

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**THE VIETNAM ADMINISTRATION FOR
HIV/AIDS CONTROL DID NOT
ALWAYS MANAGE THE PRESIDENT'S
EMERGENCY PLAN FOR AIDS RELIEF
FUNDS OR MEET PROGRAM GOALS IN
ACCORDANCE WITH AWARD
REQUIREMENTS**

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



Gloria L. Jarmon
Deputy Inspector General

June 2013
A-06-11-00057

Office of Inspector General

<https://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

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 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 5U2GPS000747), CDC awarded PEPFAR funds totaling \$15,000,000 and a carryover amount of \$4,211,597 to the Vietnam Administration for HIV/AIDS Control, the Ministry of Health (the Ministry), for the budget period September 30, 2009, through September 29, 2010. The Ministry's mission is to assist the Government of Vietnam in building a sustainable response to its national HIV/AIDS epidemic through the rapid expansion of innovative, culturally appropriate, high-quality HIV/AIDS prevention and care programs. The Ministry 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 the Ministry's capability to:

- reduce HIV transmission through effective prevention;
- improve HIV/AIDS-infected individuals' care, support, and treatment; and
- strengthen Vietnam's HIV/AIDS infrastructure and its ability to control and prevent HIV/AIDS.

OBJECTIVE

Our objective was to determine whether the Ministry managed PEPFAR funds and met program goals in accordance with 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, the Ministry did not return \$17,777 in interest income to CDC through the Payment Management System (PMS). In addition \$29,931 of the \$434,311 in financial transactions that we reviewed was used to pay potentially unallowable value-added taxes (VAT) on purchases.

Also, the Ministry did not:

- ensure that all of the provinces obtained the tax identification (tax ID) required to receive a VAT refund or
- record adjustments to the general ledger account in a timely manner.

Our program management review showed that all 30 of the accomplishments sampled from the annual progress report related to the goals and objectives of the cooperative agreement. However, 5 of the 30 accomplishments were not accurately supported by documentation. Additionally, the Ministry did not submit its semiannual and annual progress reports to CDC on time, in accordance with Federal regulations.

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

- provided guidelines for returning interest income to CDC through the PMS system,
- reconciled progress reports submitted to CDC with supporting documentation, or
- submitted its progress reports timely.

RECOMMENDATIONS

We recommend that the Ministry:

- return \$17,777 in interest income to CDC;
- work with CDC to resolve whether the \$29,931 of VAT was an allowable expenditure under the cooperative agreement;
- ensure that all provinces receive a tax ID and apply for a VAT refund;
- record financial transactions timely; and

- strengthen internal controls to ensure that:
 - progress reports are reconciled to supporting documentation and the data reported to CDC is accurate and
 - all progress reports are submitted timely.

MINISTRY COMMENTS

In written comments on our draft report, the Ministry concurred with our recommendations on strengthening internal controls over progress reports and generally agreed with our recommendation to return the \$17,777 in interest income. The Ministry partially agreed with our recommendation to work with CDC to resolve whether the \$29,931 of VAT was an allowable expenditure under the cooperative agreement; it neither agreed nor disagreed with our recommendation to record financial transactions in a timely manner. Additionally, the Ministry described corrective actions that it had taken or planned to take. See the body of the report for more details of the Ministry's comments and our responses.

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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 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 the Vietnam Administration for HIV/AIDS Control, the Ministry of Health (the Ministry), grant number 5U2GPS000747 through a cooperative agreement for the project period September 30, 2007, through September 29, 2012.

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* 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-PS07-703 is entitled: *Strengthening Coordination and Development of HIV/AIDS Prevention and Care in the Socialist Republic of Vietnam under the U.S. President's Emergency Plan for AIDS Relief*.

Vietnam Administration for HIV/AIDS Control

The Ministry's mission is to assist the Government of Vietnam in building a sustainable response to its national HIV/AIDS epidemic through the rapid expansion of innovative, culturally appropriate, high-quality HIV/AIDS prevention and care programs. The goals of the cooperative agreement were to strengthen the Ministry's capability to:

- reduce HIV transmission through effective prevention;
- improve HIV/AIDS-infected individuals' care, support, and treatment; and
- strengthen Vietnam's HIV/AIDS infrastructure and its ability to control and prevent HIV/AIDS.

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 dated June 8, 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 third year of a 5-year cooperative agreement. During the budget period under review, CDC awarded the Ministry \$15,000,000 and a carryover amount of \$4,211,597 from budget year 2.

We limited our review of internal controls to those related to our objective. We conducted fieldwork at the Ministry's offices in Hanoi, Vietnam, from February through March 2012.

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 Ministry officials to determine their processes and procedures related to financial accounting and reporting and accomplishments;
- reconciled to its accounting records the Ministry's financial status report (FSR)⁴ for the budget period under review;
- selected and reviewed a judgmental sample of 47 financial transactions with expenditures totaling \$434,311 from the grant award of \$15,000,000, and included expenditures such as:
 - bid proposal items;
 - transactions in an account that were an even amount;
 - transactions above/below the average transaction amount in an expenditure category;
 - consulting and Government fees; and
 - value-added taxes (VAT);⁵
- identified from the sampled transaction, the amount of VAT 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
- selected a judgmental sample of 30 accomplishments described in the Ministry's annual progress report and reviewed supporting documentation to determine whether the Ministry 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

⁴ 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.

⁵ A value-added tax is a form of consumption tax.

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, the Ministry did not return \$17,777 in interest income to CDC through the Payment Management System (PMS). In addition, \$29,931 of the \$434,311 in financial transactions that we reviewed was used to pay potentially unallowable VAT on purchases.

Also, the Ministry did not:

- ensure that all of the provinces obtained the required tax ID to receive a VAT refund or
- record adjustments to the general ledger account in a timely manner.

Our program management review showed that all 30 of the accomplishments sampled from the annual progress report related to the goals and objectives of the cooperative agreement. However, 5 of the 30 accomplishments were not accurately supported by documentation. Additionally, the Ministry did not submit its semiannual and annual progress reports to CDC on time, in accordance with Federal regulations.

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

- provided guidelines for returning interest income to CDC through the PMS,
- reconciled progress reports submitted to CDC with supporting documentation, and
- submitted its progress reports timely.

FINANCIAL MANAGEMENT

Program Interest Income Not Returned

Pursuant to the *Financial management regime of Life-GAP, 3rd round, 2007-2012*, any interest earned that is more than \$250 per year must be returned to CDC via the electronic PMS.

Interest income totaling \$17,777 from 25 provinces was not returned to CDC through the PMS. The Ministry stated that the provinces kept the interest income because they did not have any guidelines on how to return money through the PMS.

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 the United States and providing foreign aid.⁶

During the audit period, the Ministry used \$29,931 of PEPFAR funds to pay the VAT, a potentially unallowable cost for this grant. However, the Ministry recorded total expenditures in the general ledger without separating out the VAT expense; thus, we were unable to determine the total amount of VAT expenditures. In addition, the Ministry stated that 11 of the 28 provinces did not have a tax ID, which is required to receive a VAT refund from the Vietnamese Government.

Timely Recording of Financial Transactions

Pursuant to 45 CFR § 92.20(b)(1), recipients' financial management systems must provide for accurate, current, and complete disclosure of the financial results of financially assisted activities in accordance with the reporting requirements set forth in the grant or subgrant.

We found that the Ministry's financial management system did not always provide for accurate, current, and complete reporting of grant-related financial data. Specifically, we found that the Ministry recorded disbursements to subgrantees but did not record adjustments to the general ledger account regularly. The Ministry did not record expenditures from subgrantees into the general ledger until after expenditures had been verified by the Ministry. For example, Hanoi Province did not close its accounting books until March 3, 2011, 5 months after the end of the fiscal year. Additionally, Hanoi Province did not record expenditures until September 29, 2011, almost 7 months after it closed its accounting books.

PROGRAM MANAGEMENT

Progress Report Testing

Pursuant to 45 CFR § 92.40(b)(2), 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.

All 30 of the accomplishments that we sampled from the annual progress report related to the goals and objectives of the cooperative agreement. However, the Ministry did not provide accurate documentation to support five of the accomplishments. The supporting documentation for the number of attendees reported for training differed from the supporting documentation showing actual attendance. Specifically, the Ministry reported that there were:

⁶ 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.

- 38 attendees at the “pilot training on testing and discovering TB for HIV-infected patients for 3 polyclinic hospitals” (supporting documentation showed 45),
- 29 attendees at the “training on enhancing testing capacity” (supporting documentation showed 28),
- 47 attendees at the “training on controlling TB transmission” (supporting documentation showed 48),
- 143 attendees at the “training on HIV/AIDS and TB/HIV diagnosis and treatment for doctors of National Lung Hospital” (supporting documentation showed 121), and
- 135 attendees at the “training on enhancing comprehensive quality Management” (supporting documentation showed 134).

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 progress reports.⁷

The Ministry did not meet the 90-day Federal requirement for submitting an annual progress report because it submitted its report to CDC more than a year 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 January 11, 2012, and did not seek an extension or waiver. Without progress reports, CDC could not determine whether the recipient met program goals in accordance with award requirements.

In addition, the Ministry did not meet the 30-day Federal requirement for submitting a semiannual progress report because it submitted the report to CDC after the deadline of April 30, 2010, and did not seek an extension or waiver. The Ministry submitted an interim progress report to CDC on May 28, 2010, and the semiannual progress report in early June 2010.

INADEQUATE POLICIES AND PROCEDURES

The Ministry did not always manage PEPFAR funds or meet program goals in accordance with award requirements because its policies and procedures did not ensure that it:

- provided guidelines for returning interest income to CDC through the PMS,

⁷ 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)).

- reconciled progress reports to supporting documentation for accurate reporting to CDC, and
- submitted its progress reports timely.

RECOMMENDATIONS

We recommend that the Ministry:

- return \$17,777 in interest income to CDC;
- work with CDC to resolve whether the \$29,931 of VAT was an allowable expenditure under the cooperative agreement;
- ensure that all provinces receive a tax ID and apply for a VAT refund;
- record financial transactions timely; and
- strengthen internal controls to ensure that:
 - progress reports are reconciled to supporting documentation and the data reported to CDC is accurate and
 - all progress reports are submitted timely.

MINISTRY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the Ministry concurred with our recommendations on strengthening internal controls over progress reports and generally agreed with our recommendation to return the \$17,777 in interest income. The Ministry partially agreed with our recommendation to work with CDC to resolve whether the \$29,931 of VAT was an allowable expenditure under the cooperative agreement; it neither agreed nor disagreed with our recommendation to record financial transactions in a timely manner. Additionally, the Ministry described corrective actions that it had taken or planned to take.

The Ministry's comments are included as the Appendix; however, we did not include the additional documentation that the Ministry provided because it was too voluminous.

Program Interest Income Not Returned

Ministry Comments

The Ministry partially agreed with our recommendation to return \$17,777 in interest income. The Ministry recognized the need to return interest and acknowledged that it erred by failing to attempt to return the accrued interest until September 2012. However, the Ministry stated that Government of Vietnam (GVN) regulations set strict limitations on the overseas transfer of funds held in Vietnamese bank accounts. The Ministry said that, prior to the release of interest, GVN

regulations require burdensome documentation to be submitted, including audit reports for each of the five budget years of the cooperative agreements (2007 to 2012) between CDC and the Ministry. The Ministry said that it has completed audits for 3 of the 5 years and has a contract for the final 2 years.

Office of Inspector General Response

We recognize that the guidelines imposed by VGN will cause a delay in the return of these funds. However, we maintain that the finding and recommendation are valid and that the Ministry should return the interest to CDC upon completion of the required audits.

Expenditures for Value-Added Tax

Ministry Comments

The Ministry partially agreed with our recommendation to work with CDC to resolve whether the \$29,931 of VAT was an allowable expenditure under the cooperative agreement. The Ministry explained that prior to October 28, 2010, the GVN tax authority provided refunds only for limited items, namely HIV test kits and medication. The Ministry further explained that while VAT refunds would be provided for all goods and services after February 2011, the Ministry was unable to apply the changes retroactively. The Ministry stated that since the change in law, it has worked to refund VAT on all eligible goods and services.

Office of Inspector General Response

We maintain that the findings and recommendations are valid and in accordance with HHS GPS (section II-114). We continue to recommend that the Ministry work with CDC to resolve whether the \$29,931 of VAT was an allowable expenditure under the cooperative agreement.

Timely Recording of Financial Transactions

Ministry Comments

The Ministry did not agree or disagree with our recommendation to record financial transactions in a timely manner. The Ministry stated that GVN financial regulations require it to record funds transferred to subprojects as “advances” in the central office accounting records. The Ministry further stated that these regulations did not allow the Ministry to record financial transactions made at the subproject level in the central office accounting record based only on the annual financial reports of the subproject; rather, the law required central office staff to perform an on-site verification of the transactions. However, the Ministry stated that it will commit to verifying and recording financial transactions made by subprojects within 6 months of the end of each fiscal year.

Office of Inspector General Response

We recognize that the GVN financial regulation requiring the central office to perform an audit prior to recording financial transactions is an effective control measure; however, we do not consider 12 months after the close of the fiscal year to be in a timely manner. We believe that the corrective action stated by the Ministry, i.e., recording financial transactions made by subprojects within 6 months of the end of the fiscal year, more accurately reflects the requirements of 45 CFR § 92.20(b)(1), which requires recipients' financial management systems to provide for accurate, current, and complete disclosure of the financial results of financially assisted activities.

APPENDIX

APPENDIX: MINISTRY COMMENTS



LIFE-GAP

DỰ ÁN DỰ PHÒNG VÀ CHĂM SÓC HIV/AIDS TẠI VIỆT NAM
PROJECT ON HIV/AIDS PREVENTION AND CARE IN VIETNAM

CỘNG HÒA XÃ HỘI CHỦ NGHĨA VIỆT NAM
Độc lập - Tự do - Hạnh phúc

Socialist Republic of Vietnam
Independence - Freedom - Happiness

Số: 2.3.6/CV-DALIFE

Hà Nội, ngày 8 tháng 5 năm 2013

Wednesday, May 08, 2013

Patricia Wheeler
Regional Inspector General
Office of Audit Services, Region VI
1100 Commerce Street, Room 632
Dallas, TX 75242

Reference: Responses to the OIG audit report of Vietnam Administration for HIV/AIDS Control Number A-06-11-0005, for cooperative agreement number 5U2CPS000747

Dear Ms. Wheeler,

VAAC received the U.S. Department of Health and Human Services (HHS) Office of Inspector General (OIG) draft report number A-06-11-00057 through the CDC Vietnam Office on April 02, 2013. It is unfortunate that the report reached us several weeks after the official release date of February 26, 2013, as the official hard copy must have been lost in the postal mail system.

We would like to thank you very much for your review as well as the findings and recommendations you have provided. The HHS OIG visit in 2011 was a valuable opportunity for VAAC to showcase the successes of our program and the robust systems we utilize for managing USG funds.

We have carefully reviewed the draft report, discussed the findings and recommendations with CDC Vietnam, and have prepared the following response:

First of all, we would like to describe what we have found to be inherent conflicts in the laws, regulations and requirements of the U.S. Government vis a vis the Government of Vietnam, both of which govern the management of the subject VAAC Cooperative Agreement.

- **Conflict in law and regulations related to value-added tax:** Prior to early 2011, the Government of Vietnam tax authorities placed narrow restrictions on which items were eligible for VAT refund. Due to these restrictions, VAAC was only eligible to receive VAT refund for HIV test kits and medication. The restrictions remained in place until GVN issued legal decree number 106/2010/ND-CP on October 28, 2010 and subsequent circular number 28/2011/TT-BTC on February 28, 2011. See attached for both documents.
- **Conflict in regulations and requirements related to return of interest payments:** GVN decree No. 160-2006/ND-CP on December 28, 2006 sets very strict limitations which govern when funds held in Vietnamese bank accounts may be transferred overseas, contributing to onerous documentation requirements by the local branch of Citibank, which holds the project's bank account, in order to release the funds.

Further responses to specific report findings are included in the attached annex.

In addition to our specific responses to OIG findings, VAAC would like to respond to the report title: “The Vietnam Administration for HIV/AIDS Control Did Not Always Manage the President’s Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance with Award Requirements.” It has been our experience working with international auditing firms, that common practice is to title audit reports to reflect the nature and/or scope of the audit (e.g. “The audit report for the period of fiscal year 04”).

We believe the current report title may mislead readers, particularly decision makers within of the U.S. Government and/or the Government of Vietnam to draw inaccurate conclusions about the overall quality of the VAAC cooperative agreement project activities and management of funds. We would like to request that the final report title is modified to reflect that, on the whole, VAAC managed USG funds in accordance with program requirements and met program goals.

We thank you for your support and look forward to the final report.

Sincerely,



Phan Thi Thu Huong
VAAC Deputy General Director
Project Deputy Director

Annex. Detailed Responses to OIG Findings and Description of Corrective Actions

No	Finding	Response	Corrective Actions Taken to Date or Planned
1	Return \$17,777 in interest income to CDC:	<p>VAAC recognizes the need to return accrued interest on cooperative agreement funds to the U.S. government and acknowledges that VAAC erred by failing to attempt to return interest accrued until September 2012; see attached letter to Citibank.</p> <p>But VAAC requests re-consideration of this report finding based on the above described conflict in U.S Government vis a vis Government of Vietnam regulations.</p> <p>GVN decree No. 160-2006/ND-CP on December 28, 2006 sets very strict limitations on when funds held in Vietnamese bank accounts may be transferred overseas. Therefore, in September 2012 when VAAC requested Citibank to release and return interest funds from the project bank account, Citibank responded with a request for several documents, in order to ensure they complied with the law/ decree (see attached).</p> <p>The requested documents included audit reports for each of the five budget years of the CDC-VAAC cooperative agreement (2007-2012). However, to date, independent audits have been conducted only for years 1, 2 and 3. Beginning with budget year 4, CDC was no longer able to procure independent audit services for partners as per guidance from CDC headquarters Procurement and Grant Office, therefore VAAC had to begin procuring their own audits. Due to this change in process as well as lengthy GVN procedures to for competitive procurement, VAAC has just recently (April 2013) signed a contract for audits of budget years 4 and 5.</p>	<p>With guidance from CDC Vietnam, VAAC has worked closely with Citibank to attempt to transfer all recorded interest for the total project period back to CDC through the PMS system. At present, Citibank will not release the interest for Years 4 and 5 without final audit reports for these years. VAAC is attempting to further negotiate with Citibank to overcome this obstacle.</p> <p>We are hopeful that the release of this final HHS OIG audit report will be sufficient for Citibank to release the interest funds. In addition, we understand that the HHS Office of the General Counsel has recently become engaged to help resolve the situation with Citibank.</p> <p>In the future, we hope to reach an agreement with Citibank that allows VAAC to return accrued interest to PMS directly following the end of fiscal year.</p>
2	Work with CDC to resolve whether the \$29,931 of VAT was an allowable expenditure;	<ul style="list-style-type: none"> o On June 21, 2004, VAAC requested refund of all VAT charged on goods and services procured through the cooperative agreement from the GVN tax authorities. The GVN tax authorities responded that they would only provide refunds for limited items, namely HIV test kits and medication. Please refer to attached official response from the GVN Hanoi Tax department issued on August 24, 2004 VAAC also provided these 	<p>Since the change in GVN law, effective February 28, 2011, VAAC has worked to ensure refund of VAT on all eligible goods and services.</p>

	Ensure that all provinces receive a tax ID and apply for a VAT refund	<p>invoices to the OIG team during their visit.</p> <ul style="list-style-type: none"> o The GVN restrictions on items eligible for VAT refund remained in effect until legal decree number 106/2010/ND-CP was issued on October 28, 2010, (see attached) which made VAT refund allowable for all future purchases of goods and services. Furthermore, VAAC was only able to apply the changes outlined in this decree when the official guiding circular (Number 28/2011/TT-BTC; see attached) was issued on Feb 28, 2011. o As the new GVN regulations law are not retroactive, VAAC has been unable to obtain VAT refunds for most goods and services procured prior to March 2011, including the audited period of September 30, 2009-September 29, 2010. 	In addition, VAAC has assisted project sub-awardees (provinces and national institutes) to obtain a GVN tax ID for the purposes of VAT refund. As of April 2013, all sub-awardees have a registered Tax ID for at the local provincial tax department. In addition, all sub-awardees have requested VAT refund and recorded refunds on a monthly basis. Please refer to the VAT reports attached.
3	Record financial transactions in a timely manner	<p>This report finding refers to delays in recording financial transactions made by sub-awardees (i.e. sub-projects) into the accounting book maintained by the central project office.</p> <p>As per GVN financial regulations, funds transferred to sub-projects must be initially recorded in the central office accounting book as "advances". Therefore, it is not allowable within GVN law for VAAC to record actual disbursements made at the sub-project level in the central office account book on the basis of annual financial reports from the sub-projects alone. Rather, central office staff must first perform on-site verification. This is similar to an annual audit of each sub-project by central office staff.</p> <p>Due to the heavy workload of the central office financial management staff, there were some delays in performing the verification and subsequent recording of sub-project financial transactions into the central office accounting book.</p>	VAAC commits to verify and record financial transactions made by sub-projects within 6 months from the end of each fiscal year.
4	Strengthen internal controls for progress reports	VAAC concurs with the finding and will strengthen internal controls to ensure the accuracy and timely submission of progress reports.	VAAC has clarified staff roles and responsibilities for developing and submitting progress reports. The Strategic Information team now holds primary responsibility, with support from the Planning and Finance team.