

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AURUM INSTITUTE GENERALLY
MANAGED AND EXPENDED THE
PRESIDENT'S EMERGENCY PLAN FOR
AIDS RELIEF FUNDS IN ACCORDANCE
WITH AWARD REQUIREMENTS**

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March 2018
A-04-17-01003

Office of Inspector General

<https://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.

Report in Brief

Date: March 2018

Report No. A-04-17-01003



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 objectives of our audit were to determine whether the Aurum Institute (Aurum), located in Johannesburg, South Africa, (1) managed and expended PEPFAR funds in accordance with the award requirements and (2) implemented recommendations from our previous audit.

How **OIG** Did This Review

Our audit covered the budget periods from September 30, 2012, through March 31, 2016. During the budget period under review, CDC awarded Aurum \$52.8 million, of which Aurum expended \$51.1 million. From these PEPFAR fund expenditures, we selected a stratified statistical sample of 70 transactions totaling \$2.0 million.

Aurum Institute Generally Managed and Expended the President's Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements

What **OIG** Found

On the basis of our sample results, we concluded that Aurum managed and expended PEPFAR funds in accordance with the award requirements. However, it did not always maintain segregation of duties among different personnel within the organization. Additionally, Aurum used a procurement-management system that did not allow it to record an invoice with multiple items as a single transaction to the general ledger. Finally, Aurum implemented corrective actions for all five recommendations from our previous audit.

The deficiencies we identified occurred because Aurum did not have the necessary financial staff to manage the extra duties and responsibilities that arose from its accelerated growth and because its procurement-management system had limited compatibility with its accounting system.

What **OIG** Recommends and Aurum's Comments

We recommend that Aurum continue to (1) implement segregation of duties among different key personnel and (2) upgrade its procurement and accounting systems to effectively track procurements.

In written comments on our draft report, Aurum concurred with our recommendations and described some of the actions it had taken, or planned to take, to address them. Examples include reorganizing the financial service to segregate duties and responsibilities among key personnel in the financial process and investigating upgrades and alternatives to the procurement management and accounting systems.

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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 (TB), 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 the Aurum Institute (Aurum) for review because it is (1) one of the larger recipients of PEPFAR funds in South Africa and (2) the prior OIG audit in fiscal year 2012 had a 40-percent error rate for financial transactions tested.⁴

OBJECTIVES

The objectives of our audit were to determine whether Aurum (1) managed and expended PEPFAR funds in accordance with the award requirements and (2) implemented recommendations from our previous audit.

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.

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 B contains a list of related OIG reports.

⁴ The prior OIG audit included a judgmental sample review of 42 financial transactions with expenditures totaling \$2,559,427. Of the 42 financial transactions tested, 17 transactions totaling \$1,690,605 were unallowable.

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.

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.⁵ In response to a Funding Opportunity Announcement (FOA),⁶ CDC awarded Aurum grant number U2GGH000887 through a cooperative agreement for the project period September 30, 2012, through March 31, 2017.

Application of Federal Regulations

For awards made through December 26, 2014, the grant administration rules in 45 CFR part 92 applied to State, local, and tribal governments. The grant administration rules in 45 CFR part 74 applied 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). On December 26, 2014, HHS issued a new rule—45 CFR part 75—which superseded parts 74 and 92 for awards made on or after that date. Our audit period spans the period in which the transition occurred. Budget periods 1 through 3 of our audit period were subject to part 74, and budget period 4 was subject to part 75. All findings in this report included errors occurring throughout the audit period; thus, we have cited to the provisions in both rules applicable during the audit period.

Aurum Institute

Aurum, formerly Aurum Health Research, started as a wholly owned subsidiary company in 1998 and focused on TB, HIV, and occupational lung diseases through epidemiology and implementation research and TB and HIV programmatic implementation. In 2005, Aurum became an independent nonprofit organization in South Africa, engaged in response, treatment, and research efforts to eradicate HIV and TB.

Aurum has implemented PEPFAR-funded HIV and TB prevention and care programs in all nine South African provinces and undertaken work in other African countries and in Asia.

⁵ The regulations that apply to Federal grants also apply to cooperative agreements.

⁶ FOA number CDC-RFA-GH12-1257 was entitled "Comprehensive Facility-Based Technical Assistance in the Context of Health Systems Strengthening in South Africa under the President's Emergency Plan for AIDS Relief (PEPFAR)."

HOW WE CONDUCTED THIS REVIEW

Our audit covered the budget periods from September 30, 2012, through March 31, 2016.⁷ These budget periods were for years 1 through 4 of a 5-year cooperative agreement. During the budget period under review, CDC awarded Aurum \$52,775,897, of which Aurum expended \$51,137,726. From these PEPFAR fund expenditures, we selected a stratified statistical sample of 70 transactions totaling \$2,048,298.

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 A contains the details of our scope and methodology, Appendix C contains our statistical sampling methodology, and Appendix D contains Federal requirements.

FINDINGS

On the basis of our sample results, we concluded that Aurum managed and expended PEPFAR funds in accordance with the award requirements. However, it did not always maintain segregation of duties among different personnel within the organization. Additionally, Aurum used a procurement-management system that did not allow it to record an invoice with multiple items as a single transaction to the general ledger. Finally, Aurum implemented corrective actions for all five recommendations from our previous audit.

The deficiencies we identified occurred because Aurum did not have the necessary financial staff to manage the extra duties and responsibilities that arose from its accelerated growth and because its procurement-management system had limited compatibility with its accounting system.

AURUM DID NOT ALWAYS MAINTAIN SEGREGATION OF DUTIES

Recipients of Federal funds must have effective control over and accountability for all funds, property, and assets (45 CFR § 74.21(b)(3)).⁸

⁷ The budget period for years 1 through 2 began on September 30 and ended on September 29 of the following year (September 30, 2012—September 29, 2013, and September 30, 2013—September 29, 2014, respectively). To align the period to an April 1 through March 31 cycle, CDC revised the budget period for year 3, reducing it to a 6-month period from September 30, 2014, through March 31, 2015. The budget period for year 4 began on April 1, 2015, and ended on March 31, 2016.

⁸ Budget periods 1 through 3 of our audit period are subject to 45 CFR part 74.

A grantee must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States (45 CFR § 75.303(a)).⁹

Standards for Internal Control in the Federal Government states, “[M]anagement should establish an organization structure, assign responsibility, and delegate authority to achieve the entity’s objectives” (GAO-14-704G, *Control Environment*, “Principal 3, Establish Structure, Responsibility, and Authority,” 3.01) and divide or segregate key duties and responsibilities among different people (GAO-14-704G, *Control Activities*, “Principal 10, Design Control Activities, 10.03, Segregation of Duties”).

Throughout our audit period, Aurum did not always segregate key duties¹⁰ and responsibilities among different personnel. One example was that the Regional Finance Director’s key duties consisted of conflicting responsibilities, such as authorizing payment management cash drawdowns (authorizing), managing the bank account (custody), and approving general ledger transactions and financial reports (accounting).

From a subsidiary company with 23 employees, Aurum has evolved into an independent company with more than 1,400 employees that manages 74 grant awards. Aurum did not always maintain segregation of duties because it did not have the necessary financial staff to manage the extra duties and responsibilities that arose from its accelerated growth. Instead, Aurum increased its staff’s workload, which caused staff turnover because the extra workload became burdensome. As a result, Aurum increased the risk of potential errors, misuse, or mismanagement of PEPFAR funds. Aurum is aware of these risks and has plans to segregate duties among different personnel and restructure its organization.

AURUM USED AN INEFFECTIVELY DESIGNED ACCOUNTING SYSTEM TO TRACK PROCUREMENTS

Recipients of Federal funds must have effective control over and accountability for all funds, property, and assets (45 CFR § 74.21(b)(3)).

A grantee must establish and maintain effective internal control that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These

⁹ Budget period 4 of our audit period was subject to 45 CFR part 75.

¹⁰ In its *Standards for Internal Control in the Federal Government*, the United States Government Accountability Office defines segregation of duties as the separation of the authority, custody, and accounting of an operation (GAO-14-704G, Glossary, page 78).

internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States (45 CFR § 75.303(a)).

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

Automated control activities tend to be more reliable because they are less susceptible to human error and are typically more efficient. If the entity relies on information technology in its operations, management designs control activities so that the information technology continues to operate properly (GAO-14-704G, Control Activities, Principal 10 Design Control Activities, 10.06, Appropriate Documentation of Transactions and Internal Control).

Aurum's procurement-management system did not allow it to record an invoice with multiple items as a single transaction to the general ledger. To track and account for some asset procurements, Aurum itemized and individually recorded multiple invoices in the procurement-management system. For example, if an invoice included 10 laptops with 4 accessories¹¹ for each laptop, Aurum would have recorded in the procurement system 10 laptops and 40 accessories, generating a total of 50 transactions for a single invoice. Then, when the procurement system interfaced with the general ledger, it should have transferred one or two summarized transactions that included the details of the invoice. Instead, all 50 transactions were transferred to the general ledger, resulting in a high number of transactions that were difficult to trace.

Subsidiary ledgers contain detailed information regarding an organization's transactions. For instance, subsidiary ledgers are generally used to track cash and sales (accounts receivable), cash and disbursements (accounts payable), property (fixed assets), and payroll. The purpose of the general ledger is to record and account for summarized transactions from the subsidiary ledgers. Therefore, the general ledger should only contain a limited volume of transactions because it is a summarized format. However, Aurum's general ledger contained a large volume of transactions and adjustments.

When a correction was necessary, Aurum reversed each transaction, then posted each transaction correctly. Using the laptop example, if a posting error occurred for any of the 50 transactions related to the invoice, to correct the error Aurum would reverse and repost all 50 transactions related to the invoice.

During our audit period, the number of transactions in the general ledger was 72,823 adjusted entries totaling \$34,064,340 and 20,284 duplicate transactions totaling \$330,599. These transactions occurred because the procurement-management system that Aurum used had

¹¹ Laptop accessories include items such as a mouse, computer bag, computer lock, and warranty.

limited compatibility with its accounting system. This caused frequent errors in recording expenditures, adjustments, and corrections, creating a complex audit trail¹² for procurements. Aurum representatives stated that they were aware of the complication with their procurement-management system and planned to upgrade their accounting system.

IMPLEMENTATION OF PRIOR RECOMMENDATIONS

Our prior audit report (A-05-12-00021), issued August 23, 2013, indicated that Aurum did not always manage PEPFAR funds in accordance with award requirements. The report contained five recommendations that Aurum implement corrective actions.

Our followup audit disclosed that Aurum implemented corrective actions for all five recommendations. We have closed the prior recommendations.

RECOMMENDATIONS

We recommend that Aurum continue to:

- implement segregation of duties among different key personnel and
- upgrade its procurement-management and accounting systems to effectively track procurements.

AURUM COMMENTS

In written comments on our draft report, Aurum concurred with our recommendations.

Aurum described some of the actions it had taken or planned to take to address our recommendations, such as:

- reorganizing the financial service into three areas (Management Accounting Team, Treasury, and Financial Accounting) to segregate duties and responsibilities among key personnel in the financial process and
- investigating upgrades and alternatives to the procurement-management and accounting systems to improve the capture of procurement details and reduce the burden of posting to the general ledger.

Aurum's comments are included in their entirety as Appendix E.

¹² An audit trail is paper or electronic documentation that gives a step-by-step history of a transaction. It enables an examiner or management to trace the financial data from the general ledger to the source document (invoice, receipt, voucher, etc.). The presence of a reliable and easy-to-follow audit trail is an indication of good internal controls and forms the basis of objectivity in accounting.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered \$51,137,726 in PEPFAR funds expended by Aurum for the budget period September 30, 2012, through March 31, 2016. We selected for review a stratified statistical sample of 70 financial transactions with PEPFAR expenditures totaling \$2,048,298.

We limited our review of internal controls to those related to our objective. We conducted fieldwork at the Aurum office in Johannesburg, South Africa, in February 2017.

METHODOLOGY

To accomplish our objective, we:

- reviewed relevant Federal laws and regulations, HHS guidance, South Africa's Bilateral Agreement for Value-Added Tax, the FOA, the Notice of Award, and Aurum's policies and procedures;
- interviewed and conducted meetings with CDC South Africa officials to determine the extent of the technical assistance they provided to Aurum;
- interviewed and conducted meetings with Aurum officials to determine their policies, processes, and procedures related to financial accounting and reporting;
- reconciled Aurum's Federal Financial Report to its accounting records;
- selected a stratified statistical random sample of 70 financial transactions totaling \$2,048,298 from the general ledger that Aurum expended for the budget period of September 2012 through March 2016 (Appendix C);
- reviewed expenditure documentation provided by Aurum to support the sample items;
- determined the value-added tax process that Aurum followed;
- reviewed Aurum's prior OIG final report to review audit findings, recommendations, and Aurum's responses to the audit report;
- reviewed the Official Clearance Document and followed up with Aurum on corrective actions taken and whether it implemented the audit recommendations; and
- discussed the results of the review with Aurum 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 B: 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 Ministry of Health and Social Welfare National AIDS Control Program Did Not Always Manage and Expend the President’s Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<u>A-04-16-04044</u>	8/2017
<i>Ariel Foundation Against Pediatric AIDS Managed the President's Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<u>A-04-16-04052</u>	6/2017
<i>Management and Development for Health Did Not Always Manage the President’s Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<u>A-04-16-04045</u>	6/2017
<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

Report Title	Report Number	Date Issued
<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>	A-04-13-04004	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>	A-04-13-04010	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>	A-04-13-04005	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>	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

Report Title	Report Number	Date Issued
<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 C: STATISTICAL SAMPLING METHODOLOGY

TARGET POPULATION

The target population consisted of transactions for PEPFAR funds expended by Aurum for the budget period September 30, 2012, through March 31, 2016 (budget years 2012 through 2015).¹³

SAMPLING FRAME

Aurum provided the audit team with Excel spreadsheets containing 249,609 general ledger transactions that it expended in budget years 2012 through 2015 totaling \$51,138,195.¹⁴

We then removed (a) 72,823 transactions containing negative dollar amounts, (b) the remaining 144,885 transactions less than \$500 totaling \$12,371,591, and (c) 1,094 duplicate transactions.

The resulting Excel spreadsheets contained 30,807 transactions totaling \$70,843,795, which is our sampling frame.

SAMPLING UNIT

The sample unit was a single transaction.

SAMPLE DESIGN AND SAMPLE SIZE

We used a stratified random sample. The sampling frame was divided into five strata¹⁵ as outlined in Table 1.

¹³ Because Aurum's budget period changed in 2014, the four audited budget years cover 42 rather than 48 months.

¹⁴ The file provided by Aurum consisted of 176,786 positive transactions totaling \$85,202,535 and 72,823 negative transactions totaling \$(34,064,340) for a total net value of \$51,138,195. Negative transactions included corrections, reversals, accruals, etc., which were determined to be low risk.

¹⁵ Strata 1 through 4 do not contain any salary or fringe benefit transactions.

Table 1: Sample Design

Stratum #	Stratum Values	Frame Count	Frame Total	Sample
1	\$500.00 to \$3,063.61	5,794	\$6,304,622.03	10
2	\$3,083.06 to \$23,007.69	766	5,617,947.72	10
3	\$23,111.39 to \$104,923.95	117	6,237,087.25	10
4	\$105,120.78 to \$324,479.02	52	7,467,497.94	10
5	Salaries & fringe benefits greater than \$500	24,078	45,216,639.81	30
Total		30,807	\$70,843,794.75	70

SOURCE OF RANDOM NUMBERS

We used the Office of Inspector General, Office of Audit Services (OIG/OAS), statistical software to generate the random numbers.

METHOD FOR SELECTING SAMPLE ITEMS

We consecutively numbered the transactions in each stratum. After generating the random numbers, we selected the corresponding frame items.

ESTIMATION METHODOLOGY

We planned to estimate the total amount of any expenditures that were unallowable. Because we were able to identify support for all of the items within the sample, no estimate was calculated.

APPENDIX D: 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)(3)

“Effective control over and accountability for all funds, property, and assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.”

45 CFR § 75.303(a)

Grantee must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government,” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

GAO-14-704G, Control Environment, Principal 3 Establish Structure, Responsibility, and Authority, 3.01

“Management should establish an organization structure, assign responsibility, and delegate authority to achieve the entity’s objectives.”

GAO-14-704G, Control Activities, Principal 10 Design Control Activities, 10.03, Segregation of Duties

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

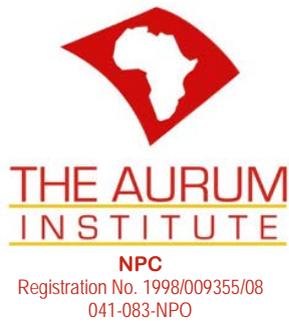
**GAO-14-704G, Control Activities, Principal 10 Design Control Activities, 10.06,
Appropriate Documentation of Transactions and Internal Control**

Control activities can be implemented in either an automated or a manual manner. Automated control activities are either wholly or partially automated through the entity's information technology. Manual control activities are performed by individuals with minor use of the entity's information technology. Automated control activities tend to be more reliable because they are less susceptible to human error and are typically more efficient. If the entity relies on information technology in its operations, management designs control activities so that the information technology continues to operate properly.

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.

APPENDIX E: AURUM COMMENTS



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15 December 2017

Lori S Pilcher
Regional Inspector General: Audit Services
Region IV
Office of the Inspector General
Dept. Health and Human Services
Washington DC

Dear Ms Pilcher

AURUM INSTITUTE AUDIT A-04-17-01003

The draft report from the Deputy Inspector General dated 20 November 2017 refers.

Thank you for affording us the opportunity to comment on the report. Please find attached our response to the report which has also been shared with CDC South Africa.

Please contact me at dave.clark@auruminstitute.org should you have any further queries.

Yours sincerely

Dr Dave Clark
CEO: Southern Africa
Principal Investigator

cc. Lisa Smith - Deputy Regional Inspector General
Amy Herman-Roloff - Country Director: CDC South Africa
Gbolahan Cole - Branch Chief – Extramural: CDC South Africa



AURUM RESPONSE TO OIG AUDIT REPORT A-04-17-01003

RECOMMENDATION	AURUM STATEMENT
OVERALL RESPONSE TO THE AUDIT REPORT	<p>The Aurum Institute (Aurum) is grateful to the Centers for Disease Control and Prevention (CDC) and the Office of the Inspector General (OIG) for the opportunity to respond to this draft audit report.</p> <p>We wish to thank and highly commend the team from OIG that conducted the audit at Aurum in 2017. The audit team represented an extremely high level of professional and constructive conduct during this audit whilst remaining thorough and objective.</p> <p>We were particularly impressed by the degree of preparation done prior to the on-site audit start, which afforded us the opportunity to also prepare accordingly and thus not waste audit time due to unavailability of staff and documents. The post-audit documentation review was equally efficient.</p> <p>This audit has assisted us to identify areas where we can strengthen our systems, controls and governance towards improved management of the PEPFAR funds awarded to us.</p>

RESPONSE TO SPECIFIC FINDINGS

FINDING: AURUM INSTITUTE DID NOT ALWAYS MAINTAIN SEGREGATION OF DUTIES

RECOMMENDATION: OIG recommends that Aurum continue to implement segregation of duties among different key personnel

CONCUR – The Aurum Institute agrees that proper segregation of duties is key to sound financial risk management of grant funds.

SUMMARY OF CORRECTIVE ACTION:

During the 4th quarter of 2016, Aurum’s Financial service was segmented into three areas which respond to this finding. The three areas are: 1) Management Accounting; 2) Treasury; 3) Financial Accounting. Each area takes on a different role in the financial process to give effect to the segregation of duties. Aurum also embarked on a divisional strategy, consequently segregation of duties was further enhanced by appointing a Divisional Financial Manager for each division of the organisation.

Each Divisional Financial Manager oversees his/her division’s Management Accounting Team which controls the expenditure and reporting of expenditure of grant funds against the approved budget, as well as expenditure and cash flow forecasting for the grant to determine drawdown requirements from the PMS. Expenditure is also reviewed against allowability, allocability, consistency, reasonableness and accounting standards tests as well as any procurement stipulations that may apply. Final sign off on the FFRs and drawdown forecasts are done by the Regional Financial Director.

The Treasury Manager receives cash flow drawdown forecasts and prepares PMS drawdown documentation which is signed off by the Divisional Financial Manager and the Regional Financial Director. Cash flow and banking documentation of flows into the Aurum bank accounts are managed by the Treasury Manager and the Financial Accounting Team, which is a separate group from the Management Accounting Team and is led by the Group Financial Manager.

The Financial Accounting Team records cash flows into the bank accounts and accounts for payment outflows to payroll and suppliers independently from the Management Accounting and Treasury functions. The sign off of EFT payments is done by separate banking account signature holders who are not part of the above teams.

FINDING: AURUM USED AN INEFFECTIVELY DESIGNED ACCOUNTING SYSTEM TO TRACK PROCUREMENTS

RECOMMENDATION: OIG recommends that Aurum upgrades its procurement and accounting systems to effectively track procurements.

CONCUR – Aurum’s procurement system is very detail oriented which provides for better tracking of individual assets, but leads to a very complex journal posting approach.

SUMMARY OF CORRECTIVE ACTIONS:

We are investigating upgrades and alternatives to our present [REDACTED] Accounting and [REDACTED] Procurement systems to see how to maintain the capture of procurement detail whilst reducing the posting burdens to the General Ledger. We have also received budget approval from our Board to investigate the feasibility of moving to an Enterprise Resource Planning (ERP) system such as SAP or Microsoft Dynamics in 2019. However, the procurement and financial modules of such an ERP system will be prioritised in the above investigation with a view to possible earlier implementation to address the OIG finding.