Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

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

Inquiries about this report may be addressed to the Office of Public Affairs at Public.Affairs@oig.hhs.gov.

Gloria L. Jarmon
Deputy Inspector General

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Office of Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

The United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003 (P.L. No. 108-25) (the 2003 Act), authorized the President's Emergency Plan for AIDS Relief (PEPFAR). PEPFAR's initial authorization of $15 billion expired on September 30, 2008. 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 2008 Act) authorized an additional $48 billion for the 5-year period beginning October 1, 2008, to assist foreign countries in combating HIV/AIDS, tuberculosis, and malaria.

The 2008 Act gives the Department of Health and Human Services (HHS) Centers for Disease Control and Prevention (CDC) a leadership role in several key areas of research and evaluation in implementing HIV/AIDS programs, including program monitoring, impact evaluation, and operations research. Through its Global HIV/AIDS Program, CDC implemented PEPFAR, working with ministries of health and other in-country partners to combat HIV/AIDS by strengthening health systems and building sustainable HIV/AIDS programs in more than 75 countries in Africa, Asia, Central and South America, and the Caribbean.

HHS receives PEPFAR funds from the Department of State through a memorandum of agreement, pursuant to the Foreign Assistance Act of 1961 (P.L. No. 87-195), as amended, and the 2003 Act, as amended. For fiscal year 2009, CDC "obligated" PEPFAR funds totaling $1.2 billion. CDC awarded these 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. The regulations that apply to Federal grants also apply to cooperative agreements.

Through a 5-year cooperative agreement (grant number 5U2GPS001328), CDC awarded PEPFAR funds totaling $12,868,424 to National Health Laboratory Service (NHLS) for the budget period September 30, 2009, through September 29, 2010. NHLS's mission is to provide cost-effective and professional laboratory medicine through state-of-the art technology to all South Africans. It entered into a cooperative agreement with CDC to help implement a coordinated national response to the HIV/AIDS epidemic. The goals of the cooperative agreement were to strengthen NHLS's laboratory services by:

- assuring of the accuracy and quality of testing services;
- building long-term sustainability of quality laboratory systems; and
- addressing existing gaps in laboratory testing outreach, penetration, and quality of services.

OBJECTIVE

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

SUMMARY OF FINDINGS

NHLS did not always manage PEPFAR funds or meet program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, $599,817 of the $736,017 was allowable, but $133,821 was unallowable and $2,379 was potentially unallowable. Of the 48 financial transactions tested:

- 30 transactions totaling $599,817 were allowable;

- 17 transactions totaling $133,821 were unallowable, including 15 items that were not funded nor approved in the cooperative agreement ($68,857), 1 item that was partially unrelated to PEPFAR ($44,751), and 1 item that was canceled and never paid ($20,213); and

- 1 transaction included $2,379 of potentially unallowable value-added taxes (VAT).

Additionally, NHLS:

- used $49,568 of PEPFAR funds to pay for additional unallowable catering expenses,

- did not accurately report PEPFAR expenditures for this cooperative agreement on its financial status report (FSR) submitted to CDC, and

- did not submit its annual financial audit as required by Federal regulations.

Our program management review showed that, of the 30 accomplishments sampled from the annual progress report, 2 items were not supported by documentation and 3 items were only partially supported.

NHLS' policies and procedures did not ensure that it:

- reported only allowable expenditures under the cooperative agreement and accurate costs on its FSR,

- maintained effective control and accountability over grant-related assets,

- included only items in the progress report that it could fully support, and

- submitted the annual financial audit report as required by Federal regulations.

RECOMMENDATIONS

We recommend that NHLS:

- refund to CDC $133,821 of unallowable expenditures;

- work with CDC to resolve whether the $2,379 of VAT was an allowable expenditure under the cooperative agreement;
- refund to CDC an additional $49,568 of unallowable catering expenses;
- develop and implement policies and procedures for:
  - ensuring that PEPFAR funds are not used for unallowable expenditures and
  - properly tracking all grant fixed assets;
- use the exchange rate in effect at the time it prepares the FSR;
- develop and implement policies and procedures to:
  - account for award adjustments and expenses in the general ledger and
  - reconcile progress report information to supporting documentation; and
- submit annual audit reports in a timely manner to the applicable United States agency.

NATIONAL HEALTH LABORATORY SERVICE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, NHLS generally disagreed with our first and third recommendations and generally agreed with our remaining recommendations. After reviewing NHLS's comments, we maintain that our findings and recommendations are valid.

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INTRODUCTION

BACKGROUND

President's Emergency Plan for AIDS Relief

The United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003 (P.L. No. 108-25) (the 2003 Act), authorized the President's Emergency Plan for AIDS Relief (PEPFAR). PEPFAR's initial authorization of $15 billion expired on September 30, 2008. 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 2008 Act), authorized an additional $48 billion for the 5-year period beginning October 1, 2008, to assist foreign countries in combating HIV/AIDS, tuberculosis, and malaria. The Department of Health and Human Services (HHS) receives PEPFAR funds from the Department of State through a memorandum of agreement, pursuant to the Foreign Assistance Act of 1961 (P.L. No. 87-195), as amended, and the 2003 Act, as amended.

Centers for Disease Control and Prevention

The 2008 Act gives HHS's Centers for Disease Control and Prevention (CDC) a leadership role in several key areas of research and evaluation in implementing HIV/AIDS programs, including program monitoring, impact evaluation, and operations research. Through its Global HIV/AIDS Program, CDC implemented PEPFAR, working with ministries of health and other public health partners to combat HIV/AIDS by strengthening health systems and building sustainable HIV/AIDS programs in more than 75 countries in Africa, Asia, Central and South America, and the Caribbean.

For fiscal year (FY) 2009, CDC obligated[1] PEPFAR funds totaling $1.2 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.[2] In response to a Funding Opportunity Announcement (FOA),[3] CDC awarded National Health Laboratory Service (NHLS) grant number 5U2GPS001328 through a cooperative agreement for the project period September 30, 2008, through September 29, 2013.

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[1] "Obligated" funds are amounts for which the recipient has made binding commitments for orders placed for property and services, contracts and subawards, and similar transactions during a funding period that will require payment during the same or a future period per HHS's *Grants Policy Directives* (GPD) 1.02, the highest level of policy within HHS that governs grants.

[2] The regulations that apply to Federal grants also apply to cooperative agreements.

[3] FOA Number CDC-RFA-PS08-868 is entitled: *Strengthening the Delivery and Quality of Laboratory Services and Enhancing Healthcare Worker and Laboratory Safety in the Republic of South Africa Under the President's Emergency Plan for AIDS Relief.*

National Health Laboratory Service

NHLS's mission is to provide cost-effective and professional laboratory medicine through state-of-the art technology to all South Africans. NHLS entered into a cooperative agreement with CDC to help implement a coordinated national response to the HIV/AIDS epidemic. The goals of the cooperative agreement were to strengthen NHLS's laboratory services by:

- assuring the accuracy and quality of testing services;
- building long-term sustainability of quality laboratory systems; and
- addressing existing gaps in laboratory testing outreach, penetration, and quality of services.

Federal Requirements and Departmental Policies

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

This cooperative agreement was subject to the grant administration rules in 45 CFR part 74 and the terms and conditions detailed in the notice of award (NOA). Furthermore, CDC incorporated by reference the FOA and the application that CDC received from NHLS on June 15, 2010, as a part of this award.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

Our audit covered the budget period September 30, 2009, through September 29, 2010. This budget period was the second year of a 5-year cooperative agreement. During the budget period under review, CDC awarded NHLS $12,868,424.

We limited our review of internal controls to those related to our objective. We conducted fieldwork at NHLS's offices in Johannesburg, South Africa.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws and regulations, HHS guidance, the FOA, the NOA, and NHLS's policies and procedures;

- interviewed and conducted meetings with CDC South Africa officials to determine the extent of the technical assistance they provided to NHLS;

- interviewed and conducted meetings with NHLS officials to determine their processes and procedures related to financial accounting and reporting, and program goals and accomplishments;

- worked with NHLS staff in attempting to reconcile NHLS's financial status report (FSR)[4] to its accounting records for the budget period under review;

- selected and reviewed a judgmental sample of 48 financial transactions with expenditures totaling $736,017 from the grant award of $12,868,424, and included expenditures such as:

    - restricted funds, if specified on the NOA;

    - unallowable costs, such as indirect costs, if specified on the NOA;

    - transactions above/below the average transaction amount in an expenditure category;

    - consulting and government fees; and

    - other unusual transactions;

- compared the accomplishments described in NHLS's annual progress report to the cooperative agreement's goals and objectives;

- selected a judgmental sample of 30 accomplishments described in NHLS's annual progress report and reviewed supporting documentation to determine whether NHLS met program goals and objectives; and

- conducted site visits at the Charlotte Maxeke Johannesburg Hospital and the Poliomyelitis Research Foundation Training Centre in South Africa.

[4] Pursuant to 45 CFR § 74.52(a)(1)(iv), FSRs are due to the CDC Grants Management Office 90 days after the end of the budget period. FSRs provide information to CDC on current expenditures and on carryover balances (if any). In addition, these documents are considered in future funding decisions.

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.

FINDINGS AND RECOMMENDATIONS

NHLS did not always manage PEPFAR funds or meet program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, $599,817 of $736,017 was allowable, but $133,821 was unallowable and $2,379 was potentially unallowable. Of the 48 financial transactions tested:

- 30 transactions totaling $599,817 were allowable;
- 17 transactions totaling $133,821 were unallowable, including 15 items that were not funded nor approved in the cooperative agreement ($68,857), 1 item that was partially unrelated to PEPFAR ($44,751), and 1 item that was canceled and never paid ($20,213); and
- 1 transaction included $2,379 of potentially unallowable value-added taxes (VAT).[5]

Additionally, NHLS:

- used $49,568 of PEPFAR funds to pay for additional unallowable catering expenses,
- did not accurately report PEPFAR expenditures for this cooperative agreement on its financial status report (FSR) submitted to CDC, and
- did not submit its annual financial audit as required by Federal regulations.

Our program management review showed that, of the 30 accomplishments sampled from the annual progress report, two items were not supported by documentation and three items were only partially supported.

NHLS' policies and procedures did not ensure that it:

- reported only allowable expenditures under the cooperative agreement and accurate costs on its FSR,
- maintained effective control and accountability over grant-related assets,
- included only items in the progress report that it could fully support, and

[5] VAT is a form of consumption tax.

- submitted the annual financial audit report as required by Federal regulations.

FINANCIAL MANAGEMENT

Financial Transaction Testing

Pursuant to 2 CFR part 230, Appendix A, § A(2), to be allowable under an award, costs must be reasonable for the performance of the award and be allocable thereto under these principles. Pursuant to 2 CFR part 230, Appendix A, § A(4), a cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity if it can be distributed in reasonable proportion to the benefits received. Pursuant to NOA, section III, this award is based on the application submitted to, and as approved by, CDC and is subject to applicable Federal grant regulations, HHS grants policies, and the terms and conditions laid out in the award notice.

Pursuant to 45 CFR § 74.21(b)(3), recipients' financial management systems must provide for effective control and accountability for all funds, property, and other assets. Recipients shall adequately safeguard all such property and assure that it is used solely for authorized purposes.

Pursuant to the *GPS* (section II-114), certain costs, including VAT are unallowable under foreign grants and domestic grants with foreign components. Also, bilateral agreements with foreign governments may stipulate an exemption from paying the VAT for those contractors and grantees that are funded by the United States and providing foreign aid.[6]

Of the 48 transactions totaling $736,017, 30 transactions totaling $599,817 were allowable, but 17 transactions totaling $133,821 were not (see table below) and 1 transaction totaling $2,379 was potentially unallowable.

Unallowable Financial Transactions

Category	Sample Transactions	Total
Not Approved in Cooperative Agreement:		
Local Accommodation Expenses	1	$32,812
Delivery Charges	1	19,719
Catering Expenses	3	8,321
Equipment	9	5,662
Research Consumables	1	2,343
Unallowable for Other Reasons:		
Videoconferencing Equipment	1	44,751
Hotel Group Canceled Payment	1	20,213
Total	**17**	**$133,821**

[6] HHS is currently reexamining the applicability of the GPS provision; thus, we are not recommending a disallowance. Instead, we recommended that NHLS work with CDC to resolve the issue.

For 15 sample transactions, NHLS paid for various costs that were not approved under the cooperative agreement including 1 missing piece of equipment. One sample item represented an expenditure of $89,501 for videoconferencing equipment. Although this purchase was requested in the original application and approved by CDC, NHLS staff informed us that the equipment was used approximately half of the time for the benefit of other programs or for general operations. The purchase did not solely benefit PEPFAR activities, and thus the expenditure should have been allocated among benefitting programs appropriately. For another sample item, NHLS provided support that a $20,213 payment to a hotel group was canceled but the payment remained in the general ledger. For one additional sample item, NHLS did not remove from the FSR potentially unallowable VAT of $2,379.

Some internal controls over expenditures were not in place. Principal investigators did not approve all expense reconciliations monthly in accordance with NHLS policy. Also, NHLS could not provide evidence that management approved 7 transactions. NHLS did not have procedures in place to ensure that it made only authorized expenses. In addition, controls were not in place to properly track fixed assets, including updating the asset register and ensuring that all grant fixed assets were tagged appropriately.

Additional Unallowable Catering Expenses

Pursuant to the GPS (section II-36), costs for meals are generally unallowable with certain exceptions: 1) subjects and patients under study, 2) specifically approved as part of the project or program activity, 3) employee meals as part of compensation, 4) as part of per diem or allowance for allowable travel and 5) integral part of a conference. Pursuant to the NOA, section III, this award is based on the application submitted to, and approved by, CDC.

During the audit period, NHLS used $49,568 of PEPFAR funds to pay for additional catering expenses,[7] specifically payments to caterers for meals at training sessions and meetings. The catering expenses did not fall under any of the exceptions in the GPS. Moreover, the budget submitted in the award application was very detailed and it did not include any such expenses. NHLS recorded these unallowable catering expenses in a separate general ledger account and claimed these expenses on its FSR.

Financial Status Reports

Pursuant to 45 CFR § 74.52(a)(1)(iv), recipients must submit an FSR no later than 30 days after the end of each specified report period for quarterly and semiannual reports and 90 days after the end of the specified report period for annual and final reports. The NOA provides the due date for the FSRs.

Pursuant to 45 CFR § 74.21(b)(1), a recipient's financial management reporting system must be able to demonstrate an accurate, current, and complete disclosure of the financial results of grant funded activities in accordance with the financial reporting requirements of the grant. Pursuant

[7] These catering expenses were identified outside of our review of the 48 judgmentally selected transactions.

to the *GPS* (Section II-114), financial reports must be stated in U.S. dollars using the currency rate in effect at the time of submission.

NHLS did not use the applicable exchange rate in effect at the time the FSR was prepared. Instead, it used a standard exchange rate of 7.5 Rand to $1. Additionally, NHLS staff did not account for all award adjustments and expenditures within the general ledger. As a result, NHLS staff was unable to reconcile a $15,385 difference between the FSR and the general ledger. The general ledger should include all grant-funded activities to ensure accurate financial reporting.

PROGRAM MANAGEMENT

Progress Report Testing

Pursuant to 45 CFR § 74.51(b), recipients are required to submit annual progress reports, unless the awarding agency requires quarterly or semiannual reports. Annual reports are due 90 days after the end of the grant year. Quarterly and/or semiannual reports are due 30 days after the reporting period. Final progress reports are due 90 days after the expiration or termination of the award. The NOA provides the specific due dates for progress reports.

Pursuant to 45 CFR § 74.51(d) progress reports should compare actual accomplishments to the established objectives for the period. Also, progress reports should contain the reasons objectives were not met and, when appropriate, explanations of cost overruns or high unit costs.

Pursuant to 45 CFR § 74.53, recipients are required to retain financial and statistical records and supporting documents and all other records pertinent to the award for 3 years from the submission date of the final expenditure report for the funding period.

The 30 accomplishments that we sampled from the progress report were related to the goals and objectives of the cooperative agreement.

Documentation supported 25 of the 30 accomplishments. However, no documentation supported 2 of the accomplishments, which were related to laboratory worker training and mobile laboratory services. NHLS could not provide documentation supporting that a technical advisory committee was formed for laboratory training. NHLS also could not provide documentation to support progress on the eight mobile laboratory sites as reported in the progress report.

The remaining three accomplishments, for quality assurance, information systems integration, and specimen tracking, were only partially supported by documentation. For example, the progress report stated that external quality control reports were submitted quarterly, whereas support showed that these reports were only submitted semiannually.

NON-FEDERAL AUDIT REPORTS

The GPS, page II-115, states that foreign recipients are subject to the same audit requirements as commercial organizations specified in 45 CFR § 74.26(d). Pursuant to 45 CFR § 74.26(d)(1), recipients that are commercial organizations are required to file one of the following types of audits if they expended more than $500,000 in one or more Federal awards during an FY: a financial-related audit or an audit that meets the requirements of OMB Circular A-133.

Pursuant to OMB Circular A-133, audits must be completed annually and submitted for review within the earlier of 30 days after receipt of the auditor's report or 9 months after the end of the organization's FY, unless a longer period of time is agreed to by the agency (subpart B §__.200 and subpart C §__.320).[8] Pursuant to NOA, section IV, item 15, the partner must submit a copy of the completed audit to HHS.

While the recipient received grant-specific audits during this period, the recipient did not forward a copy of the audit reports to HHS's National External Audit Review Center (NEAR). As a result, HHS's NEAR was unable to monitor recipient audit findings. NHLS was not aware of this requirement, and NHLS mentioned that CDC told them to send all reports directly to CDC.

INADEQUATE POLICIES AND PROCEDURES

These errors occurred because the NHLS did not have adequate policies and procedures to ensure that it:

- reported only allowable expenditures under the cooperative agreement and accurate costs on its FSR,
- maintained effective control and accountability over grant-related assets,
- included only items in the progress report that it could fully support, and
- submitted the annual financial audit report as required by Federal regulations.

RECOMMENDATIONS

We recommend that NHLS:

- refund to CDC $133,821 of unallowable expenditures;
- work with CDC to resolve whether the $2,379 of VAT was an allowable expenditure under the cooperative agreement;
- refund to CDC an additional $49,568 of unallowable catering expenses;
- develop and implement policies and procedures for:

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

- ensuring that PEPFAR funds are not used for unallowable expenditures and
- properly tracking all grant fixed assets;

- use the exchange rate in effect at the time it prepares the FSR;
- develop and implement policies and procedures to:
    - account for award adjustments and expenses in the general ledger and
    - reconcile progress report information with supporting documentation; and
- submit annual audit reports in a timely manner to the applicable United States agency.

OTHER MATTERS

NHLS did not credit back the proceeds of grant-related equipment sales totaling $102,438 to CDC. Pursuant to 2 CFR part 230, Appendix B, § 18(a)(1), gains on the sale of depreciable property shall be included in the year in which they occur as credits to cost groupings in which the depreciation applicable to such property was included.

On March 31, 2011, NHLS sold grant-related equipment to a finance company in a sale and leaseback arrangement and did not credit the proceeds back to CDC. Equipment sales totaling $3,183 related to 9 equipment items purchased with PEPFAR funds for the budget period under review. The remaining $99,255 in equipment sales was for 173 equipment items purchased with other PEPFAR and CDC grant funds. We are not making any recommendations for the equipment sales as the majority was related to grants that were not covered by the scope of our audit.

NATIONAL HEALTH LABORATORY SERVICE COMMENTS

In written comments on our draft report, NHLS generally disagreed with our first and third recommendation and generally agreed with our remaining recommendations. NHLS provided additional documentation meant to support some of the expenditures that we had determined to be unallowable.

Regarding our first recommendation, NHLS did not agree that $101,009 of the $133,821 that we questioned was unallowable. Specifically:

- NHLS stated that it budgeted for and that CDC approved the following $72,475 of expenditures: 1) administrative fee for delivery charges ($19,719) and equipment costs ($5,662); 2) research consumables ($2,343), and 3) video conferencing equipment ($44,751).

- NHLS stated that $8,321 in catering expenses should be allowable because CDC had not advised NHLS that catering was not allowed.

- NHLS stated that the hotel group payment of $20,213 had been reversed “resulting in a nil effect.”

Regarding our third recommendation, NHLS did not agree that $49,568 in catering expenses was unallowable. NHLS stated that CDC did not advise NHLS that catering expenses were unallowable until after the charges were made.

In addressing our remaining recommendations, NHLS stated that a number of processes and systems have been implemented to ensure that tighter controls are in place. NHLS’s comments, excluding the supporting documentation, are included as the Appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

The additional documentation that NHLS provided with its comments did not cause us to change any of our findings or recommendations. Regarding the $101,009 included in our first recommendation with which NHLS did not agree was unallowable, we determined that documentation did not support the expenditures. Regarding the $49,568 in catering expenses included in our third recommendation, we determined that these expenses were not approved in the budget and did not meet the exceptions of the HHS Grants Policy Statement. We maintain that our findings and recommendations are valid.

APPENDIX

APPENDIX: NATIONAL HEALTH LABORATORY SERVICE COMMENTS

NATIONAL HEALTH LABORATORY SERVICE

Grants Department
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Ms. Sheri Fulcher
Regional inspector General for Audit Services
Office of Audit Services, Region V
233 North Michigan Suite 1360
Chicago, IL 60601

June 20, 2013

Dear Ms. Fulcher,

This letter serves as a response to your letter dated April 8, 2013, regarding the "Draft Report for the National Health Laboratory Service (A-05-12-00024), for the period of September 30, 2009 to September 29, 2010."

The National Health Laboratory Service (NHLS) disagrees with a number of audit findings presented and duly requests that the audit report be revised upon review of the explanations given. Had these findings been presented and discussed during the course of the audit or at the close out meeting, it would have been resolved immediately. Going forward, in order for the NHLS to manage the cooperative agreement appropriately, it would be appreciated that findings are brought to our attention immediately so controls and processes can be implemented if need be to prevent any misuse of funds. Since then, a number of processes and systems have been implemented to ensure tighter controls are in place. Below are the responses to the audit report:

1. Unallowable financial transactions

i. Local accommodation expenses - $32,812
The incorrect project number was used. This cost was for SAFELTP residents and should have been drawdown against year 1 carry forward. Budget was available for this cost on SAFELTP year 1 carry forward budget. This will then be a reallocation and proof of budget has been attached.

ii. Delivery charges - $19,719
Non concurrence – The NHLS used the administration fee to cover the cost of delivery charges on a CDC project. This cost was budgeted for and approved by CDC in the NHLS budget.

iii. Catering expenses - $8,321 and $49,568
Non concurrence – NHLS was not initially advised by CDC SA that catering was not allowed. As per the previous verbal discussions with CDC SA, it was cost effective to host trainings and meetings on site with provision for catering than obtaining a venue outside the premises. Communication was received the following the year that catering is considered an unallowable cost and should no longer be expensed on a CDC grant. Communication was then sent immediately to all PI's and no catering has been expensed since.

iv. Equipment - $5,662
Non concurrence – The NHLS used the administration fee to cover the cost of equipment needed. It was agreed with CDC that the administration fee would be used at the discretion of NHLS which was budgeted for and approved.

v. Research Consumables - $2,343
Non concurrence – The expense was drawdown against the budget of 96201 which was the continuation of project 96116. Supplies were budgeted for in project 96201.

vi. Videoconferencing Equipment - $44,751
Non concurrence - As noted in the audit report, the purchase was approved by CDC and the intension of its use was documented on the application, one being, "Hosting management and other meetings amongst the different governance, academic and technical structures of the NHLS and outside groups or persons through video conference and web links."

NATIONAL HEALTH
LABORATORY SERVICE

The videoconferencing uses the bandwidth supplied and paid for by the NHLS. Technical support is provided by the NHLS IT Department. Any repairs and maintenance of the system is paid for by the NHLS without requesting for funding from CDC. CDC has provided the equipment however NHLS has co-funded this by providing the bandwidth and technical support.
The NHLS has therefore contributed to the continued operations of the equipment and will expand the e-learning platform.

vii. Hotel Group cancelled payment - $20,213
Non concurrence – This is not a hotel group cancellation. The incorrect supplier was selected and the transaction reversed thereafter resulting in a nil effect. The correct invoice was then processed. IN00027293 is for salaries to Wits Health Consortium for R154 149.18.

viii. VAT - $2,379
Concurrence – The NHLS will reimburse CDC with the amount of $2 379.

2. Preparation of the FSR
The FSR was prepared with the understanding that the agreed exchange rate of R7.5 to $1 is used. Supporting documentation of the calculation was submitted with the FSR to CDC and no comment or rejection was made regarding the method used. Once NHLS staff received CDC Grant Administration training in 2012, this error was identified and the correct process has been implemented going forward.

3. Audit reports
The guidance received from CDC was to send all audit reports to them directly. Following the CMS visit with Dionne, the NHLS has sent the audit reports to National External Audit Review Center.

4. Development of policies and procedures
The NHLS has since implemented a number of new processes. All requisitions and orders are approved electronically and follow the approval hierarchy within Oracle i.e. once a requisition/order has been captured, the PI approves following which the Grants Administrator and the Grants Manager approves respectively. The budget is displayed for every requisition reflecting the commitments and funds available. This process ensures that budgets are adhered to.
The Oracle projects system has replaced the General Ledger. Each project is given a project number. All transactions that appear on a project are drawn from the other sub modules which eliminate any manual intervention. Journals cannot be captured to these projects. This ensures tighter controls on each project and all award adjustments are captured on the system.
Flowcentric has been introduced to manage and track assets. The system will randomly select assets and send an email to the Lab/Department Manager for verification. Once the verification has been done, the Lab/Department Manager will send the relevant response.

Thank you for the opportunity to respond to the OIG recommendations. Please do not hesitate to contact us should you require any further information.

Regards

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