

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**THE ETHIOPIAN PUBLIC HEALTH
INSTITUTE DID NOT ALWAYS MANAGE
THE PRESIDENT'S EMERGENCY PLAN
FOR AIDS RELIEF FUNDS OR MEET
PROGRAM GOALS IN ACCORDANCE
WITH AWARD REQUIREMENTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
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January 2015
A-04-13-04017

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

The Ethiopian Public Health Institute did not always manage the President's Emergency Plan for AIDS Relief funds or meet program goals in accordance with award requirements.

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 Ethiopian Public Health Institute (the Institute) for review.

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

BACKGROUND

Through a 5-year cooperative agreement (grant number 5U2GPS000825-04), CDC awarded PEPFAR funds totaling \$6,872,188 to the Institute for the budget period September 30, 2010, through September 29, 2011.

The Institute is a government entity that falls under the oversight of the Ethiopian Ministry of Health. Its mission is to protect and promote the health of the Ethiopian people by addressing priority public health and nutrition problems through problem-solving research, public health emergency management, and establishing and maintaining quality laboratory systems. The Institute entered into a cooperative agreement with CDC to implement a coordinated national response to the HIV/AIDS epidemic.

WHAT WE FOUND

The Institute did not always manage PEPFAR funds or meet program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, \$4,712,969 of the \$4,717,286 reviewed was allowable, but \$4,317 was unallowable. Of the 50 financial transactions tested:

- 49 transactions totaling \$4,712,969 were allowable but
- 1 transaction totaling \$4,317 was unallowable because it was a duplicate payment.

Additionally, the Institute:

- did not accurately report expenditures and cash disbursements for this cooperative agreement on its annual Financial Status Report (FSR),
- submitted its annual FSR to CDC 2 months late,
- had \$3,837,349 of unresolved advances to regional facilities at the end of the budget period,
- used \$163,052 of funds to pay potentially unallowable value-added taxes (VAT) on purchases,
- did not have an annual financial audit completed and the report submitted on time as required by United States Government (Federal) regulations, and
- did not submit its annual financial audit report to the National External Audit Review Center in accordance with the award requirements.

Our program management review showed that, of the 64 goals from its cooperative agreement, the Institute reported accomplishments for all goals in its annual progress report. Our sample review of 38 reported accomplishments showed that 20 were fully supported by documentation, 14 were partially supported, and 4 were not supported. Also, the Institute submitted its annual progress report to CDC almost 2 months late.

These errors occurred because the Institute did not have adequate policies and procedures.

WHAT WE RECOMMEND

We recommend that the Institute:

- refund to CDC \$4,317 of unallowable expenditures;
- work with CDC to resolve whether VAT was an allowable expenditure under the cooperative agreement and to seek reimbursement from the Ethiopian Government for the \$163,052 of VAT paid;
- require regional facilities to submit quarterly expenditure reports and reconcile the outstanding cash advances; and
- develop and implement policies and procedures for:
 - maintaining adequate supporting documentation for expenditures of Federal funds,

- preparing its FSR based on expenditures and obligations relating to the applicable budget year,
- reconciling the FSR to the accounting records before submission,
- submitting the FSR in a timely manner,
- pursuing reimbursement from the Ethiopian Government for VAT paid,
- submitting the annual progress report in a timely manner with all goals addressed and fully supported, and
- submitting an annual financial audit report on time to the applicable Federal agency.

ETHIOPIAN PUBLIC HEALTH INSTITUTE COMMENTS

In comments on our draft report, Institute officials concurred with our recommendations.

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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).¹

We selected the Ethiopian Public Health Institute² (the Institute) for review.

OBJECTIVE

Our objective was to determine whether the Institute 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 obligated³ PEPFAR funds totaling \$1.1 billion. CDC awarded these PEPFAR funds through cooperative agreements, which it uses in lieu of grants when it anticipates the Federal Government's substantial involvement with recipients in accomplishing

¹ Appendix A contains a list of related OIG reports.

² Before January 2014, the name of the Institute was Ethiopian Health and Nutrition Research Institute.

³ "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 Directives* 1.02. HHS internal departmental grants guidance is in the process of being updated in a new Grants Policy Administration Manual.

the objectives of the agreements.⁴ In response to a Funding Opportunity Announcement (FOA),⁵ CDC awarded the Institute grant number 5U2GPS000825-04 through a cooperative agreement for the project period September 30, 2007, through September 29, 2012.

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.

Ethiopian Public Health Institute

The Institute is a government entity under the oversight of the Ethiopian Ministry of Health. Its mission is to protect and promote the health of the Ethiopian people by addressing priority public health and nutrition problems through problem-solving research, public health emergency management, and establishing and maintaining quality laboratory systems. The Institute entered into a cooperative agreement with CDC to implement a coordinated national response to the HIV/AIDS epidemic. The main goals of the cooperative agreement were to:

- strengthen the Institute's laboratory infrastructure and strategic information capacity in Ethiopia;
- implement a laboratory quality-assurance program;
- standardize and strengthen training programs in laboratory services;
- maintain its equipment and provide site-level technical support;
- manage and transport specimens; and
- evaluate laboratory diagnoses, disease monitoring, and drug resistance in response to the national HIV epidemic in Ethiopia.

⁴ The regulations that apply to Federal grants also apply to cooperative agreements.

⁵ FOA number CDC-RFA-PS07-729 is entitled *Strengthening Laboratory Infrastructure, Strategic-Information Capacity, and Technical Support for the Rapid Scale Up of ART in the Federal Democratic Republic of Ethiopia under the President's Emergency Plan for AIDS Relief (PEPFAR)*.

HOW WE CONDUCTED THIS REVIEW

Our audit covered the budget period from September 30, 2010, through September 29, 2011. This budget period was the fourth year of a 5-year cooperative agreement. During the budget period under review, CDC awarded the Institute \$6,872,188.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

FINDINGS

The Institute did not always manage PEPFAR funds or meet program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, \$4,712,969 of the \$4,717,286 reviewed was allowable, but \$4,317 was unallowable. Of the 50 financial transactions tested:

- 49 transactions totaling \$4,712,969 were allowable but
- 1 transaction totaling \$4,317 was unallowable because it was a duplicate payment.

Additionally, the Institute:

- did not accurately report expenditures and cash disbursements for this cooperative agreement on its annual Financial Status Report (FSR),⁶
- submitted its annual FSR to CDC 2 months late,
- had \$3,837,349 of unresolved advances to regional facilities at the end of the budget period,
- used \$163,052 of funds to pay potentially unallowable value-added taxes (VAT) on purchases,
- did not have an annual financial audit completed and the report submitted on time as required by United States Government (Federal) regulations, and

⁶ 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.

- did not submit its annual financial audit report to the National External Audit Review Center (NEAR) in accordance with the award requirements.

Our program management review showed that, of the 64 goals from its cooperative agreement, the Institute reported accomplishments for all goals in its annual progress report.⁷ Our sample review of 38 reported accomplishments showed that 20 were fully supported by documentation, 14 were partially supported, and 4 were not supported. Also, the Institute submitted its annual progress report to CDC almost 2 months late.

These errors occurred because the Institute did not have adequate policies and procedures.

FINANCIAL MANAGEMENT

Unallowable Financial Transactions

Grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income (45 CFR § 92.20(b)(2)).

Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes (45 CFR § 92.20(b)(3)).

Of the 50 transactions totaling \$4,717,286 that we reviewed, 49 transactions totaling \$4,712,969 were allowable, but 1 transaction totaling \$4,317 was unallowable. For the 1 transaction, the Institute made a duplicate payment totaling \$4,317. The Institute held a training course and made a duplicate payment for the meal expense. The Institute did not have adequate procedures to prevent the duplicate payment. The Institute staff members acknowledged their lack of adequate oversight as the cause of this error.

Unable To Determine the Accuracy of the 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 (§ 92.20(b)(1)). 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 (§ 92.20(b)(6)). Recipients must submit an FSR no later than 90 calendar days after the end of the specified budget period

⁷ 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.

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.

We were not able to determine the accuracy of the FSRs that the Institute submitted to CDC. The Institute submitted its initial FSR for the audit period in February 2012 and submitted three revised FSRs for this period in July 2012, September 2012, and July 2013. We were unable to determine the accuracy of the FSRs because the Institute:

- commingled expenditures between budget periods,
- did not account for all of its advances to regional facilities⁸ in its FSR and had not obtained expenditure reports from the regional facilities detailing how the advances were used,
- could not provide adequate documentation to establish whether it had actually obligated funds to purchase certain equipment, and
- operated its accounting system on a cash basis but prepared its FSR on an accrual basis.

In addition, the Institute submitted its annual FSR to CDC almost 2 months late. The report was late because the Institute did not have procedures to ensure continuity of operations during staff turnover.

Without an accurate and timely FSR, CDC could not determine whether the recipient exercised proper stewardship over Federal funds in accordance with award requirements.

Unsettled Excessive Cash Advances

“[G]rantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of funds and their disbursement by the grantee or subgrantee” (45 CFR § 92.21(c)). Therefore, although the grant may be financed by advance payments, the intent is that recipients draw funds as needed (GPS II-2).

The Institute advanced funds to regional facilities that were not spent promptly. At the beginning of the budget period, the Institute had outstanding balances totaling \$1,759,518 from advances it made in the previous year to 23 of its regional facilities. During the budget period, the Institute made additional advances totaling \$2,156,402 to 17 facilities, 16 of which had unresolved balances from a previous year.

The Institute advanced the funds for activities approved under the cooperative agreement, obligated the funds to each regional facility, and recorded the funds in its accounting records as accounts receivable. For each advance, the Institute and the regional facility receiving the funds

⁸ Regional facilities included certain universities, colleges, hospitals, laboratories, and health bureaus.

signed a memorandum of understanding (MOU) detailing how the facility would use the funds and when the facility would send reports to the Institute. The MOU stated that the regional facility was required to submit to the Institute quarterly progress and financial reports, as well as quarterly expenditure reports with receipts for expenses incurred.

The Institute did not record the advances as expenditures until it received expenditure reports from the regional facilities. By the end of the budget period, the Institute had received expenditure reports from only three regional facilities. From these reports, the Institute was able to account for \$78,571 in expenditures. While the regional facilities may have spent more of the funds, they did not submit expenditure reports to the Institute in a timely manner.

As a result, the Institute had in its accounting records excessive outstanding cash advances to regional facilities totaling \$3,837,349. Maintaining excessive cash balances poses a risk of funds being used for unauthorized purposes.

The Institute did not have effective controls to manage the expenses of funds advanced to its regional facilities. In addition, the Institute lacked procedures to minimize the time it takes to settle the outstanding balance of advanced funds.

Expenditures for Value-Added Taxes Are Potentially Unallowable

Certain costs, including VAT,⁹ are unallowable under foreign grants and domestic grants with foreign components (GPS section II-114).¹⁰ 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.

During the audit period, CDC Ethiopia had established a process for all its partners to follow that would facilitate VAT reimbursement from the Ethiopian Revenue and Customs Authority. CDC provided training and information to all of its partners on this process and assisted multiple partners in requesting refunds for VAT from the Ethiopian Government. However, the Institute did not seek a refund for VAT from the Ethiopian Government.

During the audit period, the Institute used PEPFAR funds to pay \$163,052 in VAT, a potentially unallowable cost for this cooperative agreement. The Institute did not have policies and procedures to follow for applying for a VAT exemption. The Institute stated that it had not applied for a VAT exemption from the Republic of Ethiopia and did not provide a reason for not submitting an application.

⁹ VAT is a form of consumption tax.

¹⁰ HHS is currently reexamining the applicability of the GPS provision; thus, we are not recommending a disallowance. Instead, we recommend that the Institute work with CDC to resolve the issue.

PROGRAM MANAGEMENT

Some Accomplishments in the Progress Report Were Not Fully Supported

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 for 3 years from the date of the submission of the final expenditure report (45 CFR § 92.42).

Our program management review showed that, of the 64 goals from its cooperative agreement, the Institute reported accomplishments for all goals in its annual progress report. Our sample review of 38 reported accomplishments included in the progress report showed that 20 were fully supported by documentation, 14 were partially supported, and 4 were not supported.

- The 14 partially supported accomplishments were related to strengthening the national quality assurance/control program, equipment maintenance for laboratory services, and maintaining the Laboratory Information System. For example, the Institute included in the annual progress report that it performed laboratory maintenance on 206 machines; however, it only provided support for the maintenance of 36 machines.
- The four unsupported accomplishments consisted of the following types of activities: procuring and distributing tuberculosis equipment and supplies, strengthening the national quality assurance/control program, equipment maintenance for laboratory services, and specimen management.

The Institute 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. As a result, CDC did not have sufficient information to focus its monitoring efforts or to assist the Institute 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.¹¹

The Institute submitted the progress report to CDC almost 2 months after its due date. The report was late because the Institute had staff turnover that affected the preparation of the progress report. The Institute lacked policies and procedures to ensure that the progress report was submitted on time and to ensure continuity of operations during staff turnover. Without timely progress reports, CDC could not determine whether the recipient met program goals in accordance with award requirements.

¹¹ 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)). However, there was no evidence that the Institute obtained such a waiver.

NON-FEDERAL AUDIT REPORT REQUIREMENTS NOT MET

The GPS (section II-115), states that foreign recipients are subject to the same audit requirements as commercial organizations specified in 45 CFR § 74.26(d). Recipients that are commercial organizations are required to file one of the following types of audits: a financial-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)).

OMB Circular A-133 states that 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 §__.220 and subpart C §__.320).¹²

At the time of our review, the last independent audit completed by the Institute was for budget year 2011. The audit report is dated August 5, 2013, about 13 months past the due date of June 30, 2012. The Institute did not meet the Federal requirements because it did not have adequate policies and procedures for having an annual financial audit finalized and submitted to NEAR by the due date. Without a timely annual audit report, CDC could not monitor the audit findings and assess the risk of awarding the Institute additional funds.

LACK OF POLICIES AND PROCEDURES

The Institute did not have policies and procedures adequate for managing CDC cooperative agreements because they did not ensure that the Institute:

- maintained adequate supporting documentation for expenditures of Federal funds,
- submitted its FSRs accurately and on time,
- properly accounted for funds advanced to regional facilities,
- pursued reimbursement from the Ethiopian Government for VAT paid,
- 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.

¹² If a foreign entity chooses to have a financial-related audit, the same due dates apply (45 CFR § 74.26(d)). (See *Clarification of Audit Requirements of For-Profit Organizations Including SBIR/STTR Grantees*, issued by the HHS National Institutes of Health, Jan. 11, 2006).

RECOMMENDATIONS

We recommend that the Institute:

- refund to CDC \$4,317 of unallowable expenditures;
- work with CDC to resolve whether VAT was an allowable expenditure under the cooperative agreement and to seek reimbursement from the Ethiopian Government for the \$163,052 of VAT paid;
- require regional facilities to submit quarterly expenditure reports and reconcile the outstanding cash advances; and
- develop and implement policies and procedures for:
 - maintaining adequate supporting documentation for expenditures of Federal funds,
 - preparing its FSR based on expenditures and obligations relating to the applicable budget year,
 - reconciling the FSR to the accounting records before submission,
 - submitting the FSR in a timely manner,
 - pursuing reimbursement from the Ethiopian Government for VAT paid,
 - submitting the annual progress report in a timely manner with all goals addressed and fully supported, and
 - submitting its annual financial audit report on time to the applicable Federal agency.

ETHIOPIAN PUBLIC HEALTH INSTITUTE COMMENTS

In comments on our draft report, Institute officials concurred with our recommendations and provided information on actions underway and planned to address our recommendations. The Institute's comments are included as Appendix D. However, we did not include the attachments because they were too voluminous.

APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

AUDITS OF THE PRESIDENT’S EMERGENCY PLAN FOR AIDS RELIEF FUNDS

| Report Title | Report Number | Date Issued |
|--|--------------------------------------|--------------------|
| <i>The Ethiopian Public Health Association Generally Managed the President’s Emergency Plan for AIDS Relief Funds but Did Not Always Meet Program Goals in Accordance With Award Requirements</i> | <u>A-04-13-04016</u> | 10/2014 |
| <i>The Centers for Disease Control and Prevention Generally Achieved Its Main Goals Related to Certain HIV/AIDS Prevention, Treatment, and Care Activities Under the Partnership Framework in Ethiopia</i> | <u>A-04-13-04011</u> | 10/2014 |
| <i>The Federal Democratic Republic of Ethiopia, Ministry of Health, Did Not Always Manage President’s Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i> | <u>A-04-13-04015</u> | 9/2014 |
| <i>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</i> | <u>A-04-13-04004</u> | 6/2014 |
| <i>The University of Zambia School of Medicine Did Not Always Manage President’s Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i> | <u>A-04-13-04010</u> | 4/2014 |
| <i>The University Teaching Hospital (in Zambia) Generally Managed the President’s Emergency Plan for AIDS Relief Funds and Met Program Goals in Accordance With Award Requirements</i> | <u>A-04-13-04005</u> | 3/2014 |
| <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> | <u>A-05-12-00021</u> | 8/2013 |
| <i>The South African National Department of Health Did Not Always Manage President’s Emergency Plan For AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i> | <u>A-05-12-00022</u> | 8/2013 |
| <i>The Southern African Catholic Bishops’ Conference AIDS Office Generally Managed President’s Emergency Plan for AIDS Relief Funds and Met Program Goals in Accordance With Award Requirements</i> | <u>A-05-12-00023</u> | 7/2013 |

| Report Title | Report Number | Date Issued |
|--|-------------------------------|--------------------|
| <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-06-11-00057 | 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-04-12-04023 | 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-06-11-00056 | 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-04-12-04022 | 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-04-12-04019 | 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-04-12-04020 | 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-04-10-04006 | 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 fourth year of a 5-year cooperative agreement. During the budget period under review, CDC awarded the Institute \$6,872,188.

We limited our review of internal controls to those related to our objective. We conducted fieldwork at the Institute's offices in Addis Ababa, Ethiopia, in August 2013.

METHODOLOGY

To accomplish our objective, we:

- reviewed relevant Federal laws and regulations, HHS guidance, the FOA, the NOA, and the Institute's policies and procedures;
- interviewed and conducted meetings with CDC Ethiopia officials to determine the extent of the technical assistance they provided to the Institute;
- interviewed and conducted meetings with Institute officials to determine their policies, processes, and procedures related to financial accounting and reporting and program goals and accomplishments;
- attempted to reconcile the Institute's FSR to its accounting records;
- selected and reviewed a judgmental sample of 50 financial transactions totaling \$4,717,286 from the grant award of \$6,872,188 and included expenditures such as:
 - transactions that might have included restricted funds,
 - transactions above or below the average transaction amount in an expenditure category, and
 - letters of credit and regional advances;
- identified VAT that the Institute paid with PEPFAR funds;
- compared the accomplishments described in the Institute's annual progress report to the cooperative agreement's goals; and
- selected a judgmental sample of 38 accomplishments described in the Institute's annual progress report and reviewed supporting documentation to determine whether the Institute met program goals.

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

45 CFR § 74.26(d)(1)

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 financial-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. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.”

45 CFR § 92.20(b)(3)

“Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.”

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, contracts and subgrant award documents, etc.”

45 CFR § 92.21(c)

“Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.”

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. The NOA provides the specific due dates for progress reports.

45 CFR § 92.40(b)(2)

Performance reports will contain, for each grant, brief information on the following:

- (i) A comparison of actual accomplishments to the objectives established for the period. Where the output of the project can be quantified, a computation of the cost per unit of output may be required if that information will be useful.
- (ii) The reasons for slippage if established objectives were not met.
- (iii) 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

Grantees are required to retain financial and programmatic records and supporting documents, both those required by the grant agreement and those “otherwise reasonably considered as pertinent to the regulations and 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 II-113

“Most of the policies contained in this HHS GPS apply to grants made to foreign organizations and international organizations (hereafter ‘foreign grants’), including the requirements of 45 CFR part 74 or 45 CFR part 92, as applicable to the type of foreign organization, and the cost principles incorporated by reference in those regulations.”

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 for-profit organizations (specified in 45 CFR § 74.26(d)).”

APPENDIX D: ETHIOPIAN PUBLIC HEALTH
INSTITUTE COMMENTS



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Ethiopian Public Health Institute

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ቁጥር: EPHI 3.9/97
Ref. No: 02 DEC 2014
ቀን: _____
Date: _____

Attention: Gloria L. Jarmon
Deputy Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
Washington DC 20201
Report Number A-04-13-04017
Subject: Response to the Draft Audit Report
Dear Gloria,

Ethiopian Public Health Institute would like to thank the Office of Inspector General (OIG) for the comprehensive grant auditing and providing valuable recommendations that will help the Institute for improving program implementation and strengthening our partnership.

We have reviewed the draft audit report thoroughly and given the attached responses for the findings and recommendations. Relevant documents which show the actions that have been undertaken by the Institute starting from the auditing period are also attached for your reference. Therefore we have submitted these responses officially for your next steps and finalization of Audit Report.

For any inquiry or additional information, please don't hesitate to contact us at + 251911213301 or amhak@ephi.gov.et or Mr. Hussien Faris , at + 251911253165 or hussienf@ephi.gov.et. Thank you again for your continued support.

Sincerely,

Amha Kebede (Dr)
Director General



Hussien Faris
Finance Manager
& Evaluation Director

Project PI

Project Business Official

EPHI Response to OIG Audit Recommendations

Please find below EPHI's responses to each of the OIG's recommendations:

1. Refund to CDC \$ 4, 317 in unallowable expenditures

Response: EPHI concurs with OIG's recommendation to refund \$ 4,317.

The institute has confirmed the stated transaction was paid to the staff cafeteria twice because of double request wrongly. EPHI has taken action in accordance with OIG recommendation and policies and procedures in place for controlling such incidences. EPHI has already refunded \$ 4,317 to the project account (currently in the National Bank of Ethiopia) and the Financial Status Report (FSR) has been corrected accordingly. As evidence of this action, the scanned receipt of the refund to project account, the affected ledger and the corrected FSR are attached as Annexes 1, 2 & 3.

While the amount in question has been returned to our local bank account, we need further guidance on how to refund to CDC. Refund will be made to the US Government as soon as guidance on how to do so is obtained from CDC's Procurement and Grants Office (PGO).

In addition EPHI has developed a Standard Operating Procedure (SOP) that prevents double payment or similar errors in recording. Refer to Annex 4 SOP for Payment and Approval Process.

2. Work with CDC to resolve whether VAT was an allowable expenditure under the cooperative agreement and seek reimbursement from the Ethiopian Government for the \$ 163, 052 of VAT paid

Response: EPHI concurs with the OIG's recommendation.

As per Government of Ethiopia regulations, VAT must be paid at the time of any procurement of goods or services, and can be reimbursed to an organization that has tax exempt status. EPHI has tax exempt status for procurements made with CDC funds, however, must adhere to the regulations and pay VAT at the time of purchase and then request refund from the government, through CDC, according to the bilateral agreement between the US and Ethiopian government.

EPHI has submitted a request for refund of the \$163,052 paid in VAT to the Ministry of Finance and Economic Development (MOFED). Please see the copy of the VAT reimbursement request shown as Annex 5.

In addition, EPHI has included the government procedure in the grant SOP for regular VAT reimbursement. See annex 12.

3. Require regional facilities to submit quarterly expenditure reports and reconcile the outstanding cash advances

Response: EPHI concurs with the OIG recommendation and has taken a number of actions in order to address the issues:

a) The Institute has already developed a Memorandum of Understanding (MoU) to be signed between EPHI and the regions for managing any advances given for activities implemented by the regions. The MoU is already in use and it obligates the regions or regional facilities to implement their activities, submit their report and settle their advances within one month from the fund transfer. Additional fund transfer will be held back for those who fail to report within the agreed period. As evidence of this action a copy of the MoU between EPHI and Gambella Region is attached as Annex 6

b) Experts from the Institute have been travelling to the regional health facilities to provide support in tracking, monitoring and report preparation for settling the outstanding balances. With this we have managed to settled \$ 3, 496, 365.94 (91.1%) of the outstanding balance the period as of now. EPHI has been tracking and reconciling regional advances every quarter. Please see attached regional advance settlement progress report as Annex 7.

c) In order to strengthen the system for managing fund transfer to the regions, the Project Coordination Unit has developed a SOP containing management of fund advances. Please see Annex 8.

4. Develop and implement policies and procedures

Response: EPHI concurs with the OIG's recommendation. The Institute uses government policies and procedures in addition to the HHS grant management policies. EPHI has developed several SOPs to improve programmatic and financial management

systems and to ensure proper use of grant funds and documentation of expenditures and activities conducted under the cooperative agreement. EPHI has strengthened its Project Coordination Unit to track, monitor and report following the budget period and quarterly reconciliation of activities and expenditures made before report submission

Shown below are actions to address the OIG recommendations to develop policies and procedures for:

- Maintaining adequate supporting documentation for expenditures of Federal funds

A SOP on Payment Requests and Approval Processes has been developed which specifies the maintenance of supporting documentation for all expenditures made with US Government funds. See Annex 4.

- Preparing its FSR based on expenditures and obligations relating to the applicable budget year.

A SOP on FFR preparation has been developed which includes the preparation based on expenditures and obligations relating to the applicable budget year. See Annex 11.

Additionally, the Year 1 FFR for the current cooperative agreement (GH001178) has been prepared (Annex 9) based on the general ledger for Year 1, shown as Annex 10.

- Reconciling the FSR to the accounting records before submission,

A SOP on FFR preparation has been developed which includes the reconciliation of the FSR with accounting records before submission. See Annex 11.

The Year 1 FFR for the current cooperative agreement (GH001178) and the copy of the ledger for expenditures and obligations are evidence of this process. See Annexes 9 and 10.

- Submitting the FSR in a timely manner

A SOP on FFR preparation has been developed which includes the timeline for FFR preparation and submission. See Annex 11.

The Year 1 FFR for the current cooperative agreement (Annex 9) is submitted as evidence of submission prior to the deadline of December 31, 2014.

- Pursuing reimbursement from the Ethiopian Government for VAT paid

EPHI has submitted a request for refund of the \$163,052 paid in VAT to the Ministry of Finance and Economic Development (MOFED). Please see the copy of the VAT reimbursement request shown as Annex 5.

- Submitting the annual progress report in a timely manner with all goals addressed and fully supported

A SOP has been developed to ensuring timely reporting with all project goals addressed and reported outcomes fully supported. See Annex 13.

In addition, EPHI has recruited a Project Coordinator and is strengthening its grant management unit to strengthen documentation. Tracking and periodic follow up mechanisms are routinely done by this dedicated unit together with the program implementers.

- Submitting an annual financial audit report on time to the applicable Federal agency

EPHI has developed a SOP to ensure timely conduct of the annual financial audit and submission to the appropriate Federal agency according to the timelines stipulated in the Notice of Award. See Annex 14.

The previous delay in submitting the audit report were due to time taken to select the Audit Firm and delayed auditing processes. The SOPs take into account the timing of both.