
**Thomas P. DiNapoli
COMPTROLLER**



Audit Objective..... 2

Audit Results – Summary 2

Background..... 3

**Audit Findings and
Recommendations..... 3**

Payroll Expenditures 3

Non-Payroll Expenditures 4

Supplant/Supplement..... 6

Recommendations..... 6

Audit Scope and Methodology..... 6

Authority 7

Reporting Requirements..... 7

Contributors to the Report 7

Appendix A - Auditee Response 8

**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

**NEW YORK CITY
DEPARTMENT OF HEALTH
AND MENTAL HYGIENE**

**EXPENDITURE OF
BIO-TERRORISM GRANT
FUNDS FROM THE CENTERS
FOR DISEASE CONTROL
AND PREVENTION**

Report 2006-N-6

AUDIT OBJECTIVE

The objective of our audit was to determine whether the New York City Department of Health and Mental Hygiene used bioterrorism preparedness and response program grant funds in accordance with grant agreements.

AUDIT RESULTS - SUMMARY

The United States Department of Health and Human Services' Centers for Disease Control and Prevention (CDC) provides Bioterrorism Preparedness and Response Program Grant Funds (grant funds) to the New York City Department of Health and Mental Hygiene (Department). CDC requires these grant funds to be used for specific purposes relating to bio-terrorism preparedness and response.

During our audit period of January 1, 2005 through July 31, 2006, New York City spent more than \$30.7 million, of which \$20.3 million was spent on payroll expenditures and \$10.4 million on non-payroll expenditures.

To determine whether New York City properly spent CDC funds on payroll, we reviewed a judgmental sample of 10 payroll expenditure reports totaling \$2.25 million during our audit period. We found all payroll expenditures in our sample were appropriate. [Page 3]

To determine whether grant funds were properly spent on non-payroll expenditures, we selected a judgmental sample of 40 expenditures during our audit period totaling nearly \$2.5 million. We found that the Department generally used grant funds in accordance with the grant agreements. However, there were four sampled transactions totaling \$625,391 for major purchases where we found that equipment that was purchased for the express purpose of being able to respond to a bio-terrorism or

other-related emergency, was sitting in storage for extended periods of time. Hence the equipment would not have been available had such an emergency arose. As described below, each of these instances had unique circumstances; therefore, we were unable to determine an overall cause as to why these situations occurred. However, we note that upon bringing these matters to the Department's attention, in two of three circumstances the equipment was made available for use. [Page 4]

Two of the sampled transactions totaling \$253,080 related to a contract with a vendor for the enrollment and installation of Global Positioning System (GPS) devices on all 380 Department vehicles. For the first two years of the contract, the Department paid \$68,400 per year in enrollment fees for all 380 vehicles, and \$58,140 per year for twice-daily location reports for all 380 vehicles. However, we found 110 of the GPS devices were not installed and were sitting in storage. In response to our audit, the Department negotiated with the vendor to recoup the funds for the uninstalled GPS devices and received a credit of \$93,040. [Page 4]

In 2005, the Department spent \$188,368 to purchase a robotic arm to enhance its ability to perform diagnostic and reference testing for select biologic agents that could be used in a terrorist attack. We found the equipment was in storage more than a year after it was purchased. We reported this to Department officials and it was installed shortly thereafter. [Pages 4-5]

In January 2006, the Department spent \$183,943 to purchase a machine to print and prepare mass mailing letters to provide the public with comprehensive information about bio-terrorism preparedness and response. Due to ongoing renovation work at the site, the Department transferred the equipment to a

storage company and paid \$4,800 in storage costs. The Department installed the machine on December 26, 2006, nearly one year after its receipt. [Page 5]

CDC funds are not to be used to supplant any State or local expenditures, including employees. We reviewed a judgmental sample of 55 employees to determine whether the Department used the CDC grant funds to replace or supplant employees and found no evidence of supplanting. [Page 6]

This audit report contains three recommendations to improve Department operations in this area. Department officials agreed with our recommendations and are taking steps to implement changes.

This report, dated October 10, 2007, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

The United States Department of Health and Human Services' Centers for Disease Control and Prevention (CDC) provides Bioterrorism Preparedness and Response Program Grant Funds (grant funds) to the New York City Department of Health and Mental Hygiene (Department). The funds are to help improve preparedness and response capabilities for bioterrorism and other public health emergencies. CDC requires these grant funds to be used for specific purposes relating to bio-terrorism (e.g., hiring and training staff dedicated to bio-terrorism response activities, public health training, etc.). They cannot be used for construction-related

activities and cannot supplant other local government programs.

Each year, the Department applies for grant funds, which are sent directly to the Medical and Health Research Association (Association), a not-for-profit entity to administer the funds. The Association is responsible for completing administrative tasks and subcontracting with other entities/companies on behalf of the Department for public health preparedness and response. According to the grant agreements, the Department is responsible for hiring most grant staff, reviewing and approving all contracts for equipment and professional services purchased under the grant and, together with the Association, ensures the program goals are being met.

Between August 31, 2003 and August 22, 2006, New York City received \$77.3 million in grant funds, of which \$74.8 million was spent. During our audit period of January 1, 2005 through July 31, 2006, New York City spent more than \$30.7 million, of which \$20.3 million was spent on payroll expenditures and \$10.4 million on non-payroll expenditures.

AUDIT FINDINGS AND RECOMMENDATIONS

Payroll Expenditures

To determine whether New York City properly spent CDC funds on payroll, we reviewed a judgmental sample of 10 payroll expenditure reports totaling \$2.25 million during our audit period. We judgmentally selected 20 employees, two from each of the 10 payroll reports, and performed floor checks to verify the existence of the employees and determine whether their work involved bio-terrorism preparedness and response. We found all payroll expenditures in our sample were appropriate.

Non-Payroll Expenditures

The Association is required to spend non-payroll grant funds on items relating to bio-terrorism preparedness and response. To determine whether grant funds were properly spent, we selected a judgmental sample of 40 non-payroll expenditures during our audit period totaling nearly \$2.5 million. We reviewed the files for each of these expenditures to verify that documentation supported the payments, the Association performed its required fiscal monitoring and the Department performed the required program oversight and to confirm that items purchased were actually received or services paid for were actually provided. We found that the Department generally used grant funds in accordance with the grant agreements. However, as discussed below, there were four sampled transactions totaling \$625,391 (two totaling \$253,080 for GPS Devices, one for \$188,368 for a robotic arm, and another transaction for a mass mailing machine totaling \$183,943), where we found that equipment that was purchased for the express purpose of being able to respond to a bio terrorism or other related emergency, was sitting in storage for extended periods of time. Hence, the equipment would not have been available had such an emergency arose. As described below, each of these instances had unique circumstances; therefore, we were unable to determine an overall cause as to why these situations occurred. However, we note that upon bringing these matters to the Department's attention, in two of three instances, the equipment was made available for use.

GPS Devices

In May 2004, the Department entered into a contract with a vendor for the enrollment and installation of Global Positioning System (GPS) devices on 380 Department vehicles.

These devices enable the Department to track its vehicle locations in real time. Two of the expenditures in our sample involved payments relating to this contract totaling \$253,080. According to the contract, the vendor charges the Department monthly fees to enroll vehicles and for twice-daily location reports. For the first two years of the contract, the Department paid \$68,400 per year in enrollment fees for 380 vehicles, and \$58,140 per year for twice-daily location reports for 380 vehicles. Our review of Department fleet management reports and our physical observations showed that, as of May 2007, only 270 of the 380 GPS devices were installed in vehicles. Thus, for three years the Department did not fully benefit from this purchase.

We visited two of the Department's warehouses, one in Brooklyn and the other in Queens, and found the 110 uninstalled GPS devices in storage. The Department was paying monthly vehicle enrollment and monitoring costs for 110 GPS units that had not been installed in vehicles. Department officials explained that they did not install all of the GPS devices because some vehicles were planned for retirement or had been retired. Instead, they wanted to wait until new vehicles were purchased, but, according to Department officials, the purchase was severely delayed. They further explained that the cost of installing and then uninstalling the units in the older vehicles was deemed an inefficient use of Department resources.

As a result of our audit, the Department negotiated with the vendor to recoup the funds for the uninstalled GPS devices. Department officials stated, and we verified, they have received a credit of \$93,040 from the vendor to be applied to GPS services provided for the fiscal year ending on August 31, 2007.

Robotic Arm

CDC allows grant funds to be used to establish diagnostic capabilities at laboratories. Once established, the laboratories will be able to conduct rapid and accurate diagnostic and reference testing for select biologic agents that could be used in a terrorist attack. The Department could then use the test results to recommend appropriate treatment of symptoms for infected individuals.

The Department spent \$188,368 to purchase a robotic arm to enhance their laboratory operations. Department records show that the robotic arm was received on September 14, 2005. On October 31, 2006, over one year later, we found the robotic arm still in its original shipping condition at the Department's storage room in New York City. We reported this to Department officials on November 17, 2006. They responded that shortly thereafter, on December 15, 2006, they installed the device. We verified the installation by visiting the laboratory thereafter.

Department officials stated that the robotic arm was purchased because there were funds available, but they did not feel an urgent need to install it since there was no surge in volume of specimen needing analysis. The Department is supposed to use grant funds for specific purposes relating to bioterrorism preparedness and response. Since the robotic arm was not installed for more than a year, the Department would not have benefited from its intended efficiencies had there been a bio-terrorist attack and a large volume of specimen needed to be analyzed.

Mass Mailing Machine

In January 2006, the Department spent \$183,943 to purchase a machine to print and

prepare mass mailing letters to provide the public with comprehensive information about bio-terrorism preparedness and response. This machine automatically inserts letters, and addresses and seals envelopes.

According to Department records, on January 17, 2006, the company delivered the equipment to the Department's offices on Worth Street, in New York City. However, due to ongoing renovations at the building the Department had to transfer the equipment to a storage company and pay \$4,800 in storage costs. According to Department officials the mass mailing machine was installed at Worth Street on December 21, 2006. We verified the installation thereafter. However, this equipment sat in storage for nearly one year and would not have been available for use in the event of an emergency.

Lack of Proper Bookkeeping

The Department has 80 Point of Distribution (POD) sites strategically located throughout the city. The goal is to have these PODs house medical volunteers and containers with supplies so they can be easily distributed in the event of an emergency. Supplies for the containers are delivered to the Department's warehouse so Department officials can verify, track and distribute supplies for the PODs. We reviewed a payment by the Department for \$135,000 for a shipment of supplies.

We found Department officials did not check the amount of supplies received against the invoice to confirm that they were billed only for items they actually received. Further, the invoice was not itemized, and while Department officials indicated that they had received a purchase discount from the vendor, they could not tell us the amount of the discount.

CDC funds are not to be used to supplant any State or local expenditures, including employees. We reviewed a judgmental sample of 55 employees to determine whether the Department used the CDC grant funds to replace or supplant employees. The sample was selected from the list of the Department's Bureau of Emergency Management employees who were paid with CDC grant funds during fiscal years 2004, 2005, and 2006. We reviewed selected documents from the employees' personnel files, along with payroll records and found no evidence of supplanting.

Recommendations

1. Verify all services under the GPS contract are received prior to authorizing payment to the vendor.
2. Better align the timing of the purchase and installation of emergency equipment so that it is immediately available for its intended purpose.
3. Before authorizing payments to vendors, verify that invoices include only items received.

AUDIT SCOPE AND METHODOLOGY

Our performance audit was conducted in accordance with generally accepted government auditing standards. We audited the Department's use of CDC grant funds and whether they were being spent in accordance with grant agreements for the period January 1, 2005 through July 31, 2006.

To determine whether the Department used CDC funds appropriately, we selected a judgmental sample of 40 non-payroll and 10 payroll transactions from the Association's

General Ledger. We selected the sample from January 2005 to July 2006.

We reviewed payment documents that were prepared and approved by the Association and Department. Specifically, we reviewed purchase requisitions, purchase orders, payment vouchers, and vendors' invoices. We also reviewed the vendors' invoices for the Department's approval signatures used by the Association to determine authorizations to pay for the goods or services procured. We determined whether the Association's accounting for incurred expenditures was maintained and segregated as required by CDC regulations. We also traced each sampled transaction to the Association's Budget and Fiscal Summary Report to determine whether it was budgeted and, therefore, approved by CDC. Finally, we conducted visits to the various Department sites to verify receipt of the goods or service procured for reconciliation to the sampled vendors' invoice.

As is our practice, we notify agency officials at the outset of each audit that we will be requesting a representation letter in which agency management provides assurances, to the best of their knowledge, concerning the relevance, accuracy and competence of the evidence provided to the auditors during the course of the audit. The representation letter is intended to confirm oral representations made to the auditors and to reduce the likelihood of misunderstandings. In the representation letter, agency officials assert that, to the best of their knowledge, all relevant financial and programmatic records and related data have been provided to the auditors. Agency officials further affirm that either the agency has complied with all laws, rules, and regulations applicable to its operations that would have a significant effect on the operating practices being audited, or that any exceptions have been disclosed to the

auditors. However, officials at the New York City Mayor's Office of Operations have informed us that, as a matter of policy, mayoral agency officials do not provide representation letters in connection with our audits. As a result we lack assurance from agency officials that all relevant information was provided to us during the audit.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

The audit was performed according to the State Comptroller's authority under Article V, Section 1 of the State Constitution; and Article III of the General Municipal Law.

REPORTING REQUIREMENTS

Draft copies of this report were provided to Department officials for their review and comment. We considered their comments in preparing this report. A copy of the Department's response is included as Appendix A.

Within 90 days of the final release of this report, we request the Commissioner of the Department report to the Governor, the State Comptroller, and the leaders of the legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include William Challice, Richard Sturm, Donald Geary, Robert Tabi, Joseph Giaimo, Raymond Louie, and Sue Gold.

APPENDIX A – AUDITEE RESPONSE

THE CITY OF NEW YORK
DEPARTMENT OF HEALTH AND MENTAL HYGIENE
OFFICE OF THE COMMISSIONER



125 WORTH STREET, CN-28
NEW YORK, NY 10013
NYC.GOV/HEALTH

THOMAS R. FRIEDEN, M.D., M.P.H.
COMMISSIONER
TEL (212) 788-5261
FAX (212) 964-0472

October 1, 2007

William P. Challice, Audit Director
Office of the State Comptroller
Division of State Services
State Audit Bureau
110 State St., 11th Floor
Albany, NY 12236

Re: Draft Audit Report on
Expenditure of Bio-Terrorism Grant
Funds from the Centers for Disease
Control and Prevention;
Report No. 2006-N-6

Dear Mr. Challice:

We have reviewed this draft report, which reflects the results of your examination of procedures followed by the Department and by the Medical and Health Research Association (MHRA) in the administration of federal Bioterrorism Preparedness and Response Program grant funds. We agree with your observations and are pleased by your findings that grant funds were generally spent in compliance with grant requirements. Attached is our response to your recommendations.

We appreciate the courtesy and consideration of your audit staff in the performance of this audit. If you have any questions or need further information, please contact Thomas Hardiman, Director for Internal and External Audits at (212) 219-5285.

Sincerely,

Thomas R. Frieden, M.D., M.P.H.
Commissioner

TRF/mc

**DRAFT AUDIT REPORT ON THE EXPENDITURE OF BIO-TERRORISM
GRANT FUNDS FROM THE CENTER FOR DISEASE CONTROL AND
PREVENTION
REPORT NUMBER 2006-N-6**

RESPONSE TO RECOMMENDATIONS

Recommendation 1

Verify all services under the GPS contract are received prior to authorizing payment to the vendor.

DOHMH has taken the actions noted in the audit report, and has trained staff to perform full review of vendor invoices going forward.

Recommendation 2

Better align the timing of the purchase and installation of emergency equipment so that it is immediately available for its intended use.

DOHMH agrees that emergency equipment should generally be put into use as soon as possible after its receipt. However, to maximize use of grant funds some equipment may be procured and received before an installation site has been prepared or before all other complementary resources are in place.

Recommendation 3

Before authoring payments to vendors, verify that invoices include only items received.

DOHMH agrees that vendor invoices should be reviewed carefully to assure that they conform to actual deliveries, as documented by receiving staff.