

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MANAGEMENT AND DEVELOPMENT
FOR HEALTH DID NOT ALWAYS
MANAGE THE PRESIDENT'S
EMERGENCY PLAN FOR AIDS RELIEF
FUNDS IN ACCORDANCE WITH AWARD
REQUIREMENTS**

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Office of Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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Report in Brief

Date: June 2017

Report No. A-04-16-04045

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



Why OIG Did This Review

The President's Emergency Plan for AIDS Relief (PEPFAR) was authorized to receive \$48 billion in funding for the 5-year period beginning October 1, 2008, to assist foreign countries in combating HIV/AIDS, tuberculosis, and malaria. Additional funds were authorized to be appropriated through 2018.

The act that implemented PEPFAR requires HHS, OIG, among others, to provide oversight of PEPFAR. To meet this requirement, we have conducted a series of audits of organizations receiving PEPFAR funds from HHS, Centers for Disease Control and Prevention (CDC).

The objective of our audit was to determine whether Management and Development for Health (MDH), located in Dar es Salaam, Tanzania, managed PEPFAR funds in accordance with the award requirements.

How OIG Did This Review

Our audit covered the budget periods from September 30, 2011, through September 29, 2015. These budget periods were for years 1 through 4 of a 5-year cooperative agreement. During the budget period under review, CDC awarded MDH \$46.6 million, of which MDH expended \$46.3 million. From these PEPFAR fund expenditures, we selected for review a judgmental sample of 60 transactions, totaling \$7 million.

Management and Development for Health Did Not Always Manage the President's Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements

What OIG Found

MDH did not always manage PEPFAR funds in accordance with award requirements. Of the 60 financial transactions in our sample, 51 transactions totaling \$6.8 million were allowable, but 9 transactions totaling \$181,000 were not.

Additionally, MDH used \$23,000 in PEPFAR funds to pay unallowable Value-Added Taxes (VAT) on purchases that have not been reimbursed by the Tanzania Revenue Authority.

What OIG Recommends

We recommend that MDH (1) refund to CDC \$101,000 for transactions that it could not fully support with adequate documentation and \$80,000 for unallowable PEPFAR expenditures and (2) work with CDC to obtain \$23,000 of VAT reimbursement from the Tanzanian Government. We also made procedural and policy recommendations.

In written comments on our draft report, MDH generally concurred with our recommendations to refund unsupported transactions and unallowable PEPFAR expenditures. However, MDH provided additional supporting documentation for consideration. After considering the additional documentation, we adjusted our findings accordingly in the final report. Also, MDH concurred with our procedural recommendations and described some of the actions it has taken, or plans to take, to address them.

TABLE OF CONTENTS

INTRODUCTION.....	1
Why We Did This Review	1
Objective	1
Background	1
Centers for Disease Control and Prevention	1
Application of Federal Regulations.....	2
Management and Development for Health	2
How We Conducted This Review	3
FINDINGS.....	3
Management and Development for Health Could Not Always Provide Adequate Supporting Documentation	4
Management and Development for Health Used PEPFAR Funds for Unallowable Training Expenditures	4
Management and Development for Health Used PEPFAR Funds To Pay Value-Added Taxes.....	5
Management and Development for Health Classified Transactions in the Wrong Budget Category and Did Not Obtain Prior Approval for Significant Rebudgeting or Redirection of Funds	6
Management and Development for Health’s Accounting System Contained Inadequacies and Discrepancies	8
RECOMMENDATIONS	9
MANAGEMENT AND DEVELOPMENT FOR HEALTH COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE.....	10
APPENDIXES	
A: Related Office of Inspector General Reports.....	12
B: Audit Scope and Methodology	14

C: Federal Requirements.....	15
D: Management and Development for Health Comments.....	18

INTRODUCTION

WHY WE DID THIS REVIEW

The U.S. Congress authorized the President's Emergency Plan for AIDS Relief (PEPFAR) to receive \$48 billion in funding for the 5-year period beginning October 1, 2008, to assist foreign countries in combating HIV/AIDS, tuberculosis, and malaria.¹ Congress authorized additional funds to be appropriated through 2018.²

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).³ We selected Management and Development for Health (MDH) for review because it was one of the larger recipients of PEPFAR funds in Tanzania.

OBJECTIVE

Our objective was to determine whether MDH managed PEPFAR funds in accordance with the award requirements.

BACKGROUND

Centers for Disease Control and Prevention

As the U.S. science-based public health and disease prevention agency, CDC plays an essential role in implementing PEPFAR. CDC uses its technical expertise in public health science and longstanding relationships with ministries of health across the globe to work side by side with countries to build strong national programs and sustainable public health systems that can respond effectively to the global HIV/AIDS epidemic and to other diseases that threaten the health and prosperity of the global community.

Funded through PEPFAR, CDC's highly trained scientists work together with ministries of health and other partners in 60 countries to combat HIV/AIDS globally. Furthermore, CDC provides critical technical assistance to 18 additional countries.

¹ 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).

² The PEPFAR Stewardship and Oversight Act of 2013 (P.L. No. 113-56).

³ Appendix A contains a list of related OIG reports.

For fiscal year 2015, CDC obligated PEPFAR funds totaling \$1.3 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 the objectives of the agreements.⁴ In response to a Funding Opportunity Announcement (FOA),⁵ CDC awarded MDH grant number U2GGH000454 through a cooperative agreement for the project period September 30, 2011, through September 29, 2016.

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.⁶ 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, page II-113). Thus, the rules in 45 CFR part 74 apply to nonprofit organizations such as MDH.

Management and Development for Health

MDH is an indigenous⁷ Tanzanian organization that aims to contribute to the national efforts in addressing public health priorities. Through PEPFAR, MDH provides support to the implementation of the comprehensive HIV prevention, care, and treatment program within the Dar es Salaam region. In collaboration with the local government, MDH facilitates scaling up of the program to increase access to HIV care and services, capacity building, health system strengthening at all levels, and program transition to the local health delivery system.

MDH supports care and treatment clinics in 87 public and private health facilities, prevention of mother to child transmission services in 203 clinics, and tuberculosis treatment in 45 diagnostic centers with integrated HIV services in the region.

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

⁵ FOA number CDC-RFA-GH11-1127 was entitled "Provisions of HIV/AIDS Treatment Services by Local Indigenous Entities in the United Republic of Tanzania, under the President's Emergency Plan for AIDS Relief, (PEPFAR)."

⁶ The grants administration rules at 45 CFR parts 74 and 92 were superseded by 45 CFR part 75, which applies to grant awards or funding increments issued on or after December 26, 2014. The new rule does not apply to our audit period.

⁷ In the FOA, CDC used the terms local and indigenous synonymously, and limited eligibility for this award to "local indigenous" organizations. CDC also referred to such organizations as "local partner[s]" in the FOA and included criteria to be met before an entity could be considered a local partner. The criteria required that the entity be located in the country being served by PEPFAR and that certain percentages of its ownership and staff positions be held by citizens of that country.

HOW WE CONDUCTED THIS REVIEW

Our audit covered the budget periods from September 30, 2011, through September 29, 2015. These budget periods were for years 1 through 4 of a 5-year cooperative agreement. During the budget period under review, CDC awarded MDH \$46,608,509, of which MDH expended \$46,332,382. From these PEPFAR fund expenditures, we selected a judgmental sample of 60 transactions totaling \$7,017,185.

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

MDH did not always manage PEPFAR funds in accordance with award requirements. Of the 60 financial transactions in our sample, 51 transactions totaling \$6,836,365 were allowable, but 9 transactions totaling \$180,820 were not. These nine unallowable transactions included:

- six transactions totaling \$101,084 that were not fully supported by adequate documentation and
- three transactions totaling \$79,736 that were expenditures for unreasonable training costs.

Additionally, MDH:

- used \$22,548 of PEPFAR funds to pay value-added taxes (VAT) that the Tanzania Revenue Authority has not reimbursed,
- classified transactions in the wrong budget category (\$75,481) and moved funds between the budget categories without CDC's approval (\$776,285), and
- used an accounting system that was not adequate to account for PEPFAR funds.

These errors occurred because MDH did not have adequate policies and procedures to ensure that it followed Federal regulations and Departmental policies. Furthermore, MDH did not have an adequate accounting system and did not use current exchange rates. Additionally,

MDH paid VAT but did not receive reimbursement when such reimbursement may have been due.

MANAGEMENT AND DEVELOPMENT FOR HEALTH COULD NOT ALWAYS PROVIDE ADEQUATE SUPPORTING DOCUMENTATION

Grantees' financial management systems must provide for effective control over and accountability of all funds, property, other assets, and accounting records that are supported by source documentation (45 CFR §§ 74.21(b)(3) and (b)(7)).

MDH was unable to provide adequate supporting documentation for six transactions totaling \$101,084. For four of the six transactions for salaries, contractuels, and training, MDH was missing supporting documentation such as salary payment records, timesheets, training attendance lists, and subrecipient salary advance documents.

The remaining two transactions, one for salary and one for contractual, consisted of salaries for multiple employees:

- One timesheet indicated that a full-time PEPFAR employee worked on a non-PEPFAR grant while MDH paid the employee's salary using PEPFAR dollars.
- One timesheet for a full-time PEPFAR employee did not indicate which project(s) the employee worked on.
- One single-page timesheet that included 15 full-time employees did not indicate whether the employees were full-time PEPFAR employees because the timesheet neither included the projects on which they worked nor the level of effort expended on the project. For example, the timesheet provided only the employees' names, job positions, and workdays.

MDH did not provide adequate supporting documentation because it did not follow Federal regulations requiring the maintenance and accuracy of such documentation. As a result, MDH increased the risk of funds being mismanaged or misappropriated.

MANAGEMENT AND DEVELOPMENT FOR HEALTH USED PEPFAR FUNDS FOR UNALLOWABLE TRAINING EXPENDITURES

Allowability of costs shall be determined in accordance with the cost principles applicable to the entity incurring the cost. The allowability of costs incurred by nonprofit organizations is determined in accordance with the provisions of 2 CFR part 230 (formerly OMB Circular A-122) (45 CFR § 74.27(a)).

In general, allowable costs must be reasonable for the performance of the award (2 CFR part 230, App. A, § A.2.a). To determine reasonableness, consideration must be given to, among

other factors, whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award and whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its employees and clients, and the Federal Government (2 CFR part 230, App. A, §§ A.3.a and c.).

Three transactions totaling \$79,735 were expenditures that related to unreasonable training costs.

Despite CDC's specific disapproval of a request to train outside of Dar es Salaam, MDH conducted staff development training in Arusha for all of its staff that worked in Dar es Salaam. Arusha is more than 600 kilometers (approximately 10 hours by car) from Dar es Salaam. CDC had instructed MDH to provide the training locally and to redirect the remaining funds to HIV/AIDS service delivery. Although MDH acknowledged CDC's instructions to conduct the staff development workshop locally and to assign the remaining funds to other program activities, it did not do so.

Providing staff training at a location an excessive distance from the office is not generally ordinary or necessary for the operation of the entity or the performance of the award. We were not given any reason to believe that the training needed to occur in Arusha. Nor did the individuals who made the decision to conduct the training in Arusha act with prudence, given the circumstances. CDC explicitly denied MDH's request and reasonably required that the funding in excess of what was needed for local training be used for service provision. By ignoring CDC's answer, MDH spent award funds without considering the needs of its clients and its responsibility to the Federal Government to use award funds to forward the mission of the grant.

MDH's use of PEPFAR funds for training in Arusha was not reasonable because it was contrary to CDC's instructions and was unnecessary for the organization's operation or the grant's performance. A prudent person acting as a steward for Federal award funds would not have made the decision to ignore CDC's directive. As a result, MDH expended PEPFAR funds that it could have used on allowable activities to conduct training an excessive distance from the office.

MANAGEMENT AND DEVELOPMENT FOR HEALTH USED PEPFAR FUNDS TO PAY VALUE-ADDED TAXES

"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" (GPS, page II-114). HHS granted CDC a deviation from internal grants policies for the period September 30, 2012, through December 25, 2014. Under the deviation, VAT was permitted as an allowable expense for certain CDC grantees that were

operating in countries where no applicable tax exemption existed through a bilateral or other agreement.⁸

The Tanzania Bilateral Agreement 1968 states, “No direct tax (whether in the nature of an income, profits, business tax or otherwise) shall be imposed upon any contractor, not having a regular place of business in East Africa, who is financed by the Government of the United States of America hereunder.”

The Tanzania VAT Act of 2014, § 7(b), which took effect on July 1, 2015, established a reimbursement process whereby, upon application by the party, the Tanzanian Government would refund VAT for parties exempted under treaties. MDH was subject to this provision.

Prior to July 1, 2015, MDH requested VAT exemptions from the Tanzanian Government on an invoice-by-invoice basis. Its requests were granted, so MDH did not pay VAT on purchases over \$500 and thus did not have to avail itself of a reimbursement mechanism. For VAT that had to be paid after that date, MDH followed CDC’s VAT exemption procedures, which provided instructions for paying VAT and reporting to the Tanzania Revenue Authority the amount of VAT paid. MDH was required to complete a monthly Claim for Refund form for the amount of VAT that it paid. Once CDC reviewed and approved the form, MDH filed the claim for reimbursement with the Tanzania Revenue Authority.

From July 1, 2015, until September 29, 2015, MDH used PEPFAR funds to pay \$44,885 of VAT to the Tanzanian Government on taxable items. MDH received a refund of \$22,337 from the Tanzania Revenue Authority. However, the Tanzanian Government has not reimbursed the remaining \$22,548 in VAT.

The payment of VAT occurred because, as of July 2015, the Tanzanian Government changed its VAT policy to require entities to pay VAT and seek reimbursement.

MANAGEMENT AND DEVELOPMENT FOR HEALTH CLASSIFIED TRANSACTIONS IN THE WRONG BUDGET CATEGORY AND DID NOT OBTAIN PRIOR APPROVAL FOR SIGNIFICANT REBUDGETING OR REDIRECTION OF FUNDS

The GPS states that “Although HHS allows its recipients certain flexibilities with respect to rebudgeting, HHS expects the rate and types of expenditures to be consistent with the approved project/program and budget and may question or restrict expenditures that appear inconsistent with these expectations” (GPS, page II-44).

⁸ The new grants rule addresses VAT allowability at 45 CFR § 75.470, which provides that foreign taxes that a non-Federal entity is legally required to pay in country are an allowable expense under Federal awards. CDC has interpreted this to mean that to the extent the grantee is exempted from the payment of VAT via a reimbursement mechanism, payments are allowable with the understanding that the host country will reimburse the United States Government.

According to the GPS, a recipient must obtain prior approval from the Grants Management Officer for a proposed change in scope (GPS, page II-53). “Significant rebudgeting” constitutes a change in scope and “occurs when, under a grant with a Federal share exceeding \$100,000, cumulative transfers among direct cost budget categories for the current budget period exceed 25 percent of the total approved budget ... for that budget period or \$250,000, whichever is less” (GPS, page II-54).

The Notice of Award (NOA) states that “prior approval is required” to redirect⁹ funds.¹⁰ The NOA incorporated the FOA and the application (including the detailed budget) as part of this award by reference.

MDH both erroneously classified transactions in the wrong budget categories and intentionally moved funds between the budget categories without CDC’s approval. Throughout the project period, MDH’s expenditures substantially varied (exceeded 25 percent or \$250,000) from amounts CDC had approved for budget categories. The table below provides an illustration of these variances.

Table: Variances Between Amounts Approved for Budget Categories and Amounts Expended

Budget Categories	Budget Period 1		Budget Period 2		Budget Period 3		Budget Period 4	
	Variance	Percent Change						
Contractual	\$(326,950)	(47%)	\$(541,036)	(15%)	\$(796,393)	(21%)	\$(1,494,864)	(35%)
Other direct	(10,607)	(3%)	(747,653)	(21%)	(1,112,790)	(36%)	(4,279,928)	(71%)
Personnel	(17,916)	(8%)	468,392	24%	32,140	1%	24,584	1%
Supplies	265,488	64%	(1,197,351)	(34%)	1,089,159	26%	3,456,013	107%
Travel & training	16,914	13%	608,423	1,625%	1,205,976	2,455%	2,090,707	10,454%
Equipment	0	0%	1,421,943	186%	(412,363)	(29%)	(18,016)	(2%)

Our sample review included seven examples of the types of variances represented in the table above. Four variances, totaling \$75,481, were erroneously classified because of coding errors. The other three variances, totaling \$776,285, were due to MDH intentionally redirecting funds. For each of these three variances, MDH stated that it redirected funds to budget categories different from the categories to which it had allocated the funds in the approved budget.

⁹ CDC used “redirection of funds” in the NOA rather than “rebudgeting” as used in the GPS. The NOA did not include any definition or quantification of redirection.

¹⁰ Original NOAs for years 1, 3, and 4 of the award included this statement. The original NOA for year 2 addressed prior approval for certain actions but omitted redirection of funds. All supplements and revisions to the year 2 NOA included redirection of funds in the list of actions requiring prior approval.

MDH did not provide evidence of prior approval to redirect funds for these transactions. For one of the items, MDH stated that it met with and obtained agreement from CDC for the redirection; however, it did not provide any documentation of approval from CDC.

The erroneously classified transactions occurred because, according to MDH, it was using a new accounting system, and the errors were a product of staff becoming accustomed to the new system. The significant rebudgeting or redirection of funds between budget categories occurred because MDH chose to use funds in budget categories other than what CDC authorized. Additionally, MDH's policy for budget modifications states that redirection¹¹ of resources within the line items of the original budget "is the responsibility of the [MDH] staff person required for initial grant/contract approval." The policy does not mention any need for approval from CDC before redirecting funds, regardless of whether the amount of funds constitutes a significant rebudgeting.

For certain budget categories, PEPFAR expenditures exceeded the budgeted amounts that CDC had approved and may not have been used as CDC intended.

MANAGEMENT AND DEVELOPMENT FOR HEALTH'S ACCOUNTING SYSTEM CONTAINED INADEQUACIES AND DISCREPANCIES

The grantee's financial management systems must provide for accurate, current, and complete disclosure of the financial results of HHS-sponsored programs (45 CFR § 74.21(b)(1)), and records must adequately identify the application of funds (45 CFR § 74.21(b)(2)). Additionally, grantees must maintain effective control over and accountability for all funds, property, and other assets (45 CFR § 74.21(b)(3)) and have written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the applicable Federal cost principles and the terms and conditions of the award (45 CFR § 74.21(b)(6)).

To be allowable, a cost to a Federal award must be allocable to the award (2 CFR part 230, App. A, § A.2.a). A cost is allocable to an award in accordance with the relative benefits received (2 CFR part 230, App. A, § A.4.a).

Frequent errors in recording costs may indicate the need for accounting system improvements, enhanced internal controls, or both (GPS, page II-43).

MDH's accounting system was not capable of distributing costs for a specific activity across multiple funding sources.¹² In several instances, MDH used PEPFAR funds to pay expenditures

¹¹ MDH's policy for budget modification used the term "allocation."

¹² For example, a transportation cost captured in our sample that should have been shared between PEPFAR and an award funded by another donor was instead charged in full to PEPFAR because the system was not able to expense the cost to more than one funding source.

that should have been charged to other funding sources. Also, expenditures that should have been charged to the PEPFAR award were charged to other funding sources.

Additionally, MDH's accounting system did not reflect current exchange rates, which resulted in financial records that did not accurately represent the amount of funds expended in certain transactions¹³ For example, one transaction was recorded in the general ledger for \$21,614, but MDH paid \$26,199. However, \$23,550 was the correct payment amount had MDH used the exchange rate in effect on the date it recorded the expenditure. These discrepancies occurred because MDH did not manually update the exchange rate in its accounting system and did not have a policy in place to ensure the application of current exchange rates in its financial recording.

RECOMMENDATIONS

We recommend that MDH:

- refund to CDC:
 - \$101,084 for transactions that it could not fully support with adequate documentation and
 - \$79,736 for unallowable PEPFAR expenditures;
- work with CDC to obtain \$22,548 of VAT reimbursement from the Tanzanian Government;
- develop and maintain adequate policies and procedures to ensure that it:
 - maintains documentation to fully support expenditures,
 - adheres to Federal regulations and Departmental policies, and
 - uses current exchange rates when recording financial transactions;
- obtain approval when:

¹³ International Accounting Standards (now issued as International Financial Reporting Standards) are a body of standards issued and overseen by the International Accounting Standards Board to increase market transparency, efficiency, and accountability worldwide. Under International Accounting Standard 21.21-22, "The Effects of Changes in Foreign Exchange Rates," a foreign currency transaction should be recorded initially at the rate of exchange at the date of the transaction. The use of averages is permitted if they are reasonable approximations of the actual rates (<https://www.iasplus.com/en/standards/ias/ias21>). We noted that MDH updated currency rates in its system very infrequently, even using a single unchanged currency rate for the first two budget years of our audit period.

- expenditures in a single budget category deviate from the approved budget by significant amounts as defined in Departmental policy and
- redirecting funds between budget categories; and
- enhance its accounting system to allow it to:
 - account for PEPFAR funds accurately and
 - classify expenditures to budget categories correctly.

**MANAGEMENT AND DEVELOPMENT FOR HEALTH COMMENTS AND
OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, MDH generally concurred with our recommendations to refund unsupported transactions and unallowable PEPFAR expenditures. Separate from its comments, MDH provided additional supporting documentation regarding the unsupported transactions and unallowable PEPFAR expenditures in our findings.

MDH concurred with our procedural recommendations and described some of the actions it has taken or plans to take to address them, such as:

- submitting a followup letter to the Tanzania Revenue Authority regarding reimbursement of VAT;
- reassigning MDH compliance staff to strengthen its finance department;
- reviewing its policies and procedures before June 30, 2017, to address our recommendations;
- updating exchange rates monthly before recording financial transactions;
- monitoring its expenditures against monthly budgets by line item and budget category;
- seeking prior approval from CDC when it anticipates budget deviations; and
- updating its accounting software to enable classifying project funds by donor, expense, activity, and project.

MDH's comments, excluding the additional documentation, are included as Appendix D.

After considering the additional documentation that MDH provided with its comments, we adjusted our findings and recommendations where warranted. Below is a summary of MDH's

comments on our draft recommendations with which it did not fully concur or asked for additional consideration and our responses to those comments.

Refund Transactions That It Could Not Fully Support With Adequate Documentation

MDH Comment

MDH concurred with this recommendation but provided additional supporting documentation for four of the six sample transactions that we had determined were not adequately supported.

Office of Inspector General Response

On the basis of our review of the additional documentation provided, we continue to consider the six sample transactions to be unallowable because the additional documentation that MDH provided for four transactions only partially supported them. However, we reduced the unallowable amount from \$135,919 to \$101,084 to reflect the additional documentation. We now recommend that MDH refund to CDC \$101,084 for transactions that were not adequately supported.

Refund Unallowable PEPFAR Expenditures

MDH Comment

MDH concurred in part with this recommendation and stated that it would work with CDC to refund \$25,745 of the \$79,736 in unallowable training that MDH conducted in Arusha. However, MDH did not indicate concurrence or nonconcurrence with the recommendation to refund \$53,991 related to the remaining two trainings that were also conducted in Arusha. MDH stated that, even if the trainings had been conducted locally, MDH would have incurred the same costs because some training sessions ran longer than normal business hours and would have required the payment of lodging expenses. For all three training expenditures, MDH management also requested “for consideration of reducing the unallowable costs on the ground that the training was budgeted and authorized on the budget and workplan for the year under review.”

Office of Inspector General Response

We continue to recommend that MDH refund to CDC \$79,736 for unallowable training costs because the training conducted in Arusha was not allowable under the applicable regulations and policy, and MDH provided no additional documentation. Additionally, CDC approved the budget and workplan for staff development trainings after MDH agreed to conduct the trainings locally. However, MDH still conducted the training outside of Dar es Salaam and ignored CDC’s specific instructions.

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>Mildmay Uganda Did Not Always Manage the President’s Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<u>A-04-15-04039</u>	3/2017
<i>Medical Access Uganda Limited Generally Managed the President’s Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<u>A-04-15-04040</u>	6/2016
<i>The Centers for Disease Control and Prevention Did Not Award President’s Emergency Plan for AIDS Relief Funds for 2013 in Compliance With Applicable HHS Policies</i>	<u>A-04-14-04021</u>	5/2016
<i>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</i>	<u>A-04-13-04017</u>	1/2015
<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

Report Title	Report Number	Date Issued
<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-05-12-00021	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>	A-05-12-00022	8/2013
<i>National Health Laboratory Service Did Not Always Manage President's Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	A-05-12-00024	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>	A-05-12-00023	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-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 \$46,332,382 in PEPFAR funds expended by MDH for the budget period September 30, 2011, through September 29, 2015 (budget years 2011 through 2014). We selected for review a judgmental sample of 60 financial transactions with PEPFAR expenditures totaling \$7,017,185.

We limited our review of internal controls to those related to our objective. We conducted fieldwork at the MDH office in Dar es Salaam, Tanzania, in February 2016.

METHODOLOGY

To accomplish our objective, we:

- reviewed relevant Federal laws and regulations, HHS guidance, the Tanzania Bilateral Agreement 1968, the FOA, the NOA, and MDH's policies and procedures;
- interviewed and conducted meetings with CDC Tanzania officials to determine the extent of the technical assistance they provided to MDH;
- interviewed and conducted meetings with MDH officials to determine their policies, processes, and procedures related to financial accounting and reporting;
- reconciled MDH's Federal Financial Report to its accounting records;
- selected a judgmental sample of 60 financial transactions totaling \$7,017,185 from the general ledger transactions that MDH expended for budget years 2011 through 2014;
- identified VAT that MDH paid with PEPFAR funds; and
- discussed the results of the review with MDH officials.

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

APPENDIX C: FEDERAL REQUIREMENTS

45 CFR Parts 74 and 92

The grant administration rules in 45 CFR part 74 apply to nonprofit organizations, hospitals, institutions of higher education, and commercial organizations. The grant administration rules in 45 CFR part 92 apply to State, local, and tribal governments.

45 CFR § 74.21(b)(1-3, 6, and 7)

Recipients' financial management systems shall provide for the following:

- 1) Accurate, current, and complete disclosure of the financial results of each HHS-sponsored program
- 2) Records that identify adequately the source and application of funds for HHS-sponsored activities
- 3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes
- 6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.
- 7) Accounting records, including cost accounting records, that are supported by source documentation.

45 CFR § 74.27 (a)

Allowability of costs shall be determined in accordance with the cost principles applicable to the entity incurring the cost. The allowability of costs incurred by nonprofit organizations is determined in accordance with the provisions of 2 CFR part 230 (formerly OMB Circular A-122).

2 CFR Part 230, Appendix A, § A.2.a.

To be allowable under an award, costs must be reasonable for the performance of the award and be allocable thereto.

2 CFR Part 230, Appendix A, §§ A.3.a and c.

To determine reasonableness, consideration must be given to, among other factors, whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award, and whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its employees and clients, and the Federal Government.

2 CFR Part 230, Appendix A, § A.4.a

A cost is allocable to an award in accordance with the relative benefits received.

Notice of Award, Section IV. GH Special Terms and Conditions, “Prior Approval”

“Prior approval is required but not limited to the following types of request: ... 3) Redirect funds.”

Bilateral Agreement 1968

Tanzania (E&T 1968), 5

In order to assure the maximum benefits to the people of the United Republic of Tanzania from the assistance to be furnished hereunder:

(a) Any supplies, materials, equipment or funds introduced into or acquired in the United Republic of Tanzania by the Government of the United States of America, or any contractor financed by the Government, for purposes of any programme or project conducted hereunder shall, while such supplies, materials, equipment or funds are based used in Tanzania in connection with such programme or project, be exempt from any taxes on ownership or use of property, and any other taxes, investment or deposit requirements and currency controls in the United Republic of Tanzania, and the import, export, purchase, or use of any such supplies, materials, equipment or funds in connection with such a programme or project shall be exempt from any tariffs, customs duties, import and export taxes, or taxes on purchase of property, and any other taxes or similar charges in the United Republic of Tanzania. No direct tax (whether in the nature of an income, profits, business tax or otherwise) shall be imposed upon any contractor, not having a regular place of business in East Africa, who is financed by the Government of the United States of America hereunder.

HHS Grants Policy Statement, Page II-43

“Frequent errors in recording costs may indicate the need for accounting system improvements, enhanced internal controls, or both.”

HHS Grants Policy Statement, Page II-44

“Although HHS allows its recipients certain flexibilities with respect to rebudgeting, HHS expects the rate and types of expenditures to be consistent with the approved project/program and budget and may question or restrict expenditures that appear inconsistent with these expectations.”

HHS Grants Policy Statement, Page II-53

“The recipient must obtain prior approval from the GMO for a proposed change in scope.”

HHS Grants Policy Statement, Page II-54

Significant rebudgeting, whether or not the particular expenditures require prior approval. Significant rebudgeting occurs when, under a grant with a Federal share exceeding \$100,000, cumulative transfers among direct cost budget categories for the current budget period exceed 25 percent of the total approved budget (which includes direct and indirect costs, whether chargeable to Federal funds or required matching or cost sharing) for that budget period or \$250,000, whichever is less.

HHS Grants Policy Statement, Page II-113

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.

HHS Grants Policy Statement, Page 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.”

Tanzania VAT Act 2014, § 7(b)

Where, an agreement approved by the Minister is entered into between the Government of the United Republic and another Government or an international agency listed under the Diplomatic and Consular Immunities and Privileges Act, and such agreement entitles a person to an exemption from tax on the person’s purchases or imports, the exemption shall be effected under this Act by... refunding the value added tax payable on taxable supplies made to the person upon application by the person.

APPENDIX D: MANAGEMENT AND DEVELOPMENT FOR HEALTH COMMENTS



March 20th, 2017

To: Gloria L. Jarmon
Deputy Inspector General for Audit Services

Through: Lori S. Pilchder
Regional Inspector General for Audit Services
[REDACTED]
Mark Wimple
Assistant Regional Inspector General for Audit Services
[REDACTED]
Priscilla Patin
OIG, Centers for Disease Control and Prevention Liaison

Copy: Dr. David Lowrence
CDC Tanzania Country Director

From: Emilian Busara
Chief Executive Officer
Management and Development for Health (MDH)

Sub: A-04-16-04045 – Management and Development for Health (MDH) – OIG Draft Report

Dear Ms. Gloria,

This is to confirm receipt of the above draft OIG report dated February 21, 2017. Management and Development for Health reviewed draft report.

Attached, please find attached written comments with statement of concurrence and non-concurrence with action taken and planned to be taken as instructed on the report. Please let us know if we missed any transactions or queries requiring MDH responses.

The MDH management is appreciating the audit process and is looking forward to positive responses on written management comments.

Kind regards,

Emilian Busara

Chief Executive Officer **Office of Inspector General Note** - The deleted text has been redacted because it is personally identifiable information.

Enclosure : Management written responses

MDH

MANAGEMENT WRITTEN RESPONSES

No.	OIG recommendations	Concurrence or non-concurrence	Actions taken or to be taken
	<p>Refund to CDC:</p> <p>\$135,919 for transactions that it could not fully support with adequate documentation and</p>	<p>Concurrence</p> <p>MDH submitted additional support documentation, resubmitted documentation seems not to reach OIG and justification for OIG consideration to reduce proposed refund amount</p>	<p>Actions taken:</p> <ol style="list-style-type: none"> 1. MDH has put in place a system that ensured that no payment for training is completed before attendance sheet and all supporting document including signed attendance register are submitted to the finance department, copy to the training unit and attached to the respective payment to avoid document misplacement/misfiled. 2. MDH informed CDC Tanzania verbally on March 21, 2017 about potential disallowed cost based on the draft OIG report and the final figure will be communicate to CDC after receiving final OIG report. <p>Action to be taken:</p> <ol style="list-style-type: none"> 1. MDH to discuss with CDC on refund payment plan upon receipt of the final amount to be refunded based on final OIG audit report. <p>Sample 5 justification: Please find three attachments named sample # 5.1, 5.2 and 5.3. The first attachment sample # 5. 1. Spreadsheet showing how TZS 22,024,917.23 was computed. Sample # 5.1 is attached. TZS 22,024,917.23 is on the line 3 from the bottom on right hand side. The net pay is derived from sample # 5.3 for 13 employees charged under SHAPE project. See last column of sample # 5.3 attachment . The second attachment is sample # 5.2 with timesheets for Jan 2012 for 13 staff charged under SHAPE Year one. Third attachment is sample # 5.3. January 2012 Payroll summary which contain the net salary figures including</p>

			<p>13 employees reported on sample 5.1. MDH is therefore asking your consideration to remove it from disallowed costs based on 3 files attached.</p> <p>Sample 21 justification: TZS 225,572,916.88 is made up of 1. Net salary TZS 148,002,965.31 refer sample #21.1 plus Pay as You Earn TZS 55,220,775.48 refer sample # 21.2 plus employee contribution of social security pension funds equivalent to 50% of employee contribution: (National Social Security Fund TZS 17,247,563.16 (50% employee share is TZS 8,623,781.58) refer sample # 21.3 PPF TZS 21,282,290.83 (50% employee share is TZS 10,679,203.22) refer sample # 21.4 plus GEPF TZS 1,522,000 (50% employee share is TZS 761,000) refer sample # 21.5 plus LAPF TZS 4,646,498.20 (50% employee share is TZS 2,323,249.10) refer sample # 21.6. The total figure is TZS 225,610,974.69 with a difference of TZS 38,057.81 equivalent to \$25 due to system rounding figure for such a large transactions. Refer sample # 21.7 Level of effort for December 2012. Timesheets for December 2012 attached as sample # 21.8</p> <p>Sample 29 justification: Please find attached liquidation statement JV# 11789 . There were two entries passed for this transactions at the budget period end to close the financial year. The first entry TZS 649.011.959.90 was to book a committed expenditure by accruing the liability as the project budget period reached end on Sept 2014 under Kinondoni sub, refer JV#9525 dated Sept 28 2014 and file saved as Sample 29.1 Thereafter TZS TZS 649.011.959.90 was liquidated by passing 6 journal vouchers as hereunder:First JV# 11789 Jan 21 2015</p>
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		<p>TZS 88,222,775.23 for MUHAS sub grantee refer 29.2. The second JV 11817 dated Jan 21 2015 TZS 122,824,583.04 for Temeke sub grantee refer sample 29.3. The third JV # 11818 dated Jan 21 2015 TZS 104,251,755.22 for government Regional Administrative Secretary (RAS) of Dar es Salaam City sub grantee, refer sample 29.4. Forth JV # 11819 dated Jan 21 2015 TZS 71,936,169 for Temeke Municipal Council sub grantee, refer 29.5. Fifth JV#8889 dated Jan 21 2015 TZS 127,019,178.04 for Kinondoni Municipal Council refer sample 29.6 . The sixth JV # 14728 TZS 122,827,791.80 for Ilala Municipal Council sub grantee, refer sample 29.7. Total amount liquidated from 6 JV is TZS 637,082,252.33. The difference between advanced amount and liquidated amount is TZS 11, 929,707.57, equivalent to USD 7,696.59 which was not liquidated but carried forward in the next reporting cycle as cash on hand from sub grantees and net off against future cash requests from the sub grantees.</p> <p>Therefore, MDH is kindly requesting this expense / transaction to be allowed.</p> <p>Sample 37 justification:</p> <p>Attached, please find attached sample 37.1 with payroll summary, level of effort and timesheets (Dec 2013) for payroll ID's (taken from MDH Tabular Summary) with some commentary for some sampled employee for clarity as follows: [REDACTED] who was on paid maternity leave indicated as parental leave but is fully employed and paid under SHAPE as labor law requires staff under parental leave to be paid fully, [REDACTED] personnel costs were charged to two different projects (SHAPE project and WRI), [REDACTED] worked in different project TOV4 project and</p>
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Office of Inspector General Note - The deleted text has been redacted because it is personally identifiable information.

			<p>never charged to SHAPE project but timesheet was sampled by OIG and we are submitting, [REDACTED] worked in different project TOV4 project and never charged to SHAPE project but timesheet submitted [REDACTED] worked in different project EJAF project and never charged to SHAPE project but timesheet submitted</p> <p>Sample 47 justification:</p> <p>Timesheets for 15 employees from Buruguni CTC Dec 1-31 2014 attached signed by staff and supervisor. Refer sample # 47</p> <p>Sample 60</p> <p>The training was for 5 days and attendance for one day equivalent to USD 2,414.20 was traced and submitted. Refer to Sample 60. For remaining 4 days sign in attendance sheet are still being traced.</p>
	<p>\$79,736 for unallowable PEPFAR expenditures.</p>	<p>MDH submitted documentation for consideration of reduction of disallowed costs. Refer to sample # 42, 43 and 59.</p> <p>MDH will concur with the final OIG report following submission of additional documentation/justification</p>	<p>Action to be taken:</p> <ol style="list-style-type: none"> 1. MDH management to review training location based on OIG recommendation 2. MDH to review CDC/USG rules and regulations and comply for compliance and preventing unallowable cost 3. MDH to discuss with CDC on refund payment plan upon receipt of the final amount to be refunded based on final OIG audit report. 4. Management to improve on the filing system particularly on meetings/training attendance register and attach with payment vouchers <p>Sample 42 justification</p> <p>The management is asking for consideration of reducing the unallowable costs on the ground that the training was budgeted and</p>

Office of Inspector General Note - The deleted text has been redacted because it is personally identifiable information.

			<p>authorized on the budget and workplan by the donor for the year under review.</p> <p>This training even if was conducted in Dar es Salaam region, could have attracted unavoidable costs for accommodation, venue and facilitation amounting to USD 32,376.34 given that the training programme that required residential setting as some sessions run late into the night .</p> <p>Sample 43 justification The management is asking for consideration of reducing the unallowable costs on the ground that the training was budgeted and authorized on the budget and workplan for year under review. Concurrence: For USD 25,744.89 MDH will discuss with CDC on refund payment plan.</p> <p>Sample 59 justification The management is asking for consideration of reducing the unallowable costs on the ground that the training was budgeted and authorized on the budget and workplan for year under review. Also the training even if was conducted in Dar es Salaam region, could have attracted unavoidable costs for accommodation, venue and facilitation amounting to USD 21,614.36 given that the training programme that required residential setting as some sessions run late into night .</p>
	Work with CDC to obtain \$22,548 of VAT reimbursement from the Tanzanian Government	Concurrence	<p>Action taken:</p> <ol style="list-style-type: none"> MDH wrote a follow up reimbursement letter to Tanzania Revenue Authority (TRA) <p>Actions to be taken</p>

			<ol style="list-style-type: none"> 1. MDH to work with CDC on VAT not reimbursed by the government of Tanzania 2. MDH to continue seeking VAT refund based on prevailing laws.
	<p>Develop and maintain adequate policies and procedures to ensure that it</p> <ol style="list-style-type: none"> 1. Maintains documentation to fully support expenditures, 	Concurrence	<p>Actions taken:</p> <ol style="list-style-type: none"> 1. MDH compliance staff re assigned to strengthened finance department 2. Finance department leaders to thoroughly review transactions to ensure fully supported documentation, completeness and accuracy 3. Filing system improved by ensuring proper reference for easy tracking to avoid misplacement of documentation
	<ol style="list-style-type: none"> 2. Adheres to Federal regulations and Departmental policies, and 	Concurrence	<p>Actions planned to be taken</p> <p>MDH to review all policies and SOPs to meet OIG recommendations before June 30 2017.</p> <ol style="list-style-type: none"> 1. MDH Business official and Finance department to orient staff on Federal regulations and department policies 2. MDH staff to attend CDC organized trainings on grants financial management 3. MDH to review policies and SOPs to comply with federal regulations and departmental policies <p>Management to continue reinforcing compliance</p>
	<ol style="list-style-type: none"> 3. Uses current exchange rates when recording financial transactions; 	Concurrence	<p>Action taken:</p> <ol style="list-style-type: none"> 1. MDH is currently updating exchange rate on monthly basis for recording financial transaction <p>Action planned to be taken</p>

			1. Management to continue review exchange rate and ensure current rate used in financial transactions
	<p>Obtain approval when:</p> <ol style="list-style-type: none"> 1. Expenditures in a single budget category deviate from the approved budget by significant amounts as defined in Departmental policy and 2. Redirecting funds between budget categories; 	Concurrence	<p>Action taken</p> <ol style="list-style-type: none"> 1. Currently management monitors expenditures against budget by line items and budget category monthly /quarterly 2. Payments requisitions, purchase orders and draft contracts are cross checked against approved budget and workplan before activity execution 3. Sub grantees budgets and expenditures are continuously monitored monthly/quarterly 4. Quarterly progress review continuously monitor financial progress and take appropriate action 5. Management to seek proactively CDC prior approval if there is any anticipated deviations
	<p>Enhance its accounting system to allow it to:</p> <ol style="list-style-type: none"> 1. Account for PEPFAR funds accurately, and 2. Classify expenditures to budget categories correctly 	Concurrence	<p>Actions taken:</p> <ol style="list-style-type: none"> 1. Updated accounting software installed, operate with capability of classifying project funds by donor, expense, activity, program area, office location and project identity 2. Finance department review the coding for proper classification against approved workplan 3. Management/signatories review the coded expenditure and reports for proper classification on budget category 4. Approved workplan with coded activities shared with all respective project and finance staff for proper coding, classification and posting 5. Management monitors expenditures against authorized

			budget and workplan monthly by donor for proper classification
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