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

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Deputy Inspector General

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EXECUTIVE SUMMARY

BACKGROUND


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 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.

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 5U2GPS000811), CDC awarded PEPFAR funds totaling $19,460,289 to Aurum Institute for Health Research (Aurum) in South Africa for the budget period September 29, 2009, through September 28, 2010. Aurum entered into a cooperative agreement with CDC to implement a coordinated national response to the HIV/AIDS epidemic. The goals of the cooperative agreement were to strengthen HIV/AIDS prevention and treatment programs in small and medium enterprises and within health and education sectors, in South Africa.

OBJECTIVE

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

SUMMARY OF FINDINGS

Aurum did not always manage PEPFAR funds or meet program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, $868,822 of $2,559,427 reviewed was allowable and $1,690,605 was unallowable. Of the 42 financial transactions tested:
• 25 transactions totaling $868,822 were allowable and

• 17 transactions totaling $1,690,605 were unallowable because they consisted of either obligated funds of a prior budget period or unobligated funds (6 of these 17 were also under funding restrictions).

Additionally, Aurum:

• inappropriately requested and received cash advances in excess of its immediate needs,

• did not maintain cash advances in interest bearing accounts, and

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

Our program management review showed that, of the 30 goals and objectives sampled from the application for the cooperative agreement, Aurum did not report accomplishments related to 16 goals and objectives on the annual progress report.

Aurum’s policies and procedures did not address key financial and program management functions to ensure that it:

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

• made cash advance requests only for meeting its immediate cash requirements to carry out the purpose of the cooperative agreement,

• maintained cash advances in interest bearing accounts,

• submitted the annual progress report that included accomplishments related to all objectives that it had pursued under the award, and

• described in the annual progress report the reasons and other pertinent information about why certain established objectives were not completely met.

RECOMMENDATIONS

We recommend that Aurum:

• refund to CDC $1,690,605 of unallowable expenditures;

• file an amended FSR for the budget period of the cooperative agreement reviewed;

• develop and implement policies and procedures for:
  o reconciling the FSR to the accounting records prior to submission,
ensuring that it reports only allowable expenditures under the cooperative agreement and accurate costs on its FSR,

ensuring that cash advances are made only for its immediate cash requirements, and

ensuring that cash advances are maintained in interest bearing accounts;

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

- develop and implement policies and procedures for:

  - creating an annual progress report that addresses all goals and objectives related to the cooperative agreement and

  - ensuring that the annual progress report contains reasons and pertinent information on why it did not meet an established goal or objective.

AURUM COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

Aurum agreed with our findings but did not agree with all of our recommendations. Aurum did not agree with our first recommendation to refund to CDC $1,690,605 of unallowable expenditures. With regard to our second, third, and fifth recommendations, Aurum described the actions that it had taken or planned to take to address them. Aurum did not comment on the fourth recommendation to use the exchange rate in effect at the time it prepares its FSR. We continue to recommend Aurum refund the unallowable expenditures and use the exchange rate in effect at the time it prepares the FSR.
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APPENDIX: AURUM COMMENTS
INTRODUCTION

BACKGROUND

President’s Emergency Plan for AIDS Relief


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 obligated1 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 Aurum Institute for Health Research (Aurum) grant number 5U2GPS000811 through a cooperative agreement for the project period September 29, 2008, through September 28, 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-PS07-706 is entitled: Strengthening Workplace Interventions in Small and Medium Enterprises in the Republic of South Africa through Public-Private Partnerships under the President’s Emergency Plan for AIDS Relief.
Aurum Institute for Health Research

Aurum, a nonprofit organization incorporated under the laws of the Republic of South Africa, conducts health research, and care and treatment for tuberculosis and HIV. Aurum entered into a cooperative agreement with CDC to implement a coordinated national response to the HIV/AIDS epidemic. The goals of the cooperative agreement were to strengthen HIV/AIDS prevention and treatment programs in small and medium enterprises (SMEs)\(^4\) and within health and education sectors, in South Africa.

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 grant administration 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 Aurum on May 26, 2009, as a part of this award.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

Our audit covered the budget period from September 29, 2009, through September 28, 2010. This budget period was the third year of a 5-year cooperative agreement. During the budget period under review, CDC awarded Aurum $19,460,289.

We limited our review of internal controls to those related to our objective. We conducted fieldwork at Aurum’s offices in Johannesburg, South Africa, from January through February 2012.

\(^4\) Section I of the FOA refers to companies with 20 to 50 employees as small enterprises and 50 to 200 employees as medium-sized enterprises.
Methodology

To accomplish our objective, we:

• reviewed relevant Federal laws and regulations, HHS guidance, the FOA, the NOA, and Aurum’s policies and procedures;

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

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

• reconciled to its accounting records Aurum’s financial status report (FSR)\(^5\) for the budget period under review;

• selected and reviewed a judgmental sample of 42 financial transactions with expenditures totaling $2,559,427 from the grant award of $19,460,289 and included expenditures such as:

  o restricted funds, if specified on the NOA;

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

  o transactions above or below the average transaction amount in an expenditure category;

  o consulting fees; and

  o other unusual transactions;

• reviewed accounting treatment of value-added taxes (VAT)\(^6\) that Aurum paid;

• compared HHS’ cash advance\(^7\) payments that were listed in Aurum’s bank statements to the expenditures recorded in Aurum’s financial records;

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\(^5\) 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.

\(^6\) VAT is a form of consumption tax.

\(^7\) Pursuant to 45 CFR § 74.22, HHS primarily uses two methods of payment to award recipients: (1) the cash advance method under which HHS will make payments to the recipient for meeting immediate cash requirements of the recipient in carrying out the purpose of the approved program or (2) the reimbursement method under which HHS will make payments to the recipient within 30 days after receipt of the billing from the recipient. Aurum was paid under the cash advance method.
compared the accomplishments described in Aurum’s annual progress report to the cooperative agreement’s goals and objectives; and

selected a judgmental sample of 30 goals and objectives described in Aurum’s application for the cooperative agreement and reviewed supporting documentation to determine whether Aurum met program goals and objectives.

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

Aurum did not always manage PEPFAR funds or meet program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, $868,822 of $2,559,427 reviewed was allowable and $1,690,605 was unallowable. Of the 42 financial transactions tested:

- 25 transactions totaling $868,822 were allowable and
- 17 transactions totaling $1,690,605 were unallowable because they consisted of either obligated funds of a prior budget period or unobligated funds (6 of these 17 were also under funding restrictions.)

Additionally, Aurum:

- inappropriately requested and received cash advances in excess of its immediate needs,
- did not maintain cash advances in interest bearing accounts, and
- did not accurately report PEPFAR expenditures for this cooperative agreement on its FSR submitted to CDC.

8 Goals and objectives were listed in the application for the cooperative agreement that Aurum submitted to CDC and CDC incorporated the application as a part of the award.

9 Funding restriction or restricted cost is a cost for which additional information is needed or additional requirements must be met by the recipient prior to spending or engaging in any activity associated with that funding (CDC guidance titled Grantee’s Financial Reference Guide For Managing CDC Grants & Cooperative Agreements (December 2004), page 6). Available online at http://www.cdc.gov/dash/grants_mgt/docs_pdfs/GranteesFinancialReference.pdf. Accessed on May 22, 2013.
Our program management review showed that, of the 30 goals and objectives sampled from the application for the cooperative agreement, Aurum did not report accomplishments related to 16 goals and objectives on the annual progress report.

Aurum’s policies and procedures did not address key financial and program management functions to ensure that it:

- reported only allowable expenditures under the cooperative agreement and accurate costs on its FSR,
- made cash advance requests only for meeting its immediate cash requirements to carry out the purpose of the cooperative agreement,
- maintained cash advances in interest bearing accounts,
- submitted the annual progress report that included accomplishments related to all objectives that it had pursued under the award, and
- described in the annual progress report the reasons and other pertinent information on why certain established objectives were not completely met.

FINANCIAL MANAGEMENT

Federal Regulations and Notice of Award Guidance

A recipient must charge to the grant only allowable costs resulting from obligations that the recipient incurred during the budget period and any pre-award costs\textsuperscript{10} authorized by HHS (45 CFR § 74.28). “Obligations” mean the amounts of orders placed, contracts and grants awarded, services received, and similar transactions during a given period that require payment by the recipient during the same or a future period (§ 74.2). Recipients must maintain accounting records that are supported by source documentation (§ 74.21(b)(7)), and recipients must promptly refund any balances of unobligated funds\textsuperscript{11} that HHS has advanced or paid and that are not authorized to be retained by the recipient for use in other projects (§ 74.71(d)).

\textsuperscript{10} CDC requires its pre-approval to claim pre-award costs unless the pre-award cost is incurred within 90 days before effective date of the initial budget period of a new or competing continuation award (CDC guidance titled Grantee’s Financial Reference Guide For Managing CDC Grants & Cooperative Agreements (December 2004)).

\textsuperscript{11} Unobligated funds or unobligated balances are the portion of the funds authorized by the HHS awarding agency that has not been obligated by the recipient and is determined by deducting the cumulative obligations from the cumulative funds authorized (45 CFR § 74.2). See footnote 1 for the definition of obligated funds.
The NOA provides that, restricted funds shall not be withdrawn until the restrictions\textsuperscript{12} have been removed by an amended NOA. CDC guidance titled, \textit{Grantee's Financial Reference Guide For Managing CDC Grants & Cooperative Agreements} (December 2004) (the guidance) provides that, if there are restricted costs stated in the NOA for the budget period under review, and the restriction has not been removed by the CDC, restricted costs should be included in the unobligated balance on the FSR. The guidance also states that CDC’s prior approval must be obtained for carryover of unobligated funds from one budget period to another.

\textbf{Financial Transaction Testing}

Of the 42 transactions totaling $2,559,427 that we reviewed, 25 transactions totaling $868,822 were allowable but 17 transactions totaling $1,690,605 were unallowable. (See Table 1.)

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|}
\hline
\textbf{Category} & \textbf{Unallowable Transactions} & \textbf{Total} \\
\hline
Obligated During Prior Budget Period: & & \\
Administrative Costs & 1 & $11,661 \\
Services Costs & 9 & 122,853 \\
Not Obligated: & & \\
Administrative Costs & 2 & 139,486 \\
Laboratory Costs & 2 & 139,487 \\
Labor Costs & 2 & 418,459 \\
Major Items Costs & 1 & 858,659 \\
\hline
Total & 17 & $1,690,605 \\
\hline
\end{tabular}
\caption{Unallowable Financial Sample Transactions}
\end{table}

For 10 sample transactions associated with payments for administrative and service costs, Aurum reported obligations of a prior budget period as expenditures of the budget period under review. For these sample items, Aurum received invoices in October and November of 2009 (fiscal year 2010) from health care providers for services (such as antiretroviral therapy visits, counseling and testing, and wellness visits), which they had provided from January through September of 2009 (fiscal year 2009). Aurum made payments for these invoices in October and November of 2009 and recorded the payments as expenditures for the month in which it made payments.

For 7 sample transactions associated with the remaining administrative, labor, laboratory, and major items costs, Aurum could not provide documentation showing that Federal funds were

\textsuperscript{12} Funding restriction or restricted cost is a cost for which additional information is needed or additional requirements must be met by the recipient prior to spending or engaging in any activity associated with that funding (CDC guidance titled \textit{Grantee’s Financial Reference Guide For Managing CDC Grants & Cooperative Agreements} (December 2004), page 6). Available online at http://www.cdc.gov/dash/grants_mgt/docs_pdfs/GranteesFinancialReference.pdf. Accessed on May 22, 2013.)
obligated before the end of the budget period under review. Aurum received cash advances from HHS for these sample transactions and recorded the cash advances in its accounting records as provision for future expenditures. Aurum officials stated that it received items and services related to these sample transactions in the subsequent budget period and made payments after receiving the items and services. In addition, CDC had placed and not removed a restriction on 6 of these 7 sample transactions associated with administrative, labor, and laboratory costs. CDC placed the restriction within the NOA because the objectives that Aurum had submitted to CDC included data collection and possible research activities involving human subjects; however, Aurum had not submitted required protocols describing the mechanisms for the handling of human subject research.

Financial Status Reports

A grantee’s financial management reporting system must be able to demonstrate an accurate, current, and complete disclosure of financial results of grant funded activities in accordance with financial reporting requirements of the grant (45 CFR § 74.21(b)(1)). 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 Aurum submitted did not agree with its accounting records. Aurum used Microsoft Excel spreadsheets to convert its cooperative agreement transactions recorded in the South African Rand into U.S. dollars to create the FSR. The FSR was not accurate because of errors made while recording converted amounts on the spreadsheet. As a result, Aurum overreported expenditures on the FSR for the cooperative agreement by $5,462. Additionally, Aurum did not use the applicable exchange rate in effect at the time it prepared the FSR. Instead, it used a standard exchange rate factor of 7.5 rand to $1. When the recipients submit inaccurate FSRs, neither the recipient nor the awarding agency can properly manage the awards.

Cash Advances Analysis

Cash advances to a recipient must “be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient … in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the [grantee]” (45 CFR

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13 The term “research” means a systematic investigation, including research development, testing and evaluation, designed to develop or contribute to generalizable knowledge (45 CFR 46.102(d)).

14 The term “human subject” means a living individual about whom an investigator conducting research obtains: (1) data through intervention or interaction with the individual, or (2) identifiable private information (45 CFR 46.102(f)).

15 We are using the term “protocol” to mean the recipient’s written assurance explaining how it will comply with the Federal requirements for safeguarding the welfare of human subjects about whom it is conducting the research. Basic HHS policy for recipients for safeguarding the welfare of human subjects are provided in 45 CFR part 46, subpart A. Federal funds administered by a department or agency cannot not be expended for research involving human subjects unless the requirements of this subpart is satisfied by the recipient (45 CFR §46.122).
§ 74.22(b)(2)). Recipients must maintain advances of Federal funds in interest-bearing accounts unless the recipient meets one of the regulatory exceptions.\(^{16}\)

Cash advances that Aurum received were not always tied to its immediate cash needs. (See Table 2.)

<table>
<thead>
<tr>
<th>Date Aurum Received Cash Advance 17</th>
<th>Cash Advance Amount</th>
<th>Earliest Possible Date That Aurum Used Cash 18</th>
<th>Number of Days That Aurum Held Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 2, 2009</td>
<td>$1.08 million 19</td>
<td>February 22, 2010</td>
<td>At least 143 days</td>
</tr>
<tr>
<td>November 5, 2009</td>
<td>$0.69 million 20</td>
<td>February 22, 2010</td>
<td>At least 109 days</td>
</tr>
</tbody>
</table>

The examples presented in Table 2 show that Aurum requested cash in excess of its immediate needs and carried the balance for lengths of time much greater than necessary. \(^{21}\) Aurum frequently requested and received cash advances without considering the unused balance of previous advances. These two examples also assume that the costs Aurum reported were actually incurred for the cooperative agreement in the recent grant period.

In addition, Aurum did not maintain the cash advances in interest-bearing accounts, as required.

**PROGRAM MANAGEMENT**

**Federal Regulations and Funding Opportunity Announcement**

Pursuant to 45 CFR § 74.51(d)(1), progress reports should contain a comparison of actual accomplishments to the objectives established for the period. Also, progress reports should contain the reasons that any established objectives were not met and additional pertinent

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\(^{16}\) A recipient is exempt from the requirement that the advances of Federal funds be maintained in interest bearing accounts if: (1) the recipient receives less than $120,000 in Federal awards per year, (2) the best reasonably available interest bearing account would not be expected to earn interest in excess of $250 per year on Federal cash balances, or (3) the depository would require an average or minimum balance so high that it would not be feasible within the expected Federal and non-Federal cash resources (45 CFR § 74.22(k)).

\(^{17}\) This is the date on which the cash advance arrived in Aurum’s bank account.

\(^{18}\) This is the date of expenditure in the financial records. Actual date of payment for the expenditure could be on the same date or at a later date.

\(^{19}\) This cash advance was part of a total cash advance of $2 million that Aurum received on October 2, 2009.

\(^{20}\) This cash advance was part of a total cash advance of $1.55 million that Aurum received on November 5, 2009.

\(^{21}\) Cash requests or drawdowns are electronically initiated through the HHS’ payment management system which is administered by the HHS’ Division of Payment Management, Program Support Center.
information, including, when appropriate, analysis and explanation of cost overruns or high unit costs.

Additionally, the FOA states that Aurum should have measurable outcomes that are in alignment with the performance goals.22

Progress Report Testing

Of the 30 objectives that we sampled from Aurum’s application for the cooperative agreement, the progress report addressed accomplishments for 14. Although Aurum had documentation supporting all 30 objectives, it did not address the remaining 16 in its progress report (See Table 3.)

Table 3: Progress Report Accomplishments Summary

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Sample Transactions</th>
</tr>
</thead>
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<tr>
<td>Fourteen Reported In the Progress Report:</td>
<td></td>
</tr>
<tr>
<td>Completely Accomplished</td>
<td>2</td>
</tr>
<tr>
<td>Partially Accomplished</td>
<td>12</td>
</tr>
<tr>
<td>Sixteen Not Reported in the Progress Report:</td>
<td></td>
</tr>
<tr>
<td>Completely Accomplished</td>
<td>4</td>
</tr>
<tr>
<td>Partially Accomplished</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
</tr>
</tbody>
</table>

Of the 14 objectives that were addressed in the progress report, 2 were completed and 12 were only partially completed. Although Aurum encountered some difficulties during the year and discussed them in their progress report, they did not specifically state which of the established objectives were affected by the difficulties. For example, Aurum stated that it had difficulty in hiring staff members who were willing to relocate to remote areas, but it did not describe which objective was affected by this staff relocation difficulty.

Of the 16 objectives that the progress report did not address, 4 were accomplished but 12 were only partially accomplished. For example, Aurum stated in its application that it would train 360 nurses in counseling and HIV testing during the year. However, documentation supported training for only 269 nurses.

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22 Section IV of the NOA—Special Terms and Conditions—makes the requirements found in the FOA part of the award by reference.
INADEQUATE POLICIES AND PROCEDURES

Aurum’s policies and procedures did not address key financial and program management functions to ensure that it:

- reported only allowable expenditures under the cooperative agreement and accurate costs on its FSR,
- made cash advance requests only for meeting its immediate cash requirements to carry out the purpose of the cooperative agreement,
- maintained cash advances in interest bearing accounts,
- submitted the annual progress report that included accomplishments related to all objectives that it had pursued under the award, and
- described in its annual progress report the reasons and other pertinent information on why certain established objectives were not completely met.

RECOMMENDATIONS

We recommend that Aurum:

- refund to CDC $1,690,605 of unallowable expenditures;
- file an amended FSR for the budget period of the cooperative agreement reviewed;
- develop and implement policies and procedures for:
  - reconciling the FSR to the accounting records prior to submission,
  - ensuring that it reports only allowable expenditures under the cooperative agreement and accurate costs on its FSR,
  - ensuring that cash advances are made only for its immediate cash requirements, and
  - ensuring that cash advances are maintained in interest bearing accounts;
- use the exchange rate in effect at the time it prepares the FSR; and
- develop and implement policies and procedures for:
  - creating an annual progress report that addresses all goals and objectives related to the cooperative agreement and
o ensuring that the annual progress report contains reasons and pertinent information about why it did not meet an established goal or objective.

**AURUM’S COMMENTS**

Aurum agreed with our findings but did not agree with all of our recommendations.

Aurum did not agree with our first recommendation to refund to CDC $1,690,605 in unallowable expenditures. Aurum stated that the transactions listed by OIG auditors arose due to administrative non-compliance on reporting in the correct time periods. Aurum proposed to restate and resubmit the FSRs for the budget period under review and its prior and subsequent budget periods. Aurum commented separately on ten transactions related to obligations of the prior budget period and seven transactions related to unobligated funds, which were reported as expenditures on the FSR for the budget year under review.

In addressing the obligations of a prior budget period reported as expenditures during the budget period under review, Aurum stated that the invoices were partially for services rendered in the prior budget period. Aurum also stated that, in the normal course of events, it would report these costs as obligated but unliquidated in the FSR of the prior year. Aurum stated that an obligation to pay only arises on submission of an invoice and approval of that invoice by Aurum. It also stated that an obligation to pay does not arise on mere provision of service because that service may be outside of the service level conditions and thus not be allocable to the grant. Aurum cited sections of Office of Management and Budget Circular A-122 (Circular A-122), Attachment A, to argue that the costs are otherwise allocable and allowable, except for the fact that they were incorrectly reported. Aurum also stated that it should have used the 90 day post award period to make the necessary corrections to the FSR. Aurum proposed that the appropriate remedy would be to restate the FSRs for the two budget periods to correctly apportion this otherwise allowable expense.

In addressing the unobligated funds claimed as expenditures of the budget period under review, Aurum stated that it mistakenly drew down cash from the restricted balance for six transactions and it was unaware of any mechanisms to repay the money. Aurum also stated that these funds were not actually spent but rather incorrectly reported as spent, and that it did not spend any funding until the restriction was removed after the necessary protocol approvals were obtained. Regarding the remaining one transaction, Aurum stated that it erred by not reporting in accordance with U.S. regulations, and proposed to make an application in retrospect for a carryover of the amount. For all seven transactions, Aurum proposed to restate and resubmit FSRs for the budget period under review and the following budget period.

With regard to our second, third, and fifth recommendations, Aurum concurred with our findings and described the actions that it had taken or planned to take to address them. Aurum did not comment on the fourth recommendation to use the exchange rate in effect at the time it prepares its FSR.

Aurum’s comments, excluding six appendices, are included in the appendix.
OFFICE OF INSPECTOR GENERAL RESPONSE

We reviewed the explanations and documentation that Aurum provided. Where a grant award specifies a funding period, a recipient may only charge to the award allowable costs resulting from obligations incurred during the funding period and approved pre-award costs. Restating and resubmitting the FSR alone could not correct the fact that Aurum expended grant funds of the budget period under review to cover obligations incurred in a different budget period or reported unobligated funds as expenditures, in violation of federal regulations and HHS grants policy. Aurum characterizes the improper expenditures as the result of a reporting problem, but the facts do not support such an interpretation. Therefore, we continue to recommend that Aurum refund $1,690,605 of the unallowable expenditures. We also continue to recommend that Aurum use the exchange rate in effect at the time it prepares the FSR.
26 June 2013

Ms Sheri L. Fulcher
Regional Inspector General for Audit Services
Office of the Inspector General
233 North Michigan, Suite 1360
Chicago, IL
United States

Dear Ms Fulcher

RESPONSE TO DRAFT REPORT: A-05-12-00021

The Aurum Institute (Aurum) is grateful to the Centers for Disease Control and Prevention (CDC) and the Office of the Inspector General (OIG) for the opportunity to respond to and comment on this draft report.

We have responded to each of the findings and recommendations raised in the draft report and have indicated our concurrence or otherwise as to each finding, set out explanations and comments, and proposed corrective actions accordingly. This comprehensive response is attached hereto.

We demonstrate in this response that the transactions listed by the OIG auditors arise due to administrative non-compliance on reporting in the correct time periods, which can be remedied by correcting the relevant Financial Status Reports (FSRs) with the assistance of the SA Extramural Office and the Procurements and Grants Office of the CDC.

Aurum has a solid history of responsiveness to the direction and guidance of the CDC in all programmatic and reporting matters as well as a firm commitment to the principles of good governance. We would hope that this commitment to the goals of the PEPFAR programme and willingness to strengthen governance by every means will give the CDC comfort to agree to the remedial actions proposed in this response.

Yours sincerely

Dr David A Clark
Deputy CEO/Principal Investigator
Plain black text is the original OIG report wording.

Text in tables and boxes reflects Aurum’s response.
EXECUTIVE SUMMARY

Transactional Findings

Aurum concurs with the findings of the OIG auditors. We have provided detailed and accurate explanation for the transactions as well as supporting documentation for our actions. We demonstrate in this response that the transactions listed by the OIG auditors arise due to administrative non-compliance on reporting in the correct time periods, which can be remedied by correcting the relevant Financial Status Reports (FSRs) with the assistance of the SA Extramural Office and the Procurements and Grants Office of the CDC. Our application of international accounting reporting standards rather than US Grant Regulations partially accounts for us reporting in the incorrect time periods.

Programmatic Findings

Aurum concurs with the findings of the OIG auditors. We have already implemented the recommended corrective actions to improve activity reporting as is evidenced in the documentation we have provided below.

Policy and Procedure Findings

Aurum concurs with the findings of the OIG auditors. We have already implemented the recommended corrective actions and developed the necessary policies and procedures as is evidenced in the documentation we have provided below.

Recommendations

Although these errors are significant from a reporting perspective, they were made in good faith with respect to the programmatic objectives of PEPFAR in South Africa. We sought to prevent that the funds were disbursed wastefully or in abuse of the PEPFAR objectives. In that light, we request to correct the financial reporting and program approval in order to rectify the errors since repayment of this amount would not best serve the interests of PEPFAR and should not be necessary.
<table>
<thead>
<tr>
<th>RECOMMENDATION</th>
<th>AURUM STATEMENT</th>
</tr>
</thead>
</table>
| OVERALL RESPONSE TO THE AUDIT REPORT | The Aurum Institute (Aurum) is grateful to the Centers for Disease Control and Prevention (CDC) and the Office of the Inspector General (OIG) for the opportunity to respond to this draft audit report and the opportunity to learn to improve its reporting stewardship of US Federal funds.  
In a spirit of transparency and alignment to the principles of the audit, all the financial issues in this report were brought to the attention of the OIG auditors right up front when the audit commenced rather than being discovered during the audit process. We were able to provide detailed and accurate explanation for the transactions as well as supporting documentation for our actions.  
We incorrectly took comfort as to our compliance by relying on the outcomes of previous funder-sanctioned reviews [e.g. Foreign Organization System (FOS) Review, June 2007, Feb 2011; Government Accountability Office (GAO) Review, Dec 2008] as well as our own internal and external auditing processes. Our application of international accounting reporting standards rather than US Grant Regulations partially accounts for us reporting in the incorrect time periods.  
We demonstrate in this response that the transactions listed by the OIG auditors arise due to administrative non-compliance on reporting in the correct time periods, which can be remedied by correcting the relevant Financial Status Reports (FSRs) with the assistance of the SA Extramural Office and the Procurements and Grants Office of the CDC.  
Aurum has a solid history of responsiveness to the direction and guidance of the CDC in all programmatic and reporting matters as well as a firm commitment to the principles of good governance. We would hope that this commitment to the goals of the PEPFAR programme and willingness to strengthen governance by every means will give the CDC comfort to agree to the remedial actions proposed in this response. |
**DETAIL OF FINDINGS – FINANCIAL MANAGEMENT**

**Financial Transaction Testing**

Of the 42 transactions totalling $2,559,427 that we reviewed, 25 transactions totalling $868,822 were allowable but 17 transactions totalling $1,690,605 were unallowable. (See Table 1.)

For 10 sample transactions associated with payments for administrative and service costs, Aurum reported obligations of a prior budget period as expenditures of the budget period under review.

For these sample items, Aurum received invoices in October and November of 2009 (fiscal year 2010) from health care providers for services (such as antiretroviral therapy visits, counselling and testing, and wellness visits), which they had provided from January through September of 2009 (fiscal year 2009). Aurum made payments for these invoices in October and November of 2009 and recorded the payments as expenditures for the month in which it made payments.

For 7 sample transactions associated with the remaining administrative, labour, laboratory, and major items costs, Aurum could not provide documentation showing that Federal funds were obligated before the end of the budget period under review. Aurum received cash advances from HHS for these sample transactions and recorded the cash advances in its accounting records as provision for future expenditures. Aurum officials stated that it received items and services related to these sample transactions in the subsequent budget period and made payments after receiving the items and services. In addition, CDC had placed and not removed a restriction on 6 of these 7 sample transactions associated with administrative, labour, and laboratory costs. CDC placed the restriction within the NOA because the objectives that Aurum had submitted to CDC included data collection and possible research activities involving human subjects; however, Aurum had not submitted required protocols describing the mechanisms for the handling of human subject research.
<table>
<thead>
<tr>
<th>Category</th>
<th>Unallowable Transactions</th>
<th>Total</th>
<th>Aurum Management Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obligated During Prior Budget Period:</td>
<td></td>
<td></td>
<td>CONCUR - The payments relate to the prior budget period but were reported in the budget period under review. Nonetheless we submit they are valid expenses in the programme context.</td>
</tr>
<tr>
<td>Administrative Costs</td>
<td>1</td>
<td>$11,661</td>
<td></td>
</tr>
<tr>
<td>Services Costs</td>
<td>9</td>
<td>$122,853</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>10</td>
<td>$134,514</td>
<td></td>
</tr>
</tbody>
</table>

**SUMMARY OF PROPOSED CORRECTION:**

Whilst we will make every effort to prevent a recurrence of this reporting non-compliance, we propose that the CDC give consideration to permitting a correction in terms of US GAAP 250 or any other appropriate regulation to allow Aurum to:

- restate and re-submit the FSRs for the budget period under review and the prior budget period

in order to properly and accurately reflect the REPORTING of correct expenditure in each budget period.

All 10 transactions relate to a pair of invoices received from a single supplier, a family practitioner network that was contracted to provide HIV treatment and care services. The two invoices were dated in the year under review (19 October and 7 December 2009 – See Appendix 1) but were partially for services rendered in the prior budget period. They were only received, approved and processed in the budget period under review. In the normal course of events we would report these costs as obligated but unliquidated in the FSR of the prior year. However, this would only be possible if we knew of the obligation and had approved it as allocable to the grant.
Our practise arrangements with general practitioners [the suppliers in this instance] are that an obligation to pay only arises on submission of an invoice AND approval of that invoice by Aurum. An obligation to pay does not arise on mere provision of service since that service may be outside of the service level conditions and thus not be allocable to the grant.

Notwithstanding that some of the services rendered took place in year 2 of the grant, we received the invoice, reviewed and approved it in year 3 of the grant, which is the budget period being audited. In terms of the regulations relating to allocation of costs [Circular A-122 Attachment A. A2[a][c][d][e][g]] we would argue that the costs are otherwise allocable and allowable, but for the fact that they were incorrectly reported. Nonetheless we should have used the 90 day post award period to make the necessary corrections to the FSR.

The expenses relate to the GP program, the continuum and nature of which was consistent from year 1 to year 5 of the grant. The continuity of patient care bears this out.

1. The total spend of USD 134,514 equates to 0.7% of the year 3 total grant award of USD 19,460,289.
2. This vendor had an administrative problem which resulted in delayed invoices being submitted to Aurum. This problem was identified at a meeting held between Aurum and the vendor, only after the year 2 of the grant award had ended.
3. Aurum could not raise an accrual as it was dependent on the vendor to provide the invoice related information.
4. Aurum only raised and paid the invoices concerned after performing a verification of such related invoices.

We submit that the matter is one of difference in interpretation of the timing of the transactions and has in no way been prejudicial to the project or overall grant period. We propose that the appropriate remedy will be to restate the FSRs for the two budget periods to correctly apportion this otherwise allowable expense.

Aurum will review and strengthen its policy of raising accruals for open purchase orders in
order that grant expenses incurred are correctly recorded in the right FSR.

<table>
<thead>
<tr>
<th>Not Obligated:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Costs</td>
<td>2</td>
</tr>
<tr>
<td>Laboratory Costs</td>
<td>2</td>
</tr>
<tr>
<td>Labour Costs</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>6</strong></td>
</tr>
</tbody>
</table>

**CONCUR** – The expenses relate to the following budget period (year 4 of the grant) but were reported in the budget period (year 3 of the grant) under review. However, the issue is one of a reporting error only as the restricted funds were sequestered.

**SUMMARY OF PROPOSED CORRECTION:**

Whilst we will make every effort to prevent a recurrence of this reporting non-compliance, we propose that the CDC give consideration to permitting a correction in terms of US GAAP 250 or any other appropriate regulation to allow Aurum to:

- Restate and re-submit the FSRs for the budget period under review and the following budget period

in order to properly and accurately reflect the REPORTING of correct expenditure in each budget period.

These 6 items all arise as a result of a single event. In a spirit of transparency and alignment to the principles of the audit, this event, and the Major Items matter following in the next section below were brought to the attention of the auditors right up front when the audit commenced.

All transactions relating to Administrative, Laboratory and Labour costs were related to 1 journal entry passed on the restricted PHE funds at the end of grant year 3 (See detail in Appendix 2). During year 3 of the CoAg (ending 09/28/2010) funds were budgeted to be spent on three PHEs, however an amount of USD 843,333 remained restricted based on the NOA dated 07/07/2010.
In the final month of the budget period, the then Acting Head of Finance [redacted] who was relatively inexperienced, mistakenly drew down cash from the restricted balance of the grant via the PMS system. During the year end close out, when it was realised that this error had occurred, Aurum was unaware of any mechanisms to repay the money into the PMS system.

The financial team applied locally applicable International Financial Reporting Standards (IFRS - IAS 37) principles and the journal transaction was passed to create a provision for the future expenditure in Aurum’s books to ensure that the books of account agreed with the FFR already submitted. The cash was ring fenced to ensure that no actual expenditure of any cash was made with the funds. This transaction appears in the accounting system as expensed but owing to the funder, no expenditure was charged against the funds until the restriction was lifted on 19 July 2011 [see Appendix 2]. The actions taken, the journal entries, and verification of the cash ring-fencing were explained and supported to the OIG auditors at the time of audit.

In summary the following had occurred:

1. The portion of the restricted PHE funds amounting to USD 697,432 of the total PHE restricted funds of USD 843,333 were drawn down in error on 09/27/2010.
2. The restricted PHE funds drawn down were reported as spent for year of the grant to tie up with the FFR report.
3. To effect this, a journal was raised to create a provision in Aurum’s books.
4. By raising a provision Aurum used the correct accounting treatment on provisions to achieve the following:
   a. Ring fence the restricted PHE Funds separately
   b. Represent an obligation of the unspent PHE Funds correctly in terms of IFRS relating to provisions
5. So these funds were not actually spent but rather incorrectly reported as spent.

We concede that this treatment of the draw down error was incorrect but was nonetheless a bona fide error and the funds were not actually spent before the restriction was lifted in the
following year. The correct accounting treatment would have been to declare the funds
unobligated due to the restriction.

The auditors investigated the bank account holdings of Aurum at the time of the audit to verify
that the funds were in fact being held.

In the following year after the restriction was lifted, expenditure was applied to the provision
and not the grant. We did not spend any funding until the restriction was removed after the
necessary protocol approvals were obtained.

We propose that the CDC give consideration to remediation of the matter by permitting a
correction in terms of GAAP 250 or any other appropriate regulation to:

- Restate and re-submit the FSRs for the budget period under review and the following
  budget period

in order to properly and accurately reflect the REPORTING of correct expenditure in each
budget period.

We have also responded to the causative issue of drawdown of restricted funds in the policy
and procedure section below.

Following this incident, the Acting Head of Finance was not appointed to the permanent
position of Head of Finance (HOF). He consequently resigned and left the organisation. A new
HOF with qualifications equivalent to those of a US Certified Public Accountant was appointed
on 4 January 2011. Subsequent to these events, we have sent our financial staff working with
PEPFAR funding to CDC/USAID training on grant financial management and reporting during
the course of 2012.
### Major Items Costs

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONCUR</td>
<td>$858,659</td>
</tr>
</tbody>
</table>

**CONCUR** – The expenses relate to the following budget period (year 4 of the grant) but were reported in the budget period under review (year 3 of the grant). Whilst we erred by not reporting in accordance with US regulations, we were acting in good faith with respect to the programmatic objectives of PEPFAR in South Africa. We sought to prevent that the funds were disbursed wastefully or in abuse of the PEPFAR objectives. In that light, we request to correct the financial reporting and program approval in order to rectify the errors since repayment of this amount would not best serve the interests of PEPFAR and should not be necessary.

**SUMMARY OF PROPOSED CORRECTION:**

We propose that the CDC give consideration to permit a correction in terms of US GAAP 250 or any other appropriate regulation to:

- Re-submit the FSRs for the budget period under review and the following budget period and/or
- Make an application in retrospect for a carryover of the amount

in order to properly and accurately reflect the correct REPORTING of expenditure in each budget period and to correctly apportion the work was done.

This item was discussed extensively with the auditors at the time of the audit and arose in similar fashion to the transaction above.

On 1 September 2010 we met with the Branch Chief: Care & Treatment and Project Officer - to discuss a range of matters including the extension of the TB intensive case finding exercise already being conducted in the programme to the very high risk group of gold miners. It was agreed by that, in light of a major national concern around TB in the mines and CDC’s role in championing the response to the epidemic levels of disease, this effort should be commenced and the numbers screened and cases detected reported in the ensuing...
quarterly reports. Minutes of this meeting were provided to the auditors (attached hereto as Appendix 3).

In light of the fact that the decision was taken in the last 30 days of the budget period, the same inexperienced Acting Head of Finance drew down funds from the PMS although the work was to be carried out in the next budget period. On noting the error, Aurum reviewed the regulations relating to allocation of costs [Circular A-122 Attachment A, A2(a)(c)(d)(e)(g)] and International Financial Reporting Standards (IFRS-IAS 37), the overarching grant period, and concluded that a formal provision for the work should be raised in our accounts to ensure a match with the FFR already submitted. This provision was duly raised and reported as expensed against the grant in view of the ongoing nature of the grant into the next year. Our interpretation of subsections 3 and 4 of Attachment A of Circular A-122 as well as the detailed review of all our provisions by our auditors gave further impetus to this erroneous impression.

The auditors investigated the bank account holdings of Aurum at the time of the audit to verify that the funds were in fact being held.

Whilst we agree that we have made an error in reporting this, we nonetheless undertook the work in good faith in the ensuing budget period and reported 13,708 people screened and 729 TB cases detected in the ensuing budget period.

In the context of:
- the overall grant period and project period continuing beyond the budget period under review;
- our interpretations of the regulations above;
- the commission by Aurum of a bona fide error of a technical nature which was not prejudicial to the programme;
- the matter being in no way prejudicial to the project or overall grant period; and
- the overarching programmatic objectives of the CDC and PEPFAR in South Africa to which Aurum was and is fully committed.
We propose that the CDC give consideration to permit a correction in terms of US GAAP 250 or any other appropriate regulation to:

- Re-submit the FSRs for the budget period under review and the following budget period and/or
- Make an application in retrospect for a carryover of the amount (Appendix 3)

in order to properly and accurately reflect the correct REPORTING of expenditure in each budget period and to correctly apportion the work was done.

We have also responded to the foundational issue of allowability and allocability of costs in the policy and procedure section below. Subsequent to these events, we have sent our financial staff working with PEPFAR funding to CDC training on grant financial management and reporting during the course of 2012.

Although these errors are significant from a reporting perspective, they were made in good faith with respect to the programmatic objectives of PEPFAR in South Africa. We sought to prevent that the funds were disbursed wastefully or in abuse of the PEPFAR objectives. In that light, we request to correct the financial reporting and program approval in order to rectify the errors since repayment of this amount would not best serve the interests of PEPFAR and should not be necessary.

| Total | 17 | $1,690,605 |

Table 1: Unallowable Financial Sample Transactions
Financial Status Reports

A grantee’s financial management reporting system must be able to demonstrate an accurate, current, and complete disclosure of financial results of grant funded activities in accordance with financial reporting requirements of the grant (45 CFR § 74.21 (b)(1)). Pursuant to the GPS (Section 11-114), financial reports must be stated in U.S. dollars using the currency rate in effect at the time of submission.

The FSR that Aurum submitted did not agree with its accounting records. Aurum used Microsoft Excel spreadsheets to convert its cooperative agreement transactions recorded in the South African Rand into U.S. dollars to create the FSR. The FSR was not accurate because of errors made while recording converted amounts on the spreadsheet. As a result, Aurum over-reported expenditures on the FSR for the cooperative agreement by $5,462. Additionally, Aurum did not use the applicable exchange rate in effect at the time it prepared the FSR. Instead, it used a standard exchange rate factor of 7.5 rand to $1. When the recipients submit inaccurate FSRs, neither the recipient nor the awarding agency can properly manage the awards.

AURUM COMMENT:

CONCUR - We concur with the fact of a difference of $5,462 on comparing the FSR to the General Ledger. This represents a variance of 0.03% against the grant and arises from a late adjustment post to the General Ledger post submission of the FSR (see Appendix 4 for details of the transaction concerned) and not from errors in the use of intermediate spreadsheets. The FSR is prepared well before Aurum’s statutory audit and our own auditors sometimes require small adjustments to the general ledger to meet with local audit requirements which may give rise to the slight variance two years after the closure of the period in our books. This difference can be resolved if the proposed restatement of FSRs set out above are agreed to by the CDC.
Cash Advances Analysis

Cash advances to a recipient must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the grantee. (45 CFR § 74.22(b)(2)). Recipients must maintain advances of Federal funds in interest-bearing accounts unless the recipient meets one of the regulatory exceptions.

Cash advances that Aurum received were not always tied to its immediate cash needs. (See Table 2.)

<table>
<thead>
<tr>
<th>Date Aurum Received Cash Advance</th>
<th>Cash Advance Amount</th>
<th>Earliest Possible Date That Aurum Used Cash</th>
<th>Number of Days That Aurum Held Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 2, 2009</td>
<td>$1.08 million</td>
<td>February 22, 2010</td>
<td>At least 143 days</td>
</tr>
<tr>
<td>November 5, 2009</td>
<td>$0.69 million</td>
<td>February 22, 2010</td>
<td>At least 109 days</td>
</tr>
</tbody>
</table>

Table 2: Examples of Excessive Cash Balances

The examples presented in Table 2 show that Aurum requested cash in excess of its immediate needs and carried the balance for lengths of time much greater than necessary. Aurum frequently requested and received cash advances without considering the unused balance of previous advances. These two examples also assume that the costs Aurum reported were actually incurred for the cooperative agreement in the recent grant period.

In addition, Aurum did not maintain the cash advances in interest-bearing accounts, as required.

AURUM COMMENT:
CONCUR - Aurum concurs with the validity of this finding and has put measures in place which aim to ensure that this does not happen in future. These particular occurrences were explained at the time of audit to be due to an employee in an acting position doing the draw downs and not ensuring matching with expenditure. Cashflow forecasts were being incorrectly prepared and there was a lack of clear understanding of grant regulations. Both events reported occurred prior to the appointment of Aurum’s new HOF.

The audit team also noted in the audit feedback meeting that this only occurred early in the award period and was remedied on the appointment of a new Head of Finance at Chartered Accountant level (equivalent to the US Certified Public Accountant) who took control of the cash management system. Aurum has a cash flow and PEPFAR drawdown policy in place which was implemented by the CFO after the drawdown errors above had been identified. This policy was given to the auditors – see Appendix 6.

With respect to the finding of holding funds in interest bearing accounts, Aurum recognises and respects the audit finding and will endeavour to comply in future transactions.
DETAILED FINDINGS – PROGRAM MANAGEMENT

Federal Regulations and Funding Opportunity Announcement
Pursuant to 45 CFR § 74.51(d)(1), progress reports should contain a comparison of actual accomplishments to the objectives established for the period. Also, progress reports should contain the reasons that any established objectives were not met and additional pertinent information, including, when appropriate, analysis and explanation of cost overruns or high unit costs. Additionally, the FPA states that Aurum should have measurable outcomes that are in alignment with the performance goals.

Progress Report Testing
Of the 30 objectives that we sampled from Aurum’s application for the cooperative agreement, the progress report addressed accomplishments for 14. Although Aurum had documentation supporting all 30 objectives, it did not address the remaining 16 in its progress report (See Table 3.)

<table>
<thead>
<tr>
<th>Objectives Sample Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fourteen Reported In the Progress Report:</td>
</tr>
<tr>
<td>Completely Accomplished</td>
</tr>
<tr>
<td>Partially Accomplished</td>
</tr>
<tr>
<td>Sixteen Not Reported in the Progress Report:</td>
</tr>
<tr>
<td>Completely Accomplished</td>
</tr>
<tr>
<td>Partially Accomplished</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Table 3: Progress Report Accomplishments Summary

Of the 14 objectives that were addressed in the progress report, 2 were completed and 12 were only partially completed. Although Aurum encountered some difficulties during the year and discussed them in their progress report, they did not specifically state which of the established objectives were affected by the difficulties. For example, Aurum stated that it had difficulty in hiring staff members who were willing to relocate to remote areas, but it did not describe which objective was affected by this staff relocation difficulty.
Of the 16 objectives that the progress report did not address, 4 were accomplished but 12 were only partially accomplished. For example, Aurum stated in its application that it would train 360 nurses in counselling and HTV testing during the year. However, documentation supported training for only 269 nurses.

**AURUM COMMENT:**

CONCUR - Since inception of Aurum's participation in the PEPFAR program, Semi-Annual (SAPR) and Annual Progress Reports (APR) were always submitted in a largely narrative format highlighting the activities of the prior period. Detailed programmatic performance data was uploaded quarterly and annually to the central PEPFAR Data Warehouse (now redesigned and referred to as PIMS) -- this is done as a PEPFAR requirement. Since these reports were submitted in draft to the Project Officer, reviewed and corrected prior to submission to PGO, we had no reason to believe that they did not meet the requirements of the NOA and regulations.

Subsequent to the arrival of a new Branch Chief and Project Officer, towards the end of the period under review, the whole approach to reporting in the SAPR and APR was significantly upgraded to meet the standards set out in these audit findings. A comparison of the 2010-2011 APR (attached to this response as Appendix 5) to the ones prior to that demonstrates that Aurum has taken the necessary corrective action already to address this finding. Specifically, emphasis has been placed on quantitative reporting and explanation of variances in recent reports as required by the FOA/NOA. Other quantitative data are submitted via the PIMS system, but the SAPR and APRs are still submitted to the Activity Manager for review and correction prior to submission to PGO.

With respect to objective achievement, a review of grant performance and reporting was undertaken by Aurum in conjunction with the Project Officer. As a consequence, the then PI on the grant was removed from his position and left the organisation after a formal internal process.

Notwithstanding, the issue has been further addressed in the response to the policy and procedure findings section below.
DETAIL OF FINDINGS – INADEQUATE POLICIES AND PROCEDURES

Aurum's policies and procedures did not address key financial and program management functions to ensure that it:
- reported only allowable expenditures under the cooperative agreement and accurate costs on its FSR,
- made cash advance requests only for meeting its immediate cash requirements to carry out the purpose of the cooperative agreement,
- maintained cash advances in interest bearing accounts,
- submitted the annual progress report that included accomplishments related to all objectives that it had pursued under the award, and
- described in its annual progress report the reasons and other pertinent information on why certain established objectives were not completely met.

AURUM COMMENT:
It is recognised that these findings derive from the findings above. Draft policies and procedures have been developed for each point in response to this finding and are attached hereto in Appendix 6 for approval by the CDC.