

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**THE REPUBLIC OF ZAMBIA, MINISTRY  
OF HEALTH, DID NOT ALWAYS  
MANAGE THE PRESIDENT'S  
EMERGENCY PLAN FOR AIDS RELIEF  
FUNDS OR MEET PROGRAM GOALS IN  
ACCORDANCE WITH AWARD  
REQUIREMENTS**

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**Gloria L. Jarmon  
Deputy Inspector General**

**June 2014  
A-04-13-04004**

# *Office of Inspector General*

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## EXECUTIVE SUMMARY

*The Republic of Zambia, Ministry of Health, did not always manage the President's Emergency Plan for AIDS Relief funds or meet program goals in accordance with award requirements. Of the \$516,029 in expenditures reviewed, \$290,575 was not allowable.*

### WHY WE DID THIS REVIEW

The Tom Lantos and Henry J. Hyde United States Global Leadership Against HIV/AIDS, Tuberculosis, and Malaria Reauthorization Act of 2008 (P.L. No. 110-293) (the Act) authorized \$48 billion in funding for the President's Emergency Plan for AIDS Relief (PEPFAR) program for the 5-year period beginning October 1, 2008, to assist foreign countries in combating HIV/AIDS, tuberculosis, and malaria.

The Act requires the Department of Health and Human Services (HHS), Office of Inspector General (OIG), among others, to provide oversight of the programs implemented under the Act, including PEPFAR. To meet this requirement, HHS OIG has conducted a series of audits of organizations receiving PEPFAR funds from HHS, Centers for Disease Control and Prevention (CDC). We selected the Republic of Zambia, Ministry of Health (the Ministry), for review.

The objective of our audit was to determine whether the Ministry managed PEPFAR funds and met program goals in accordance with the award requirements.

### BACKGROUND

Through a 5-year cooperative agreement (grant number 5U2GPS001792), CDC awarded PEPFAR funds totaling \$3,705,000 to the Ministry for the budget period September 30, 2010, through September 29, 2011.

The Ministry's mission is to provide equitable access to affordable, accessible, quality health services. The Ministry entered into a cooperative agreement with CDC to implement a coordinated national response to the HIV/AIDS epidemic.

### WHAT WE FOUND

The Ministry did not always manage PEPFAR funds or meet program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, \$225,454 of the \$516,029 reviewed was allowable, but \$290,575 was not. Of the 33 financial transactions tested:

- 16 transactions totaling \$225,454 were allowable but
- 17 transactions totaling \$290,575 were unallowable because they lacked adequate supporting documentation or were related to another cooperative agreement.

Additionally, the Ministry:

- did not maintain accounting records that adequately identified the source and application of PEPFAR funds,
- did not report expenditures for this cooperative agreement on its Financial Status Report (FSR),
- submitted its FSR 1 month late,
- used an undetermined amount of PEPFAR funds to pay value-added taxes (VAT) on expenditures, and
- did not have an annual financial audit completed and the report submitted on time as required by United States Government (Federal) regulations.

Our program management review showed that, of the 81 goals from its cooperative agreement, the Ministry reported accomplishments for 53 in its annual progress report. However, it did not report accomplishments for the remaining 28 goals. Our sample review of 38 reported accomplishments showed that 27 were fully supported by documentation, 4 were partially supported, and 7 were not supported. Also, the Ministry submitted its annual progress report to CDC 1 month late.

The Ministry has policies and procedures pertaining to the Republic of Zambia. However, these policies and procedures were not adequate for managing CDC cooperative agreements. As a result, the Ministry did not exercise proper stewardship to ensure that it properly managed PEPFAR funds or met program goals in accordance with the award requirements.

## **WHAT WE RECOMMEND**

We recommend that the Ministry:

- refund to CDC \$290,575 of unallowable expenditures;
- work with CDC to resolve whether VAT was an allowable expenditure under the cooperative agreement;
- apply for a VAT exemption with the Republic of Zambia Government;
- file an amended FSR using expenditures instead of draws from the Payment Management System;

- develop and implement policies and procedures for:
  - submitting the FSR in a timely manner based on expenditures,
  - reconciling the FSR to the accounting records prior to submission,
  - maintaining adequate supporting documentation for expenditures of Federal funds, and
  - submitting the annual progress report in a timely manner with all goals addressed and supported;
- implement a financial management system that complies with Federal regulations such as adequately identifying the source and application of PEPFAR funds and allocating salary expenses based on detailed payroll records; and
- submit an annual financial audit report on time to the applicable Federal agency.

#### **REPUBLIC OF ZAMBIA, MINISTRY OF HEALTH, COMMENTS AND OUR RESPONSE**

In comments on our draft report, Ministry officials partially agreed with our findings but did not directly address our recommendations. They also described actions they had taken.

We reviewed the explanations provided in the Ministry's comments. The explanations did not cause us to change any of our findings or recommendations, and the Ministry did not provide any additional supporting documentation with its comments. Therefore, we maintain that our findings and recommendations are valid and continue to recommend that the Ministry refund \$290,575 in unallowable expenditures.

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## INTRODUCTION

### WHY WE DID THIS REVIEW

The Tom Lantos and Henry J. Hyde United States Global Leadership Against HIV/AIDS, Tuberculosis, and Malaria Reauthorization Act of 2008 (P.L. No. 110-293) (the Act) authorized \$48 billion in funding for the President's Emergency Plan for AIDS Relief (PEPFAR) program for the 5-year period beginning October 1, 2008, to assist foreign countries in combating HIV/AIDS, tuberculosis, and malaria.

The Act requires the Department of Health and Human Services (HHS), Office of Inspector General (OIG), among others, to provide oversight of the programs implemented under the Act, including PEPFAR. To meet this requirement, HHS OIG has conducted a series of audits of organizations receiving PEPFAR funds from HHS, Centers for Disease Control and Prevention (CDC).<sup>1</sup>

We selected the Republic of Zambia, Ministry of Health (the Ministry), for review.

### OBJECTIVE

Our objective was to determine whether the Ministry managed PEPFAR funds and met program goals in accordance with the award requirements.

### BACKGROUND

#### Centers for Disease Control and Prevention

The Act gives CDC a leadership role in several key areas of research and evaluation in implementing HIV/AIDS programs, including program monitoring, impact evaluation, and operations research. Through its Global HIV/AIDS Program, CDC implemented PEPFAR, working with ministries of health and other public health partners to combat HIV/AIDS by strengthening health systems and building sustainable HIV/AIDS programs in more than 75 countries in Africa, Asia, Central and South America, and the Caribbean.

For fiscal year (FY) 2010, CDC obligated<sup>2</sup> PEPFAR funds totaling \$1.1 billion. CDC awarded these PEPFAR funds through cooperative agreements, which it uses in lieu of grants when it

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<sup>1</sup> Appendix A contains a list of related OIG reports.

<sup>2</sup> "Obligated" funds are amounts for which the recipient has made binding commitments for orders placed for property and services, contracts and subawards, and similar transactions during a funding period that will require payment during the same or a future period, per HHS's *Grants Policy Directive* 1.02, which is the highest level of policy within HHS that governs grants.

anticipates the Federal Government’s substantial involvement with recipients in accomplishing the objectives of the agreements.<sup>3</sup> In response to a Funding Opportunity Announcement (FOA),<sup>4</sup> CDC awarded the Ministry grant number 5U2GPS001792 through a cooperative agreement for the project period September 30, 2009, through September 29, 2014.

### **Application of Federal Regulations**

The grant administration rules in 45 CFR part 92 apply to State, local, and tribal governments. The grant administration rules in 45 CFR part 74 apply to nonprofit organizations, hospitals, institutions of higher education, and commercial organizations. The HHS Grants Policy Statement (GPS), which provides general terms and conditions and HHS policies for grantees and others interested in the administration of HHS grants, specifies that foreign grantees must comply with the requirements of 45 CFR parts 74 or 92, as applicable to the type of foreign organization (GPS section II-113). Thus, the rules in 45 CFR part 92 apply to a foreign governmental entity.

### **Republic of Zambia, Ministry of Health**

The Ministry’s mission is to provide equitable access to affordable, accessible, quality health services. The Ministry entered into a cooperative agreement with CDC to implement a coordinated national response to the HIV/AIDS epidemic. Specifically, the goals of the cooperative agreement were to strengthen the Ministry’s capacity to:

- deliver voluntary counseling and testing;
- support prevention of mother-to-child transmission of HIV;
- provide HIV/AIDS-related surveillance; and
- provide comprehensive HIV/AIDS care, including anti-retroviral therapy.

### **HOW WE CONDUCTED THIS REVIEW**

Our audit covered the budget period from September 30, 2010, through September 29, 2011. This budget period was the second year of a 5-year cooperative agreement. During the budget period under review, CDC awarded the Ministry \$3,705,000.

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

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<sup>3</sup> The regulations that apply to Federal grants also apply to cooperative agreements.

<sup>4</sup> FOA number CDC-RFA-PS09-9121 is entitled *Strengthening the Zambian Ministry of Health’s (MOH) Response to the HIV/AIDS Epidemic through Capacity Building Support and Technical Assistance Provision within Multiple Program Areas in the Government of the Republic of Zambia (GRZ) under the President’s Emergency Plan for AIDS Relief (PEPFAR)*.

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 contains the details of our scope and methodology, and Appendix C contains Federal requirements.

## **FINDINGS**

The Ministry did not always manage PEPFAR funds or meet program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, \$225,454 of the \$516,029 reviewed was allowable, but \$290,575 was unallowable. Of the 33 financial transactions tested:

- 16 transactions totaling \$225,454 were allowable but
- 17 transactions totaling \$290,575 were unallowable because they lacked adequate supporting documentation or were related to another cooperative agreement.

Additionally, the Ministry:

- did not maintain accounting records that adequately identified the source and application of PEPFAR funds,
- did not report PEPFAR expenditures for this cooperative agreement on its Financial Status Report (FSR) submitted to CDC,
- submitted its annual FSR 1 month late,
- used an undetermined amount of PEPFAR funds to pay potentially unallowable value-added taxes (VAT) on purchases, and
- did not have an annual financial audit completed and the report submitted on time as required by United States Government (Federal) regulations.

Our program management review showed that, of the 81 goals from its cooperative agreement, the Ministry reported accomplishments for 53 in its annual progress report.<sup>5</sup> However, it did not report accomplishments for the remaining 28 goals. Our sample review of 38 reported accomplishments showed that 27 were fully supported by documentation, 4 were partially supported, and 7 were not supported. Also, the Ministry submitted its annual progress report to CDC 1 month late.

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<sup>5</sup> Recipients are required to submit an annual progress report that should contain for each grant or cooperative agreement information on the comparison of actual accomplishments to objectives established for the period (45 CFR § 92.40(b)(2)).

The Ministry has policies and procedures pertaining to the Republic of Zambia. However, these policies and procedures were not adequate for managing CDC cooperative agreements. As a result, the Ministry did not exercise proper stewardship to ensure that it properly managed PEPFAR funds or met program goals in accordance with the award requirements.

## **FINANCIAL MANAGEMENT**

### **Inadequate Accounting Records and Inaccurate Financial Status Report**

Grantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities (45 CFR § 92.20(b)(2)), and their financial management reporting system must be able to demonstrate an accurate, current, and complete disclosure of the financial results of grant-funded activities (45 CFR § 92.20(b)(1)).

Recipients must submit an FSR no later than 90 calendar days after the end of the specified report period for annual reports (45 CFR §§ 92.41(b)(1) and (b)(4)). The Notice of Award (NOA) provides the specific due dates for the FSR.

The Ministry was unable to accurately identify in its accounting records the expenditures related to this cooperative agreement. The Ministry recorded expenditures for multiple CDC cooperative agreements in an Excel spreadsheet outside of its automated accounting system and did not use an indicator to identify which CDC cooperative agreement was the funding source for the expenditures. The Ministry said that it did not record CDC funds in its accounting system because CDC did not provide funds for the purchase of the accounting system. We found no evidence that the Ministry had requested funds from CDC for this activity.

In addition, the Ministry submitted an inaccurate FSR. Instead of reporting expenditures on the FSR, it reported the amount of funds drawn down from the Payment Management System (PMS). Also, the Ministry did not meet the 90-day Federal requirement for submitting its annual FSR, which was submitted to CDC 1 month late.

The Ministry did not have adequate controls in place to accurately track and report PEPFAR expenditures. Without adequate accounting records, the Ministry could not manage PEPFAR funds, and CDC could not effectively monitor current or future cooperative agreements.

### **Financial Transactions Were Not Adequately Supported**

Accounting records must be supported by source documentation such as canceled checks, paid bills, payrolls, time and attendance records, and contract and subgrant award documents (45 CFR § 92.20(b)(6)). Also, charges to awards for salaries and wages will be based on documented payrolls approved by a responsible official of the governmental unit (2 CFR part 225, Appendix B, § 8.h(1)).

In the absence of a functioning system to identify the expenditures by funding source, the Ministry provided a list of expenses that it claimed it had charged to the cooperative agreement. We did not examine how the Ministry developed its list. From this list, we selected 33

transactions totaling \$516,029 for testing. Of these 33 transactions, 16 totaling \$225,454 were allowable, but 17 transactions totaling \$290,575 were unallowable. For the 17 unallowable transactions:

- Nine transactions totaling \$161,720 related to the cooperative agreement but had no supporting documentation: seven transactions for salaries totaling \$121,383 were not supported by detailed payroll records, and two transactions for training totaling \$40,337 were not supported by invoices or purchase orders.
- Seven transactions totaling \$102,133 related to another cooperative agreement: four transactions for salaries totaling \$26,487, two transactions for computer and laboratory equipment totaling \$37,935, and one transaction for a vehicle purchase totaling \$37,711.
- One transaction totaling \$26,722 was a bank transfer for which the Ministry could not provide either supporting documentation or an explanation.

The Ministry lacked policies and procedures to maintain adequate documentation supporting expenditures or to properly identify the funding source for expenditures. This lack of policies and procedures increases the risk of funds being mismanaged or misappropriated.

### **Expenditures for Value-Added Tax Are Potentially Unallowable**

Certain costs, including VAT,<sup>6</sup> are unallowable under foreign grants and domestic grants with foreign components. Also, bilateral agreements with foreign governments may stipulate an exemption from paying VAT for those contractors and grantees that are funded by the United States and providing foreign aid (GPS section II-114)).<sup>7</sup>

During the audit period, the Ministry used PEPFAR funds to pay VAT, a potentially unallowable cost for this cooperative agreement. However, we were not able to determine the amount of VAT that the Ministry paid during the audit period because of the way it documented VAT on invoices. Some sampled invoices included a statement that the total paid either included or excluded VAT, but other invoices did not indicate whether VAT was charged. Specifically, for the eight sampled invoices for purchases:

- two included VAT totaling \$2,006;
- two stated that VAT was included, but the total amount could not be determined;
- one stated that VAT was excluded; and
- three did not indicate whether VAT was charged.

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<sup>6</sup> VAT is a form of consumption tax.

<sup>7</sup> HHS is currently reexamining the applicability of the GPS provision; thus, we are not recommending a disallowance. Instead, we recommend that the Ministry work with CDC to resolve the issue.

The Ministry stated that it had not applied for a VAT exemption from the Republic of Zambia Government and did not provide a reason for not submitting an application.

## **PROGRAM MANAGEMENT**

### **Some Accomplishments in the Progress Report Were Not Supported and Reported**

Progress reports should contain a comparison of actual accomplishments to the objectives established for the period and should contain the reasons that any established objectives were not met (45 CFR § 92.40(b)(2)). Grantees are required to retain financial and programmatic records and supporting documents (45 CFR § 92.42).

Our program management review showed that, of the 81 goals from its cooperative agreement, the Ministry reported accomplishments for 53 in its annual progress report. However, it did not report accomplishments for the remaining 28 goals.<sup>8</sup> Our sample review of 38 reported accomplishments included in the progress report showed that 27 were fully supported by documentation, 4 were partially supported, and 7 were not supported.

- The four partially supported accomplishments were for quarterly tuberculosis/HIV meetings, information technology and continuing medical education training, and procurement of equipment. For example, the Ministry provided supporting documentation for some of the continuing medical education training sessions but could not support all trainings that were part of the sample item.
- The seven unsupported accomplishments consisted of the following types of activities: developing national guidelines for HIV counseling and testing, training healthcare workers, and conducting supervision visits.

The Ministry lacked policies and procedures for reporting its annual progress. This lack of policies and procedures led to missing or inadequate documentation to support the progress included in the progress report. It also led to the Ministry not reporting progress for some goals.

As a result, CDC did not have sufficient information to focus its monitoring efforts or to assist the Ministry in achieving the goals of the cooperative agreement.

### **Progress Report Was Submitted Late**

Recipients are required to submit annual progress reports 90 days after the end of the grant year (45 CFR § 92.40(b)(1)). The NOA provides the specific due dates for progress reports.<sup>9</sup> The

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<sup>8</sup> The Ministry excluded eight goals because they related to restricted funds. Restricted funds are for costs about which the awarding agency needs additional information or for which additional requirements must be met by the recipient prior to the recipient spending or engaging in any activity associated with that funding (CDC's Grantee's Financial Reference Guide for Managing CDC Grants & Cooperative Agreements, page 6).

<sup>9</sup> The grant rules allow for extensions of progress report due dates and waivers in some instances, at the agency's discretion (45 CFR § 92.40(b)(1)).

Ministry submitted its progress report to CDC a month after the due date. The report was late because the Ministry's field offices did not submit data to the Ministry on time. Also, staff turnover affected preparation of the progress report. The Ministry lacked policies and procedures to ensure that it submitted its progress report on time, such as policies requiring field offices to report progress data to the Ministry by certain dates and procedures ensuring continuity of operations during staff turnover.

Without progress reports, CDC could not determine whether the recipient met program goals in accordance with award requirements.

## **NON-FEDERAL AUDIT REPORT REQUIREMENTS NOT MET**

Foreign recipients are subject to the same audit requirements as commercial organizations specified in 45 CFR § 74.26(d) (GPS section II-115). Recipients that are commercial organizations are required to file one of the following types of audits if they expended more than \$500,000 in one or more Federal awards during a FY: a financially related audit or an audit that meets the requirements of Office of Management and Budget (OMB) Circular A-133 (45 CFR § 74.26(d)(1)).

Audits must be completed annually and submitted for review within the earlier of 30 days after receipt of the auditor's report or 9 months after the end of the organization's FY, unless a longer period of time is agreed to by the agency (OMB Circular A-133 subpart B §\_\_.200 and subpart C §\_\_.320).<sup>10</sup>

At the time of our review, the last independent audit performed of the Ministry was for calendar year 2010.<sup>11</sup> The Ministry did not meet the award requirements because it did not have an annual financial audit finalized and submitted to the National External Audit Resolution Agency (NEAR) by the due date. Ministry officials did not provide a reason for not having a timely audit conducted. However, they did state that they were not aware that the report needed to be submitted to NEAR.

Without a timely annual audit report, CDC could not monitor the audit findings and assess the risk of awarding the Ministry additional funds.

## **LACK OF POLICIES AND PROCEDURES**

The Ministry has policies and procedures pertaining to its interaction with the Republic of Zambia. However, these policies and procedures were not adequate for managing CDC cooperative agreements because they did not ensure that the Ministry:

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<sup>10</sup> If a foreign entity chooses to have a financial-related audit pursuant to 45 CFR § 74.26(d), the same due dates apply. (See *Clarification of Audit Requirements of For-Profit Organizations Including SBIR/STTR Grantees*, issued by the HHS National Institutes of Health, Jan. 11, 2006).

<sup>11</sup> CDC obtained an independent financial audit and a needs assessment review of PEPFAR funds for the Ministry. These audits covered the period September 30, 2009, through September 29, 2011. The final reports were issued in November 2012. CDC did not intend for these audits to replace the Ministry's audit requirement.

- maintained adequate supporting documentation for expenditures,
- maintained accounting records that identified the source and application of PEPFAR funds,
- submitted its FSR accurately and on time,
- submitted a progress report on time that included all goals and was adequately supported, and
- had an annual audit performed and submitted the report on time to the NEAR.

### **RECOMMENDATIONS**

We recommend that the Ministry:

- refund to CDC \$290,575 of unallowable expenditures;
- work with CDC to resolve whether VAT was an allowable expenditure under the cooperative agreement;
- apply for a VAT exemption with the Republic of Zambia Government;
- file an amended FSR using expenditures instead of draws from the PMS;
- develop and implement policies and procedures for:
  - submitting the FSR in a timely manner based on expenditures,
  - reconciling the FSR to the accounting records prior to submission,
  - maintaining adequate supporting documentation for expenditures of Federal funds, and
  - submitting the annual progress report in a timely manner with all goals addressed and supported;
- implement a financial management system that complies with Federal regulations such as adequately identifying the source and application of PEPFAR funds and allocating salary expenses based on detailed payroll records; and
- submit its annual financial audit report on time to the applicable Federal agency.

## **REPUBLIC OF ZAMBIA, MINISTRY OF HEALTH, COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

### **Republic of Zambia, Ministry of Health, Comments**

In comments on our draft report, Ministry officials partially agreed with our findings but did not directly address our recommendations. They also described actions they had taken.

Ministry officials partially concurred with our finding regarding \$290,575 of unallowable expenditures that were not adequately supported or related to the cooperative agreement. For the unallowable salary expenditures, they partially concurred. The officials stated that they had contracts for the project staff but admitted that they did not have documentation required to certify the level of effort until they introduced timesheets in 2012. Regarding unallowable training expenditures, Ministry officials concurred that supporting documentation was misplaced. For expenditures related to another cooperative agreement, Ministry officials partially concurred, stating that they placed funds for two CDC cooperative agreements in one bank account and that the funds in question were used for budgeted activities under the Avian Influenza cooperative agreement.

Ministry officials concurred with our finding regarding VAT. They stated that \$55,497 was deducted from their 2012–2013 award as penalty for paying VAT expenses with PEPFAR funds and that they will ensure that a VAT exempt certificate is obtained for future PEPFAR funds received.

Ministry officials concurred with our findings regarding its inadequate accounting records and inaccurate FSR. They stated that in December 2012 they began including cooperative agreement funds in their Integrated Financial Management System to ease tracking and monitoring of activities and to clearly identify the source of funds. In addition, Ministry officials said that they would open separate bank accounts for the two CDC cooperative agreements. Furthermore, they said that they hired a full-time accountant for the cooperative agreement and are submitting FSRs timely.

Ministry officials partially concurred with our findings regarding partially supported and unsupported accomplishments in the progress report. In their comments, they described documentation that they said was available. Also, Ministry officials said that they had government systems in place to ensure that activity reports were submitted timely but that they did not have dedicated project management during the audit period. They concurred with our finding that they had submitted their progress report late.

In addition, Ministry officials concurred with our finding that they had not submitted the annual financial audit report on time to the applicable Federal agency and described the actions they had taken.

Ministry officials said, in some instances, that additional documentation was available but did not provide it. The Ministry's comments are included in their entirety as Appendix D.

## **Office of Inspector General Response**

We reviewed the explanations provided in the Ministry's comments. The explanations did not cause us to change any of our findings or recommendations.

Although the Ministry stated in its comments, under the financial transactions section 2.3 and the project management sections 1.1 and 1.2, that additional documentation was available for review, we gave the Ministry opportunities to provide supporting documentation both during our review and with its comments on our draft report. However, the Ministry did not provide any additional supporting documentation.

Therefore, we maintain that our findings and recommendations are valid and continue to recommend that the Ministry refund \$290,575 in unallowable expenditures.

**APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS**

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>
<i>Aurum Institute for Health Research Did Not Always Manage President's Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	<a href="#"><u>A-05-12-00021</u></a>	8/2013
<i>The South African National Department of Health Did Not Always Manage the President's Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	<a href="#"><u>A-05-12-00022</u></a>	8/2013
<i>The Southern African Catholic Bishops' Conference AIDS Office Generally Managed the President's Emergency Plan for AIDS Relief Funds and Met Program Goals in Accordance With Award Requirements</i>	<a href="#"><u>A-05-12-00023</u></a>	7/2013
<i>The Vietnam Administration for HIV/AIDS Control Did Not Always Manage the President's Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	<a href="#"><u>A-06-11-00057</u></a>	6/2013
<i>The Centers for Disease Control and Prevention's Vietnam Office Generally Monitored Recipients' Use of the President's Emergency Plan for AIDS Relief Funds</i>	<a href="#"><u>A-04-12-04023</u></a>	4/2013
<i>Potentia Namibia Recruitment Consultancy Generally Managed the President's Emergency Plan for AIDS Relief Funds and Met Program Goals in Accordance With Award Requirements</i>	<a href="#"><u>A-06-11-00056</u></a>	4/2013
<i>The Centers for Disease Control and Prevention's South Africa Office Did Not Always Properly Monitor Recipients' Use of the President's Emergency Plan for AIDS Relief Funds</i>	<a href="#"><u>A-04-12-04022</u></a>	2/2013
<i>The Republic of Namibia, Ministry of Health and Social Services, Did Not Always Manage the President's Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	<a href="#"><u>A-04-12-04019</u></a>	1/2013
<i>The Centers for Disease Control and Prevention's Namibia Office Did Not Always Properly Monitor Recipients' Use of the President's Emergency Plan for AIDS Relief Funds</i>	<a href="#"><u>A-04-12-04020</u></a>	11/2012
<i>Review of the Centers for Disease Control and Prevention's Oversight of the President's Emergency Plan for AIDS Relief Funds for Fiscal Years 2007 Through 2009</i>	<a href="#"><u>A-04-10-04006</u></a>	6/2011

## APPENDIX B: AUDIT SCOPE AND METHODOLOGY

### SCOPE

Our audit covered the budget period from September 30, 2010, through September 29, 2011. This budget period was the second year of a 5-year cooperative agreement. During the budget period under review, CDC awarded the Ministry \$3,705,000.

We limited our review of internal controls to those related to our objective. We conducted fieldwork at the Ministry's offices in Lusaka, Zambia, from January through February 2013.

### METHODOLOGY

To accomplish our objective, we:

- reviewed relevant Federal laws and regulations, HHS guidance, the FOA, the NOA, and the Ministry's policies and procedures;
- interviewed and conducted meetings with CDC Zambia officials to determine the extent of the technical assistance they provided to the Ministry;
- interviewed and conducted meetings with Ministry officials to determine their policies, processes, and procedures related to financial accounting and reporting and program goals and accomplishments;
- attempted to reconcile the Ministry's FSR<sup>12</sup> to its accounting records;
- selected and reviewed a judgmental sample of 33 financial transactions with expenditures totaling \$516,029 from the grant award of \$3,705,000 and included expenditures such as:
  - transactions that may include restricted funds,
  - transactions above or below the average transaction amount in an expenditure category, and
  - other unusual transactions;
- attempted to identify VAT that the Ministry paid with PEPFAR funds;
- compared the accomplishments described in the Ministry's annual progress report to the cooperative agreement's goals;

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<sup>12</sup> FSRs are due to the CDC Grants Management Office 90 days after the end of the budget period (45 CFR § 92.41(b)(4)). FSRs provide information to CDC on current expenditures and on carryover balances (if any). In addition, these documents are considered in future funding decisions.

- selected a judgmental sample of 38 accomplishments described in the Ministry's annual progress report and reviewed supporting documentation to determine whether the Ministry met program goals; and
- reviewed reports dated November 2012 of the independent financial audit and a needs assessment review that CDC had performed of PEPFAR funds for the Ministry covering the period September 30, 2009, through September 29, 2011.

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 C: FEDERAL REQUIREMENTS**

### **Application of Federal Regulations**

The grant administration rules in 45 CFR part 92 apply to State, local, and tribal governments. The grant administration rules in 45 CFR part 74 apply to nonprofit organizations, hospitals, institutions of higher education, and commercial organizations. The HHS Grants Policy Statement (GPS), which provides general terms and conditions and HHS policies for grantees and others interested in the administration of HHS grants, specifies that foreign grantees must comply with the requirements of 45 CFR parts 74 or 92, as applicable to the type of foreign organization (GPS section II-113). Thus, the rules in 45 CFR part 92 apply to a foreign governmental entity.

#### **2 CFR part 225, Appendix B, § 8.h(1)**

“Charges to Federal awards for salaries and wages ... will be based on payrolls ... approved by a responsible official(s) of the governmental unit.”

#### **45 CFR § 74.26(d)(1)**

Recipients and subrecipients that are commercial organizations (including for-profit hospitals) have two options regarding audits: a financially related audit or an audit that meets the requirements of OMB Circular A-133.

#### **45 CFR § 92.20(b)(1)**

A grantee’s financial management reporting system must be able to demonstrate an accurate, current, and complete disclosure of the financial results of grant-funded activities in accordance with the financial reporting requirements of the grant.

#### **45 CFR § 92.20(b)(2)**

“Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.”

#### **45 CFR § 92.20(b)(6)**

“Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.”

#### **45 CFR § 92.40(b)(1)**

Recipients are required to submit annual progress reports, unless the awarding agency requires quarterly or semiannual reports. Annual reports are due 90 days after the end of the grant year. Quarterly and semiannual reports are due 30 days after the reporting period. Final progress reports are due 90 days after the expiration or termination of the award.

#### **45 CFR § 92.40(b)(2)**

Progress reports should contain a comparison of actual accomplishments to the objectives established for the period. Also, progress reports should contain the reasons that any established objectives were not met and additional pertinent information, including, when appropriate, analysis and explanation of cost overruns or high unit costs.

#### **45 CFR §§ 92.41(b)(1) and (b)(4)**

Recipients must submit an FSR no later than 30 days after the end of each specified report period for quarterly and semiannual reports and 90 calendar days after the end of the specified report period for annual and final reports. A final report is due 90 days after the expiration or termination of the award.

#### **45 CFR § 92.42(a)-(c)**

Grantees are required to retain financial and programmatic records and supporting documents, both those required by the grant agreement and those “[o]therwise reasonably considered as pertinent to program regulations or the grant agreement,” for 3 years from the submission date of the final expenditure report for the funding period.

#### **OMB Circular A-133**

Audits must be completed annually and submitted for review within the earlier of 30 days after receipt of the auditor’s report or 9 months after the end of the organization’s FY, unless a longer period of time is agreed to by the agency (subpart B §\_\_.200 and subpart C §\_\_.320).

#### **HHS Grants Policy Statement, Section I-36**

Except as indicated in this section, grant payments are made by the PMS, operated by HHS’s Department of Payment Management, in accordance with Department of the Treasury and OMB requirements, as implemented by 45 CFR §§ 74.22 and 92.21.

#### **HHS Grants Policy Statement, Section II-114**

*“Customs and import duties.* These costs, which include consular fees, customs surtax, value-added taxes, and other related charges, are unallowable under foreign grants and domestic grants with foreign components.”

#### **HHS Grants Policy Statement, Section II-115**

Foreign recipients are subject to the same audit requirements as commercial organizations (specified in 45 CFR § 74.26(d)).

**APPENDIX D: REPUBLIC OF ZAMBIA MINISTRY OF HEALTH COMMENTS**

*All Correspondence should be addressed to the  
Permanent Secretary  
Telephone: +260 1 253040/5  
Fax: +260 1 253344*



REPUBLIC OF ZAMBIA  
**MINISTRY OF HEALTH**<sup>MH/71/22/1</sup>

*In reply please quote:*

*No.....*

NDEKE HOUSE  
P. O. BOX 30205  
LUSAKA

31<sup>st</sup> March, 2014

HHS Resolution Official  
Department of Human Services  
ASFR/Office of Finance, Division of Systems  
Policy and Audit Resolution.

Dear Sir/Madam,

**Re: Responses to office of Inspector General (OIG) – Report Number A-04-13-04004**

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Reference is made to the above subject matter.

The Ministry of Health received a draft audit report number A-04-13-04004 dated February 27, 2014 on Thursday, March 6, 2014 through CDC Zambia. This draft audit report was for the period September 30, 2010, through September 29, 2011 that was reviewed.

The Ministry has since worked on the responses. We have attached the management responses.

Sincerely,

A handwritten signature in black ink, appearing to read 'Davy Mischeek Chikamata', with a circular flourish at the end.

Dr. Davy Mischeek Chikamata  
Permanent Secretary  
**(Principal Investigator)**

## **Responses to the OIG Draft Report Number – A-04-13-04004**

### **1. Findings on Inadequate Accounting Records and Inaccurate Financial Status Report**

#### **1.1. Finding 1– Accounting records Management Response**

The Ministry of Health concurs with the finding.

We wish to state that going forward the CDC funds have been clearly profiled in the Integrated Financial Management System (IFMIS). This is a system designed to help the Government of the Republic of Zambia (GRZ) plan and use its financial resources more efficiently and effectively. The CDC funds were profiled in December 2012. This therefore entails that all activities implemented on this Cooperative Agreement (CoAg) relate to the application budget and Award received. This will ease tracking and monitoring of activities and the source of funds clearly identified.

#### **1.2. Finding 2 – PEPFAR expenditures recorded Management Response**

The Ministry of Health concurs with the finding.

- i. The Ministry maintains one bank account for fund received under the two CoAgs and hence one cash book is maintained. We wish to state that the Ministry is able to track expenditure relating to each respective CoAg despite using one cashbook and bank account.
- ii. We wish to state that the expenditures reported in the Financial Status Report (FSR) related to the period under review for the HIV/TB CoAg. The expenditures sampled from the cashbook for the exercise were for the two CoAgs supported by funds received in respect the Avian Influenza and HIV/TB Cooperative Notice of Awards (NOA). The Ministry will ensure that a separate bank account will be opened for the Avian Influenza Cooperative Agreement.
- iii. The Ministry of Health concurs with the finding that there was no automated accounting system used to record these funds/activities for the period under review.

An accounting package was supposed to be procured but the Ministry did not budget for it in the application for the 2010/2011 budget period. However, it is now mandatory for all funds that are received by Government institutions to be included in the IFMIS System. The CDC funds are now profiled on the GRZ accounting system and the activities are now processed through it. This will ease tracking and monitoring of activities and the source of funds clearly identified.

**1.3. Finding 3 – Inaccurate and Late Submission of the Financial Status Report(FSR)**

**Management response**

The Ministry of Health concurs with the finding.

- i. We wish to state that the CDC/MoH CoAg had no Accountant in place and the accounting work was being done by GRZ accounting staff. This therefore resulted in the delayed submission of the Financial Status report for the period under review. The Ministry has since employed a full time Accountant for the CoAg and FSR submission have been made in good time.
- ii. The Ministry had obligations made during the budget period and were unliquidated by the end of the Financial Year. The Ministry reported the total outlays and unliquidated obligations in the FSR reviewed. The Ministry had in mind the 90 days grace period after the end of the Financial Year as sufficient time in which all unliquidated funds would be expended. Going forward, the Ministry will ensure that only actual expended amounts will be reported in the FSR.

**2. Findings on Financial Transactions were not Adequately Supported: Financial transactions relating to Payroll and training.**

**2.1. Finding - Payroll**

**Management Response**

The Ministry partially concurs with the finding.

The MoH/CDC Cooperative Agreement has project staff working on the project and charging their level of effort 100%. It is in this regard that the salaries were paid to these project staff for the period under review. The eleven transactions relating to the payment of salaries were supported by the Contracts which were fully signed and approved by the Controlling officer (Principal Investigator) and these were availed to the OIG Auditors during the exercise. The only documents missing to support these payments were the level of effort charged sheets (Time sheets). We wish to state that the ministry of Health/ CDC Cooperative Agreement staff use GRZ policies and Regulations in relation to human resource, procurement and finance. The Policy on human resource does not include time sheet clocking. The timesheets were however introduced in 2012 and are in use to date.

## **2.2. Finding – Training**

### **Management Response**

The Ministry concurs with the finding.

The Ministry of Health had several audits undertaken during the exercise for the alleged misappropriation of funds under the Global Fund project. The Office of the Auditor General issued a directive that all Donor funded projects be audited and CDC was among these. It is during this exercise that some documentation was misplaced. The Ministry will however, get in touch with the vendors so that copies of invoices are retrieved for the purchase made or services offered specifically to the one transaction totaling \$26,722 which the Ministry could not provide supporting documentation. We wish to state that once the documentation is retrieved, it will be made available for further scrutiny.

## **2.3. Finding – Other Cooperative Agreement Transactions (AVIAN Influenza Research Programme) Payroll, purchase of equipment and a motor vehicle**

### **Management Response**

We partially concur with the finding.

The two Cooperative Agreements supported by CDC/PEPFAR receive funds in one bank account that is maintained with one of the local banks. The funds are solely used for the budgeted activities. The transactions queried under the Avian Influenza Cooperative Agreement relate to the funds applied and disbursed for implementing these budgeted activities. All the seven transactions queried were fully supported and availed to the auditor during the exercise. Documentation is available for further scrutiny

## **3. Findings on Value –Added Tax Are Potentially Unallowable**

### **3.1. Finding 3 – VAT Payments on purchases**

#### **Management Response**

The Ministry concurs with the finding.

- i. We wish to state that there was no clear guidance on whether Value Added Tax had to be paid on purchases made under the CDC project for this particular budget period. The Notice of Award received for the budget period was silent on the matter and hence the VAT was paid. The clear guidance on VAT was only made in the Notice of Award for the budget period 2012/2013.
- ii. In August 2013 OGAC imposed a penalty on all USG partners that had paid VAT expenses with PEPFAR funds. This was done through a reduction in awarded funds at 200% penalty of the VAT total payments. An amount of \$55,497.48 was deducted from the 2012/2013 Award. Therefore payment to the US treasury has been done.
- iii. The Ministry will ensure that a VAT exempt certificate is obtained for these funds received under PEPFAR

#### **4. Finding 4 – Annual Financial Audit**

##### **Management Response**

The Ministry concurs that financial audits on the CDC/MoH Cooperative Agreement have not been procured in good time as per Notice of Award guidance.

We wish to state that it is a requirement by GRZ that all Public Institutions be audited by the office of the Auditor General Zambia. In this particular case, the procurement of the audit for the period under review was delayed due to the long processes involved in engaging external auditors through the office of the Office of the Auditor General Zambia and the Zambia Public Procurement Authority. The audit for the period 2008 through to 2010 was undertaken in 2012 respectively and the audit for 2011 and 2012 has since been procured.

## PROJECT MANAGEMENT AUDIT FINDINGS AND REPONSES

### **1. Finding 1: Some Accomplishments in the Progress Report were not Supported and Reported.**

The program management review showed that of the 81 goals from its cooperative agreement, the ministry reported accomplishments for 53 in its annual progress report. However it did not report accomplishments for the remaining 28 goals.

1.1. Four partially supported accomplishments were for quarterly Tuberculosis/HIV meetings, information technology and continuing medical education training and procurement of equipment. For example the Ministry provided some documentation of the continuing medical education but could not support all trainings that were part of the sample.

#### **Management Response**

The Ministry partially concurs.

- i. The TB/HIV Meeting minutes were provided during audit process. These are available for review.
- ii. ICT skills training funds were drawn down during the period under audit. The scheduling of the courses were outside the control of the Ministry as the staff attended training as per provider time table, thus some of documentation provided was outside the audit period.
- iii. Continuing Medical Education training for 120 Health care workers on the 2010 pediatric and adult guidelines orientation were conducted in 3 phases dated from 29<sup>th</sup> Nov-4<sup>th</sup> Dec, 2010; 6-11 Dec, 2010 and 19-24<sup>th</sup> Dec, 2010. Reports are available for review.
- iv. Documentation for procurement of equipment will be provided and responded to under financial management audit findings

1.2. The seven unsupported accomplishments consisted of the following types of activities" developing national guidelines for HIV counseling and testing, training healthcare workers and conducting supervision visits.

#### **Management Response**

The Ministry partially concurs.

- i. **HVTB** - TB Infection control guideline; treatment supporter trainer's manual, supervision checklist, TB/HIV recording and reporting tools and a MDRTB

manual as well as the draft of the Isonaizid Preventive Guidelines were provided in both soft and hard copies during the audit. They are available for review.

- ii. **HVTB**- The training for 10 Health Care providers in programmatic management of MDRTB in Lesotho took place from 11-20 June 2011. Report is available for further scrutiny.
- iii. **PMTCT** – The reports for the 2 trainings conducted for Pre- and In-Service health care providers in PMTCT are unavailable for audit review.
- iv. **HVOP** – National Guidelines for HIV Counseling and Testing. Copies of these documents are available for review
- v. **HVOP** – 2 reports have been submitted by the program specialists for child counseling training courses dated 29<sup>th</sup> Nov-11 Dec, 2010 and 23 May-5<sup>th</sup> June 2010 (the 2<sup>nd</sup> one which falls outside the scope of the audit period).
- vi. **HVSI M&E** – The consolidated report for technical support and supervision visits were conducted to all 9 provinces for audit and cleaning of both SmartCare and HMIS data are available for review.
- vii. **HXTS** – Reports for site supervision and in Northern, Luapula, Western, Eastern and Southern Provinces were provided during audit and are available for further scrutiny.

1.3. The Ministry lacked policies and procedures for reporting its annual progress. This lack of policies and procedures led to missing or inadequate documentation to support the progress included in the progress report. It also led to the Ministry not reporting progress for some goals

#### **Management Response**

The Ministry partially concurs.

Government systems are already in place to ensure activity reports are attached to retirement documents for expended funds for internal audit.

The Ministry however did not have dedicated project management and accountant during audit period under review to keep track of support documentation attached for activities undertaken.

## **2. Finding 2: Progress Report Was Submitted Late.**

Recipients are required to submit annual progress reports 90 days after the end of the grant year. The NOA provides the specific due dates for the progress reports. The

Ministry submitted the progress reports to CDC one month after its due date. The report was late because the Ministry's field offices did not submit data to the Ministry on time, also staff turnover affected preparation of the progress report. The Ministry lacked policies and procedures to ensure that the progress report was submitted on time, such as policies requiring field offices to report progress data to the Ministry by certain dates and procedures ensuring continuity of operations during staff turnover.

**Management Response**

The Ministry concurs.

The Ministry did not have dedicated project management and accountant during audit period under review. Those duties were undertaken by Government and CDC supported staff from other program areas to cover the gap.