May 20, 2010

The Honorable Dianne Feinstein  
Chairman  
The Honorable Lamar Alexander  
Ranking Member  
Subcommittee on Interior, Environment, and Related Agencies  
Committee on Appropriations  
United States Senate

The Honorable James P. Moran  
Chairman  
The Honorable Michael K. Simpson  
Ranking Member  
Subcommittee on Interior, Environment, and Related Agencies  
Committee on Appropriations  
House of Representatives

Subject: Centers for Disease Control and Prevention: An Appropriate Methodology Is Needed for Determining Administrative Costs Attributable to the Agency for Toxic Substances and Disease Registry

This letter formally transmits and summarizes an oral briefing we gave on April 12, 2010, in response to House of Representatives Explanatory Statement, 155 Cong. Rec. H2113 (daily ed., Feb. 23, 2009), accompanying the Omnibus Appropriations Act, 2009 (Pub. L. No. 111-8, 123 Stat. 524) (2009). A copy of our briefing slides is enclosed. GAO was directed to review the indirect costs the Agency for Toxic Substances and Disease Registry (ATSDR) paid the Centers for Disease Control and Prevention (CDC). Specifically, our objectives were to (1) describe CDC’s methodology for determining and allocating indirect costs to bill ATSDR for administrative services and (2) determine if the methodology CDC uses to bill ATSDR appropriately considers relevant laws and guidance. To address these objectives, we
• identified and reviewed applicable sections of laws and guidance;¹
• obtained and reviewed relevant documents, including the studies related to CDC’s indirect cost methodology that was implemented in fiscal year 2002;²
• reviewed relevant reports from the Department of Health and Human Services Office of the Inspector General and financial statement auditors;
• obtained and reviewed schedules and interagency agreements documenting the indirect costs charged to ATSDR for fiscal years 2002 through 2010; and
• interviewed CDC and ATSDR officials and staff.

We conducted this performance audit from August 2009 to April 2010, 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.

In summary, we found that CDC had charged ATSDR approximately $12.1 million annually for indirect costs each year since 2004. This was the amount calculated for fiscal year 2004 using the methodology CDC implemented in fiscal year 2002.

We also found that CDC’s approach to determine indirect costs to charge ATSDR did not appropriately address relevant laws or guidance. Specifically, CDC had not calculated the actual costs of providing services to ATSDR as required under the Economy Act. Also, it had not updated its approach to use an appropriate methodology with current cost information and assumptions as called for by relevant guidance. Under the Economy Act, ATSDR must reimburse CDC for the “actual cost” of providing the services, which generally includes all direct and indirect (e.g., overhead) costs. Other relevant guidance for calculating indirect costs states that entities should (1) use and consistently follow costing methodologies or cost finding techniques most appropriate to the operating environment to accumulate and assign costs; (2) document managerial cost accounting activities, processes, and procedures; and (3) periodically evaluate indirect costing methods. Because CDC had not used an appropriate documented cost methodology, it is not possible to determine whether ATSDR may have been overcharged or undercharged for the administrative services provided by CDC. In April 2010, CDC awarded a task order for a new indirect cost study. The contractor is expected to provide CDC with a final

²We did not validate CDC’s fiscal year 2002 methodology or the data, which were last updated in fiscal year 2004, because according to CDC officials, the documentation was destroyed in accordance with the agency's record retention policies.
We made recommendations to the Director of CDC to assist the agency in providing a reasonable basis for indirect costs charged and to assist the Congress and agency officials in making decisions about allocating federal resources.

In commenting on a draft of our briefing slides, officials at CDC and ATSDR agreed with our recommendations and provided technical comments that we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, to the Director of CDC and the Administrator of ATSDR, and to other interested parties. This report will also be available at no charge on our Web site at http://www.gao.gov. Should you or your staff have any questions concerning this report, please contact me at 202-512-9095 or dalykl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Sabrina Springfield, Assistant Director; Jehan Abdel-Gawad; F. Abe Dymond; Jean Mathew; Donell Ries; Ivy Wu; and J. Mark Yoder.

Kay L. Daly
Director
Financial Management and Assurance

Enclosure
Centers for Disease Control and Prevention

An Appropriate Methodology Is Needed for Determining Administrative Costs Attributable to the Agency for Toxic Substances and Disease Registry

Briefing for the Subcommittees on Interior, Environment, and Related Agencies, Committees on Appropriations, United States Senate and House of Representatives

April 12, 2010
Overview

- Background
- Objectives
- Scope and Methodology
- Results
- Conclusions
- Recommendations for Executive Action
- Agency Comments and Our Evaluation
- GAO Contact and Staff Acknowledgments
Background

- The Centers for Disease Control and Prevention (CDC) is one of the major operating components of the Department of Health and Human Services (HHS). Its mission is to promote health and quality of life by preventing and controlling disease, injury, and disability. CDC accomplishes its mission by working with states, communities, and other partners to monitor health, detect and investigate health problems, conduct research, implement prevention strategies, promote healthy behaviors, foster safe and healthful environments, and provide leadership and training.

- The Agency for Toxic Substances and Disease Registry (ATSDR), another component of HHS, was created by the passage of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, more commonly known as the Superfund law. The agency is charged with evaluating the human health effects of exposure to hazardous substances.
Background (cont.)

- CDC provides administrative services to its internal organizational units and to others, including ATSDR.\(^1\) These services include budget formulation, accounting, procurement, information-technology services, human-resources management, facilities management, security services, and telecommunications.
- CDC charges a fee to ATSDR and others to recoup its costs for providing these services, which it considers indirect costs.\(^2\)

\(^1\)Others include programs that are not funded by CDC’s direct appropriation, such as Vaccines for Children (VFC) and the President’s Emergency Plan for AIDS Relief (PEPFAR). VFC is a federally funded program that provides vaccines at no cost to children who might not otherwise be vaccinated because of an inability to pay. CDC buys vaccines at a discount and distributes them to grantees. PEPFAR is a federally funded program administered by the Department of State and its mission is to prevent and treat HIV/AIDS in other nations.

\(^2\)Indirect costs are costs that are not specifically identifiable with any output and may include costs for general administration, research and technical support, and operations and maintenance for buildings and equipment.
Background (cont.)

- In the Explanatory Statement accompanying the Omnibus Appropriations Act, 2009, the committee directed GAO to review the indirect costs paid by ATSDR to CDC.³
- In the related House report, it was noted that the amount charged by CDC to ATSDR has represented over 16 percent of ATSDR’s annual budget authority. Also, the report noted that CDC announced plans to recommission a study to update the way it determines administrative costs. Furthermore, the committee directed that the results of the study be reported immediately for decision-making purposes on ATSDR’s appropriation.⁴

Objectives

Our objectives were to

- describe CDC’s methodology for determining and allocating indirect costs to bill ATSDR for administrative services, and
- determine if the methodology CDC uses to bill ATSDR appropriately considers relevant laws and guidance.
Scope and Methodology

To address the objectives, we

- identified and reviewed applicable sections of laws and guidance to assess CDC’s indirect cost methodology;\(^5\)
- obtained and reviewed relevant documents, including CDC’s indirect cost studies that related to the methodology implemented in fiscal year 2002, to gain an understanding of CDC’s indirect cost methodology;
- We did not validate the fiscal year 2002 methodology or the data, which were last updated in fiscal year 2004, because CDC did not maintain related documentation.\(^6\)


\(^6\)According to CDC officials, the documents had been destroyed in accordance with the agency’s record retention policies.
Scope and Methodology (cont.)

- reviewed relevant reports from the HHS Office of the Inspector General and financial auditors to identify any previously reported weaknesses in CDC’s fiscal year 2002 indirect cost methodology;\(^7\)
- obtained and reviewed schedules and interagency agreements documenting the indirect costs charged to ATSDR for fiscal years 2002 through 2010 to determine trends;
- interviewed CDC officials, including the Chief Financial Officer, the Director of the Financial Management Office (FMO), and the Deputy Budget Director within FMO, to obtain an understanding of the indirect cost methodology; and

Scope and Methodology (cont.)

- interviewed ATSDR and CDC staff responsible for monitoring the costs charged by CDC to obtain additional details about the methodology.

We conducted this performance audit from August 2009 to April 2010, 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.
CDC Continues to Charge ATSDR for Administrative Services Based on a Calculation That Has Not Been Updated since Fiscal Year 2004

- CDC’s fiscal year 2002 methodology used various factors and assumptions to accumulate and allocate indirect costs to both internal and external entities and programs for which it provided administrative services.
- CDC officials stated that after fiscal year 2004 they ceased using the methodology to calculate indirect costs because they believed the methodology was no longer appropriate due to changes made to the organizational and budget structures and was not needed to allocate indirect costs for its internal management purposes.
- As a result, CDC has charged ATSDR approximately $12.1 million annually for indirect costs each year since 2004. This was the amount calculated for fiscal year 2004 using its methodology.
CDC Does Not Use an Indirect Cost Methodology That Appropriately Addresses Relevant Laws and Guidance

- The CDC approach used to determine indirect costs to charge ATSDR did not appropriately address relevant laws or guidance. Specifically, CDC had not calculated the actual costs of providing services to ATSDR under the Economy Act. Also, it had not updated its approach to use an appropriate methodology with current cost information and assumptions as called for by relevant guidance.

- Under the Economy Act, the requesting agency must reimburse the servicing agency for the “actual cost” of providing the services, which generally includes all direct and indirect (e.g., overhead) costs funded out of the performing agency’s currently available appropriations that bear a significant relationship to providing the goods or services. When determining the reimbursable actual costs under the Economy Act, agencies should apply reasonable and appropriate methodologies that meet these minimum requirements.8

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CDC Does Not Use an Indirect Cost Methodology That Appropriately Addresses Relevant Laws and Guidance (cont.)

- Other relevant guidance⁹ for calculating indirect costs states that entities should
  - use and consistently follow costing methodologies that consider current cost information and assumptions or cost finding techniques most appropriate to the operating environment to accumulate and assign costs;
  - document managerial cost accounting activities, processes, and procedures; and
  - periodically evaluate indirect costing methods because operations, program funding levels, and requirements change over time, and therefore long-standing methods, if unchanged, may result in an inappropriate allocation of costs.

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CDC Does Not Use an Indirect Cost Methodology That Appropriately Addresses Relevant Laws and Guidance (cont.)

- Based on its analysis of select changes in factors and assumptions used in the fiscal year 2002 methodology, ATSDR asked CDC to reevaluate the indirect cost it was scheduled to be charged for fiscal year 2009.
- CDC officials told us that ATSDR’s analysis did not include or update all of the factors and assumptions used in the fiscal year 2002 methodology.
- However, because CDC had not used an appropriate documented cost methodology, it is not possible to determine whether ATSDR may have been overcharged or undercharged for the administrative services provided by CDC.\(^\text{10}\)

\(^{10}\text{A lack of a methodology to determine the proper indirect costs could also affect other entities that are charged indirect costs by CDC.}\)
CDC officials told ATSDR that no adjustment would be made to the amount it charges ATSDR until a new indirect cost allocation methodology is developed and implemented.

In December 2009, CDC issued a request for quotations to contractors for the development of a new indirect cost methodology. CDC awarded a task order dated April 6, 2010, for a new indirect cost study. The contractor is expected to provide CDC with initial recommendations for an indirect cost model no later than 120 days following the award of the task order and a final report no later than 270 days following the award of the task order. The task order requires that the new indirect cost methodology comply with relevant laws and guidance.
Conclusions

- CDC has continued to charge ATSDR the same amount for indirect costs since fiscal year 2004. Without an appropriate indirect cost methodology using current cost information and assumptions and adequate documentation as called for by relevant guidance, the indirect costs charged by CDC for providing administrative services to ATSDR cannot be substantiated. Furthermore, it cannot be determined whether the amounts paid by ATSDR reasonably approximate actual costs, as required by statute.

- We believe CDC’s plan to develop a new indirect cost methodology is a step in the right direction. As CDC moves forward to develop and implement its new methodology, it will be crucial that the methodology be periodically evaluated because operations, funding levels, and requirements change over time.
Recommendations for Executive Action

- Because of the importance of having an appropriate methodology in place to provide a reasonable basis for the indirect costs charged and to assist the Congress and agency officials in making decisions about allocating federal resources, we recommend that the Director of CDC
  - continue efforts to develop and implement an appropriate methodology for identifying and allocating actual costs, including direct and indirect costs to ATSDR, that is in compliance with federal statutes and relevant guidance;
  - document its cost methodology and its process for determining the amount charged to ATSDR; and
  - reevaluate its indirect cost methodology on a regular basis to ensure that it is adequately identifying and allocating current indirect costs.
Agency Comments and Our Evaluation

- We provided a draft of this product to CDC and ATSDR for review and comment.
- On April 7, 2010, CDC’s Acting Director Executive Secretariat provided us with comments on the draft product.
- In their comments, CDC and ATSDR agreed with our recommendations and provided technical comments that we incorporated as appropriate.
GAO Contact and Staff Acknowledgments

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Staff Acknowledgments
• In addition to the contact named above, staff members who made key contributions to this report include Sabrina Springfield, Assistant Director; Jehan Abdel-Gawad; F. Abe Dymond; Jean Mathew; Donell Ries; Ivy Wu; and J. Mark Yoder.
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