

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**CDC REIMBURSED  
CONTRACTORS FOR SOME  
UNALLOWABLE WORLD TRADE  
CENTER HEALTH PROGRAM  
ADMINISTRATIVE COSTS**

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**February 2019  
A-02-16-02012**

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## Report in Brief

Date: February 2019  
Report No. A-02-16-02012

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES  
**OFFICE OF INSPECTOR GENERAL**



### Why OIG Did This Review

The World Trade Center Health Program (WTCHP) was established in January 2011 by the James Zadroga 9/11 Health and Compensation Act of 2010 (Zadroga Act). The WTCHP is administered by the Centers for Disease Control and Prevention (CDC). CDC incurred WTCHP administrative costs by contracting with various entities that provide WTCHP services, including program management, member enrollment, claims processing, data center administration, privacy and security policy services, and outreach.

This review was conducted to fulfill Zadroga Act requirements that we review the WTCHP for unreasonable administrative costs.

Our objective was to determine whether CDC reimbursed contractors for WTCHP administrative costs that complied with Federal requirements.

### How OIG Did This Review

Our audit covered approximately \$54 million in payments made to contractors for WTCHP administrative costs for the period October 2015 through September 2016. We separated 179 paid contractor invoices into 12,303 invoice line items. We then selected and reviewed a statistical sample of 234 invoice line items. In addition, we selected and reviewed a non-statistical sample of eight paid invoices related to fixed-price WTCHP administrative cost contracts.

## CDC Reimbursed Contractors for Some Unallowable World Trade Center Health Program Administrative Costs

### What OIG Found

CDC reimbursed contractors for some WTCHP administrative costs that did not comply with Federal requirements. Specifically, CDC improperly reimbursed contractors for 43 of the 234 invoice line items that we sampled, totaling more than \$1 million. On the basis of our sample results, we estimated that CDC improperly reimbursed contractors for WTCHP administrative costs totaling \$8 million that did not comply with Federal requirements. In addition, CDC paid contractors for claims management services at different rates. Our review quantified the impact of this payment differential and determined that CDC could have saved \$360,000 if contractors were reimbursed at the lowest negotiated rate. Finally, we determined that CDC complied with Federal requirements for all eight of the non-statistically selected fixed-price contract invoices.

CDC reimbursed the unallowable administrative costs because it did not ensure that WTCHP contractors' invoices were adequately reviewed and that staff responsible for reviewing the invoices were adequately trained. The potential cost savings for claims management services not realized were a result of contracting officer representatives not comparing the claims management services rates paid by various contractors to identify potentially unreasonable costs.

### What OIG Recommends and CDC Comments

We recommend that the CDC: (1) recover the \$1 million associated with the 43 unallowable sampled items; (2) work with WTCHP contractors to identify and recover the remaining unallowable payments made during the audit period, which are estimated to be \$7 million; (3) improve its monitoring of WTCHP contractors' invoices; and (4) review contractor costs for claims management services for reasonableness, which could result in cost savings totaling \$360,000.

In written comments on our draft report, CDC agreed to recover costs associated with some sampled items and generally agreed with our procedural recommendations and described some of the actions it has taken or is considering to address them. CDC generally disagreed with our recommendation to identify and recover unallowable payments because it disagrees with some of our findings. After reviewing CDC's comments and additional documentation that CDC provided, we maintain that our findings and recommendations are valid.

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## INTRODUCTION

### WHY WE DID THIS REVIEW

The World Trade Center Health Program (WTCHP) was established in January 2011 by the James Zadroga 9/11 Health and Compensation Act of 2010, P.L. No. 111-347 (Zadroga Act). The WTCHP is administered by the Centers for Disease Control and Prevention (CDC) through its National Institute for Occupational Safety and Health (NIOSH). CDC incurred WTCHP administrative costs by contracting with various entities that provide WTCHP services, including program management, member enrollment, claims processing, data center administration, privacy and security services, and outreach.

We previously reviewed how CDC monitored and evaluated its contracts with clinics that provide pharmacy benefits and medical services to WTCHP members<sup>1</sup> and CDC's internal controls for claiming WTCHP pharmacy benefits and medical services.<sup>2</sup> The current review was conducted to fulfill Zadroga Act requirements that the Office of Inspector General (OIG) review the WTCHP for unreasonable administrative costs.<sup>3</sup>

### OBJECTIVE

Our objective was to determine whether CDC reimbursed contractors for WTCHP administrative costs that complied with Federal requirements.

### BACKGROUND

#### World Trade Center Health Program

The Zadroga Act funded the WTCHP for a 5-year period beginning July 1, 2011, with Federal funding capped at approximately \$1.6 billion. On December 18, 2015, the WTCHP was reauthorized for 75 years, ending in 2090.<sup>4</sup>

From the WTCHP's inception on July 1, 2011, through September 30, 2016, WTCHP administrative costs totaled approximately \$495 million. Pharmacy and medical claims costs for the same period totaled approximately \$633 million. Figure 1 (on the following page) shows

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<sup>1</sup> *World Trade Center Health Program: CDC Should Strengthen Efforts to Monitor and Evaluate Clinic Compliance with Contract Terms* (A-02-11-02003, issued January 29, 2014). Available at <https://oig.hhs.gov/oas/reports/region2/21102003.pdf>.

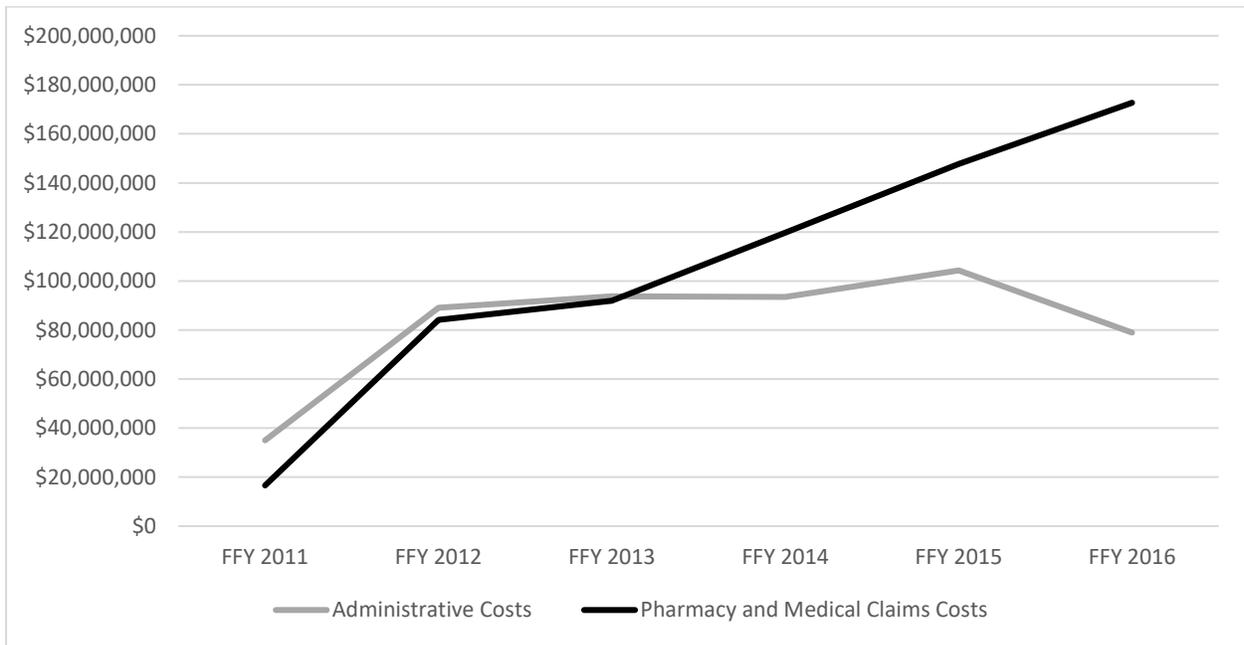
<sup>2</sup> *Not All Internal Controls Implemented by CDC Were Effective in Ensuring That World Trade Center Health Program Pharmacy and Medical Claims Were Paid According to Federal Requirements* (A-02-14-02008, issued September 30, 2016). Available at <https://oig.hhs.gov/oas/reports/region2/21402008.pdf>.

<sup>3</sup> Zadroga Act, § 3301(d)(2).

<sup>4</sup> Consolidated Appropriations Act of 2016, P.L. No. 114-113, § 302.

the comparison of WTCHP administrative costs to pharmacy and medical claims costs by Federal fiscal year (FFY) from 2011 to 2016. For FFY 2016 (October 1, 2015, through September 30, 2016, our audit period), WTCHP pharmacy and medical claims costs totaled approximately \$173 million and administrative costs totaled approximately \$79 million.

**Figure 1: Comparison of World Trade Center Health Plan Administrative Costs to Pharmacy and Medical Claims Costs**



### Reimbursement and Monitoring of World Trade Center Health Program Administrative Costs

CDC’s Office of Acquisition Services contracts with seven Clinical Centers of Excellence (CCEs) and a nation-wide provider network to provide WTCHP pharmacy benefits and medical services. In addition, CDC contracts with three data centers and a privacy protection training firm.<sup>5</sup> These contractors incur administrative cost while carrying out their functions. CDC staff enter contractor invoices for administrative costs into CDC’s contract management system, known as the Integrated Contracts Expert (ICE). All administrative costs are reimbursed using WTCHP funds disbursed by NIOSH.

Contractor monitoring is performed jointly by Office of Acquisition Services contracting officers (COs) and NIOSH contracting officer representatives (CORs). The COs monitor the contractors’ performance to ensure compliance with contract terms and conditions. CORs are the “eyes and ears” of COs and are responsible for providing technical monitoring of contractors, including the review and approval of contractors’ invoices.

<sup>5</sup> The WTCHP data centers manage and analyze data collected by the CCEs and coordinate outreach and patient education activities. The privacy protection training firm provides training to the CCEs on the Health Insurance Portability and Accountability Act of 1996.

## HOW WE CONDUCTED THIS REVIEW

Our audit covered certain payments made to contractors during our audit period for WTCHP administrative costs from 179 invoices that we separated into 12,303 invoice line items totaling \$53,692,414. We selected and reviewed a statistical sample of 234 invoice line items. We then reviewed supporting documentation for the sampled invoice line items to determine whether the administrative costs complied with Federal requirements. In addition, we selected and reviewed a nonstatistical sample of eight paid invoices related to fixed-price WTCHP administrative cost contracts.<sup>6</sup>

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 objectives.

Appendix A contains the details of our audit scope and methodology, Appendix B contains our statistical sampling methodology, Appendix C contains our sample results and estimates, and Appendix D contains a description of the Federal requirements that pertain to WTCHP administrative costs.

## FINDINGS

CDC reimbursed contractors for some WTCHP administrative costs that did not comply with Federal requirements. Of the 234 invoice line items paid by CDC to contractors in our sample, 191 complied but 43<sup>7</sup> totaling \$1,046,539 did not. Specifically, CDC reimbursed contractors for unallowable administrative costs related to salaries, travel, member retention and data management, use taxes, fringe benefits, and other services.

CDC reimbursed these unallowable administrative costs because it did not ensure that WTCHP contractors' invoices were adequately reviewed and that staff responsible for reviewing the invoices were adequately trained. Specifically, CDC had no written policies and procedures requiring CORs to perform a detailed review of costs contained in contractors' invoices. CDC officials stated that, because of the volume of transactions and time constraints, CORs performed only high-level analyses of these costs and relied on contractors to ensure that they were allowable. Further, CDC did not provide the CORs training on the review and approval of administrative costs contained in contractors' invoices. On the basis of our sample results, we

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<sup>6</sup> Contractors have incentive to control costs on fixed-price contracts because under this type of contract they assume full responsibility for all costs and resulting profit or loss (48 CFR §16.202-1). Therefore, we consider fixed-price contracts to be of low risk to the Government.

<sup>7</sup> The number of sampled items found to be in error adds to more than 43 because 3 sampled items contained more than 1 deficiency.

estimated that CDC improperly reimbursed contractors for WTCHP administrative costs totaling \$8,066,551 that did not comply with Federal requirements.<sup>8</sup>

We also determined that CDC could have saved \$362,324 by reducing rates paid by contractors to third-party vendors for claims management services. Specifically, CDC did not compare claims management services rates paid by various contractors to identify potentially unreasonable costs.

Finally, we determined that CDC complied with Federal requirements for all eight of the nonstatistically selected fixed-price contract invoices.

## **CDC IMPROPERLY REIMBURSED CONTRACTORS FOR WORLD TRADE CENTER HEALTH PROGRAM ADMINISTRATIVE COSTS**

### **Salary Costs**

Charges for salaries are allowable if the employee was appointed to a WTCHP-related position and they are based on established compensation plans and records that accurately reflect the work performed (2 CFR § 200.430(a)(2), 2 CFR § 200.430(i), and 48 CFR § 31.205-6(a)(3)).<sup>9</sup>

CDC improperly reimbursed salary costs related to 33 sampled items. For 24 sampled items, employee salaries were not adequately supported. Specifically, the contractors did not provide documentation, such as an employment appointment letter or compensation plan, to support the salaries.

For the remaining nine sampled items, the contractors did not document that the associated employees' work was related to the WTCHP (seven sampled items) or employee records indicated that work performed was not related to the WTCHP (two sampled items).

### **Travel Costs**

Travel costs incurred by contractor personnel on official business are allowable provided they are reasonable, do not exceed maximum per diem rates, and are in accordance with the contractor's established practices (48 CFR §§ 31.205-46(a)(1),(2), and (3)).

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<sup>8</sup> The 90-percent confidence interval for this estimate has a lower limit of \$6,065,788 and an upper limit of \$10,067,314.

<sup>9</sup> The cost principles in 2 CFR part 200 govern contracts with local government agencies and non-profit organizations (48 CFR §§ 31.107 and 31.108). The cost principles in 48 CFR subpart 31.2 govern contracts with commercial organizations (48 CFR § 31.602). Because we audited contracts with local government agencies, non-profit organizations, and commercial organizations, here and throughout this report, where applicable, we cite to both sets of cost principles.

For three sampled items, the contractors' travel expenses were unallowable. Specifically, the charges for two sampled items were for hotel taxes associated with lodging costs that exceeded the allowable per diem rate.<sup>10</sup> (One of these charges was also related to a non-WTCHP-related stay in New York City.) For the third sampled item, the contractor charged for a business-class train ticket, which was unallowable under Federal regulations and the contractor's own travel policy, which does not allow business-class train fare.<sup>11</sup>

### **Member Retention and Data Management Services Costs**

When costs benefit two or more projects in a proportion that can be determined without undue effort or cost, the costs must be allocated to those projects based on their proportional benefit. If the proportion cannot be determined because of the interrelationship of the work involved, then each cost may be allocated to benefit the projects on a reasonable documented basis (2 CFR § 200.405(d)). To be allowable, a cost must be adequately documented (2 CFR §200.403(g)).

For two sampled items, contractor costs for member retention and data management services (including costs for protocol development, data analytics, and report-writing services) were not properly allocated to two separate WTCHP contracts based on their proportional benefit.<sup>12</sup> Specifically, the contractor: (1) did not have a written cost allocation methodology, (2) could not explain the basis used to allocate costs to the WTCHP contracts, and (3) did not always use the same allocation percentages to allocate costs to the WTCHP contracts.

### **Use Taxes**

Taxes from which exemptions are available to contractors are unallowable (48 CFR § 31.205-41(b)(3)).

For two sampled items, the contractor improperly billed the WTCHP for use-tax charges related to photocopying medical records. Specifically, the contractor was exempt from use-tax charges on these transactions. Nevertheless, the contractor billed the WTCHP for them.

### **Fringe Benefits**

Fringe benefits that are reasonable and in accordance with contractors' established policies are allowable (2 CFR § 200.431(a)).

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<sup>10</sup> The contractor did not provide any justification for exceeding the allowable per diem rate.

<sup>11</sup> We recorded the full amount of the business-class train ticket as unallowable.

<sup>12</sup> The contractor had both a fixed-priced contract and a cost-reimbursement contract with the WTCHP. Because the contractor did not properly allocate these costs, we cannot determine if the costs charged to the WTCHP under the cost-reimbursement contract were accurate.

For one sampled item, fringe benefits exceeded the contractor’s established fringe benefit rate. According to the contractor’s written policy, the fringe benefit rate is 29.59 percent of salary charges. However, the contractor applied a fringe benefit rate of 31.59 percent to salary charges—2 percent higher than its established rate. We disallowed the 2-percent difference in rates because the contractor did not provide any justification for charging the higher rate.

**Other Services Costs**

Contractors are responsible for maintaining records to demonstrate that costs claimed have been incurred and are allocable to the contract (48 CFR § 31.201-2(d)).

For five sampled items, the contractor did not provide documentation to support costs for scanning and storing records, technical support of a patient web portal, audio/visual services, overhead, and shipping fees.

**CDC COULD ACHIEVE SAVINGS BY REDUCING CLAIMS MANAGEMENT SERVICES RATES**

During our review, we identified potential cost savings associated with claims management services billed to the WTCHP. Claims management services include claims processing services, weekly reporting, and ongoing maintenance of member records. Each CCE independently entered into a contract with one of two third-party vendors for these services.

The claims management services price-per-WTCHP-member varied greatly by CCE. For the FFY 2016 invoice line items for the CCEs with similar claims management services included in our sample, we identified potential cost savings totaling \$362,324,<sup>13</sup> which could have resulted if all the CCEs used the lowest negotiated rate. (See Table 1.)

**Table 1: Potential Cost Savings for WTCHP Claims Management Services**

CCE <sup>14</sup>	Claims Management Price-Per-Member	FFY 2016 Items (WTCHP Members Invoiced)	Actual Cost of Claims Management Services	Potential Cost Using the Lowest Negotiated Rate	Potential Cost Savings Using the Lowest Negotiated Rate
Clinic A	\$12.50	49,836	\$622,950	\$520,786	\$102,164
Clinic B	12.50	4,236	52,950	44,266	8,684
Clinic C	28.50	5,723	163,106	59,805	103,301
Clinic D	22.00	12,829	282,238	134,063	148,175
<b>Total</b>			<b>\$1,121,244</b>	<b>\$758,920</b>	<b>\$362,324</b>

<sup>13</sup> We calculated the potential cost savings by multiplying the lowest negotiated claims management unit price (\$10.45) by the number of WTCHP members at each CCE associated with the FFY 2016 invoice lines. We then deducted this amount from the actual cost incurred.

<sup>14</sup> Clinics A, B, and C used the same third-party vendor. Clinic D used a different third-party vendor.

CORs did not compare the claims management services rates paid by various contractors to identify potentially unreasonable costs. If the lowest negotiated rate for claims management services had been used by the four CCEs with claims management services included in our sample, CDC could have saved as much as \$362,324 during our audit period.

## RECOMMENDATIONS

We recommend that CDC:

- recover the \$1,046,539 associated with the 43 unallowable sampled items;
- work with WTCHP contractors to identify and recover the remaining unallowable payments made during the audit period, which are estimated to be \$7,020,012;
- improve its monitoring of WTCHP contractors' invoices by:
  - establishing written policies and procedures to increase oversight over the invoice approval process, and
  - providing training to CORs regarding the review of invoices for contractor administrative costs; and
- review contractor costs for claims management services for reasonableness under Federal requirements, which could have resulted in cost savings totaling \$362,324.

## CDC COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, CDC agreed to recover unallowable travel costs and use taxes associated with our sampled items. Also, CDC generally agreed with our procedural recommendations and described some of the actions it has taken or is considering to address them, such as:

- issuing a *COR Manual* that describes the functions and duties of a COR in the WTCHP,
- increasing the number of CORs and their level of training to assure there is adequate time to appropriately review invoices, and
- working with commercial vendors that offer training for CORs in the management of cost reimbursement contracts.

CDC disagreed with our recommendations as they relate to recovering payments for salary costs and member retention and data management services costs that were not adequately supported. Although it did not indicate concurrence or nonconcurrence with our

recommendations as they relate to fringe benefits, other service costs, and the remaining unallowable payments made during our audit period, CDC stated that it intends to further research our findings to determine if additional supporting documentation can be found. Finally, CDC did not indicate concurrence or non-concurrence with our recommendation to review contractor costs for claims management services for reasonableness; however, it described actions it has taken to address our concerns.

Under separate cover, CDC provided additional supporting documentation and technical comments on our draft report. CDC's comments are included as Appendix E. We excluded the additional documentation because of its volume and technical comments.

After reviewing CDC's comments and the additional documentation provided, we maintain that our recommendations are valid. We addressed CDC's technical comments as appropriate.

## **UNALLOWABLE COSTS**

### **CDC Comments**

CDC maintained that unallowable salary costs and member retention and data management services costs identified in our report were allowable and, under separate cover, provided additional supporting documentation. CDC stated that the work related to the salary costs was performed and considered to be in scope with the contract awarded. CDC further stated that the supporting documentation (position descriptions, budgets, and invoices) was deemed by CDC to be allowable and reasonable. Regarding member retention and data management services costs, CDC stated that the related subcontract described an "estimated allocation" and that although costs varied, they were generally consistent with cost estimates. In addition, CDC stated that it intends to further research our findings related to the unallowable sampled items for fringe benefits and others service costs to determine if additional supporting documentation can be found.

CDC indicated that, because it disagrees with some findings in our report, the potential unallowable costs identified in our second recommendation should not include salary costs and retention and data management services costs. Also, CDC stated that it will sample the other cost categories with unallowable costs to determine if the costs are adequately documented.

### **Office of Inspector General Response**

We reviewed the additional documentation provided and continue to recommend that CDC recover payments for the unallowable sampled items identified in our report and work with WTCHP contractors to identify and recover the remaining unallowable payments made during the audit period.

CDC did not provide documentation required under the applicable regulations, such as an employment appointment letter or compensation plan, to support the sampled salary costs.

Regarding costs for member retention and data management services, the contractor: (1) did not have a written cost allocation methodology, (2) could not explain the basis used to allocate costs to the WTCHP contracts, and (3) did not always use the same allocation percentages to allocate costs to the WTCHP contracts.

We commend CDC for taking action to research travel costs, use taxes, other service costs, and fringe rates to determine if additional supporting documentation can be found.

## **COSTS FOR CLAIMS MANAGEMENT SERVICES**

### **CDC Comments**

CDC did not indicate concurrence or nonconcurrence with our recommendation related to costs for claims management services (fourth recommendation). Rather, CDC stated that these costs varied based on the need for different services to be provided and that cost rates were independently negotiated. However, CDC described actions that it has taken to consolidate its claims management services costs into a single contract.

### **Office of Inspector General Response**

We commend CDC for taking appropriate actions related to this recommendation.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

Our audit covered certain payments to contractors for WTCHP administrative costs for our audit period, October 1, 2015, through September 30, 2016.

We limited our review of internal controls to those applicable to our objective. Our testing of controls included a review of supporting documentation from CDC and the contractors to evaluate whether the costs reimbursed to contractors were in accordance with Federal requirements. In addition, we gained an understanding of CDC's procedures for processing invoices and reimbursing contractors.

We performed fieldwork from September 2016 through February 2018 at NIOSH's administrative offices in Atlanta, Georgia, and two contractor sites in New York, New York.

### METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal requirements and WTCHP contracts;
- interviewed CDC officials to gain an understanding of the WTCHP;
- obtained a list of 246 WTCHP invoices for contractor administrative expenditures paid during our audit period;
- removed 67 invoices that were for fixed-price contracts or had negative or zero balances to arrive at 179 invoices;
- broke down the 179 invoices into 13,400 invoice line items from which we removed 1,097 invoice line items that were for less than \$10;
- created a sampling frame of the remaining 12,303 invoice line items for which CDC made WTCHP administrative payments totaling \$53,692,414;
- selected a stratified random sample of 234 invoice line items for costs paid during our audit period;
- selected a nonstatistical sample of eight paid invoices related to fixed-price contracts<sup>15</sup>;

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<sup>15</sup> To ensure adequate coverage, we selected one paid invoice from varying months from each of the eight contractors with a fixed-priced contract.

- for each sampled item, where possible, obtained documentation to support the costs reimbursed to the contractor and determined if any of the expenses were not reasonable, allowable, and allocable to the WTCHP;
- conducted site visits at two contractors to interview officials and review supporting documentation;
- reviewed FFY 2016 costs for claims management services for each CCE associated with invoice line items selected in our sample and calculated potential cost savings;
- estimated the total amount of improper Federal reimbursement for WTCHP administrative costs to contractors during the audit period; and
- discussed the results of our review with CDC 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 objectives.

## **APPENDIX B: STATISTICAL SAMPLING METHODOLOGY**

### **TARGET POPULATION**

The target population consisted of WTCHP invoice payments for contractor administrative expenditures paid during our audit period.

### **SAMPLING FRAME**

We obtained from CDC a detailed list of 600 WTCHP invoice payments applicable to our audit period by invoice number, which we consolidated to a total of 246 paid invoices totaling \$64,247,126. From the 246 paid invoices, we removed 64 invoices (totaling \$11,313,698) that were for fixed-price contracts.<sup>16</sup> From the remaining 182 invoices, we removed two invoices that netted to zero and netted one negative invoice that represented a refund for costs against the related invoice. We then created an Excel file that broke down the 179 invoice payments by invoice line item. This resulted in 13,400 invoice line items, totaling \$52,933,431. We removed 1,097 invoice line items that were less than \$10, totaling negative \$758,983. The resulting sampling frame consisted of 12,303 invoice line items totaling \$53,692,414.

### **SAMPLE UNIT**

The sample unit was a paid WTCHP invoice line item.

### **SAMPLE DESIGN AND SAMPLE SIZE**

We used a stratified random sample divided into ten strata. Strata 1 through 4 consisted of salary and fringe benefit transactions, strata 5 through 8 consisted of administrative cost transactions other than salary and fringe benefits, and strata 9 and 10 consisted of invoice line items paid with both FFY16 funds and funds from other FFYs. The strata were based on the monetary thresholds shown in Table 2 (on the following page).

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<sup>16</sup> We reviewed a nonstatistical sample of 8 of the 64 invoices removed from our sampling frame.

**Table 2: Sample Design Summary**

<b>Stratum</b>	<b>Frame Count</b>	<b>Frame Total</b>	<b>Stratum Lower Cut-off</b>	<b>Stratum Upper Cut-off</b>	<b>Number of Sample Units</b>
1	7,123	\$4,288,771	\$10.00	\$2,350.00	40
2	1,942	8,150,921	2,350.01	7,360.00	25
3	696	8,176,130	7,360.01	22,720.00	25
4	97	5,161,728	22,720.01	192,580.00	20
5	1,212	4,097,386	10.00	15,780.00	30
6	269	8,258,333	15,780.01	60,620.00	25
7	91	8,956,821	60,620.01	188,240.00	25
8	14	5,362,741	188,240.01	1,060,410.00	14
9	849	654,929	10.00	25,000.00	20
10	10	584,654	25,000.01	187,860.00	10
<b>Totals</b>	<b>12,303</b>	<b>\$53,692,414</b>			<b>234</b>

**SOURCE OF RANDOM NUMBERS**

We used the OIG, Office of Audit Services (OIG/OAS) statistical software to generate the random numbers.

**METHOD FOR SELECTING SAMPLE UNITS**

We consecutively numbered the WTCHP invoice line items in each stratum of the sampling frame. After generating the random numbers for the applicable strata, we selected the corresponding frame items. We selected all items for strata 8 and 10.

**ESTIMATION METHODOLOGY**

Using the OIG/OAS statistical software, we estimated the total value of any unallowable invoice line items. We also used the software to calculate the two-sided confidence interval for our point estimate at the 90-percent confidence level.

**APPENDIX C: SAMPLE RESULTS AND ESTIMATES**

**Table 3: Sample Detail and Results for Unallowable WTCHP Administrative Costs**

<b>Stratum</b>	<b>Frame Size (Line Items)</b>	<b>Value of Frame</b>	<b>Sample Size</b>	<b>Value of Sample</b>	<b>Number of Improperly Paid Line Items in Sample</b>	<b>Value of Overpayments in Sample</b>
1	7,123	\$4,288,771	40	\$24,758	5	\$2,012
2	1,942	8,150,921	25	99,207	9	34,923
3	696	8,176,130	25	308,531	13	136,365
4	97	5,161,728	20	1,075,249	2	30,259
5	1,212	4,097,386	30	79,248	6	242
6	269	8,258,333	25	689,697	1	20,466
7	91	8,956,821	25	2,373,110	0	0
8	14	5,362,741	14	5,362,741	4	798,729
9	849	654,929	20	16,153	0	0
10	10	584,654	10	584,654	3	23,543
<b>Total</b>	<b>12,303</b>	<b>\$53,692,414</b>	<b>234</b>	<b>\$10,613,348</b>	<b>43</b>	<b>\$1,046,539</b>

**ESTIMATES**

**Table 4: Estimated Value of Overpayments for the Audit Period**  
*(Limits Calculated for a 90-Percent Confidence Interval)*

	<b>Total Amount</b>
<b>Point Estimate</b>	\$8,066,551
<b>Lower Limit</b>	6,065,788
<b>Upper Limit</b>	10,067,314

## APPENDIX D: FEDERAL REQUIREMENTS

- Employment compensation is allowable for appointed employees (2 CFR § 200.430(a)(2)).
- Compensation must be based on an established compensation plan (48 CFR § 31.205-6(a)(3)).
- Charges for salaries and wages must be based on records that accurately reflect the work performed (2 CFR § 200.430(i)).
- A contractor is responsible for maintaining records to demonstrate that costs claimed have been incurred and are allocable to the contract (48 CFR § 31.201-2(d)).
- Travel costs incurred by contractor personnel on official company business are allowable (48 CFR § 31.205-46(a)(1)).
- Costs for transportation, lodging, meals, and incidental expenses should not exceed maximum per diem rates (48 CFR § 31.205-46(a)(2)).
- When costs benefit two or more projects in a proportion that can be determined without undue effort or cost, the costs must be allocated to those projects based on their proportional benefit. If the proportion cannot be determined because of the interrelationship of the work involved, then each cost may be allocated to benefit the projects on a reasonable documented basis (2 CFR § 200.405(d)).
- To be allowable, a cost must be adequately documented (2 CFR § 200.403(g)).
- Taxes from which exemptions are available to the contractor are unallowable (48 CFR § 31.205-41(b)(3)).
- Fringe benefits are allowable according to the contractor's established policy (2 CFR § 200.431(a)).
- A cost is reasonable if it does not exceed that which would be incurred by a prudent person in the conduct of competitive business (48 CFR § 31.201-3).

## APPENDIX E: CDC COMMENTS



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Public Health Service

Centers for Disease Control  
and Prevention (CDC)  
Atlanta GA 30333

TO: Inspector General, U.S. Department of Health and Human Services

FROM: Director, Centers for Disease Control and Prevention  
Administrator, Agency for Toxic Substances and Disease Registry

DATE: November 16, 2018

SUBJECT: Office of the Inspector General's Draft Report "CDC Reimbursed Contractors for Some Unallowable World Trade Center Health Program Administrative Costs" (A-02-16-0212)

The Centers for Disease Control and Prevention (CDC) submits the following response to the Office of the Inspector General (OIG). This response details CDC's planned actions regarding recommendations contained in the OIG report, "CDC Reimbursed Contractors for Some Unallowable World Trade Center Health Program Administrative Costs" (A-02-16-0212)

As stated in the draft report, the objective of this review was to determine whether CDC reimbursed contractors for WTCHP administrative costs that complied with federal requirements.

**OIG Recommendation 1:** Recover the \$1,046,539 associated with the 43 unallowable sample items.

**CDC Response 1:**

*Travel Costs, Use Taxes, Fringe Benefits, and Other Services Costs*

For the sampled items related to travel costs and use taxes, CDC agrees with the OIG finding and will recover the unallowable costs from the contractors. For the sampled items related to fringe benefits and other services costs, CDC will further research OIG's findings and if additional supporting document is not found, will recover the costs from the contractors.

*Salary Costs*

For the sampled lines related to salary costs, CDC disagrees that costs should be recovered because the work was performed, the supporting documentation was deemed "allowable" and "reasonable" (see below), and the work was considered to be in scope with the contract awarded. For cost reimbursement contracts, including these WTCHP contracts, CDC determined that the compensation was allowable per Federal Acquisition Regulation (FAR) 31.205-6(a)(3) which states,

*The compensation must be based upon and conform to the terms and conditions of the contractor's established compensation plan or practice followed so consistently as to imply, in effect, an agreement to make the payment.*

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In addition, CDC determined that the salary costs were reasonable per FAR 31.205-6(b). CDC received adequate supporting documentation for payment of invoices as required by the FAR. This documentation included:

- Proposals from the contractors with position titles, salary scales and estimated levels of effort, including some positions having named individuals;
- Invoices which included the names of the individuals doing work, their position title, the level of effort (hours/days worked and/or percentage of effort), and the rate at which they are paid; and
- Revised budgets from the contractors, as requested by CDC prior to each option year and occasionally in the middle of an option year, which included new estimates of the staff required to do the work.

*Member Retention and Data Management Services Costs*

For the sampled items related to member retention and data management services costs, CDC disagrees that costs should be recovered. The items in question relate to a Clinical Center of Excellence's (CCE's) subcontract to provide protocol development, epidemiologic and statistical analysis, and report writing support. CDC finds the costs associated with this subcontract to be reasonable and allocable for the following reasons:

- The subcontract described the proposed work, the associated costs, and the overall estimated allocation between the CCE and Data Center (DC) contracts.
- The subcontract was a cost-based contract to account for variable staff time requirements for their scoped functions, which results in cost variations, and thus the difference between the allocation to the CCE and DC from one invoice to the next.
- The invoices were generally consistent with the cost estimates provided in the subcontract and never exceeded the estimated cost at any time during the 5-year contract.
- The monthly reports described the work done by the subcontractor for which they were subcontracted to perform.

The OIG report quotes a portion of 2 CFR § 200.405(d) as the rationale for determining these two invoice lines are not allocable. "If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit." However, CDC believes the second sentence of the clause more accurately describes both the work provided by the subcontractor and the methodology for the allocation. The second sentence reads, "If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis." CDC believes the interrelationship of the work between the CCE and DC and the subcontractor,

coupled with the documentation/information listed above, meets the burden of a “reasonable documented basis” for the allocation.

**OIG Recommendation 2:** Work with WTCHP contractors to identify and recover the remaining unallowable payments made during the audit period, which are estimated to be \$7,020,012.

**CDC Response 2:** CDC understands the methodology that the OIG used to extrapolate the amounts they determined as unallowable costs to the entire pool of invoice costs. However, since CDC disagrees with some of the findings above, the potential amount of unallowable costs should not include salary costs and member retention and data management services costs. However, for the other cost categories (travel costs, use taxes, other services costs, and fringe rates), CDC will sample and audit costs to assure the existing documentation meets the standards set by CDC’s policies the FAR. If CDC finds that the documentation is insufficient, it will work to recover the related costs.

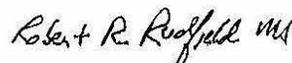
**OIG Recommendation 3:** Improve its monitoring of contractor’s invoices by:

- Establishing written policies and procedures to increase oversight over the invoice approval process, and;
- Providing training to Contracting Officer Representatives (CORs) regarding the review of invoices for contractor administrative costs.

**CDC Response 3:** CDC agrees with this recommendation and since the period covered by this audit (FY2016), the WTCHP has implemented a COR Manual that describes the functions of a COR in the WTCHP and their duties under the FAR, HHS Acquisition Regulations, and CDC policies. In addition, the WTCHP increased both the number of CORs and their level of training to assure there is adequate time to appropriately review each invoice. CDC will also consider working with commercial vendors that offer training for CORs in the management of cost reimbursement contracts.

**OIG Recommendation 4:** Review contractor costs for reasonableness under Federal requirements, which could have resulted in cost savings totaling \$362,324.

**CDC Response 4:** CDC believes that the cost variation described in the report was appropriate because the CCEs independently negotiated rates with the subcontractors based on their need for different services to be provided by the subcontractor. With the re-solicitation of all WTCHP contracts in FY2017, CDC consolidated the work performed by the subcontractors in question under a single Health Program Support contract. This consolidation allowed CDC visibility into rates and the services provided and whether those services were cost effective and necessary.



Robert R. Redfield, MD  
Director, CDC, and  
Administrator, ATSDR