

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**ALTHOUGH CDC IMPLEMENTED  
CORRECTIVE ACTIONS TO IMPROVE  
OVERSIGHT OF THE PRESIDENT'S  
EMERGENCY PLAN FOR AIDS RELIEF  
RECIPIENTS, SOME INTERNAL  
CONTROL WEAKNESSES REMAINED**

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**December 2020  
A-04-18-01010**

# *Office of Inspector General*

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## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

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## Report in Brief

Date: December 2020

Report No. A-04-18-01010



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. Congress authorized additional funds to be appropriated through 2023.

The Tom Lantos and Henry J. Hyde United States Global Leadership Against HIV/AIDS, Tuberculosis, and Malaria Reauthorization Act of 2008 (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, we have conducted a series of audits of organizations receiving PEPFAR funds from HHS, Centers for Disease Control and Prevention (CDC). In audits of PEPFAR recipients, some findings indicated common trends among the recipients.

Our objectives were to identify: (1) trends related to findings in our prior audits of CDC PEPFAR recipients, (2) CDC's actions to improve oversight of PEPFAR recipients, and (3) internal control weaknesses in CDC's post-award oversight of PEPFAR recipients.

Our audit covered the budget periods from October 1, 2007, through September 29, 2016 (audit period). We analyzed the results of the 21 PEPFAR audit reports during the audit period and reviewed CDC internal controls over post-award oversight.

## Although CDC Implemented Corrective Actions To Improve Oversight of the President's Emergency Plan for AIDS Relief Recipients, Some Internal Control Weaknesses Remained

### What OIG Found

Our analysis of 21 prior audit reports on PEPFAR recipients identified the following 6 trends in which recipients:

1. had either inadequate or no policies and procedures related to management of PEPFAR funds (19 of 21 reports),
2. did not comply or may not have complied with HHS regulations regarding value added tax (18 of 21 reports),
3. had transactions that were either not supported (16 of 21 reports) or unallowable (15 of 21 reports),
4. did not accurately report PEPFAR expenditures on the financial reports or did not file reports on time (11 of 21 reports),
5. did not have annual audits performed or submitted on time (9 of 21 reports), and
6. could not reconcile PEPFAR expenditures to amounts reported on their financial reports (7 of 21 reports).

In response to the 6 trends identified in our prior audits, CDC took action to improve its oversight of PEPFAR recipients. Finally, CDC had two internal control weaknesses in its post-award oversight that it did not adequately address in its in-country office Standard Operating Procedures (SOPs).

### What OIG Recommends and CDC Comments

We recommend that CDC implement requirements for CDC in-country offices to have SOPs for Cooperative Agreement (CoAg) management and periodically review and update CDC in-country office SOPs for CoAg management.

In written comments on our draft report, CDC officials concurred with our recommendations. CDC stated that it has developed minimum standards for all in-country CoAg management SOPs. CDC will start implementing these minimum standards in January 2021. In addition, CDC is developing a process to annually review and update in-country SOPs for CoAg management. This process will be implemented in January 2021.

CDC also provided technical comments that we addressed as appropriate.

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## INTRODUCTION

### WHY WE DID THIS AUDIT

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.<sup>1</sup> Congress authorized additional funds to be appropriated through 2023.<sup>2</sup>

The Tom Lantos and Henry J. Hyde United States Global Leadership Against HIV/AIDS, Tuberculosis, and Malaria Reauthorization Act of 2008 (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, we have conducted a series of audits of organizations receiving PEPFAR funds from HHS, Centers for Disease Control and Prevention (CDC).<sup>3</sup> In our audits of PEPFAR recipients,<sup>4</sup> some findings indicated common (trends) among the recipients. We performed this audit to bring those trends to CDC’s attention.

### OBJECTIVES

Our objectives were to identify: (1) trends related to findings in our prior audits of CDC PEPFAR recipients; (2) CDC’s actions to improve oversight of PEPFAR recipients; and (3) internal control weaknesses in CDC’s post-award oversight of PEPFAR recipients.

### BACKGROUND

#### Centers for Disease Control and Prevention

As a key implementing partner of PEPFAR, CDC works side-by-side with ministries of health, civil and faith-based organizations, private sector organizations, and other on-the-ground partners to improve methods for finding, treating, and preventing HIV. The investments made to fight HIV today will save lives and strengthen long-term economic sustainability.

CDC works in more than 60 countries using staff from the U.S. and from the respective countries in which CDC works with ministries of health, non-governmental organizations, and

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<sup>1</sup> P.L. No. 110-293.

<sup>2</sup> The PEPFAR Extension Act of 2018 (P.L. No. 115-305).

<sup>3</sup> Appendix B contains a list of related OIG reports.

<sup>4</sup> A “recipient” is an entity that receives a Federal award directly from a Federal awarding agency to carry out an activity under a Federal program. The term “recipient” does not include “subrecipients” (45 CFR § 75.2).

other partners where outbreaks potentially occur. Under PEPFAR, CDC has established and expanded the infrastructure necessary to deliver prevention, care, and treatment services in low resource settings.

### **Cooperative Agreements**

For fiscal year (FY) 2017, CDC obligated PEPFAR funds totaling \$1.5 billion. CDC awarded these PEPFAR funds through cooperative agreements (CoAgs), which CDC uses in lieu of grants when it anticipates the Federal Government's substantial involvement with recipients in accomplishing the objectives of the agreements.<sup>5</sup> As indicated in the Notice of Funding Opportunity (NOFO), substantial involvement means that recipients can expect substantial CDC programmatic collaboration or participation, beyond normal grant monitoring activities, in managing the award throughout the performance period.

### **Application of Federal Requirements**

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).<sup>6</sup> 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.

As of December 31, 2015, the GPAM superseded both the *Awarding Agency Grants Administration Manual* (AAGAM)<sup>7</sup> and existing *Grants Policy Directives* (GPDs). The *Grants Policy Administration Manual* (GPAM) reflects the departmental policies that result from the implementing regulations at 45 CFR part 75.

OMB Circular No. A-123 established an assessment framework based on the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (the Green Book) that managers must integrate into risk management and internal control functions. The Green Book provides the overall framework for establishing and maintaining an effective internal control system. It includes 17 principles that represent requirements necessary to establish an effective internal control system. Likewise, under the grant rules, recipients must establish and maintain effective internal controls to provide reasonable

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<sup>5</sup> The regulations that apply to Federal grants also apply to CoAgs.

<sup>6</sup> HHS GPS "Part II: Terms and Conditions of Award."

<sup>7</sup> For awards made prior to December 31, 2015, the AAGAM was in effect.

assurance that funds are being managed in compliance with Federal statutes, regulations, and award terms and conditions. These internal controls should be in compliance with guidance in the Green Book.<sup>8</sup>

## HOW WE CONDUCTED THIS AUDIT

Our audit covered the budget periods from October 1, 2007, through September 29, 2016 (audit period). We analyzed the results of 21 PEPFAR audits of recipients that were awarded more than \$428 million in 8 countries. We also reviewed CDC's internal controls related to its post-award oversight of recipients. Specifically, we reviewed CDC's policies and procedures<sup>9</sup> for recipient post-award CoAg management.

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, and Appendix C contains the criteria we used in this audit.

## FINDINGS

Our analysis of 21<sup>10</sup> prior audit reports on PEPFAR recipients identified the following 6 trends in which recipients:

- had either inadequate or no policies and procedures related to management of PEPFAR funds (19 of 21 reports),
- did not comply or may not have complied with HHS regulations regarding value added tax (VAT) (18 of 21 reports),
- had transactions that were either not supported (16 of 21 reports) or unallowable (15 of 21 reports),

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<sup>8</sup> 45 CFR § 75.303.

<sup>9</sup> CDC policies and procedures apply to both CDC headquarters and the eight related CDC in-country offices.

<sup>10</sup> Of the 29 issued PEPFAR reports, we analyzed 21 reports issued to Nongovernmental Agencies and Ministries of Health. We excluded from our analysis 8 reports issued to CDC. See Appendix B for a list of our prior PEPFAR reports.

- did not accurately report PEPFAR expenditures on financial reports or did not file reports on time (11 of 21 reports),
- did not have annual audits performed or submitted on time (9 of 21 reports), and
- could not reconcile PEPFAR expenditures to amounts reported on their financial reports (7 of 21 reports).

In response to our prior audits, CDC took the following actions to improve oversight of PEPFAR recipients:

- created and implemented a risk questionnaire<sup>11</sup> (Appendix D) to evaluate CDC recipients that applied for PEPFAR funding;
- developed standard operating procedures (SOPs) related to the CDC Pre-Award Grants Risk Management Process<sup>12</sup> and the Grants Risk Framework;<sup>13</sup> and
- designed the Foreign Audit Tracking System (FATS) to provide the status of recipient audits<sup>14</sup> and to coordinate work within divisions of CDC.

Finally, CDC had two internal control weaknesses in its post-award oversight of PEPFAR recipients. Specifically, CDC did not:

- require its in-country offices to have SOPs for CoAg management or
- periodically review in-country SOPs for CoAg management procedures.

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<sup>11</sup> CDC evaluates risk responses and the degree of risk that applicants pose by requesting that applicants submit attachments (policies and procedures for accounting, human resources, payroll, and project management) and other information with their responses to the risk questionnaire to create a risk profile scorecard. The risk profile scorecard is a scoring tool to rate an applicant's risk based on its responses to the risk questionnaire. CDC can use the risk profile scorecard to implement special award conditions to manage recipients. For example, if CDC assesses an applicant as medium- or high-risk, CDC can implement special award conditions, like a manual drawdown of funds, to mitigate the recipient's risk.

<sup>12</sup> The CDC Pre-Award Grant Risk Management Process outlines how its Financial Assessment and Audit Resolution Unit (FAARU) provides guidance on audit-related grant regulations and policy for the Office of Financial Resources (OFR) and CDC Program Offices.

<sup>13</sup> FARRU created the *CDC Grant Risk Framework* to discuss Federal guidelines, management of foreign- and domestic-based recipients, GAO and OIG data, the Foreign Audit Tracking System (FATS) and the Grants Risk Management Tool.

<sup>14</sup> A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year (45 CFR § 75.501 (a)). For foreign-based and international organizations, CDC applies an audit threshold of \$300,000.

## **SIX AUDIT TRENDS IDENTIFIED IN 21 PRIOR AUDITS OF PEPFAR RECIPIENTS**

Listed below are the six audit trends identified in our 21 audits of the PEPFAR recipients and CDC's actions to improve post-award oversight.

### **Recipients Had Either Inadequate or No Policies and Procedures Related to Management of PEPFAR Funds (19 of 21 Reports)**

Of our 21 PEPFAR audits, 19 audits included recipients that had inadequate or no policies and procedures related to management of PEPFAR funds. For example, recipients did not have policies and procedures to ensure that they: maintained adequate documentation for allowable expenditures, obtained financial audits, released restricted funds, or accounted for value added taxes.

In response to our findings, CDC implemented a pre-award grants risk process SOP<sup>15</sup> and developed a Grants Risk Framework<sup>16</sup> that included a risk questionnaire to be completed during the application process. The questionnaire asks potential recipients specific questions related to the following:

- written policies and procedures for human resource activities (operational risk) and
- written policies and procedures for accounting activities (financial risk).

If a potential recipient is selected to receive funding, CDC reviews the potential recipient's policies and procedures to verify that they are adequate and meet the requirements of 45 CFR part 75, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards."

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<sup>15</sup> Green Book, "Control Activities," "Principal – 12 Implement Control Activities," 12.01 states, "Management should implement control activities through policies."

<sup>16</sup> The Grants Risk Framework (Framework) includes the risk questionnaire from which CDC created the risk profile scorecard. CDC uses this questionnaire to determine the recipient's risk type (high, medium or low) for the operational, compliance, and financial aspects of the recipient. Also, the risk score may be used to determine special award conditions. Additionally, the Framework includes the FATS. CDC implemented this process in FY 2019.

## **Recipients Did Not Comply or May Not Have Complied With HHS Regulations Regarding Value Added Tax (18 of 21 Reports)**

Of our 21 PEPFAR audits, 18<sup>17</sup> audits included recipients that did not comply or may not have complied with HHS regulations regarding value added tax. As a result, recipients may have inappropriately used PEPFAR funds to pay VAT.<sup>18</sup> These payments occurred because some recipients: may not have understood Federal requirements, did not have written policies or procedures relating to VAT, did not apply for a VAT exemption, were not aware of the VAT exemption, or did not track VAT.

CDC provided updated language in the 2017 Notice of Award (NOA) in regard to the Federal reporting requirements for foreign taxes:

The determination of whether such foreign taxes are an allowable expense will depend on whether an exemption or effective reimbursement mechanism exists in country. Effective reimbursement is defined as a reimbursement mechanism that provides for no less than substantial reimbursement of USG funds. Generally, such exemptions or rights to reimbursement are set forth in bilateral or other legal agreements between the United States Government (USG) and the host country.

The NOA<sup>19</sup> provides the following guidance regarding VAT where:

- an exemption or right to reimbursement exists, the recipient must take advantage of the exemption and may not pay taxes with award funds;
- no exemption or no right to reimbursement exists, such payments will be an allowable expense; and
- a specific bilateral agreement between the US and the host country, the specific bilateral agreement in force is followed.

## **Recipients Had Transactions That Were Either Not Supported (16 of 21 Reports) or Unallowable (15 of 21 reports)**

Of our 21 PEPFAR audits, 16 audits included recipients that had some transactions that were not properly supported, and thus were unallowable. Some recipients did not provide adequate supporting documentation because they did not adhere to Federal requirements regarding

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<sup>17</sup> Of these 18, 4 recipients paid an undetermined amount of VAT during the audit period.

<sup>18</sup> VAT is a form of consumption tax.

<sup>19</sup> CDC Notice of Award for Grant Number 1 NU2GGH002046-01-00, dated March 30, 2017.

records retention or establishing policies requiring the maintenance of supporting documentation.

Furthermore, 15 of our 21 PEPFAR audits included recipients that had some transactions that were unallowable because they were not allocable to the award. Examples of unallowable transactions included expenditures that related to unreasonable training costs, audit costs for a non-PEPFAR program, and a wedding.<sup>20</sup>

As a corrective action, CDC included in its risk questionnaire specific questions related to the following:

- written policies and procedures for accounting activities (financial risk) and
- whether the organization was familiar with U.S. Government regulations concerning costs that can be charged to U.S. grants (2 CFR part 200, subpart E<sup>21</sup>) (financial risk).

### **Recipients Did Not Accurately Report PEPFAR Expenditures on Financial Reports or Did Not File Reports On Time (11 of 21 reports)**

Of our 21 PEPFAR audits, 11 audits included recipients that did not accurately report PEPFAR expenditures on their Financial Status Reports (FSRs) or Federal Financial Reports (FFRs) or did not file the reports on time. Seven recipients did not accurately report PEPFAR expenditures because they did not have an adequate accounting system. In addition, two recipients could not distinguish between current- and previous-year CoAg expenditures, a necessity for accurate reporting. Finally, five<sup>22</sup> other recipients did not file their FSRs or FFRs on time because they did not have written policies and procedures.

As a corrective action, CDC included in its risk questionnaire questions related to the recipients' accounting records, such as the following: "Does your organization have written policies and procedures?"<sup>23</sup>

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<sup>20</sup> Mildmay, which is a health care provider in Uganda, paid for a staff member's wedding. Mildmay officials told us that they arranged for a pastor to come to the Mildmay location to perform a ceremony at which Mildmay staff or clients who could not otherwise afford a ceremony could marry.

<sup>21</sup> HHS published the guidance in 2 CFR part 200 and in 45 CFR part 75.

<sup>22</sup> For the 11 recipients that either did not accurately report PEPFAR expenditures on the financial reports or did not file on time, three recipients did not have an adequate accounting system, could not distinguish between current and previous-year CoAg expenditures, or did not have written policies and procedures for timely submission.

<sup>23</sup> Green Book, "Control Activities," "Principal – 12 Implement Control Activities," 12.01 states, "Management should implement control activities through policies."

## Recipients Did Not Have Annual Audits Performed or Submitted on Time (9 of 21 Reports)

Of our 21 PEPFAR audits, 9 audits included recipients that did not have audits performed or submitted on time<sup>24</sup> to the National External Audit Review Center (NEAR).<sup>25</sup> The nine recipients did not have adequate policies and procedures requiring an annual financial audit<sup>26</sup> to be finalized and submitted to NEAR by the due date.

As a corrective action, CDC included in its risk questionnaire (Appendix D)<sup>27</sup> some questions related to the recipients' audits:

- Does the entity have a regularly scheduled audit?
- What organization conducts the audit?
- What was the date and result of the most recent audit?

In addition, one of the tasks of CDC's Financial Assessment and Audit Resolution Unit (FAARU)<sup>28</sup> is to manage recipient audits, responses, and corrective action plans. The FAARU manages the FATS into which it enters the recipient's FY start and end date. FATS calculates the audit due date, which is 9 months after the recipient's FY end date. If CDC does not receive the audit by this date, FATS sends an automatically generated notification to the recipient that the audit is delinquent. CDC follows up until it receives the audit report.

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<sup>24</sup> Recipients must submit completed audits, along with the data collection form described in paragraph (b) of this section and the reporting package described in paragraph (c) of this section, within the earlier of 30 calendar days after receipt of the auditor's report(s) or 9 months after the end of the audit period (45 CFR § 75.512 (a) (1)).

<sup>25</sup> "The National External Audit Review Center (NEARC) is responsible for receiving single audit reports on behalf of HHS, reviewing the single audit reports and transmitting reports to each OPDIV whose awardees' expenditures are included in the report, and assigning those with findings to the appropriate OPDIV(s) for resolution" (GPAM, Introduction, chapter 2 (d)(6)).

<sup>26</sup> A non-Federal entity that expends \$750,000 or more in Federal awards during its fiscal year must have an audit conducted for that year (45 CFR § 75.501 (a)).

<sup>27</sup> Green Book, "Control Activities," "Principal – 10 Design of Control Activities," 10.01 states, "Management should design control activities to achieve objectives and respond to risks."

<sup>28</sup> In February 2020, CDC replaced the FAARU with the Risk Management and Internal Controls Unit (RMICU).

## Recipients Could Not Reconcile PEPFAR Expenditures to Amounts Reported on Their Financial Reports (7 of 21 reports)

Of our 21 PEPFAR audits, 7 audits included recipients that could not reconcile PEPFAR expenditures to amounts reported on the financial reports.<sup>29</sup> Recipients were not able to reconcile reported expenditures because they either did not have an adequate accounting system or did not differentiate between the cooperative agreement budget periods.

CDC took corrective action by inserting a financial risk section into its risk questionnaire.<sup>30</sup> For example, one financial risk question was, “Can your accounting records separate the receipts and payments of a [F]ederal grant from the receipts and payments of your organization's other activities?”

## CDC TOOK CORRECTIVE ACTION TO IMPROVE OVERSIGHT OF PEPFAR RECIPIENTS

In response to our previous audits, CDC implemented policies and procedures to improve CoAg oversight, shown in Table 1:

**Table 1: CDC Implementation Schedule for Policies and Procedures**

Effective	Policies and Procedures
2016	<b>Grants Life Cycle Memo (May)</b> Prescribed the controls that will be assessed and the grant life cycle.
	<b>Audit Resolution Standard Operation (July)</b> Established the process for audit resolution for federally funded grantees. <sup>31</sup>
	<b>Foreign Audit Tracking System (October)</b> Designed to provide the status of audits and required correspondence throughout the audit workflow and resolution process.
2017	<b>Quarterly Global Grants High-Risk Meeting (February)</b> CDC ATL and in-country offices discuss high-risk recipients and actionable items related to those high-risk recipients.
	<b>Roles &amp; Responsibilities for Grants Management and Program Staff (May)</b> Guidance on the roles and responsibilities involved in grants administration during the pre-award, award, and post-award phases.
	<b>Risk Profile Scorecard (January)</b>

<sup>29</sup> Of the 21 recipients audited, 8 were Ministry of Health (MOH) government entities, and OIG was unable to reconcile PEPFAR expenditures for 7 of those 8 MOH organizations.

<sup>30</sup> Green Book, “Control Activities,” “Principal 10 – Design of Control Activities,” 10.01 states, “Management should design control activities to achieve objectives and respond to risks.”

<sup>31</sup> Federal regulations (45 CFR § 75.2) define a “grantee” as a “recipient.” The terms “grantee” and “recipient” are used interchangeably; however, CDC primarily uses the term “recipient.”

Effective	Policies and Procedures
2018	Scoring tool to rate the applicants risk based on the data provided in the risk questionnaire.
	<b>Quarterly Grant Risk Meeting (February)</b> Included discussions of the following: Grant Risk Framework, Grant Risk Tool, Risk Questionnaire Criteria and the FAARU roles and responsibilities.
	<b>Risk Questionnaire (May)</b> Completed by the applicant(s) and used by CDC to assess applicant(s) operational, financial, and compliance risk.
2018	<b>SOP for Pre-Award Grant Risk Assessment Process (December)</b> Outlines FAARU process associated with CDC’s Pre-Award Grants Risk Management process for the Office of Financial Resources (OFR) and CDC Program Offices.

In 2018 CDC created and implemented the risk questionnaire (Appendix D) used during the application process to assess the applicant’s risks and the risk profile scorecard to rate the applicant’s risk. CDC started using the risk questionnaire on the FY 2019 NOFO to evaluate all CDC recipients. These policies and procedures improved oversight of PEPFAR recipients.

**CDC HAD INTERNAL CONTROL WEAKNESSES IN POST-AWARD OVERSIGHT OF PEPFAR RECIPIENTS**

The Green Book, 12.01 states, “Management should implement control activities through policies.” CDC had two internal control weaknesses in its post-award oversight of PEPFAR recipients. Specifically, CDC did not:

- require its in-country offices to have SOPs for CoAg management or
- periodically review and update, as needed, in-country SOPs for CoAg management procedures.

CDC was required<sup>32</sup> to monitor<sup>33</sup> recipients during the post-award process. However, CDC did not provide guidance to the CDC in-country offices<sup>34</sup> regarding SOPs for CoAg post-award

<sup>32</sup> “Each OPDIV will conduct the appropriate post-award monitoring for all grants and cooperative agreements on a regular basis” (GPAM Part H, chapter 2, (b)(1)).

<sup>33</sup> “Monitoring” is “a process whereby the programmatic and business management performance aspects of a grant are reviewed after award by collecting and assessing information from reports, audits, desk reviews, site visits, and other sources” (GPAM Part B, chapter 2).

<sup>34</sup> Green Book, “Information and Communication,” “Principal 14 Communicate Internally,” 14.01 states, “Management should internally communicate the necessary quality information to achieve the entity’s objectives.”

management such as communication, document tracking, monitoring site visits,<sup>35</sup> and initial assessments.<sup>36</sup> (See Table 2.)

As part of their pre-award activities,<sup>37</sup> three CDC in-country office SOPs included making site visits during the pre-award phase. The purpose of the pre-award site visits was to perform an initial assessment of the recipients’ ability to manage CDC CoAgs. In addition, one country’s SOP (CDC in-country office number 4 (shown in Table 2)) included conducting CoAg management orientations for new recipients and refresher training for continuing recipients. The purpose of the new recipient orientation meeting was to brief the recipient on applicable U.S. Government; HHS/CDC; and PEPFAR regulations, expectations, and key management requirements. The meeting also familiarized new recipients with report formats and contents.

**Table 2: CDC In-Country Offices With Post-Award Recipient CoAg Management Procedures**

	CDC In-Country Office 1	CDC In-Country Office 2	CDC In-Country Office 3	CDC In-Country Office 4	CDC In-Country Office 5	CDC In-Country Office 6	CDC In-Country Office 7	CDC In-Country Office 8
<b>SOP for CoAg management</b>	Yes							
<b>SOP for CoAg management contained post-award monitoring guidance for CoAg management</b>	No	No	Yes	Yes	Yes	Yes	No	No
<b>Last revision date for the SOP for CoAg management</b>	May 2013	July 2018	May 2019	April 2018	April 2018	June 2017	June 2016	December 2018

<sup>35</sup> A “site visit” is “a monitoring technique conducted by a representative of the OPDIV grants management office or program office at the project location” (GPAM Part B, chapter 2).

<sup>36</sup> CDC in-country offices perform initial assessments of a potential recipient’s ability to manage CoAg funds.

<sup>37</sup> The CDC FY 2018 *Cycle Memo* states that, once a funding decision is made, the Grants Management Specialist performs a pre-award assessment for the applicants that have been recommended for funding. The pre-award activities include reviewing, for example: System for Award Management, Federal Awardee Performance Integrity Information System, and the Federal Audit Clearinghouse.

## **CDC Did Not Have Requirements for In-Country Cooperative Agreement Management Standard Operating Procedures**

CDC did not have requirements in place for in-country CoAg management SOPs.<sup>38</sup> Furthermore, the SOPs for four of the eight in-country offices reviewed were insufficient because they were vague about CoAg management activities and when the activities should occur.

The other four in-country offices had sufficient CoAg management activities. However, their written SOPs varied. For example, one in-country office had a comprehensive checklist for CoAg management activities, but another in-country office tailored its pre-award review to the recipient. Other variances included the frequency and timing of these types of reviews. The variations of the in-country offices' SOPs could result in recipients' continued non-compliance with Federal regulations and HHS guidance.

According to CDC, it is currently developing minimal requirements for CoAg SOPs; specifically, it is developing a checklist that project officers can use at the end of a CoAg's budget period to ensure that required actions and reports have been completed.

## **CDC Did Not Periodically Review In-Country Office Cooperative Agreement Management Standard Operating Procedures**

CDC did not periodically review its in-country office SOPs to ensure that the SOPs included up to date CoAg management procedures for the PEPFAR program.<sup>39</sup> We determined that some CDC in-country office SOPs were last revised in May 2013 or June 2016. CDC stated that, during our audit, it realized that a process was essential through which CDC monitors in-country office adherence to minimal requirements for CoAg management. CDC is currently researching best practices that will provide the most effective and efficient method to review SOPs from the field.

## **RECOMMENDATIONS**

We recommend that the Centers for Disease Control and Prevention:

- implement requirements for CDC in-country offices to have SOPs for CoAg management and

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<sup>38</sup> Green Book, "Control Activities," "Principal 12 – Implement Control Activities," 12.03 states, "Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity."

<sup>39</sup> Green Book, "Control Activities," "Principal – 12 Implement Control Activities," 12.05 states, "Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks."

- periodically review and update CDC in-country office SOPs for CoAg management.

### **CENTERS FOR DISEASE CONTROL AND PREVENTION COMMENTS**

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

CDC stated that it has developed minimum standards for all in-country CoAg management SOPs. The implementation of these minimum standards will begin January 2021. CDC is developing a process to annually review and update in-country SOPs for CoAg management. This process will be implemented in January 2021.

CDC also provided technical comments that we addressed as appropriate. CDC's comments, excluding technical comments, are included as Appendix E.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

Our audit covered the budget periods from October 1, 2007, through September 29, 2016 (audit period). We analyzed the results of 21 PEPFAR audits of recipients that were awarded more than \$428 million in 8 countries. We also reviewed CDC's internal controls related to its post-award oversight of recipients. Specifically, we reviewed CDC's policies and procedures<sup>40</sup> for recipient post-award CoAg management.

We limited our review of internal controls to those related to our objectives. We conducted fieldwork at CDC offices in Atlanta, Georgia, from October 2018 to March 2019.

### METHODOLOGY

To accomplish our objectives, we:

- summarized the results of the 21 audit reports issued on PEPFAR recipients and identified any trends in those findings,
- interviewed CDC officials to determine the actions CDC has taken to address the findings in our 21 reports,
- conducted a risk assessment to identify the areas of greatest risk to the PEPFAR program,
- obtained and reviewed the SOP's for CoAg management for the 8 CDC in-country offices related to our 21 audits of recipients, and
- analyzed the internal controls CDC uses in post-award oversight of PEPFAR recipients.

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.

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<sup>40</sup> CDC's policies and procedures apply to CDC headquarters and to the eight related CDC in-country offices.

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

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

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>
<i>The Centers for Disease Control and Prevention’s-South Africa Office Generally Implemented Our Prior Audit Recommendation</i>	<a href="#"><u>A-04-18-01009</u></a>	4/2019
<i>The Centers for Disease Control and Prevention’s Namibia Office Implemented Our Prior Audit Recommendations</i>	<a href="#"><u>A-04-18-01008</u></a>	10/2018
<i>The South African National Department of Health Did Not Always Manage and Expend the President’s Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<a href="#"><u>A-04-17-01002</u></a>	5/2018
<i>The National Institute of Health in Mozambique Did Not Always Manage and Expend the President’s Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<a href="#"><u>A-04-16-04051</u></a>	4/2018
<i>Aurum Institute Generally Managed and Expended the President’s Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<a href="#"><u>A-04-17-01003</u></a>	3/2018
<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>	<a href="#"><u>A-04-16-04044</u></a>	8/2017
<i>Ariel Foundation Against Pediatric AIDS Managed and Expended the President’s Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<a href="#"><u>A-04-16-04052</u></a>	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>	<a href="#"><u>A-04-16-04045</u></a>	6/2017
<i>Mildmay Uganda Did Not Always Manage the President’s Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<a href="#"><u>A-04-15-04039</u></a>	3/2017
<i>Medical Access Uganda Limited Generally Managed the President’s Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<a href="#"><u>A-04-15-04040</u></a>	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>	<a href="#"><u>A-04-14-04021</u></a>	5/2016

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>
<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>	<a href="#">A-04-13-04017</a>	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>	<a href="#">A-04-13-04016</a>	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>	<a href="#">A-04-13-04011</a>	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>	<a href="#">A-04-13-04015</a>	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>	<a href="#">A-04-13-04004</a>	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 href="#">A-04-13-04010</a>	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 href="#">A-04-13-04005</a>	3/2014
<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 href="#">A-05-12-00024</a>	8/2013
<i>Aurum Institute for Health Research Did Not Always Manage President's Emergency Plan For AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	<a href="#">A-05-12-00021</a>	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 href="#">A-05-12-00022</a>	8/2013

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

## **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 Section 75.2 Grantee**

“See recipient.”

### **45 CFR Section 75.2 Non-Federal entity**

“Non-Federal entity means a state, local government, Indian tribe, institution of higher education . . . , or nonprofit organization that carries out a Federal award as a recipient or subrecipient.”

### **45 CFR Section 75.2 Recipient**

“Recipient means an entity, usually but not limited to non-Federal entities, that receives a Federal award directly from a Federal awarding agency to carry out an activity under a Federal program. The term recipient does not include subrecipients.”

### **45 CFR Section 75.303 (a)**

Internal Controls. The non-Federal entity must:

- (a) 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).

### **45 CFR Section 75.501 (a)**

“Audit required:

- (a) A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.”

## **45 CFR Section 75.512 (a) (1)**

### Report Submission:

(a) General. (1) The audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.

## **Office of Management and Budget Circular No. A-123, Attachment: Management's Responsibility for Enterprise Risk Management and Internal Control**

"The Circular also establishes an assessment process based on . . . the Green Book that management must implement in order to properly assess and improve internal controls over operations, reporting, and compliance."

## **GRANTS POLICY ADMINISTRATION MANUAL**

### **Part A: Introduction, Chapter 2: Responsibilities in Grant Administration (d) Offices Internal to HHS, Office of Inspector General (OIG)**

(6) The National External Audit Review Center (NEARC) is responsible for receiving single audit reports on behalf of HHS, reviewing the single audit reports and transmitting reports to each OPDIV whose awardees' expenditures are included in the report, and assigning those with findings to the appropriate OPDIV(s) for resolution.

### **Part B: Acronyms, Definition and Working Terms, Chapter 2: Definitions Monitoring**

"A process whereby the programmatic and business management performance aspects of a grant are reviewed after award by collecting and assessing information from reports, audits, desk reviews, site visits, and other sources."

### **Grants Policy Administration Manual, Part B, Site Visits**

"A monitoring technique conducted by a representative of the OPDIV grants management office or program office at the project location."

### **Grants Policy Administration Manual, Part H, Chapter 2, (b) Oversight and Monitoring (1)**

"Each OPDIV will conduct the appropriate post-award monitoring for all grants and cooperative agreements on a regular basis."

**STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT (GAO-14-704G)**

**Control Activities, Principal 10, Design Control Activities, 10.01**

“Management should design control activities to achieve objectives and respond to risks.”

**Control Activities, Principal 12, Implement Control Activities, 12.01**

“Management should implement control activities through policies.”

**Information and Communication, Principal 14, Communicate Internally, 14.01**

“Management should internally communicate the necessary quality information to achieve the entity’s objectives.”

## APPENDIX D: SAMPLE RISK QUESTIONNAIRE

Form Approved  
OMB Control Number 0920-1132  
Expiration Date: 08/31/2019

Attachment G  
PERFORMANCE PROGRESS and MONITORING REPORT  
CDC Risk Questionnaire

Risk Questionnaire			
<b>Instructions:</b> Prior to making an award, the Centers for Disease Control (CDC) evaluates the degree of risk posed by an applicant.  In filling out the Risk Questionnaire, each question should be answered as completely as possible, using extra pages if necessary. Please return your completed questionnaire to [Name of Contact].			
General Information			
Legal Name of Organization			
In which country (or countries) does your organization propose to operate for this Notice of Funding Opportunity? Please list all separated by commas.			
In which country is the headquarters or general office of your organization located?			
Please identify what type of organization you are (non-profit, for-profit, educational institution, other)?			
Is your organization incorporated or legally registered?		If not, please explain:	
Operational Risk			
Personnel	Does your organization have a President/Director/Chief Executive Officer and Chief Financial Officer?		If not, please explain:
	Does your organization have written human resource (HR) policies and procedures?		If not, please explain:
	List the number of employees within your organization	Full Time Employees: Part-time Employees: Volunteers:	
Programmatic Performance	Has your organization managed U.S. Government grants or cooperative agreements within the last 36 months?		
Financial Risk			
Accounting System	Does your organization have written accounting policies and procedures? Please attach.		Explanation:
	Can your accounting records separate the receipts and payments of a federal grant from the receipts and payments of your organization's other activities?		
	Can your accounting records summarize expenditures from a federal grant according to different budget categories such as salaries, rent, supplies and equipment?		
Internal Controls	Does your organization have systems, policies, and procedures for tracking and approving hours worked by employees, contractors, and volunteers? Please attach.		
	Does your organization have internal controls and anti-corruption ethics codes that are emphasized by leadership?		
	Does your organization have written project management policies, procedures, and systems? Please attach.		If no, please provide an explanation:
	Is your organization familiar with U.S. government regulations concerning costs which can be charged to U.S. grants (Title 2, U.S. Code of Federal Regulations, Part 200, Subpart E)?		
Cash Management	Does your organization have a bank account registered in its name and that is capable of segregating grant funds from other funds?		If not, please explain how you plan to manage funds from a potential award?
Going Concern	What percent of your organization's capital is from federal funding? (percentage = total federal funding in previous FY/ organization's annual gross revenue in previous FY)		
	What is the dollar amount of your total current assets? (i.e. cash and other assets that are expected to be converted to cash within the next twelve months) (USD only)	\$ 0.00	
	What is the dollar amount of your total current liabilities? (i.e. amounts due to be paid to creditors within the next twelve months) (USD only)	\$ 0.00	
	What is the dollar amount of your total debt? (USD only)	\$ 0.00	
	What is the dollar amount of your total assets? (e.g. cash, fixed assets, accounts receivable, etc.) (USD only)	\$ 0.00	
Compliance Risk			
Audit	Does your organization have regular independent audits that you contract and pay for?		
	If yes, what organization performed your audit?		
	What was the date of the most recent audit and what was the result?	Date:	Results:

CDC 0.1567 (E), CDC Adobe Acrobat DC, S508 Electronic Version, May 2018



Centers for Disease Control  
and Prevention (CDC)  
Atlanta GA 30333

TO: Amy J. Frontz  
Deputy Inspector General  
Department of Health and Human Services

FROM: Director  
Centers for Disease Control and Prevention

SUBJECT: Response to OIG PEPFAR Draft Report

The following is the Centers for Disease Control and Prevention's (CDC's) response to recommendations contained in the Office of Inspector General's (OIG) draft report entitled "Although CDC Implemented Corrective Actions To Improve Oversight of the President's Emergency Plan for AIDS Relief Recipients, Some Internal Control Weaknesses Remained" (A-04-18-01010).

**RECOMMENDATION:** OIG recommends implementing requirements for CDC in-country offices to have Standard Operating Procedures (SOPs) for Cooperative Agreement (CoAg) management and periodically review and update CDC in-country office SOPs for CoAg management.

**CDC RESPONSE:** The CDC concurs with OIG's recommendations. CDC has developed minimum standards for all in-country CoAg management SOPs. The implementation of these minimum standards will begin January 2021. CDC is developing a process to annually review and update in-country SOPs for CoAg management. This process will be implemented in January 2021.

#### **POST-AWARD OVERSIGHT IMPROVEMENTS:**

To enhance its oversight and organizational governance, CDC established a dedicated unit with a new reporting structure, which allows for greater independence and audit coverage of high-risk areas and the Agency's internal controls. In February 2020, the CDC established the Audit Resolution Team (ART) as part of a global group designated as the Risk Management and Internal Controls Unit (RMICU). The distinct and separate ownership of CDC's risk management process eliminated the appearance of a conflict of interest and prioritized the agency's fiduciary responsibility and commitment to risk management. The primary focus of the CDC's risk management program is to identify, manage, and mitigate the financial, operational, and compliance risks associated with the funding of grants and cooperative agreements.

The Audit Resolution Team is an extension of the former Financial Assessment and Audit Resolution Unit, within the Office of Grant Services that reported to the Chief Financial Officer. The newly formed RMICU reports directly to the Chief Financial Officer (CFO) who has a reporting responsibility to the Chief Operating Officer. Staff within Office of Financial Resources facilitate the effective and efficient monitoring of risk by strengthening the

accountability of recipients receiving grant resources. Since the reorganization, the RMICU has enhanced oversight of the audit resolution and internal controls processes by:

- Modernizing the CDC Audit Tracking System (formerly the Foreign Audit Tracking System, also known as FATS), which improved the tracking, reviewing, and reporting of recipient audits and facilitation of (Management Decision Letter) MDLs;
- Conducting Audit 101 Training with program offices to educate recipients on the fundamental requirements of CDC’s Federal grant program and requirements;
- Facilitating monthly performance meetings with Branch Chiefs and Grant Management Officers to strengthen audit resolution measures.
- Modifying existing tools and templates to improve the efficiency and effectiveness of CDC’s internal controls over grants management.
- Developing a Summary of Findings, which is a preliminary decision letter that reports the disposition of audit findings and facilitates the resolution of open findings prior to issuance of the MDL.

Further, in September 2020, the CDC appointed two dedicated team leads within RMICU to oversee the monitoring and mitigation of risk. The ART Team Lead coordinates the resolution of audit findings reported in single and program-specific audits of grants and cooperative agreements submitted by recipients. The Internal Control Team Lead is responsible for monitoring and implementing internal controls for the prevention and detection of control weaknesses and mitigation of risk. Both teams report to a director who oversees the management of the audit resolution process with direct accountability to the CFO.

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Robert R. Redfield, MD  
Director, CDC