory should be minimized to the extent possible/practical. PH management told us the additional memory drives were required not only for physicians but also for health educators, epidemiologists, public health nurses and emergency kits to perform grant related activities. While the Department's explanations appear appropriate, PH should ensure that these explanations/justifications are included in the purchasing files to support all program expenditures.

S&S Expenditure Summary

As mentioned, the BT grant guidelines are not specific as to the types of S&S expenditures that are allowable. CDC management told us that the grant guidelines allow grantees considerable flexibility to use funds so that grantees could tailor their PH emergency preparedness program to best address their local needs. In addition, CDC management indicated that PH routinely communicates with them when the Department

has questions concerning whether expenditures are allowable under the program. However, we noted PH's consultations with CDC are not always documented.

While we did not have time to review all of the issues identified in the press articles, based on our review of a sample of PH expenditures, the Department is generally using BT grant funds for the program's intended purpose. However, to help minimize future questions regarding PH's grant expenditures, PH needs to ensure purchasing files include more detailed documentation/justification describing how purchases meet the purposes of the grant. For unusual or potentially sensitive expenditures, PH should consult with CDC to ensure the purchases are allowable prior to expending the funds and document the consultations in the purchasing files.

Recommendations

PH management:

1. **Ensure purchasing files include detailed documentation/justifications describing how purchases meet the purposes of the grant.**

2. **Continue to consult with CDC to ensure the purchases are allowable prior to expending funds for purchases that are unusual or potentially sensitive and document the consultations in the purchasing files.**

CDC management indicated that in May 2006, they are planning to perform their annual site visit of Los Angeles County's bioterrorism grant program. The site visit encompasses all aspects of the program, including reviewing several types of program activities (e.g., training, risk communication, laboratory testing, etc.), PH's progress toward implementing the goals of the program, the Department's spending of grant funding, and an evaluation of PH's carryover funding request.

Please call me if you have any questions, or your staff may contact Mike Pirolo at (626) 293-1110.

JTM:MMO:MP

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