Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

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

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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 1U2GPS002062), CDC awarded PEPFAR funds totaling $2,912,714 to the South African National Department of Health, the Ministry of Health (the Ministry), for the budget period September 30, 2009, through September 29, 2010.

The Ministry's mission is to ensure the delivery of quality, affordable and accessible health services in accordance with the national 10-point plan for health. The Ministry entered into a cooperative agreement with CDC to strengthen the capacity of the Ministry to scale up primary health care services in South Africa to improve the management of HIV/AIDS. Specifically, the goals of the program were to:

- expand and strengthen primary health care services and
- improve access to quality HIV/AIDS services.

OBJECTIVE

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

SUMMARY OF FINDINGS

The Ministry did not always manage PEPFAR funds or meet program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, $1,925,372 of the $3,451,561 was allowable, $3,734 was unallowable, $74,056 was potentially unallowable, and $1,448,399 was related to the previous cooperative agreement. Of the 30 financial transactions tested:

- 22 transactions totaling $1,925,372 were allowable,
- 3 transactions totaling $3,734 were unallowable because they lacked adequate supporting documentation, and
- 5 transactions totaling $1,448,399 were related to the previous cooperative agreement and were therefore outside of the scope of our audit.

Additionally, the Ministry:

- used $74,056 of PEPFAR funds to pay potentially unallowable value-added taxes (VAT) on purchases;
- did not accurately report PEPFAR expenditures for this cooperative agreement on its financial status report (FSR) submitted to CDC; and
- did not obtain an annual financial audit as required by Federal regulations.

Our program management review showed that all three accomplishments from the annual progress report were related to the goals and objectives of the cooperative agreement. However, two of these accomplishments were missing detail to fully explain the progress made. Also, the Ministry did not submit its annual progress report to CDC within the allotted time frame in accordance with Federal regulations.

The Ministry's policies and procedures did not ensure that it:

- maintained supporting documentation for allowable expenditures under the cooperative agreement and accurately reported costs on its (FSR);
- submitted its progress report timely and fully supported items related to the agreement; and
- obtained an annual financial audit and submitted the report as required by Federal regulations.

RECOMMENDATIONS

We recommend that the Ministry:

- refund to CDC $3,734 of unallowable expenditures;

- work with CDC to resolve whether the $74,056 of VAT was an allowable expenditure under the cooperative agreement;

- file an amended FSR for the budget period of the cooperative agreement that we reviewed;

- develop and implement policies and procedures for:

  - reconciling the FSR to the accounting records prior to submission,

  - differentiating in the accounting records between CDC cooperative agreements and years within those agreements, and

  - ensuring that it maintains adequate supporting documentation for expenditures of Federal funds;

- use the exchange rate in effect at the time it prepares the FSR;

- develop and implement policies and procedures for submitting the annual progress report in a timely manner; and

- have annual audits performed and submitted in a timely manner to the applicable United States Agency.

NATIONAL DEPARTMENT OF HEALTH COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the Ministry generally concurred with our recommendations, but provided additional documentation to support the expenditures we had questioned in the draft report. After reviewing the Ministry's additional documentation, we determined that $496,982 of the expenditures we had questioned is allowable. We maintain that the remaining $3,734 that we had questioned is unallowable and should be refunded to CDC. Regarding our recommendation that the Ministry use the exchange rate in effect at the time it prepares the FSR, the Ministry asked for further clarification as to why we believe that the incorrect exchange rate was used. Pursuant 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. The Ministry did not use the exchange rate in effect when it submitted its FSR.

The Ministry's comments, except for the additional documentation, appear as the Appendix.

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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 the South African National Department of Health, the Ministry of Health (the Ministry), grant number 1U2GPS002062 through a cooperative agreement for the project period September 30, 2009, through September 29, 2014.

[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-PS09-951 is entitled: *Implementation of a Primary Health Care Program in South Africa Under the President's Emergency Plan for AIDS Relief (PEPFAR).*

South African National Department of Health, Ministry of Health

The Ministry's mission is to ensure the delivery of quality, affordable, and accessible health services in accordance with the national 10-point plan[4] for health. The Ministry entered into a cooperative agreement with CDC to strengthen the capacity of the Ministry to scale up primary health care services in South Africa to improve the management of HIV/AIDS. Specifically, the goals of the program were to:

- expand and strengthen primary health care services and
- improve access to quality HIV/AIDS 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 92 apply to a foreign government.

This cooperative agreement was subject to the grant administration rules in 45 CFR part 92 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 the Ministry on June 15, 2009, as a part of this award.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

Our audit covered the budget period from September 30, 2009, through September 29, 2010. This budget period was the first year of a 5-year cooperative agreement. During the budget period under review, CDC awarded the Ministry $2,912,714.

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

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[4] The 10-point plan for health is part of the strategic plan of the National Department of Health and is aimed at creating a well functioning health system capable of producing improved health outcomes.

Methodology

To accomplish our objective, we:

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

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

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

- reconciled the Ministry's accounting records to the financial status report (FSR)[5] for the budget period under review;

- selected and reviewed a judgmental sample of 30 financial transactions totaling $3,451,561 including 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;

  - costs related to the previous cooperative agreement; and

  - other unusual transactions;

- identified the amount of value-added taxes (VAT)[6] that the Ministry paid with PEPFAR funds;

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

- reviewed all three accomplishments described in the Ministry's annual progress report and reviewed supporting documentation to determine whether the Ministry met program goals and objectives.

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[5] Pursuant to 45 CFR § 92.41(b)(4), 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.

[6] VAT is a form of consumption tax.

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

The Ministry did not always manage PEPFAR funds or meet program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, $1,925,372 of the $3,451,561 was allowable, $3,734 was unallowable, $74,056 was potentially unallowable, and $1,448,399 was related to the previous cooperative agreement.[7] Of the 30 financial transactions tested:

- 22 transactions totaling $1,925,372 were allowable;
- 3 transactions totaling $3,734 were unallowable because they lacked adequate supporting documentation; and
- 5 transactions totaling $1,448,399 were related to the previous cooperative agreement and were therefore outside of the scope of our audit.

Additionally, the Ministry:

- used $74,056 of PEPFAR funds to pay potentially unallowable value-added taxes (VAT) on purchases;
- did not accurately report PEPFAR expenditures for this cooperative agreement on its financial status report (FSR) submitted to CDC; and
- did not obtain an annual financial audit as required by Federal regulations.

Our program management review showed that all three accomplishments from the annual progress report were related to the goals and objectives of the cooperative agreement. However, two of these accomplishments were achieved using both PEPFAR and non-PEPFAR funds. The progress report only included accomplishments achieved with PEPFAR funds. Also, the Ministry did not submit its annual progress report to CDC within the allotted time frame in accordance with Federal regulations.

[7] The Ministry did not utilize cost classification codes or cost centers that distinguished different years of the same cooperative agreement. Also, the Ministry could not distinguish expenses between the current cooperative agreement and the previous cooperative agreement. Since costs from other periods were included in the monthly expenditure reports, we had to determine whether the sample transaction was related to our audit period, or to the previous cooperative agreement.

The Ministry's policies and procedures did not ensure that it:

- maintained adequate supporting documentation for allowable expenditures under the cooperative agreement and accurately reported costs on its FSR;

- submitted its progress report timely and fully supported items related to the agreement; and

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

FINANCIAL MANAGEMENT

Financial Transaction Testing

Pursuant to 45 CFR § 92.20(b)(2), grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Also, Federal regulations (2 CFR part 225, Appendix B, § 8.h.(1)) state that charges to awards for salaries and wages will be based on documented payrolls approved by a responsible official of the governmental unit.

We could not reconcile expenditures in the financial status report to the accounting system because funds from different years of the cooperative agreement were comingled. The total amount reconciled exceeded the budget by $3,271,804 because the Ministry did not use cost classification codes or cost centers that distinguished different years of the same cooperative agreement. Also, the Ministry could not distinguish expenses between the current cooperative agreement and the previous cooperative agreement.

Expenditures for Value-Added Tax

Pursuant to the HHS 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 and providing foreign aid from the United States.[8]

As shown in the table on Page 6, during the audit period, the Ministry used $74,056 of PEPFAR funds to pay the VAT, a potentially unallowable cost for this grant. The Ministry stated that prior to a recent meeting with CDC in-country officials, they were not aware of the exemption for VAT provided in the bi-lateral agreement between the United States and The Republic of South Africa. They also were not aware that they could apply to the South African Revenue

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

Service for a rebate of VAT or that rebated VAT should be refunded back to the PEPFAR program.

Of 30 sample transactions totaling $3,451,561, $1,925,372 was allowable, $3,734 was unallowable, $74,056 was potentially unallowable, and $1,448,399 was related to the previous cooperative agreement. (See the Table below.)

Table: Financial Transactions

Sample Transactions	Allowable Costs	No Supporting Documentation	VAT	Not Reviewed	Total
22	$1,925,372	$0	$74,056	$0	$1,999,428
3	0	3,734	0	0	3,734
5	0	0	0	$1,448,399	1,448,399
30	**$1,925,372**	**$3,734**	**$74,056**	**$1,448,399**	**$3,451,561**

Specifically, we found:

- 22 transactions totaling $1,999,428 included $1,925,372 that was adequately supported by source documentation, and $74,056 of potentially unallowable VAT;

- 3 transactions totaling $3,734 associated with travel were unallowable costs because the Ministry was unable to provide documentation to support the expenditures; and

- 5 transactions totaling $1,448,399 were not reviewed because they related to the previous cooperative agreement. The Ministry did not differentiate in its accounting records between the current cooperative agreement and the previous cooperative agreement. As a result, some of the financial transactions selected for testing were not related to our audit period.

Financial Status Reports

Pursuant to 45 CFR § 92.41(b)(4), recipients must submit an FSR no later than 30 days after the end of each specified report period for quarterly and semiannual reports and 90 calendar days after the end of the specified report period for annual and final reports. The NOA provides the due date for the FSRs.

Pursuant to 45 CFR § 92.20(b)(1), a grantee’s financial management reporting system must be able to demonstrate an accurate, current, and complete disclosure of the financial results of grant funded activities in accordance with the financial reporting requirements of the grant. Pursuant 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.

The FSR that the Ministry submitted was timely, however, it did not agree with the accounting records. The Ministry tracked expenditures in its monthly expenditure reports, which showed that expenditures for our audit period were $6,067,730, or more than double the award amount. We determined that these figures included a blend of old and new cooperative agreement expenditures with no indication of which cooperative agreement or budget period they were attributable.

Additionally, the Ministry did not use the applicable exchange rate in effect at the time it prepared the FSR. Instead, it used the exchange rate in place when it received the funds from the South Africa National Treasury. When recipients submit inaccurate FSRs, neither the recipient nor the awarding agency can properly manage the awards.

PROGRAM MANAGEMENT

Progress Report Testing

Pursuant to 45 CFR § 92.40(b)(2), progress reports should compare actual accomplishments to the 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 § 92.42, grantees are required to retain financial and programmatic records and supporting documents, both those required by the grant agreement and those "otherwise reasonably considered as pertinent to the regulations and grant agreement," for 3 years from the submission date of the final expenditure report for the funding period.

Additionally, the FOA states that the Ministry should have measurable outcomes that are in alignment with the performance goals.[9]

All three accomplishments from the annual progress report were related to the goals and objectives of the cooperative agreement. However, two of these accomplishments were missing sufficient details to fully explain the progress made. Two of the three accomplishments were missing details to fully explain the progress made, but our testing confirmed the accomplishments were supported.

We identified examples of inaccurate or missing details in the Nurse Initiated and Managed Antiretroviral Treatment program.[10] The program goal was to train 1,000 nurses by the national deadline of July 1, 2010. The Ministry's progress report stated that 352 nurses were trained, but the documentation supported the training of 362 nurses with PEPFAR funds during the audit period. In addition, PEPFAR funds were used to train 28 Master and Facility trainers.[11] The

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[9] Section IV of the NOA—*Special Terms and Conditions*—makes the requirements found in the FOA part of the award by reference.

[10] The Nurse Initiated and Managed Antiretroviral Treatment program involved doctors stepping down from more routine duties of HIV care, such as Antiretroviral Treatment monitoring, adherence and dispensing, and training nurses to take the lead with these tasks instead. The program emphasized in-service training coupled with ongoing mentoring and support.

[11] Master trainers led training sessions to train facility trainers. Facility trainers returned to their work facilities and trained other nurses.

Facility trainers then provided instruction to over 1,300 nurses from October to December 2010. According to the program manager, the Ministry used departmental funding and not PEPFAR funds to educate these remaining nurses.

Also, the progress report stated that the Ministry trained 2,000 trainees under the data capturer program,[12] but the documentation only supported the training of 1,072. The difference resulted because the Ministry used funding unrelated to PEPFAR to train the remaining 928 data capturers.

Progress Report Submission

Pursuant to 45 CFR § 92.40(b)(1), recipients are required to submit annual progress reports, unless the awarding agency requires quarterly or semiannual reports. Annual reports are due 90 days after the end of the grant year. Quarterly and semiannual reports are due 30 days after the reporting period. Final progress reports are due 90 days after the expiration or termination of the award. The NOA provides the specific due dates for annual progress reports.[13]

The Ministry submitted its grant year 2010 progress report to CDC 6 months late. The Ministry's grant year ended September 29, 2010. Therefore, the annual progress report was due on December 29, 2010. However, the Ministry did not submit the progress report to CDC until June 15, 2011. Without progress reports, CDC could not determine whether the recipient met program goals in accordance with award requirements.

NON-FEDERAL AUDIT REPORT

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 a 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).[14]

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[12] The data capturer program recruits young people to provide the service of data capturing, record filing and other administrative work at health facilities. This program is aimed at addressing challenges in public health facilities including data backlogs, poor record keeping, and lack of data capturers.

[13] The grant rules allow for extensions of progress report due dates and waivers in some instances, at the agency's discretion (45 CFR § 92.40(b)(1)). We did not see in the award files that we reviewed any evidence that CDC granted waivers or allowed for extensions.

[14] 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).

Pursuant to section IV, part 17 of the NOA, the Ministry is instructed to submit audits completed in accordance with OMB Circular A-133 to NEAR.

The Ministry had not had an independent audit performed since 2005. As a result, the Ministry is currently undergoing an external audit at the request of the CDC in-country Project Officer. This new audit will cover all unaudited periods including our audit period. Without an annual audit, CDC cannot fully assess the risks of awarding funds to a recipient, and Federal funds could be at risk for mismanagement.

INADEQUATE POLICIES AND PROCEDURES

The Ministry's policies and procedures did not ensure that it:

- claimed and maintained adequate supporting documentation for allowable expenditures under the cooperative agreement and accurately reported costs on its FSR;
- submitted its progress report timely and fully supported items related to the agreement; and
- obtained an annual financial audit and submitted the report as required by Federal regulations.

RECOMMENDATIONS

We recommend that the Ministry:

- refund to CDC $3,734 of unallowable expenditures;
- work with CDC to resolve whether the $74,056 of VAT was an allowable expenditure under the cooperative agreement;
- file an amended FSR for the budget period of the cooperative agreement that we reviewed;
- develop and implement policies and procedures for:
    - reconciling the FSR to the accounting records prior to submission;
    - differentiating in the accounting records between CDC cooperative agreements and years within those agreements; and
    - ensuring that it maintains adequate supporting documentation for expenditures of Federal funds;
- use the exchange rate in effect at the time it prepares the FSR;

- develop and implement policies and procedures for submitting the annual progress report in a timely manner; and
- have annual audits performed and submitted in a timely manner to the applicable United States Agency.

NATIONAL DEPARTMENT OF HEALTH COMMENTS

In written comments on our draft report, the Ministry concurred with our recommendations to refund unallowable expenditures, work to resolve VAT expenditures, develop and implement policies and procedures for the FSR and annual progress review, and annual audit compliance. The Ministry provided additional documentation as support for a majority of the unallowable expenditures in the draft report. The Ministry requested further clarification regarding the exchange rate recommendation.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the Ministry's additional documentation, we determined that $496,982 of the unallowable expenditures was supported by information that was not provided during our review and is considered allowable. No additional support was received for the remaining $3,734 and we continue to recommend that amount should be refunded to CDC. Regarding our FSR exchange rate recommendation, the Ministry did not use the exchange rate in effect when it prepared its report. Pursuant 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. We continue to recommend that the Ministry use the exchange rate in effect when it prepares the FSR.

The Ministry's comments, except for the additional documentation, appear as the Appendix.

APPENDIX

APPENDIX: NATIONAL DEPARTMENT OF HEALTH COMMENTS

health

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Ms. Sheri Fulcher
Regional inspector General for Audit Services
Office of Audit Services, Region V
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July 3, 2013

Dear Ms. Fulcher,

This letter serves as a response to the correspondence dated June 19, 2013, provided by the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), for the draft report entitled *The South African National Department of Health (NDoH) Did Not Always Manage President's Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements,* Report number A-05-12-00022.

OIG recommendation that NDOH refund to CDC $500,716 of unallowable expenditures.

NDoH was unable to locate the supporting documentation to support payments for Sample items 10, 19, and 23 that added up to R27,889.20 ($3,734.05), please refer to **Appendix 1** for more details . However, NDoH has been able to provide all the supporting documentation for Sample item 30 for the total transaction amount of R7, 869,543. These include the transaction amounts for R4, 246,299.48 and R3, 623,243.52, please refer to **Appendix 2** for the supporting documentation. Based on the additional supporting documentation, the refund amount has been reduced from $500,716 to $3,735.

OIG recommendation that NDOH work with CDC to resolve whether the $72,292 of VAT was an allowable expenditure under the cooperative agreement.

NDoH concurs with this recommendation. Based on discussions with CDC, VAT is not an allowable cost. This CoAg was registered for VAT exemption on 20/06/2012. The NDoH submitted claims to the South African Revenue Services (SARS) for all VAT charges for the budget period reviewed by the OIG. Once these funds are received, the NDOH will work with the Procurement and Grants Office (PGO) and the Project Officer to use those funds as per the terms of the Cooperative Agreement. The VAT registration certificate is attached, **Appendix 3**.

OIG recommendation that NDOH file an amended FSR for the budget period of the cooperative agreement reviewed (September 30, 2009 through September 29, 2010).

NDoH requires further clarification as to why the OIG indicates the incorrect exchange rate was used. Please provide supporting documentation so that the NDoH can investigate this further and revise the FSR accordingly.

OIG recommendation that NDOH develop and implement policies and procedures for reconciling the FSR to the accounting records prior to submission, that accounting records differentiate between CDC cooperative agreements and years within those agreements, and ensuring that differentiate between CDC cooperative agreements and years within those agreements is maintained.

NDoH concurs with this recommendation. The accounting records are based on the Basic Accounting System (BAS) which is the government of South Africa's financial reporting and accounting system, designed and implemented by the National Treasury Department for all government departments. Although it would not be possible to differentiate between years and cooperative agreements within BAS, the NDOH now maintains separate spreadsheets that will enable differentiation between years and cooperative agreements.

Since the review period, the following new developments have been implemented:

- Cooperative Agreement Project Management Unit (PMU) monthly reconciliations: Budget-to actual comparisons are currently being performed timely and source and supporting documents are reconciled with actual expenditure as per the Ledger and Sub Ledger.
- Fund Accountability Deviations: Source-and supporting documentation are reconciled monthly with the actual expenditure and the Fund Accountability Statement is being updated quarterly.

OIG recommendation that NDOH use the exchange rate in effect at the time it prepares the FSR.

NDoH requires further clarification as to why the OIG indicates the incorrect exchange rate was used. Please provide supporting documentation so that the NDoH can investigate this further and revise the FSR accordingly.

OIG recommendation that NDOH develop and implement policies and procedures for submitting the annual progress report in a timely manner.

NDoH concurs with the recommendation made by OIG. During the review period, the annual progress report was not submitted in a timely manner. However, since then, the annual report, interim progress reports, and quarterly PEPFAR reports have all been submitted on time. Procedures have been developed and implemented to provide supporting documentation for audit purposes; these procedures have been listed in the Standard Operating Procedure Manual (SOP) that has been developed in conjunction with CDC South Africa.

OIG recommendation that NDOH have annual audits performed and submitted in a timely manner to the applicable United States agency.

NDoH concurs with the recommendation made by OIG. During the review period, NDOH did not have annual audits performed and submitted in a timely manner as per the Notice of Award. However, currently audits are being performed annually, at 12 month intervals, according to the US Government Auditing Standards (GAO), 45 CFR; 74.26(d); Circular No. A-133.

The NDoH kindly requests that any further correspondence related to the Cooperative Agreement be sent directly to me as the Principal Investigator, rather than the Minister of Health so that I can ensure timely correspondence.

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

Regards,

Ms. Sesupo Makakole-Nene for Dr Y. Pillay.
Acting Principal Investigator
CDC-NDOH Cooperative Agreement
Date: 03/07/13

APPENDIX 1
NDOH RESPONSE
A-05-12-00022

Sample #	Transaction Date	Description	Transaction Amount (ZAR)	Transaction Amount (USD)	Comments
10	2/1/2010	T&S DOM Without OP: KM All (OWN TR)	R8,638.20	$1,147.93	OIG Comment remains
19	7/15/2010	S&W: Compensation/Circum Other (RES)	R11,799.00	$1,560.38	
23	8/16/201	S&W: Compensation/Circum Other (RES)	R7,452.00	$1,025.74	
Sub-Total			R27,889.20	$3,734.05	
30	9/1/2010	Train & Dev: Non-Employees	R3,623,243.52	$496,981.49	All supporting documentation-attached **(Appendix 2)**
Original Total Amount			R3,651,133	$500,716	
Revised Total Amount			R27,889	3,734	To be refunded by NDoH