



U.S. Department of Agriculture



Office of Inspector General
Western Region

Audit Report

**ANIMAL AND PLANT HEALTH INSPECTION SERVICE
EXOTIC NEWCASTLE DISEASE ERADICATION PROJECT
COOPERATIVE/REIMBURSABLE AGREEMENTS**

Report No. 33099-10-SF
January 2005



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: January 20, 2005

REPLY TO

ATTN OF: 33099-10-SF

SUBJECT: Exotic Newcastle Disease Eradication Project –
Cooperative/Reimbursable Agreements

TO: W. Ron DeHaven
Administrator
Animal and Plant Health Inspection Service

ATTN: William Hudnall
Deputy Administrator
Marketing and Regulatory Programs Business Services

This report presents the results of our audit of the Animal and Plant Health Inspection Service's cooperative/reimbursable agreement with the California Department of Food and Agriculture for the Exotic Newcastle Disease eradication project. The report incorporates an issue previously reported to you in a January 20, 2004, management alert. Your January 27, 2004, response to the management alert and December 27, 2004, response to the draft audit report are included as exhibits C and D, respectively, to the report. Excerpts from your responses and the Office of Inspector General's positions have been incorporated into the relevant sections of the report.

We agree with your management decision on Recommendation No. 1. The actions needed to reach management decision on Recommendations No. 2 and 3 are detailed in the Findings and Recommendations section of the report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned and the timeframes for implementation of those recommendations for which management decision has not yet been reached. Please note that the regulation requires a management decision to be reached on all recommendations within 6 months of report issuance.

We appreciate the cooperation and assistance provided by your staff during our audit.

\s\

ROBERT W. YOUNG
Assistant Inspector General
for Audit

Executive Summary

EXOTIC NEWCASTLE DISEASE ERADICATION PROJECT - COOPERATIVE/REIMBURSABLE AGREEMENTS (AUDIT REPORT NO. 33099-10-SF)

Results in Brief

In October 2002, an outbreak of Exotic Newcastle Disease (END) was detected in Southern California. The Animal and Plant Health Inspection Service (APHIS) awarded funding to the California Department of Food and Agriculture (CDFA) through a cooperative agreement to eradicate the disease. We reviewed the expenditure of award funds by CDFA for Federal fiscal year 2003 expenses.

Although this report identifies a number of audit findings, we concluded that CDFA had generally done a good job of controlling the expenditure of award funds. We recognize the exceptionally difficult circumstances under which they operated, and their need to make eradication of the disease their highest priority. Working together, CDFA and APHIS contained the disease in Southern California, and it did not spread into Central California, a potentially catastrophic event.

During the course of the audit, we found that APHIS had not determined whether it would exercise its option to take title to equipment purchased with \$473,963 in award funds by CDFA and the University of California-Davis, under an arrangement with CDFA. At the time we identified this issue, APHIS had only a short time remaining to assert ownership, so on January 20, 2004, we issued a management alert to APHIS. In response, APHIS informed us that it had decided that it would assert ownership of the equipment. Had APHIS not done so, title to the equipment would have remained with CDFA or the University of California-Davis.

CDFA charged \$128,404 in unallowable or unsupported costs to the USDA award. These costs were not necessary and reasonable to accomplish the purpose of the Federal award, or were not adequately supported, as required by Office of Management and Budget Circular A-87. Questioned amounts included

- The cost of a contract with a California county for preparation of a surveillance work plan, the cost of which was a State obligation,
- Lease costs paid for several months after the leased space was vacated,
- Vehicle repair costs that were unallowable because the repairs could not reasonably be attributed to the vehicles' use on the END project, should have been paid by another State agency, or resulted from the State's failure to obtain vehicle insurance,

- Purchases that were not adequately documented to allow us to verify the allowability of the expense,
- Erroneous payroll charges,
- Costs of training that was not necessary or unrelated to the program, and
- Unallowable interest penalty costs.

CDFFA had agreements or arrangements with other State agencies assisting on the END project. We questioned \$99,928 in costs claimed by the California Department of Forestry and Fire Protection (CDF), and charged by CDFFA to the award, including

- The costs of paying overtime to employees substituting for CDF employees temporarily assigned to the END project,
- Billings by local fire departments to recoup payments made to CDF to pay for CDF employees who normally worked for the local fire departments under contract, but had been temporarily assigned to the END project, and
- Supplemental payments made to two CDF employees who were ineligible for the additional pay.

We also found that CDF had (1) both overclaimed and underclaimed amounts relating to another type of supplemental payment made to CDF employees, and (2) underclaimed amounts due to an error in recording an employee's job classification. The questioned costs cited above have been reduced by the underclaimed amounts.

See exhibit A for a summary of monetary results.

We also noted, in a general comment, that CDFFA's use of CDF personnel resulted in significantly higher project costs than would have been incurred if employees from other agencies had been used. The additional costs resulted from the payment of "portal-to-portal" pay to most of the assigned CDF employees. Portal-to-portal pay means that employees were paid for every hour they were assigned to the project, including both duty and non-duty hours (i.e., 24 hours a day). We estimated that the portal-to-portal payments resulted in additional costs of \$877,026 (based on the cost of all hours paid in excess of 16 per day).

We are not making any recommendations relating to the increased costs because the portal-to-portal payments were mandated by the CDF employees' union contract, and because, under the specific circumstances of the END project, there were valid reasons for using CDF. However, APHIS management should be aware of the significantly increased costs that resulted from using CDF, and we suggest that, in the event of another emergency in California, APHIS consider whether less-costly resources could be used.

**Recommendations
In Brief**

In a management alert dated January 20, 2004, we recommended that APHIS decide whether to exercise its option to retain title to any equipment purchased by CDFA or the University of California-Davis with award funds.

We also recommend that APHIS collect \$228,332 from CDFA for the questioned costs identified in this report, including \$99,928 of the costs claimed by CDF.

**Agency
Response**

APHIS' written response to the management alert, dated January 27, 2004, addresses Recommendation No. 1. In its response, APHIS stated that it had decided to exercise its option to retain the equipment purchased with award funds, and was taking steps to initiate the recovery.

APHIS' written response to the draft report, dated December 27, 2004, addresses Recommendations No. 2 and 3. In its response, APHIS stated that it was in agreement with the findings and would work with CDFA to collect the overpayments.

APHIS' written responses are included as exhibits C and D to this report.

**OIG
Position**

We accepted APHIS' management decision on Recommendation No. 1. The actions needed to reach management decision on Recommendations No. 2 and 3 are detailed in the Findings and Recommendations section of the report.

Abbreviations Used in This Report

ADODR	Authorized Departmental Officer's Designated Representative
APHIS	Animal and Plant Health Inspection Service
CCC	California Conservation Corps
CDF	California Department of Forestry and Fire Protection
CDFA	California Department of Food and Agriculture
CFR	Code of Federal Regulations
DGS	Department of General Services
END	Exotic Newcastle Disease
FSB	Financial Services Branch
GIS	Geographical Information Systems
ICA	Incident Command Assignment
ICS	Incident Command System
IRS	Immediate Response Status
OES	Governor's Office of Emergency Services
OIG	Office of Inspector General
OMB	Office of Management and Budget
UCD	University of California – Davis
USDA	United States Department of Agriculture

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Background and Objective

Background

On October 1, 2002, an outbreak of Exotic Newcastle Disease (END) was confirmed in Southern California. END is a contagious and fatal viral disease affecting all species of birds. While not a threat to humans, it is so virulent that many birds die without developing any observable signs of the disease. Although END was predominantly found in backyard flocks, it also posed a serious threat to the commercial poultry industry. The END outbreak affected interstate and foreign commerce, as a number of countries prohibited the importation of poultry from the affected areas. For this reason, END potentially impacted the national economy.

To combat the END outbreak, the California Department of Food and Agriculture (CDFA), under an \$5.0 million cooperative agreement with the Animal and Plant Health Inspection Service (APHIS), dated October 28, 2002, began efforts to eradicate the disease by destroying infected flocks and disinfecting diseased premises.

However, the disease continued to spread, and on January 6, 2003, the Secretary of Agriculture, in accordance with the Animal Health Protection Act (7 United States Code 8306), declared an "extraordinary emergency" in the State of California. This declaration allowed the Secretary to take direct action to prevent the dissemination of the disease, and APHIS took a more direct role, participating jointly with CDFA in the project. To cover anticipated costs, the cooperative agreement was revised to increase the award to \$53.2 million. Subsequent revisions reduced the award down to \$27.4 million, as funding needs were more accurately determined.

The last case of END was identified in May 2003. However, ongoing surveillance continued in California to ensure that END was completely eradicated.

As of October 8, 2003, APHIS had entered into numerous agreements with Federal, State, and local agencies for the eradication of END. The agreements, totaling \$54.3 million, included 17 agreements with Federal agencies and 27 agreements with State and local agencies. The \$27.4 million awarded to CDFA represented 51 percent of this total.

On January 29, 2004, CDFA submitted its final request for reimbursement, totaling \$26.7 million, to APHIS. Included in this amount was \$15.9 million paid by CDFA to four other State agencies assisting in the END project: the University of California-Davis (UCD), the California Conservation Corps (CCC), the California Department of Forestry and Fire Protection (CDF), and the Governor's Office of Emergency Services (OES).

Objective

Our objective was to determine if expenditures made by CDFA under the cooperative agreement with APHIS were allowable and supported.

Our scope covered Federal fiscal year 2003. See the Scope and Methodology section of this report for full details.

Findings and Recommendations

Section 1.

EQUIPMENT PURCHASED WITH AWARD FUNDS

Finding 1

APHIS Had Not Determined If It Would Exercise its Option to Take Title to Equipment Purchased with Award Funds

During the course of the audit, we became aware that APHIS had not determined whether it would exercise its option to take title to equipment purchased with award funds. We attributed this to inadequate communication between CDFA and APHIS regarding the purchases. At the time we identified this issue, APHIS had only a short time remaining to assert ownership, and on January 20, 2004, we issued a management alert to APHIS. We recommended that APHIS decide whether to assert ownership; and if it decided to do so, notify CDFA of the decision by the January 28, 2004 deadline. In its response to the management alert, APHIS informed us that it would notify CDFA that it would assert ownership of the equipment. Had APHIS not done so, title to the equipment would have remained with CDFA (the grantee) and, as explained below, UCD.

The terms of APHIS' agreement with CDFA allowed APHIS to take title to equipment purchased with award funds. APHIS was required to notify CDFA of its intent to exercise this option within 120 days of the end of the award. Because the agreement expired on September 30, 2003, the 120-day period expired on January 28, 2004.

CDFA and UCD expended \$473,963 for equipment subject to these provisions. The \$473,963 included (1) \$279,845 expended by CDFA for modular trailers and (2) \$194,118 expended by UCD for other equipment.

UCD's California Animal Health and Food Safety lab system is responsible for performing avian (bird) testing in the State of California. While part of UCD, the lab system operates under the direction of CDFA, which also provides most of its funding. To accommodate the anticipated volume of testing necessary for the END project, UCD needed to expand and upgrade its existing lab facilities in San Bernardino, California.

CDFA procured two modular trailers for the San Bernardino lab, one used trailer which it modified for use as a lab and another trailer that was custom-built to its specifications. Both trailers were procured through lease/purchase arrangements for a total cost of \$279,845.

Additional equipment, such as centrifuges, freezers, incubators, and biosafety cabinets, was necessary to handle the high volume of testing. UCD purchased equipment for \$258,794 and billed the costs to CDFA. Only a portion of these costs was subject to the title provisions. The cost principles in Office of Management and Budget (OMB) Circular A-87¹ applied to the agreement, and they define equipment as having a cost of \$5,000 or more and a useful life of over 1 year.² Of the \$258,794 in purchases made by UCD, the cost of items meeting this definition of equipment was \$194,118.³

We attributed APHIS officials' failure to make a decision regarding the equipment title to their not being adequately informed of the purchases. Although OMB Circular A-87 requires documented advance approval of equipment purchases, we could not locate documentation of any such approvals. Documents submitted to APHIS provided no specific details of proposed equipment acquisitions.

State officials explained that due to the emergency, there was an urgent need to acquire the trailers and equip the labs as quickly as possible. They told us that to expedite the process, the purchases were approved verbally rather than in writing. Both CDFA and UCD officials told us that APHIS was aware of and had verbally approved the equipment purchases.

However, our interviews with various APHIS officials failed to establish what APHIS knew about the equipment purchases or had approved. The person responsible for administering the cooperative agreement for APHIS, including approving equipment purchases, was the Authorized Departmental Officer's Designated Representative (ADODR). The ADODR stated he was aware that the trailers were being procured, but he did not have specific knowledge of the details, including whether they were leased or purchased.⁴ He was unaware that UCD had purchased equipment that had been charged to the award. Other APHIS officials we interviewed also told us they had only a general knowledge of the purchases, and none stated that they had approved the purchase.

We concluded that APHIS officials, including the ADODR, were aware of CDFA's intent to procure the trailers and equipment with award funds, but did not have a detailed knowledge of the purchases. We agree that the circumstances of the emergency required that immediate actions be taken. However, we believe that at a minimum, CDFA could have, and should have,

¹ The agreement mandated compliance with 7 CFR 3016, and 7 CFR 3016.22 (b) mandates compliance with OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments."

² OMB Circular A-87, attachment B, paragraph 19 a (2), dated August 29, 1997, and 7 CFR 3016.3, effective May 19, 1995.

³ The \$64,631 difference was the cost of items costing under \$5,000 per item, which were not subject to these provisions.

⁴ If leased, the equipment would not have been subject to provisions applicable to equipment purchases.

better informed the ADODR of its intention to purchase equipment with award funds, and provided him with specific details of the items to be purchased and their costs. We also believe that APHIS officials, having an awareness of the proposed purchases, could have acted to obtain the additional information from CDFA. We believe that had the ADODR been adequately informed of the equipment purchases, the possibility of APHIS unintentionally relinquishing title to the equipment could have been avoided.

We reported this condition to the Administrator of APHIS in a January 20, 2004 management alert. Our recommendation and APHIS' response are shown below.

Recommendation No. 1

APHIS should decide whether to exercise its option to retain title to the equipment purchased for \$473,963 by CDFA or UCD with award funds. If it decides to do so, APHIS should notify CDFA of this decision within the 120-day period.

Agency Response. In its written response to the management alert, dated January 27, 2004, APHIS stated that the "Animal and Plant Health Inspection Service has decided to exercise its option to retain the equipment purchased with award funds, and we are taking steps to initiate this recovery."

In follow-up correspondence dated February 6, 2004, APHIS provided a copy of its letter to CDFA stating that APHIS would exercise its right to transfer title to the equipment to APHIS, and that it intended to enter into an agreement with UCD allowing UCD to continue to use the equipment. APHIS also requested a full and complete inventory of the equipment purchased with award funds.

OIG Position. We accept APHIS' management decision on this recommendation.

Section 2.

**CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE
EXPENDITURES**

Finding 2

CDFA Claimed Unallowable or Unsupported Costs

CDFA charged unallowable or unsupported costs to the USDA award. The overclaimed amounts occurred for the reasons cited below, and resulted in CDFA overcharging the USDA award a total of \$128,404.

CDFA was required to comply with the cost principles in Office of Management and Budget (OMB) Circular A-87.⁵ The circular states

To be allowable under Federal awards, costs must meet the following general criteria: ... be necessary and reasonable for proper and efficient performance and administration of Federal awards.⁶

The circular further states

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost ... In determining reasonableness of a given cost, consideration shall be given to ... whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.⁷

We questioned \$128,404 in charges that we concluded were not allowable or adequately supported. As detailed below, the questioned amounts included the cost of a surveillance work plan which was a State obligation, lease costs paid after the space was vacated, vehicle repair costs that were unallowable for various reasons, inadequately documented purchases, erroneous payroll charges, unrelated or unnecessary training costs, and unallowable interest penalty costs.

⁵ The cooperative agreement mandated compliance with 7 CFR 3016. Section 22 (b) of the CFR mandated compliance with OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments."

⁶ OMB Circular A-87, attachment A, paragraph C 1 a, dated August 29, 1997.

⁷ OMB Circular A-87, attachment A, paragraph C 2, dated August 29, 1997.

a. CDFA Charged Portion of State-Contributed Cost to USDA Award

CDFA erroneously charged the costs of a work plan to the USDA award, when the costs should have been paid by the State. According to CDFA officials, this occurred due to inadequate communication between incident management in Southern California and CDFA headquarters accounting staff. As a result, CDFA overcharged the award \$47,569.

CDFA entered into a purchase agreement with Stanislaus County, California, for the county to prepare an END surveillance work plan. According to CDFA, the purpose of the work plan was to provide direction to county personnel carrying out END surveillance activities. The county invoiced CDFA \$47,569 for the plan, and this cost was charged to the award. However, CDFA told us that this cost should have been paid by the State, not USDA. As part of its contribution to the END project, the State had agreed to contribute \$800,000 in State emergency funds, and this contribution was incorporated into the terms of the cooperative agreement. The \$47,569 cost of the work plan was specifically designated by the State as part of that contribution.

b. Unallowable Lease Costs

CDFA charged the award the cost of leasing space although it had vacated the property. According to CDFA officials, this occurred because incident management did not timely instruct CDFA's accounting staff to discontinue the payments. As a result, CDFA overcharged the award by \$32,287.

In October 2002, CDFA began leasing space from the California Army National Guard for its incident command post, located in a gymnasium at the Guard's Joint Forces Training Center in Los Alamitos. The base rent was \$5,381 per month, and CDFA incurred additional charges for such things as the use of additional rooms, parking space, space modifications, and telecommunications services.

Because the space proved unsuitable, CDFA moved the command post to another location and vacated the Los Alamitos site by the end of February 2003. However, CDFA continued to charge the award for lease payments through October 2003. CDFA discovered the error and discontinued the lease payments in November 2003.

Six monthly payments, totaling \$32,287, were claimed for months subsequent to February 2003.⁸ These charges were not allowable

⁸ The 6 months were May through October 2003. A charge was recorded and reversed for March 2003, and no charge was

because they were not reasonable and necessary, as required by OMB Circular A-87, because they did not contribute to the purpose of the agreement, which was “to provide Federal financial assistance to conduct program activities of mutual interests and aid in accomplishing eradication of Exotic Newcastle Disease.”

c. Unallowable Vehicle Costs

CDFA claimed vehicle expenditures that were unallowable, including (1) the cost of repairs that were charged in full to END although END accounted for only a small portion of the vehicles’ mileage, (2) the cost of repairs to an uninsured rental vehicle, (3) costs that should have been paid by another State agency, and (4) the cost of repairs to vehicles that were not used on the END project. Consequently, CDFA overcharged the USDA award \$13,812.

CDFA charged \$52,513 in five vehicle-related expense categories to the award.⁹ We reviewed \$50,680 of this amount, representing repairs or services to 26 vehicles. We identified \$13,812 in unallowable costs relating to 10 of the vehicles.

Costs Not Fully Allocable to the END Project. CDFA charged the full cost of repairs to six CDFA-owned vehicles to END, even though the mileage driven on the END project represented only a small portion of the total miles on the vehicles. This occurred because program staff believed that the END program was responsible for all repairs and maintenance occurring while they were using the vehicles. We questioned repair and maintenance costs totaling \$7,844.

OMB Circular A-87 allows costs to be allocated to a Federal program only to the extent the program benefits from the expenditure.¹⁰ We concluded that the cost of the repairs, which included such items as a new engine, brake shoes, and shock absorbers, should not have been allocated in full to the END program because the number of miles driven for the END project was a small part of the vehicles’ total mileage: on average, about five percent.

recorded for April 2003.

⁹ CDFA charged an additional \$40,333 in vehicle-related expenditures in two other categories (vehicle fuel and car washes), but because these categories included a large number of small dollar-value transactions, we did not perform a detailed review of them.

¹⁰ OMB Circular A-87, attachment A, paragraph C 3 a, dated August 29, 1997.

Vehicle ID Number	Total Vehicle Miles	Miles used for END	Percentage of total mileage attributable to END
405815	27,027	408	1.5
405818	43,086	5,150	12.0
41070	93,894	4,657	5.0
41071	78,692	2,377	3.0
410664	93,709	3,604	3.9
959859	79,865	4,239	5.3
Average Percentage of Miles Attributable to END			5.1

We concluded that most of the use resulting in the needed repairs was attributable to programs other than END. We determined the percentage of miles attributable to the END program for each vehicle, and allowed that portion of the costs claimed. We questioned the balance of costs claimed, totaling \$7,844.

Accident Repairs. We reviewed an invoice totaling \$5,250 to repair damage resulting from an accident involving a truck rented for the END project. The State normally rents vehicles under pre-established contracts with rental companies that include insurance coverage. However, the type of vehicle needed was not available from the contracted companies. The State rented from a different company and failed to obtain insurance coverage. This vehicle was subsequently involved in an accident resulting in damage to the truck's cargo box.

OMB Circular A-87 states

Actual losses which could have been covered by permissible insurance (through a self-insurance program or otherwise) are unallowable...¹¹

Because the State failed to obtain protection for this rented vehicle, the State is responsible for the loss. Consequently, the Federal award was overcharged \$5,250.

¹¹ OMB Circular A-87, attachment B, paragraph 25 c, dated August 29, 1997.

DGS Vehicle. The State Department of General Services (DGS) provided one vehicle to the END project. While assigned to END, DGS retained the responsibility for maintaining the vehicle. However, CDFA paid \$474 to repair the vehicle and charged the cost to the USDA award. We questioned this cost because it should have been paid by DGS.

Wrong Program. We questioned \$244 in costs charged by CDFA for two vehicles that, according to the repair invoices and vehicle logs, had not been used on the END project.

We recommend that APHIS recover \$13,812 for vehicle expenditures that were incorrectly charged to the Federal award.

d. Inadequately Documented Purchases

CDFA did not adequately support \$13,241 in costs charged to the program. According to CDFA officials, this occurred because staff was not adequately trained on documentation requirements. As a result, there was no assurance that the costs charged to the award were allowable.

Some project costs charged to the award were incurred by CDFA employees using Cal-Card, a State credit card. The card is issued to employees for making authorized small purchases. The monthly Cal-Card bill is sent to the cardholder but paid by the State. Before being paid, the approving official (the cardholder's supervisor) must certify that the purchases were authorized.

The use of the card is governed by CDFA's Cal-Card User's Manual. The manual requires the cardholder to submit invoices or receipts for all charges with each bill submitted for approval. The invoice is required to show a "description of commodities/services procured, quantities procured, price per item, amount of sales tax (if applicable), total amount, shipping charges, if the Department is liable, (and) date of transaction."¹²

We reviewed 12 Cal-Card billings, totaling \$57,466,¹³ in two budget categories (non-classified goods and non-classified printing) and found that the required supporting invoices or receipts were not submitted for \$13,241 in expenditures. In lieu of receipts, cardholders submitted "cardholder statement of questioned item" forms. These forms are used to document disputed procurements and contain a number of boxes that can be checked off. For the transactions reviewed, the "copy request "

¹² CDFA, Cal-Card, Small Purchase Card Program User's Manual, pages 7-8, dated October 2003.

¹³ The two budget categories included a total of 31 Cal-Card transactions totaling \$61,484. We judgmentally selected the transactions for review, generally selecting the larger dollar value transactions.

box was marked. By marking this box, the cardholder states “I recognize this charge, but need a copy of the sales draft for my records.” This form is submitted to US Bank, the Cal-Card contractor, who is supposed to provide a copy of the sales draft to the cardholder. According to accounting staff, after the cardholder receives the draft copy, it should be submitted to the approving official, who should sign off and forward it to accounting for filing. We were told that, at the end of the year, if any of the receipts were still missing, accounting would follow up to obtain them.

However, the files we reviewed seldom contained evidence of the follow-up actions described above. Where there was evidence of follow-up, in most cases the documents provided did not contain the information required by the manual. The document provided was generally a facsimile of the charge slip, showing the vendor and cardholder signature, but not the details of the items procured. None of the sales drafts we saw for the items we questioned included sufficient information.

Furthermore, the Cal-Card manual does not provide for this alternative procedure. It states that an itemized invoice is required, and does not provide for an exception. The use of the cardholder statement form does not appear to be intended to be an allowable substitute for submitting a receipt.

Since the Cal-Card program is administered by DGS, we reviewed DGS’ Cal-Card procedures. We found that they also required that sales receipts be submitted, and did not provide for exceptions. The procedures discuss the use of the cardholder statement form only for the purposes of disputed charges (i.e., the items in question were incorrect, faulty, or had been returned), not as a substitute for missing receipts.¹⁴

Regulations require CDFA to account for award funds in the same manner that would apply to the expenditure of State funds.¹⁵ In addition, OMB Circular A-87 requires that, to be allowable, costs must be adequately documented.¹⁶ Without adequate documentation describing the items purchased, we were unable to verify they represented allowable expenditures of award funds.

¹⁴ Cal-Card Cardholder’s Guide, sections 3 B 2, 6 A 4, and 6 B, dated December 18, 2003.

¹⁵ 7 CFR 3016.20 (a), effective May 19, 1995.

¹⁶ OMB Circular A-87, attachment A, paragraph C 1 j, dated August 29, 1997.

e. Errors in Claiming Payroll Expenditures

CDFA did not accurately charge the award for payroll expenses. This occurred because CDFA inadvertently (1) recorded some expenses in two different accounting categories (object codes) and (2) charged some costs to the wrong program. These errors resulted in CDFA overcharging the award \$11,564.

CDFA records all costs charged in its accounting system according to “object code.” There is a separate object code for each cost category, such as overtime, minor equipment, and per diem. Information from each object code is consolidated to compile form SF-270, “Request for Advance or Reimbursement,” which CDFA submits to APHIS to claim reimbursement. The recording of the same expense under two object codes would result in CDFA being reimbursed twice for the same expenses.

CDFA charged \$2,985,715 to the award for salaries and overtime under five object codes. We reviewed a sample of transactions from each object code, judgmentally selecting 81 time and attendance records, totaling \$190,399,¹⁷ generally representing the largest expenditures. We found that CDFA did not accurately charge the award for three employees. CDFA had made duplicate charges to the award for two employees, and charged the award for another employee who was not working on the END project.

Incorrect Charge. We identified two employees for whom CDFA had inadvertently recorded the payroll expense under two separate object codes.

- CDFA double-claimed \$6,298 in wages paid to employee A for overtime earned in January 2003 because the expense was recorded under “salary and wage charge from other programs” and “overtime support.” In addition, a mathematical error resulted in employee A being overpaid \$1,403 for overtime earned in January 2003. As a result of both errors, CDFA overcharged the award \$7,701.

¹⁷ The 5 object codes were “special pay,” “temp help support,” “temp help C/A,” “overtime support,” and “salary and wage charge from other programs.” We selected our sample from transactions totaling \$961,976 and posted (1) between November 2002 and August 2003 to the Salary and Wage Charge from Other Programs object code, and (2) in March and June 2003 for the other 4 object codes. There were 71 employees represented in our sample of 81 time and attendance records.

- CDFA double-claimed \$1,914 in wages paid to employee B for January 2003 because the expense was recorded under both “salary and wage charge from other programs” and “overtime support.”

Time Charged to Incorrect Program. CDFA inadvertently charged the award \$1,949 for overtime earned by employee C in January 2003, when, in fact, that employee was working on a project that was not related to END.

During our fieldwork in December 2002 and January 2003, we discussed these issues with CDFA personnel and they concurred with our analysis. In total, we recommend that APHIS recover \$11,564 from CDFA.

f. Unallowable Training Costs

CDFA claimed training costs that appeared unnecessary for or unrelated to the END project. As a result, CDFA overcharged the USDA award \$7,549.

The questioned amount includes

- \$4,579 in vouchers for on-line geographical information system (GIS) training, and
- \$2,970 in vouchers for classroom training in general computer topics.

CDFA charged \$4,579 to the award for training vouchers purchased from Environmental Systems Research Institute, Inc. These vouchers were purchased in June 2003, but as of January 2004, none of the on-line GIS training courses had been taken.

Training was also purchased from New Horizons Computer Learning Center (New Horizons). In May 2003, CDFA purchased 30 training vouchers from the vendor for \$2,970. Each voucher entitled one person to attend a one-day classroom training session. According to a vendor representative, New Horizons provides training on such general computer topics as Microsoft Word, PowerPoint, Outlook, and Excel.

As of December 2003, CDFA had not used any of the 30 vouchers, and in fact, had another 13 vouchers remaining from an earlier purchase of 30 vouchers in June 2002, before the END project began.

We questioned the necessity of these expenditures because none of the training vouchers had been used by January 2004; and in the case of the New Horizons training, it was not specifically related to END project activities. We concluded these expenses were not reasonable and necessary, as required by OMB Circular A-87.

g. Unallowable Interest Penalty Costs

CDFA incurred and claimed unallowable interest penalties. The penalties occurred because CDFA staff (1) did not always route invoices to CDFA's Financial Services Branch (FSB) in a timely manner and (2) ordered some items without a proper purchase order. As a result, CDFA overcharged \$2,382 to the USDA award.

For END-related services or products, vendors mailed invoices either to CDFA's Animal Health Branch in Sacramento, California, or to field personnel in Southern California. CDFA's payment procedures required an authorized END program official to approve the invoice for payment before it was forwarded to the FSB for payment. Upon receipt, FSB date-stamped the invoice and verified that a proper purchase order was on file before processing the invoice for payment.

CDFA paid nine invoices late, resulting in the \$2,382 in interest penalties. Seven of the nine invoices had not been received by FSB in time to avoid the penalties (6 of the 7 were received after the due date).

The remaining two invoices were paid late because FSB discovered that items (gloves and boot covers) had been purchased without a proper purchase order. During the time it took to correct this error and generate a proper purchase order (covering both invoices), the due date expired.

We questioned these costs because they could have been reasonably avoided and interest penalties would not generally be recognized as ordinary and necessary for the operation of an award, as required by OMB Circular A-87.

Recommendation No. 2

Collect \$128,404 from CDFA for the unallowable or unsupported costs.

Agency Response. In its written response to the draft report, dated December 27, 2004, APHIS stated that it was in agreement with the finding and would work with CDFA to collect the overpayment.

OIG Position. To reach management decision, APHIS should provide us a copy of the bill for collection of the overpaid amounts, and documentation to support that the amounts have been entered as a receivable on APHIS' accounting records.

Section 3.

**CALIFORNIA DEPARTMENT OF FORESTRY AND FIRE
PROTECTION EXPENDITURES**

Finding 3

CDF Claimed Unallowable Costs

CDF claimed costs that were unallowable. These overclaimed costs were partly offset by allowable costs, which CDF failed to claim. The errors occurred for a variety of reasons, as detailed below. Overall, the errors resulted in CDF overclaiming \$99,928.

CDF, along with several other State agencies, participated in the END project through interagency agreements with CDFA. Under the interagency agreement, CDF provided staff to support the project and CDFA reimbursed CDF for its costs.

CDF was tasked with implementing and staffing the “incident command system” (ICS) for the project. The ICS is a standardized system widely used by Federal, State, and local agencies to respond to emergency situations. ICS provides a pre-established organizational structure under which personnel from multiple agencies can respond to an emergency in a unified and effective manner.

CDF billed CDFA \$4.1 million for its costs related to the END project. Most of this amount, \$3.1 million, was for personnel costs.

We questioned \$99,928 in costs claimed by the CDF. These included the costs of paying overtime to employees substituting for CDF employees temporarily assigned to the END project, billings by local fire departments to recoup payments made to CDF to pay for CDF employees who normally worked for the local fire departments under contract, but had been temporarily assigned to the END project, and supplemental payments made to two CDF employees who were ineligible for the additional pay.

a. Backfill Costs Claimed by CDF were not Reasonable and Necessary

CDF claimed the cost of overtime paid to its employees who “backfilled” the positions of other CDF employees temporarily assigned to the END project. According to CDF, it claimed these costs to recoup the additional costs it incurred by having to replace the employees. However, we concluded these charges did not represent additional costs to CDF, and therefore questioned the full \$68,980 in backfill costs claimed.

Certain CDF positions are critical and must be staffed at all times. For example, a fire station may need to have a minimum number of firefighters on-site at all times to respond to calls. When employees filling these positions were temporarily assigned to the END project, CDF used other employees to temporarily fill (“backfill”) the vacated positions.

Sixty-nine CDF employees backfilled the positions of at least 27 other CDF employees temporarily assigned to END.¹⁸ CDF paid the regular salaries of the employees backfilling the positions but charged the END project for the overtime costs they incurred.

As previously noted, CDFA was required to comply with the cost principles in OMB Circular A-87¹⁹ in charging costs to the award. The circular requires that costs be necessary and reasonable. To evaluate the reasonableness of the costs charged, we reviewed a sample of four employees whose positions had been backfilled, and found that for our sample, CDF had actually expended less overall than it normally would have. This occurred because CDF was able to charge END for the normal payroll costs of the employees it assigned to the project, and was therefore relieved of costs it would have otherwise incurred.

CDF charged END \$19,054 for the four employees in our judgmental sample, representing 28 percent of the \$68,980 in backfill costs it charged. For three of the four positions, the backfill costs were less than the costs CDF would normally have incurred. For the fourth position, the backfill costs were slightly more. The normal costs of the four positions would have been \$17,400. Although CDF charged \$19,054, the actual cost of backfilling the four positions was \$15,336. The discrepancy resulted from CDF erroneously including backfill costs for periods that three of the four employees were not scheduled to work, and charging 26 hours for one day for the fourth employee in our sample.

We concluded it was not reasonable for CDF to charge the full amount of the overtime costs to END because CDF’s costs did not increase by this amount, if at all. We believe that CDF should have charged backfill costs only to the extent they represented increased costs to the agency (i.e., the additional costs exceeded cost savings).

¹⁸ On some occasions, different employees backfilled a single position on different days. We were unable to identify the exact number of positions that were backfilled because CDF records did not always identify the name of the person being backfilled.

¹⁹ The cooperative agreement mandated compliance with 7 CFR 3016. Section 22 (b) of the CFR mandated compliance with OMB Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments.”

We discussed our conclusions with CDF officials, who agreed with our position. Based on the minimal amount of the charges and the additional analysis that would be necessary to determine the net increase in costs, if any, they did not believe that further work was warranted. They agreed with our intent to disallow the full amount claimed for backfill.

b. Unallowable Payments to Local Fire Departments

CDF charged END for unallowable payments made to local fire departments. According to a CDF official, the charges occurred due to an inadvertent error. As a result, CDF overclaimed \$39,761.

CDF provides staff to some local fire departments, and in return, the local fire departments pay some or all of the CDF employees' payroll costs. CDF charged \$39,761 in local fire department billings to the END project, which we reviewed in full. Three CDF employees, who normally work under this arrangement for 8 local fire departments,²⁰ were temporarily assigned to END. To recoup the payroll costs for the period the employees were reassigned, the local fire departments invoiced CDF for these costs, totaling \$39,761. CDF included these costs on their claims to CDFA. We questioned these costs, because they represented a double billing to the END project, as the employees' payroll costs while assigned to END had also been charged to the program. This issue was discussed with CDF officials, who agreed that the charges represented a double billing, and should not have been claimed.

c. Two Ineligible Employees Received Portal-To-Portal Pay

CDF paid portal-to-portal pay to two ineligible employees. According to CDF, the on-site timekeeper erroneously assumed that the employees were entitled to this pay. The error resulted in CDF overclaiming \$15,598.

The bargaining agreement between CDF and the firefighters' union provides that covered employees be compensated for all hours they are assigned to an incident for which the Governor has issued a disaster declaration²¹ (referred to as "portal-to-portal" pay). In other words, employees are paid for every hour they are assigned to the incident; i.e., 24 hours a day. Any hours in excess of the employee's regular tour of duty are paid at an overtime rate. Most CDF employees assigned to END worked details of 2 to 3 weeks, and some employees worked more than 1 detail.

²⁰ One of the employees worked for 6 fire departments.

²¹ This occurred on January 7, 2003.

The bargaining agreement²² between CDF and the firefighters' union²³, specifically states

...when fire protection employees... who are assigned to an incident for which the Governor has invoked Government Code Section 8625 and issues a disaster declaration, [they] will be placed on IRS [immediate response status] for the entire time assigned to the incident. [²⁴]

The agreement also states that

While on IRS, employees will be compensated for all hours assigned to the incident from the time of dispatch to the time at which the incident is declared controlled.

Portal-to-portal payments were made to 142 of the 174 CDF employees assigned to the END project. We found that 2 of the 142 employees should not have been paid the additional pay because they were not covered by the bargaining agreement. According to CDF, the error most likely resulted from the employees' timekeeper, when entering payroll data, erroneously assuming that the employees were entitled to portal-to-portal pay. They believed the timekeeper could have easily made this error because CDF has very few positions that are not covered by the agreement.

Because records were not kept of actual hours worked on the END project, we could not confirm the correct number of hours that should have been charged. However, we found that employees assigned to END who did keep track of their time, worked an average of 14 hours a day. To determine the amount overcharged, we calculated the cost of all hours paid in excess of 16 per day, based on the assumption that each employee did not work more than 16 hours per day. We concluded that CDF overcharged \$15,598 to the END project.

See the General Comments section for a discussion of additional concerns we noted regarding portal-to-portal pay.

²² "Agreement Between State of California and CDF Firefighters Covering Bargaining Unit 8 Firefighter," Section 8.14.1 and 8.142.2, effective July 2, 2001 through June 30, 2006.

²³ Local 2881 of the International Association of Fire Fighters.

²⁴ The Governor declared a State of Emergency for the END outbreak under section 8625 on January 7, 2003.

d. Errors in Claiming Incident Command Assignment Pay

CDF claimed incorrect amounts for incident command assignment (ICA) payments made to four employees. This occurred for various reasons, as detailed below. CDF claimed \$26,917 in ICA payments, which we reviewed in full. We found that CDF underclaimed payments made to 3 employees by \$22,885 and overclaimed payments made to 1 employee by \$1,701, resulting in a net underclaim of \$21,184.

Some CDF employees assigned to the END project received ICA pay in addition to their regular pay. ICA pay compensates certain employees, who are not eligible for overtime pay, for additional hours worked on extended assignments of 48 hours or longer. For the first two weeks, ICA pay is equal to 1 week's regular pay per week. For subsequent weeks, it equals one-half week's pay per week.

We reviewed ICA payments made to 6 employees, and found errors relating to payments made to 4 employees. Details of the erroneous payments are as follows:

- Employee D was paid \$13,509 in ICA pay, but CDF only charged \$4,503, resulting in an underclaim of \$9,006. According to CDF, this likely occurred because documentation had not been timely received by the headquarters staff person who prepared the invoice to CDFA.
- Employee E was paid \$9,152 in ICA pay, but CDF only charged \$915, resulting in an underclaim of \$8,237. According to CDF, this likely occurred because documentation had not been timely received by the headquarters staff person who prepared the invoice to CDFA.
- Employee F was paid \$10,344, but should have only received \$9,403. However, CDF only charged \$3,761, resulting in an underclaim of \$5,642. The overpayment occurred because CDF erroneously based the calculation of ICA pay on the hours worked per month instead of the hours worked per incident (which can overlap two months). The underclaimed amount is the difference between the amount claimed and the amount allowable.
- Employee G was paid \$10,707, and CDF claimed this amount. However, we determined that the employee should have been paid \$9,006, resulting in an overpayment and overclaim of \$1,701. We could not determine the cause of the error because no records of the original calculation were available.

We also noted that Employee H was underpaid by \$653, due to an incorrect calculation of ICA pay by CDF. A pay differential, which should have been included, was excluded from the employee's base salary when calculating the ICA payment. The employee was paid \$3,850, but was entitled to \$4,503. Had the employee been paid the correct amount, the additional amount would have been allowable. However, because CDF claimed the actual amount paid, we have not included the erroneous amount in our calculations.

e. Employee Misclassified on Claim

CDF used incorrect rates to calculate the amounts it claimed for one employee's pay on its claims for reimbursement. This occurred because a CDF employee entered the wrong job classification code on payroll documents. As a result, CDF underclaimed \$3,227.

When billing other agencies, such as CDFA, for CDF employees' payroll costs, CDF uses standard rates for each job classification rather than tracking each individual employee's actual salary and benefit costs. CDF establishes hourly rates for each job classification annually by tracking actual payroll costs for each employee in each job classification for one month.

CDF misclassified the employee, a deputy chief, on 2 claims. The employee was classified as a dispatcher-clerk on one billing and as an assistant chief on another. Because these were lower-paid job classifications, an underclaim resulted.

In total, CDF overclaimed \$126,040 and underclaimed \$26,112, for a net overclaim of \$99,928.

Recommendation No. 3

Collect \$99,928 from CDFA for costs claimed by CDF for overtime payments to employees backfilling positions, ineligible payments made to local fire departments, and portal-to-portal payments to ineligible CDF employees.

Agency Response. In its written response to the draft report, dated December 27, 2004, APHIS stated that it was in agreement with the finding and would work with CDFA to collect the overpayment.

OIG Position. To reach management decision, APHIS should provide us a copy of the bill for collection of the overpaid amounts, and documentation to

support that the amounts have been entered as a receivable on APHIS' accounting records.

General Comment

Use of California Department of Forestry and Fire Protection Personnel Resulted in Significantly Increased Project Costs

The assignment of CDF employees to the END project resulted in significantly higher costs than would have been incurred if employees from other agencies had been used. The additional costs resulted from the payment of “portal-to-portal” pay to most of the assigned CDF employees. Portal-to-portal pay means the employees were paid for every hour they were assigned to the detail, including both duty and non-duty hours (i.e., 24 hours a day). All hours in excess of the employee’s normal workweek were paid at an overtime rate.

Portal-to-portal payments were made to 142 of the 174 CDF employees assigned to the END project. As previously noted, the payments were required by terms of the bargaining agreement between CDF and the firefighters’ union.

Due to the emergency, it was common for employees assigned to the END project from various agencies to work long hours with few, if any, days off. According to CDFA and APHIS officials, personnel generally worked 12 to 14 hours a day. All employees were provided time off each evening to sleep at a hotel, and none were “on-call” during their non-duty hours. While employees of CDF and other agencies worked comparable hours, only CDF paid its employees for non-duty hours.

We estimated that the portal-to-portal pay requirement resulted in additional costs of \$877,026. We determined this figure by calculating, for each assigned CDF employee, the cost of all hours paid in excess of 16 per day, based on the assumption that each employee had at least 8 hours of non-duty time during each 24-hour period assigned.²⁵ We noted that CDF employees assigned to END who were not eligible for the portal to portal pay and were paid based on actual hours worked, recorded an average of 14.3 hours a day of work time.

We are not making any recommendations relating to the increased costs because (1) the portal-to-portal payments were required by the union contract, and (2) there were valid reasons for using CDF on the END project. At the time CDF was assigned in late 2002, a Federal emergency had not yet

²⁵ This is likely a low estimate of non-duty hours, based on the typical 12-14 hour day cited above.

been declared and the State of California still had the primary responsibility for the emergency response.²⁶ OES directed CDF to participate in the response under its authority to direct any State agency to participate in an emergency response. CDF's initial task was to establish the ICS. According to an OES official, CDF was assigned because it was the agency most capable of accomplishing the task, due to its extensive expertise in the ICS. CDF also had sufficient personnel available to adequately implement the ICS. OES' general policy is to not request help from Federal agencies unless the needed resources are unavailable from State agencies. In addition, OES has no authority to mandate Federal agencies to participate in an emergency response as it does with State agencies.

While CDF was a valuable resource and served a critical need in the END project, other agencies are also capable of establishing and staffing an ICS. ICS is a standardized system that was designed to allow personnel from multiple agencies to work together as a unified team in an emergency response and is used by many Federal, State, and local agencies. For example, USDA Forest Service officials told us that the Forest Service could have handled the ICS responsibilities and would have been available to do so, had they been asked to.

APHIS management should be aware of the significantly increased costs that resulted from the use of CDF personnel. In the event of another emergency in California, we would advise APHIS to consider whether less-costly alternatives could be used; if not initially, then in later phases of the project. We recommend that, in future emergencies, APHIS work closely with the involved State agencies to evaluate the cost and viability of various alternatives.

²⁶ On January 6, 2003, the Secretary of Agriculture issued a declaration of extraordinary emergency, and APHIS took a more direct role in the emergency response.

Scope and Methodology

This audit was conducted to review Federal fiscal year 2003 expenditures by CDFA under a cooperative agreement with APHIS. CDFA was selected for review because its cooperative agreement represented 50 percent of the funds awarded by APHIS under agreements with Federal, State, and local agencies.

The final form SF-270, "Request for Advance or Reimbursement," submitted by CDFA claimed a total of \$26.7 million. It included transactions posted by CDFA to its accounting system through December 2003 for services rendered or goods ordered during Federal fiscal year 2003. Our scope included only expenditures reported on this claim. The final form SF-270 is subject to revision, if additional expenditures for Federal fiscal year 2003 are posted after December 2003. Any such transactions are not included in our scope.

Our scope was \$22.4 million of the \$26.7 million claimed on the final form SF-270. We excluded the remaining \$4.3 million, representing indemnity payments to bird owners, due to the unlikelihood that feasible recommendations could be developed.

We performed our audit fieldwork from October 2003 through May 2004 at APHIS' headquarters offices in Washington, D.C, and Riverdale, Maryland; APHIS' area office and CDFA, CDF, and offices, all located in Sacramento, California; UCD facilities in Davis, California; and a CAHFS laboratory facility in San Bernardino, California.

This audit was performed in accordance with generally accepted government auditing standards. To accomplish the audit objective,²⁷ we performed the following procedures:

- We obtained current information on amounts obligated and expended under cooperative agreements with State and local agencies.
- We selected and reviewed the cooperative agreement with the CDFA and its subagreements with other State agencies.
- We judgmentally selected various budget categories and reviewed documentation supporting costs charged by CDFA to the award, including costs charged by CCC, CDF, and UCD through subagreements or arrangements with CDFA.

²⁷ See Background and Objective section of this report.

- We analyzed supporting documentation for individual expenditures within the selected cost categories to determine if costs were reasonable, allowable and adequately supported.
- We interviewed APHIS, USDA Forest Service, CDFA, CCC, CDF, and UCD officials to obtain information and to determine if expenditures were allowable.

Exhibit A – Summary of Monetary Results

FINDING NUMBER	RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	1	Equipment without APHIS-asserted title.	\$473,963	Funds To Be Put To Better Use: Management or Operating Improvements/Savings
2	2	Unallowable or unsupported expenditures by CDFA charged to the USDA award. (see exhibit B for details)	\$128,404	Questioned Costs – Recovery Recommended
3	9	Unallowable expenditures by CDF billed to CDFA and charged to the USDA award. (see exhibit B for details)	\$99,928	Questioned Costs – Recovery Recommended
TOTAL MONETARY RESULTS			\$702,295	

Exhibit B – Details of Questioned Costs - Findings 2 and 3

Exhibit B – Page 1 of 1

FINDING	DESCRIPTION	AMOUNT
2a	Stanislaus County Work Plan	\$47,569
2b	Unallowable Lease Payments	\$32,287
2c	Unallowable Vehicle Expenditures	\$13,812
2d	Inadequately Supported Cal-Card Purchases	\$13,241
2e	Unsupported Payroll Expenditures	\$11,564
2f	Unallowable Training Expenses	\$7,549
2g	Unallowable Interest Penalty Payments	\$2,382
Finding 2 Total		\$128,404
3a	Unallowable Backfill Expenses	\$68,980
3b	Unallowable Local Fire Department Payments	\$39,761
3c	Portal-to-Portal Payments to Ineligible Employees	\$15,598
3d	Erroneous Amounts Claimed for Incident Command Assignment Pay (\$22,885 underclaimed and \$1,701 overclaimed)	(\$21,184)
3e	Erroneous Amount Claimed due to Misclassification of Employee	(\$3,227)
Finding 3 Total		\$99,928
Findings 2 and 3 Total		\$228,332

Exhibit C – Agency Response to the Management Alert



**United States
Department of
Agriculture**

**Marketing and
Regulatory
Programs**

Animal and
Plant Health
Inspection
Service

Washington, DC
20250

JAN 27 2004

SUBJECT: Exotic Newcastle Disease Eradication Project
Reimbursable Agreements, #33099-10-SF (1)

TO: Robert W. Young
Assistant Inspector General for Audit
Office of Inspector General

We reviewed your recently-issued Management Alert concerning certain equipment purchased to support eradication activities for the Exotic Newcastle Disease (END) outbreak. Auditors noted that our option to acquire title to the equipment will soon expire. The Animal and Plant Health Inspection Service has decided to exercise its option to retain the equipment purchased with award funds, and we are taking steps to initiate this recovery. Establishing title will enable us to utilize the equipment in the event of any future disease outbreaks in that region.

Please advise us of your concurrence with this planned action as we seek resolution of this phase of your audit.


Bobby R. Acord
Administrator



Safeguarding American Agriculture
APHIS is an agency of USDA's Marketing and Regulatory Programs
An Equal Opportunity Provider and Employer

Exhibit D – Agency Response to the Draft Audit Report



United States
Department of
Agriculture

Marketing and
Regulatory
Programs

Animal and
Plant Health
Inspection
Service

Washington, DC
20250

DEC 27 2004

Subject: Exotic Newcastle Disease Project –
Cooperative/Reimbursable Agreements 33099-10-SF

To: Robert W. Young
Assistant Inspector General for Audit
Office of Inspector General

The Animal and Plant Health Inspection Service (APHIS) has reviewed the OIG report on Exotic Newcastle Disease Eradication Project Reimbursable Agreements. APHIS agrees with all the findings detailed in the report.

APHIS response to Recommendation No. 2:

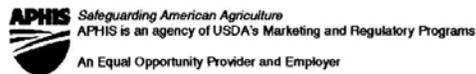
- APHIS is in agreement with the OIG findings and will work with the California Department of Food and Agriculture (CDFA) to collect this overpayment.

APHIS response to Recommendation No. 3:

- APHIS is in agreement with the OIG findings and will work with CDFA to collect this overpayment.

Thank you for the opportunity to respond to this audit.

W. Ron DeHaven
Administrator



Informational copies of this report have been distributed to:

Government Accountability Office (2)

Office of the Chief Financial Officer
Director, Planning and Accountability Division (1)