



STATE OF DELAWARE

Schedule of Expenditures
of Federal Awards for the Public Health Emergency Preparedness Program

CFDA No. 93.069

Fiscal year ended June 30, 2012

(With Independent Auditors' Reports Thereon)

STATE OF DELAWARE

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Honorable Governor and
Honorable Members of the State Legislature
State of Delaware:

We have audited the accompanying schedule of expenditures of federal awards for the Public Health Emergency Preparedness Program of the State of Delaware (the State) for the year ended June 30, 2012. This schedule is the responsibility of the State's management. Our responsibility is to express an opinion on the schedule of the program based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 2 to the schedule, this schedule was prepared for the purpose of complying with note 11, *Audit Requirement*, of the Public Health Emergency Preparedness Cooperative Agreements between the Centers for Disease Control and Prevention and the Delaware Department of Health and Social Services under U.S. Code Title 42: Chapter 6A, Subchapter II, Part B, Subsection 247D-3A(j)(2)(A), and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards under the Public Health Emergency Preparedness Program on the basis of accounting described in note 2.

This report is intended solely for the information and use of management, the Secretary of Finance, Office of the Governor, Attorney General, Comptroller General, Office of Management and Budget, and the U.S. Department of Health and Human Services, and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(1), this report is public record and its distribution is not limited.

KPMG LLP

February 27, 2014

STATE OF DELAWARE
 Schedule of Expenditures
 of Federal Awards for the Public Health Emergency Preparedness Program
 CFDA No. 93.069
 Fiscal year ended June 30, 2012

| Grant number | Expenditures |
|---|---------------------|
| Grant # 5U90-TP316980-10 | \$ 122,256 |
| Grant # 1H75-TP000340-01 | 1,542,781 |
| Grant # 3U90-TP316980-10S1 | 588,381 |
| Grant # 2U90-TP316980-11 | <u>3,406,048</u> |
| Total PHEP expenditures of federal awards | <u>\$ 5,659,466</u> |

See accompanying notes to schedule of expenditures of federal awards for the Public Health Emergency Preparedness Program.

STATE OF DELAWARE

Notes to Schedule of Expenditures
of Federal Awards for the Public Health Emergency Preparedness Program

CFDA No. 93.069

Fiscal year ended June 30, 2012

(1) Reporting Entity

The Schedule of Expenditures of Federal Awards for the Public Health Emergency Preparedness Program includes only the activity associated with the Public Health Emergency Preparedness Program (CFDA No. 93.069) (the Program) of the State of Delaware.

(2) Summary of Significant Accounting Policies

In accordance with note 11, *Audit Requirement*, of the Public Health Emergency Preparedness Cooperative Agreements between the Centers for Disease Control and Prevention (CDC) and the Delaware Department of Health and Social Services (DHSS), for the period August 1, 2009 to August 10, 2013, the Program is to provide, not less often than once every two years, an audit of its expenditures from amounts received under U.S. Code Title 42: Chapter 6A, Subchapter II, Part B, Subsection 247D-3A(j)(2)(A). The schedule of expenditures of federal awards was prepared solely to comply with this requirement, using the cash basis of accounting, which varies from generally accepted accounting principles.

(3) Purpose of the Grant

The purpose of the Public Health Emergency Preparedness (PHEP) program is to assist state, local, and territorial/freely associated state health departments in demonstrating measurable and sustainable progress toward achieving the 15 public health preparedness capabilities and other activities that promote safer and more resilient communities. Funds can only be used for nonresearch activities. The PHEP program is a critical source of funding, guidance, and technical assistance for state, territorial, and local public health departments. Preparedness activities funded by the PHEP program are targeted specifically for the development of emergency-ready public health departments that are flexible and adaptable. These efforts support the National Response Framework, which guides how the nation responds to all types of hazards including infectious disease outbreaks; natural disasters; biological, chemical, and radiological incidents; and explosions. To help public health departments with their strategic planning, CDC identified 15 public health preparedness capabilities to serve as national public health preparedness standards. State and local jurisdictions can use CDC's Public Health Preparedness Capabilities: National Standards for State and Local Planning to better organize their work and identify the capabilities they have the resources to build or sustain. These standards help ensure that federal preparedness funds are directed to priority areas within individual jurisdictions.

The PHEP program develops the plans associated with the public health response to any health-threatening emergency situation, and coordinates and leads that response. It also provides technical assistance to healthcare entities to address emergency planning and response.

STATE OF DELAWARE

Notes to Schedule of Expenditures
of Federal Awards for the Public Health Emergency Preparedness Program

CFDA No. 93.069

Fiscal year ended June 30, 2012

Title 20 of Delaware Code and the Delaware Department of Health and Social Services (DHSS) Secretary designated the Division of Public Health (DPH) as the lead agency statewide to protect the health, safety and well-being of Delaware’s population of approximately 900,000 plus visitors during a bioterrorism event, an event that has the appearance of a novel or previously controlled or eradicated infectious agent or biological toxin, and other public health or medical emergency responses. DPH is both the state and local public health agency consisting of 627 employees statewide. It has designated the Office of Preparedness, housed with the Emergency Medical Services and Preparedness Section, as the lead office to develop and maintain the DPH’s plans for response to and recovery from any incident that has the potential to affect the public’s health.

(4) Schedule of Expenses

The following table represents the expenditures by natural classification for the grant:

| | | |
|----------------------------|----|-------------------------|
| Salaries and other | \$ | 1,463,925 |
| Other employment costs | | 703,786 |
| Travel | | 16,111 |
| Contractual services | | 2,117,039 |
| Supplies and materials | | 737,954 |
| Capital outlay – Equipment | | <u>620,651</u> |
| Total | \$ | <u><u>5,659,466</u></u> |



KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on the Federal Program and on Internal Control over Compliance in Accordance with the Program-Specific Audit Option under OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations

The Honorable Governor and
Honorable Members of the State Legislature
State of Delaware:

Compliance

We have audited the State of Delaware's (the State) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its Public Health Emergency Preparedness Program (Program) for the year ended June 30, 2012. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

As described in finding 12-1, we were unable to obtain sufficient documentation supporting the compliance of the State with the Program regarding cash management, nor were we able to satisfy ourselves as to the State's compliance with those requirements by other auditing procedures.

As described in findings 12-2 and 12-3 in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding the payroll effort reporting aspect of the allowable costs compliance requirement for the Program. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to the Program.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State of Delaware's compliance with the requirements of the Program regarding cash management, and except for the noncompliance described in the preceding paragraph, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Program for the year ended June 30, 2012. However, the results of our auditing procedures also disclosed an instance of noncompliance with



those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 12-1.

Internal Control over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on the Program to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 12-2 and 12-3 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 12-1 to be a significant deficiency.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State's responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Secretary of Finance, Office of the Governor, Attorney General, Comptroller General, Office of Management and Budget, and the U.S. Department of Health and Human Services and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(1), this report is public record and its distribution is not limited.

KPMG LLP

February 27, 2014

STATE OF DELAWARE
 Schedule of Findings and Questioned Costs
 Fiscal year ended June 30, 2012

(1) Summary of Auditors' Results

- (a) The type of report issued on the schedule of expenditures: **Unqualified**
- (b) Significant deficiencies in internal controls were disclosed by the audit of the schedule of expenditures? **No**
 Material weaknesses identified? **No**
- (c) Noncompliance that is material to the schedule of expenditures? **No**
- (d) Significant deficiencies in internal controls over major program? **Yes – Finding 12-1**
 Material weaknesses? **Yes – Findings 12-2 and 12-3**
- (e) The type of report issued on compliance for major program: **Qualified**
- (f) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133?
Yes
- (g) Major programs:

| Program | CFDA # | Expenditures |
|--------------------------------------|---------------|---------------------|
| Public Health Emergency Preparedness | 93.069 | \$ 5,659,466 |

(2) Findings and Questioned Costs Related to Federal Awards

See findings 12-1 through 12-3.

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Schedule of Findings and Questioned Costs

Fiscal year ended June 30, 2012

Department of Health and Social Services (DHSS)

Division of Public Health

Federal Agency: U.S. Department of Health and Human Services – Center for Disease Control and Prevention (CDC)

Federal Award #: 5U90-TP316980-10; 1H75-TP000340-01; 3U90-TP316980-10S1; and 2U90-TP316980-11

Federal Award Period: August 10, 2009 to August 9, 2010; August 1, 2009 to July 30, 2012; August 10, 2009 to August 9, 2011; and August 10, 2011 to August 9, 2016

Reference Number: 12-1

Compliance Requirement(s): Cash Management

Condition

DHSS’s Division of Management Services (DMS) utilizes a system query to download pending Accounts Receivable information from the State of Delaware’s (State) accounting system, First State Financials (FSF), into a spreadsheet program. The spreadsheet program is then manually sorted, adjusted, and linked to another external spreadsheet in order to calculate the amounts ready to be drawn down for each federal program. There is a control weakness resulting from lack of segregation of duties through February 8, 2012 within DMS’s federal drawdown process. The same DMS staff responsible for executing the query, importing the query results into the spreadsheet, and modifying the spreadsheet in order to calculate the draw amounts also performs the cash drawdowns and reconciles the subsequent cash receipts to the Accounts Receivable information in FSF. On February 8, 2012, the DMS implemented supervisory review procedures to establish segregation of duties and ensure the proper draw amounts are being requested.

The following is considered to be the compliance exception and scope limitation through October 28, 2011. As documented in the table below, the drawdown information could not be reconciled directly back to FSF because FSF does not allow for queries of historical balances. Only the adjusted spreadsheet files, rather than the original system query results, were maintained by DMS as supporting documentation for the federal drawdowns selected for audit testwork. On October 28, 2011, DMS began archiving copies of the original FSF query results to ensure balances presented on the adjusted spreadsheet were accurate, correct, and supported by detailed reports.

The table below represents the scope of items examined and the associated results (the compliance exceptions refer to a scope limitation as they were unable to be tested for compliance):

Public Health Emergency Preparedness Program

| | <u>No. of items</u> | | <u>Dollar amount</u> |
|-----------------------|---------------------|----|----------------------|
| Drawdown population | 74 | \$ | 5,473,953 |
| Sample of drawdowns | 20 | | 3,214,219 |
| Control exceptions | 9 | | 2,272,670 |
| Compliance exceptions | 6 | | 1,193,220 |

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Schedule of Findings and Questioned Costs

Fiscal year ended June 30, 2012

Criteria

Control Exceptions

The A-102 Common Rule and its attachments found in 45 CFR 92 require that nonfederal entities receiving federal awards (i.e., management) establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Compliance Exceptions

As amended, Pub. L. No. 101-453; 31 USC 6501 et seq requires State recipients to enter into agreements that prescribe specific methods of drawing down federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Because the Public Health Emergency Preparedness Program is not covered by the U.S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990, it is subject to Subpart B of 31 CFR part 205 (Subpart B).

Cause

The findings resulted from lack of sufficient procedures when FSF was implemented that were in effect until February 8, 2012 for control exceptions and October 28, 2011 for compliance exceptions.

Effect

Without a management review control in place, DMS may request funds in a manner that is not in compliance with Subpart B as required by the terms of the grant agreements. Therefore, for those amounts drawn down without the new procedures, it is not possible to verify if they were properly drawn.

Questioned Costs

Questioned costs are not determinable.

Recommendation

We recommend that DMS continue to maintain its enhanced federal drawdown procedures to ensure there is an adequate level of supervisory review of the cash draws prior to submission to the federal agencies and proper segregation of duties over the cash management function.

We also recommend that DMS continue to maintain the original FSF query results that correspond to each drawdown either in hard copy or in a nonalterable electronic format so that the drawdown information can be validated.

Views of Responsible Officials

Agency Contact Name: Harry Roberts, DHSS Controller
Agency Contact Phone Number: 302-255-9235

Corrective Action Plan

Implemented during the year under audit

STATE OF DELAWARE
Schedule of Findings and Questioned Costs
Fiscal year ended June 30, 2012

Anticipated Completion Date
Completed

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Fiscal year ended June 30, 2012

Department of Health and Social Services

Division of Public Health

Federal Agency: U.S. Department of Health and Human Services – Center for Disease Control and Prevention

Federal Award #: 5U90-TP316980-10; 1H75-TP000340-01; 3U90-TP316980-10S1; and 2U90-TP316980-11

Federal Award Period: August 10, 2009 to August 9, 2010; August 1, 2009 to July 30, 2012; August 10, 2009 to August 9, 2011; and August 10, 2011 to August 9, 2016

Reference Number: 12-2

Compliance Requirement(s): Allowable Costs (Effort Reporting)

Condition

During the testing of payroll costs, three out of forty time and effort certifications sampled had compliance exceptions as follows:

- For the quarters ended December 31, 2011 and March 31, 2012, one employee in DHSS’s Information Resource Management (IRM) section included a statement on the time and effort certification that disputed expending 100% of their time on the PHEP grant. The employee indicated that the individual was signing the certification under duress due to the threat of disciplinary action by a supervisor. The time and effort certification for the quarter ended June 30, 2012 was not signed by this same employee but by a supervisor. Upon interviewing the employee as part of the audit, she indicated that she did not spend 100% of their time on the grant for fiscal year 2012 but instead spent only 10% of their time on the PHEP grant. The other 90% of their time was spent on State projects. Based on this, we questioned her entire salary (\$93,068) for all four quarterly submissions, and not just the three certifications selected in the audit sample that included the notation of signing under duress.

Further, as a result of additional audit follow-up, another IRM employee reported to superiors and to Delaware’s Office of Management and Budget in a grievance that his federal certification was “knowingly fraudulent.”

IRM department time certifications are only done on a quarterly basis, which is adequate for employees working 100% on one grant, but the design of the policy is not appropriate for employees who work on multiple grant programs.

Based on interviews and historic e-mail correspondence received in follow-up audit procedures, we documented the following related to the IRM and PHEP interaction:

- IRM Director and the assistant director responsible for oversight of this program are aware of the requirement for detailed time reports when working on multiple programs.
- However, no procedure was developed and communicated to IRM staff to facilitate the recording of time when less than 100% was spent on the budgeted project.
- Although two IRM employees documented they were coerced to sign inaccurate effort reports, instead of being directed by supervisors on how to document their non-PHEP effort, and in May 2012, a PHEP

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Fiscal year ended June 30, 2012

program manager raised concerns with the accuracy of IRM charges with the IRM Director and assistant director, the grant accounting records were not adjusted.

- In March 2012, the monthly meetings between the program and IRM Assistant Director were canceled and the IRM Director was informed of the unproductive nature of the meetings by PHEP personnel.

For the State fiscal year ended June 30, 2012, total federal expenditures for the PHEP grant were \$5,659,466, of which \$2,167,711 were payroll costs. Total payroll costs for all three IRM employees charged to this grant were \$269,422, of which \$93,068 were for the employee who modified the time certification.

Criteria

Control Exceptions

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-federal entities receiving federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

The COSO Internal Controls Integrated Framework indicates: Internal control consists of five interrelated components. These are derived from the way management runs a business and are integrated with the management process. The components are:

- Control Environment – The core of any business is its people—their individual attributes, including integrity, ethical values, and competence—and the environment in which they operate. They are the engine that drives the entity and the foundation on which everything rests.
- Risk Assessment – The entity must be aware of and deal with the risks it faces. It must set objectives, integrated with the sales, production, marketing, financial, and other activities so that the organization is operating in concert. It also must establish mechanisms to identify, analyze, and manage the related risks.
- Control Activities – Control policies and procedures must be established and executed to help ensure that the actions identified by management as necessary to address risks to achievement of the entity's objectives are effectively carried out.
- Information and Communication – Surrounding these activities are information and communication systems. These enable the entity's people to capture and exchange the information needed to conduct, manage and control its operations.
- Monitoring – The entire process must be monitored, and modifications must be made as necessary. In this way, the system can react dynamically, changing as conditions warrant.

Compliance Exceptions

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 semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee (OMB Circular A-87, Attachment B.8.h.3).

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Schedule of Findings and Questioned Costs

Fiscal year ended June 30, 2012

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. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods; and (d) they must be signed by the employee (OMB Circular A-87, Attachment B.8.h.4).

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances (OMB Circular A-87, Attachment B.8.h.5).

Cause

Several Factors Contributed to the Exceptions

- There is inadequate communication and lack of cooperation between the Program personnel, located at the Division of Public Health, and the employees and supervisors in the IRM section. The communication is important for the IRM personnel to understand what systems are funded by which grant. In particular, IRM's management must ensure that employees, whose salaries are paid 100% from a federally funded program, dedicate 100% of their time to that program. Because the Program personnel responsible for the grant do not directly review the work or sign off on the effort reports completed by the IRM employees, communication between the program and IRM is even more vital.
- The management of the IRM section provided inaccurate or incomplete direction to employees and supervisors as it relates to the completion of time certifications. IRM management stated that there was a procedure in place over the period tested that required submission of timesheets with the federal payroll certification that summarized any hours that employee worked on other nongrant projects. However, during our review, we found that this requirement was not communicated to the employees that we interviewed nor could IRM management provide any evidence that this requirement was appropriately communicated to the employees who worked on the grant.
- The design of the effort reporting policy is not appropriate for employees who work on multiple grant programs as A-87 requires those certifications to be done at least monthly.
- DHSS's human resource office does not have adequate procedures in place to understand the significance of disagreements between an employee and his/her supervisor regarding an employee's time and effort certification.

Effect

Employees cannot properly charge their time to the grants they work. Incorrect or inappropriate payroll costs may have been charged to the federal grant.

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Schedule of Findings and Questioned Costs

Fiscal year ended June 30, 2012

Questioned Costs

Personnel costs (including benefits) attributable to the IRM section were \$269,422 for the State fiscal year ended June 30, 2012.

Recommendation

We recommend that DHSS establish policies and procedures that comply with OMB Circular A-87 and require the review and monitoring of both work and time and effort certifications submitted by employees from other DHSS divisions. Additionally, the DHSS should evaluate and take steps necessary to ensure inaccurate representations are corrected immediately. IRM management should support efforts to ensure that work is performed on a federal program when that program is funding the salaries. The effort reporting requirements should be communicated frequently to all employees and imbedded in the training to communicate to all employees the policies, rules, and regulations related to effort reporting. We further recommend that the DHSS implement policies and procedures in human resources to resolve disagreements between an employee and their supervisor regarding an employee's time and effort certification.

Lastly, we recommend that DHSS re-communicate the State's reporting channels to employees if they identify actions that they believe to be inconsistent with policy, law or regulation.

Views of Responsible Officials

Agency Contact Name: Kevin F. Kelley, Sr. DMS Director

Agency Contact Phone Number: 302-255-9088

1. In our review of the documentation collected during the PHEP grant audit, the applicable IRM supervisors (two supervisors) inappropriately directed staff regarding the completion of effort reports as well as did not devote the proper follow-up to resolve the questions raised by staff completing the effort reports. The supervisors involved did not carry out the appropriate standards of supervision that DHSS would accept and expect. Additionally, there was a disconnect and lack of full understanding of the impacts of effort reporting and the underlying principles. These significant issues must and will be dealt with as outlined in the corrective action plan.
2. As it relates to the staff and questioned costs cited in this finding, we would like to provide the following background related to the consolidation of IT staff that had been managed outside of IRM. DHSS recognized that agencies and programs would be better served as well as resources maximized if specialized IT staff were deployed based on need rather than funding source. This would be accomplished by staff being transferred to and centrally managed by IRM (as opposed to managed by individual divisions). This would allow small programs to have IT support and also ensure that the duties carried out by the IT staff reflect the job class and description into which they were hired. As a result, DHSS began an initiative to consolidate IT staff managed and budgeted in divisions around DHSS. *In the fiscal year 2012 budget*, all Telecom/Network Tech III positions (*this did not include the positions referenced in this finding*) were transferred to IRM to maximize the use of each FTE within the department. DMS – Fiscal and Budget set out to accurately track effort reporting and reconcile payroll charges accordingly. The Telecom/Network Tech positions moved in the fiscal year 2012 budget completed effort-reporting logs in an automated time tracking system. The employees reported in the system their time by minutes in a day worked on a specific grant and/or program, which was subsequently allocated based on time reported by

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Fiscal year ended June 30, 2012

pay cycle. If an initial payroll charge for a pay cycle did not reflect the effort reported, (A) an adjustment was calculated via a reconciliation process and (B) the charges corrected via Payroll Funding Adjustments (PFA) to reflect the work and time/effort reported. *In the fiscal year 2013 budget*, DHSS reassigned Application Support staff from various divisions to IRM for the purpose of maximizing resources. *The positions referenced in this finding are among the transferred staff.* Similar to the Telecom/Network Tech staff, the federally funded Application Support positions were asked to complete time and effort reporting in the automated time tracking system so that payroll charges could be reconciled and then adjusted via PFAs. At the end of each fiscal year, or more frequently if requested, the individual reconciliation workbooks were sent to the fiscal office and/or program manager responsible for the grant.

Fiscal year 2012 was a major transitional year for Application Support staff. The transition from Division of Public Health to IRM, from a managerial and effort reporting/payroll adjustment perspective, did not occur as smoothly as it should have. As a result, the best time tracking mechanisms and managerial structures were not in place prior to the transfer.

It is our belief that IT staff and/or their supervisors are now communicating with the various program managers regarding the time worked on any given project. Additionally, IT staff are able to report their time into an automated tracking system.

We would also like to state that while the “Condition” indicates that monthly meetings between DPH staff (i.e., ISS staff) and IRM assistant director were canceled in March 2012, it should be noted that the recommendation to discontinue those particular meetings by DPH was because they were not viewed as helpful in moving several projects forward. The IRM director followed up with DPH ISS staff to get a better understanding of the issues and concerns around those meetings. Additionally, it should be pointed out that even though these monthly meetings stopped occurring, work and communication at every level between the divisions continued. There were many other avenues to continue to move projects forward.

3. Additionally, we disagree with the following recommendation:

“We further recommend that the DHSS implement policies and procedures in human resources to resolve disagreements between an employee and their supervisor regarding an employee’s time and effort certification.”

The Human Resources office does not possess, nor should it be required to possess the fiscal expertise regarding time and effort reporting. The process for dealing with disagreements on time and effort reporting will be covered in the departmental policy identified in the corrective action plan.

4. While we disagree that the entire amount of questioned costs is not chargeable to the CDC Public Health Emergency Preparedness Program, because of the effort reporting problems, we cannot determine the appropriate amount that should have been charged in fiscal year 2012. Accordingly, the amount of questioned costs should be repaid to the CDC.

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Schedule of Findings and Questioned Costs

Fiscal year ended June 30, 2012

Corrective Action Plan

The appropriate employees under IRM's management now sign into and enter their daily time and effort into a secure system. Afterwards, payroll-funding adjustments are processed to true-up/align the individual's payroll charges to the work activities recorded in the time and effort reporting system. This system enables employees to record their time in a current time frame and significantly improves the accuracy of staff payroll charges to cost objectives. It should be pointed out that for fiscal year 2013 payroll funding adjustments were processed for the three staff in question based upon the daily time and effort reporting entries they recorded in the system.

The department will be implementing a new cost allocation plan effective July 1, 2014 which will further enhance and improve the tracking and allocation of costs of IRM staff to all funding sources.

DHSS will provide counseling and training to the IRM supervisors who inappropriately directed staff in the completion of the PHEP effort reports. Additionally, a departmental policy on time and effort reporting is in the process of being formulated. This policy will be departmental in scope, and once complete, it will be issued and disseminated departmentally. It will include the requirement, basis, and importance of effort reporting, frequency, and need to align/recode payroll charges to reflect effort as a required and ongoing process. Subsequently, training will be provided to departmental staff completing effort reports as well as managers who supervise those staff. The individuals trained will include IRM staff and managers. Incorporated into this training will be the appropriate standards of supervision regarding time and effort reporting and addressing employee concerns. Additionally, in his one-on-one meetings with the IRM Director, the Director of DMS will include discussions on effort reporting within the IRM organization and channels of communication between IRM and the Divisions/programs it supports.

As a part of DHSS's ongoing effort of organizational strengthening, on January 6, 2014, the Cabinet Secretary provided to Division Directors/Deputy Directors a presentation on the State of Delaware's ethics law for the purpose of reinforcing the law's requirements.

We would also like to share that we are in the process of formulating a Process Quality Group in DHSS. As we all know, State governments conduct their work in increasingly complex and regulated environments. The consequence of not complying with federal and state rules related to employment, cash management, federal grants management, allocation of costs, and privacy and security of protected health information can be significant and painful. Because of these risks, this group is being formulated in order to keep DHSS ahead of the curve relative to costly flaws in our key processes. This will enable DHSS to become a self-correcting organization, with a proactive approach to risk management and compliance, as opposed to the reactive approach that occurs too often.

Additionally, since the appropriate amount that should have been charged to the CDC Public Health Emergency Preparedness Program in fiscal year 2012 cannot be quantified, the questioned costs of \$269,422 will be repaid to the CDC.

Anticipated Completion Date

Departmental policy formulation: March 31, 2014

Provision of training: By July 31, 2014

Repayment of funds to CDC: By June 30, 2014

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Fiscal year ended June 30, 2012

Department of Health and Social Services

Federal Agency: U.S. Department of Health and Human Services – Center for Disease Control and Prevention

Federal Award #: 5U90-TP316980-10; 1H75-TP000340-01; 3U90-TP316980-10S1; and 2U90-TP316980-11

Federal Award Period: August 10, 2009 to August 9, 2010; August 1, 2009 to July 30, 2012; August 10, 2009 to August 9, 2011; and August 10, 2011 to August 9, 2016

Reference Number: 12-3

Compliance Requirement(s): Allowable Costs (Effort Reporting)

Condition

The following is considered to be both a control and compliance exception. During the testing of allowable costs for payroll, 1 out of 40 time and effort certifications selected could not be located. The missing time and effort report covered the quarter ended March 31, 2012 and represented \$13,788 in payroll costs. Total payroll costs expended by the Program were \$2,167,711. Total expenditures for the Program in fiscal year 2012 amounted to \$5,659,466.

Criteria

Control Exceptions

The A-102 Common Rule and its attachments found in 45 CFR 92 require that nonfederal entities receiving federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Compliance Exceptions

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 semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee (OMB Circular A-87, Attachment B.8.h.3).

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. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee (OMB Circular A-87, Attachment B.8.h.4).

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Fiscal year ended June 30, 2012

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances (OMB Circular A-87, Attachment B.8.h.5).

Cause

The exception occurred because DHSS did not ensure that all employees' time and effort reports had been collected.

Effect

Incorrect or unapproved payroll costs may have been charged to the federal grant.

Questioned Costs

Costs not properly supported or approved were \$13,788.

Recommendation

We recommend that the Program reinforce controls surrounding the submission and approval of all time and effort certifications.

Views of Responsible Officials

Agency Contact Name: Steven Blessing, Chief, Public Health Emergency Preparedness
Agency Contact Phone Number: 302-223-1720

We agree that unfortunately the cited time and effort report certification for the quarter ended March 31, 2012 could not be located for the employee related to the questioned costs. We would like to point out that this employee was the grant Information Officer working solely on this grant during the time period in question. Additionally, in the first two quarters (July 1—December 31, 2011) of this employee's time and effort certification reflected that they worked 100% on this grant. In the fourth quarter (April 1—June 30, 2012) the employee did not work 100% on the grant and payroll adjustments were processed adjusting the amount charged to the grant accordingly. Therefore, the costs for the quarter ended March 31, 2012 are allowable under the grant given that the employee was the grant's Information Officer.

Corrective Action Plan

A departmental policy regarding effort reporting is in the process of being formulated and when completed will be disseminated. Additionally, the department will be identifying training to be provided to staff. EMSPS put a tracking system into place to ensure all time and effort reports are received from employees charged to the grant in a timely manner. This was corrected as of May 2013.