

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**THE UNIVERSITY TEACHING HOSPITAL
GENERALLY MANAGED THE
PRESIDENT'S EMERGENCY PLAN FOR
AIDS RELIEF FUNDS AND MET
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

March 2014
A-04-13-04005

Office of Inspector General

<https://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <https://oig.hhs.gov>

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

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

The University Teaching Hospital generally managed the President's Emergency Plan for AIDS Relief funds and met program goals in accordance with award requirements. However, the Hospital did not follow its policies and procedures with 11 of the 39 financial transactions tested and did not have adequate policies and procedures to ensure fully supported and complete progress reporting.

WHY WE DID THIS REVIEW

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 Act) authorized \$48 billion in funding for the President's Emergency Plan for AIDS Relief (PEPFAR) program for the 5-year period beginning October 1, 2008, to assist foreign countries in combating HIV/AIDS, tuberculosis, and malaria.

The Act requires the Department of Health and Human Services (HHS), Office of Inspector General (OIG), among others, to provide oversight of the programs implemented under the Act, including PEPFAR. To meet this requirement, HHS OIG has conducted a series of audits of organizations receiving PEPFAR funds from HHS, Centers for Disease Control and Prevention (CDC). We selected the University Teaching Hospital (the Hospital) for review.

The objective of our review was to determine whether the Hospital managed PEPFAR funds and met program goals in accordance with the award requirements.

BACKGROUND

Through a 5-year cooperative agreement (grant number 5U2GPS001932), CDC awarded PEPFAR funds totaling \$4,938,673 to the Hospital for the budget period September 30, 2010, through September 29, 2011.

The Hospital's mission is to build on its national mandate to offer expert tertiary healthcare, to train healthcare workers, and to conduct research. The Hospital entered into a cooperative agreement with CDC to enhance Zambia's ability to respond to the HIV/AIDS epidemic. Specifically, the goals of the cooperative agreement were to strengthen the Hospital's capacity to:

- develop a tertiary-level hospital with the capacity to offer a broad range of adult and pediatric HIV/AIDS prevention, care, and treatment activities that are ongoing through PEPFAR funds from the past 3 to 5 years;
- develop a center for quality capacity building in strategic information activities, provide critical support to information systems, and build sustainable monitoring and evaluation capacity for HIV/AIDS in Zambia; and

- support a program that uses essential information from sentinel surveillance, national health surveys, clinical information systems, and targeted evaluations to improve quality of care.

WHAT WE FOUND

The Hospital generally managed PEPFAR funds and met program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, \$1,054,011 of \$1,067,565 reviewed was allowable, but \$13,554 was potentially unallowable because the Hospital paid value-added taxes (VAT) on purchases.

In addition, the Hospital did not always follow its policies and procedures. For 11 of the 39 financial transactions tested:

- 5 transactions totaling \$661,414 were paid without approved payment vouchers and
- 6 transactions totaling \$61,356 were recorded to the incorrect expense account in the general ledger.

Our program management review showed that the Hospital did not submit an annual progress report to CDC as required by Federal regulations and the Notice of Award. The Hospital did, however, submit an annual program results report covering October 1, 2010, through September 30, 2011, that reported on selected PEPFAR activities as required by the Office of the U.S. Global AIDS Coordinator (OGAC). However, the program results report did not show progress on 8 of the Hospital's 21 goals included in its approved cooperative agreement. Furthermore, of the 13 goals on which the Hospital reported, 5 were supported by documentation, but 8 were only partially supported.

These errors occurred because the Hospital did not have adequate policies and procedures.

WHAT WE RECOMMEND

We recommend that the Hospital:

- work with CDC to resolve whether the \$13,554 of VAT was an allowable expenditure under the cooperative agreement;
- work with the Zambian government for VAT exemption and refund of VAT disbursements; and
- enhance its internal controls by updating its policies and procedures to include detailed steps to account for and report PEPFAR funds, not limited to but including:
 - recording and approving payments for PEPFAR expenditures;

- submitting annual progress reports, in addition to the annual program results reports, in a timely manner;
- maintaining adequate supporting documentation for goals reported in the annual progress report; and
- maintaining backups of electronic databases used to calculate and track quantitative amounts to support “point-in-time” progress reported.

UNIVERSITY TEACHING HOSPITAL COMMENTS AND OUR RESPONSE

In comments on our draft report, Hospital officials generally concurred with our recommendations and described the actions they had taken to address them. However, in response to our recommendation to work with CDC to resolve whether the \$13,554 of VAT was an allowable expenditure, Hospital officials said that they had repaid the \$13,554 subsequent to our fieldwork. The officials said that in August 2013, OGAC imposed a penalty on the Hospital for paying VAT expenses with PEPFAR funds and reduced its funds by 200 percent of the cooperative agreement’s year 5 funding, which included the \$13,554.

After reviewing the Hospital’s additional documentation, we were unable to verify that the \$13,554 of VAT was included in an FY 2013 reduction of awarded funds and repaid to the U.S. Treasury Department. Therefore, we continue to recommend that the Hospital work with CDC to resolve this issue.

TABLE OF CONTENTS

INTRODUCTION	1
Why We Did This Review	1
Objective	1
Background	1
Centers for Disease Control and Prevention	1
University Teaching Hospital	2
How We Conducted This Review.....	3
FINDINGS	3
Financial Management.....	4
Expenditures for Value-Added Tax Are Potentially Unallowable	4
Financial Transactions Were Not Always Approved or Recorded Accurately	4
Program Management.....	5
Hospital Did Not Submit Annual Progress Report to CDC.....	5
Some Cooperative Agreement Goals Not Reported or Partially Supported.....	5
Inadequate Policies and Procedures.....	6
RECOMMENDATIONS	6
UNIVERSITY TEACHING HOSPITAL COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE	7
University Teaching Hospital Comments	7
Office of Inspector General Response	7
APPENDIXES	
A: Related Office of Inspector General Reports.....	8
B: Audit Scope and Methodology.....	9
C: Federal Requirements.....	11
D: University Teaching Hospital Comments	13

INTRODUCTION

WHY WE DID THIS REVIEW

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 Act) authorized \$48 billion in funding for the President's Emergency Plan for AIDS Relief (PEPFAR) program for the 5-year period beginning October 1, 2008, to assist foreign countries in combating HIV/AIDS, tuberculosis, and malaria.

The Act requires the Department of Health and Human Services (HHS), Office of Inspector General (OIG), among others, to provide oversight of the programs implemented under the Act, including PEPFAR. To meet this requirement, HHS OIG has conducted a series of audits of organizations receiving PEPFAR funds from HHS, Centers for Disease Control and Prevention (CDC).¹

We selected the University Teaching Hospital (the Hospital) for review.

OBJECTIVE

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

BACKGROUND

Centers for Disease Control and Prevention

The Act gives 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) 2010, CDC obligated² PEPFAR funds totaling \$1.1 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

¹ Appendix A contains a list of OIG related reports.

² "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.

the objectives of the agreements.³ In response to a Funding Opportunity Announcement (FOA),⁴ CDC awarded the Hospital grant number 5U2GPS001932 through a cooperative agreement for the project period September 30, 2009, through September 29, 2014.

University Teaching Hospital

The Hospital's mission is to build on its national mandate to offer expert tertiary healthcare,⁵ to train healthcare workers, and to conduct research. The Hospital entered into a cooperative agreement with CDC to enhance Zambia's ability to respond to the HIV/AIDS epidemic. Specifically, the goals of the cooperative agreement were to strengthen the Hospital's capacity to:

- develop a tertiary-level hospital with the capacity to offer a broad range of adult and pediatric HIV/AIDS prevention, care, and treatment activities that are ongoing through PEPFAR funds from the past 3 to 5 years;
- develop a center for quality capacity building⁶ in strategic information activities,⁷ provide critical support to information systems, and build sustainable monitoring and evaluation capacity for HIV/AIDS in Zambia; and
- support a program that uses essential information from sentinel surveillance,⁸ national health surveys, clinical information systems, and targeted evaluations to improve quality of care.

³ The regulations that apply to Federal grants also apply to cooperative agreements.

⁴ FOA Number CDC-RFA-PS09-9120 is entitled *Centers for Disease Control and Prevention, Support for the National Government Monitoring and Evaluation System, Surveillance and Laboratory Infrastructure and Pediatric and Adult HIV Care and Support in the Republic of Zambia under the President's Emergency Plan for AIDS Relief (PEPFAR)*.

⁵ Tertiary healthcare is specialized consultative care, usually on referral from primary or secondary medical care personnel, by specialists working in a center that has personnel and facilities for special investigation and treatment. (Secondary medical care is the medical care provided by a physician who acts as a consultant at the request of the primary physician.) Johns Hopkins Medicine, "Tertiary Care Definition." Available online at http://www.hopkinsmedicine.org/patient_care/pay_bill/insurance_footnotes.html. Accessed on November 18, 2013.

⁶ U.S. Government investment in capacity building through PEPFAR seeks to assist host governments' efforts to know their epidemics and respond strategically to prevent new infections, care for and treat infected and affected populations, and mitigate the social and economic consequences.

⁷ The collection of strategic information serves multiple purposes: (1) to assist host country governments to plan, monitor, and manage a coordinated national response to the HIV/AIDS epidemic and (2) to assist PEPFAR country teams to plan, monitor, and manage U.S. Government HIV/AIDS activities in support of the national plan.

⁸ Sentinel surveillance provides an alternative to population-based surveillance for the collection and analysis of individual patient-related information and more limited monitoring of antimicrobial resistance trends. It offers greater design flexibility with the participation requirements of various network partners. Findings from sentinel surveillance data collection are useful for documenting trends but are not population based.

HOW WE CONDUCTED THIS REVIEW

Our audit covered the budget period from September 30, 2010, through September 29, 2011. This budget period was the second year of a 5-year cooperative agreement. During the budget period under review, CDC awarded the Hospital \$4,938,673.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B contains the details of our scope and methodology, and Appendix C contains Federal requirements.

FINDINGS

The Hospital generally managed PEPFAR funds and met program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, \$1,054,011 of \$1,067,565 reviewed was allowable, but \$13,554 was potentially unallowable because the Hospital paid value-added taxes (VAT)⁹ on purchases.

In addition, regarding financial management, the Hospital did not always follow its policies and procedures. For 11 of the 39 financial transactions tested:

- 5 transactions totaling \$661,414 were paid without approved payment vouchers and
- 6 transactions totaling \$61,356 were recorded to the incorrect expense account in the general ledger.

Our program management review showed that the Hospital did not submit an annual progress report¹⁰ to CDC as required by Federal regulations and the Notice of Award (NOA). The Hospital did, however, submit an annual program results report covering October 1, 2010, through September 30, 2011, that reported on selected PEPFAR activities as required by the Office of the U.S. Global AIDS Coordinator (OGAC).¹¹ However, the program results report did not show progress on 8 of the Hospital's 21 goals included in its approved cooperative agreement. Furthermore, of the 13 goals on which the Hospital reported, 5 were supported by documentation, but 8 were only partially supported.

⁹ VAT is a form of consumption tax.

¹⁰ Recipients are required to submit annual progress reports that should contain, for each grant or cooperative agreement, a comparison of actual accomplishments to objectives established for the period.

¹¹ The annual program results report covers selected PEPFAR activities as required by OGAC. OGAC is part of the Department of State. It manages and coordinates U.S. Government-supported HIV/AIDS programs in developing countries. As part of its management activities, OGAC requires CDC and other U.S. agencies to submit the annual program results report for selected PEPFAR activities, which the PEPFAR Country Coordinator combines and submits to OGAC.

These errors occurred because the Hospital did not have adequate policies and procedures.

FINANCIAL MANAGEMENT

Expenditures for Value-Added Tax Are Potentially Unallowable

The HHS Grants Policy Statement (GPS) (section II-114) states that certain costs, including VAT, are unallowable under both 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.¹²

For 8 of the 39 financial transactions tested, the Hospital used \$13,554 of PEPFAR funds to pay the VAT, a potentially unallowable cost for this cooperative agreement. The eight financial transactions included VAT for publication and printing, insurance and indemnification, maintenance and repair, communication, meetings and conferences, training, and medical equipment. The VAT on these transactions was also included as part of total expenditures on the financial status report (FSR).

The Hospital stated that it did not keep a record of VAT charged to its cooperative agreement and that it had not applied to the Zambian government for exemption status or a refund of all the VAT expenditures previously disbursed.

Financial Transactions Were Not Always Approved or Recorded Accurately

Recipients' financial management systems must provide for "[e]ffective control over and accountability for all funds, property and other assets." Recipients must "adequately safeguard all such assets and assure they are used solely for authorized purposes" (45 CFR § 74.21(b)(3)). In addition, accounting records must be supported by source documentation (45 CFR § 74.21(b)(7)). The Hospital's policies and procedures required that a payment voucher with authorizing signatures be submitted with the invoice for reimbursements of purchases.

For the 39 transactions totaling \$1,067,564 that we reviewed, we identified internal control weaknesses for 11 transactions tested totaling \$722,770. For these 11 transactions, the Hospital did not follow its policies and procedures. (See the table below.)

Table: Financial Transactions

Category	Sample Transactions	Total
No payment voucher	5	\$661,414
Incorrect expense accounts	6	61,356
Total	11	\$722,770

¹² HHS is reexamining the applicability of the GPS provision; thus, we are not recommending a disallowance. Instead, we recommend that the Hospital work with CDC to resolve the issue.

For five sample transactions, the Hospital was unable to provide payment vouchers for medical equipment, supplies, health and welfare, training, and other expenses. Although the Hospital was able to provide supporting documentation for the expenses, it could not provide the payment vouchers, which should have included authorizing signatures approving payment for the expenses. For six sample transactions, the Hospital recorded the transactions to incorrect expense accounts in the general ledger.

By not obtaining authorizing signatures or recording transactions properly, the Hospital did not ensure that the funds were spent in accordance with award requirements.

PROGRAM MANAGEMENT

Hospital Did Not Submit Annual Progress Report to CDC

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 (45 CFR § 74.51(b)).

Progress reports should contain a comparison of actual accomplishments to the objectives established for the period (45 CFR § 74.51(d)(1)). 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” (45 CFR § 74.51(d)(2)-(3)).

Recipients are required to retain financial records, supporting documents, and all other records pertinent to the grant agreement for 3 years from the submission date of the final expenditure report for the funding period (45 CFR § 74.53(b)).

The Hospital did not submit an annual progress report to CDC as required by Federal regulations and the NOA. However, the Hospital did submit a program results report for the period October 1, 2010, through September 30, 2011, that reported on selected PEPFAR activities as required by OGAC. OGAC requires CDC and other U.S. agencies to submit the annual program results for selected PEPFAR activities, which the PEPFAR Country Coordinator combines and submits to OGAC.

The Hospital said that it did not submit an annual progress report because it had interpreted an email from CDC to mean that it only had to submit the program results report. Without annual progress reports, CDC could not determine whether the Hospital met program goals in accordance with award requirements.

Some Cooperative Agreement Goals Not Reported or Partially Supported

The Hospital’s cooperative agreement contained 21 goals, only 13 of which the Hospital reported in the program results report. Of the 13 goals reported, 5 were supported, and 8 were only partially supported.

For the eight partially supported goals, the Hospital could not provide support for the number of services provided or evidence that the service was rendered. Examples of activities that were partially supported included testing, counseling, antiretroviral treatment, and training.

The Hospital was unable to provide documentation supporting all of the numbers of services provided that it had included in its program results report because the electronic databases that it used to keep track of some of these numbers showed only current counts. The Hospital could not provide support for historical numbers in the program results report.

Also, the Hospital did not report results on eight goals because OGAC did not require the program results report to include progress on all of the cooperative agreement goals. OGAC selected the activities for the report to demonstrate progress in the fight against HIV/AIDS, not to demonstrate progress on all of the goals in the cooperative agreement.

INADEQUATE POLICIES AND PROCEDURES

Although the Hospital had formal policies and procedures in place for the cooperative agreement, they were not adequate to ensure that it:

- recorded and approved payments for PEPFAR expenditures accurately,
- submitted accurate and adequately supported annual progress reports in a timely manner as required by Federal regulations and the NOA, and
- maintained backups of electronic databases used to calculate and track quantitative amounts to support “point-in-time”¹³ progress reported.

RECOMMENDATIONS

We recommend that the Hospital:

- work with CDC to resolve whether the \$13,554 of VAT was an allowable expenditure under the cooperative agreement;
- work with the Zambian government for VAT exemption and refund of VAT disbursements; and
- enhance its internal controls by updating its policies and procedures to include detailed steps to account for and report PEPFAR funds, not limited to but including;
 - recording and approving payments for PEPFAR expenditures;
 - submitting annual progress reports, in addition to the annual program results reports, in a timely manner;
 - maintaining adequate supporting documentation for goals reported in the annual progress report; and
 - maintaining backups of electronic databases used to calculate and track quantitative amounts to support “point-in-time” progress reported.

¹³ Point-in-time is a snapshot of data taken at a specific time.

UNIVERSITY TEACHING HOSPITAL COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

University Teaching Hospital Comments

In comments on our draft report, Hospital officials generally concurred with our recommendations. Also, the Hospital described the actions they had taken to address them, such as processing all VAT rated purchases through CDC until the Hospital obtains its own exemption status and updating its standard operating procedures and controls.

In response to our recommendation to work with CDC to resolve whether the \$13,554 of VAT was an allowable expenditure, Hospital officials said that they had repaid the \$13,554 subsequent to our fieldwork. The officials said that in August 2013, OGAC imposed a penalty on the Hospital for paying VAT expenses with PEPFAR funds and reduced its funds by 200 percent of the cooperative agreement's year 5 funding, which included the \$13,554.

The Hospital's comments, except for the additional documentation provided, are included as Appendix D.

Office of Inspector General Response

After reviewing the Hospital's additional documentation, we were unable to verify that the \$13,554 of VAT was included in an FY 2013 reduction of awarded funds and repaid to the U.S. Treasury Department. Therefore, we continue to recommend that the Hospital work with CDC to resolve this issue.

APPENDIX A: OFFICE OF INSPECTOR GENERAL REPORTS

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

Report Title	Report Number	Date Issued
<i>Aurum Institute for Health Research Did Not Always Manage President’s Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	<u>A-05-12-00021</u>	8/23/2013
<i>The South African National Department of Health Did Not Always Manage President’s Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	<u>A-05-12-00022</u>	8/23/2013
<i>National Health Laboratory Service Did Not Always Manage President’s Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	<u>A-05-12-00024</u>	8/15/2013
<i>The Southern African Catholic Bishops’ Conference AIDS Office Generally Managed President’s Emergency Plan for AIDS Relief Funds and Met Program Goals in Accordance With Award Requirements</i>	<u>A-05-12-00023</u>	7/23/2013
<i>The Centers for Disease Control and Prevention’s Vietnam Office Generally Monitored Recipients’ Use of the President’s Emergency Plan for AIDS Relief Funds</i>	<u>A-04-12-04023</u>	4/22/2013
<i>Potentia Namibia Recruitment Consultancy Generally Managed the President’s Emergency Plan for AIDS Relief Funds and Met Program Goals in Accordance With Award Requirements</i>	<u>A-06-11-00056</u>	4/19/2013
<i>The Centers for Disease Control and Prevention’s South Africa Office Did Not Always Properly Monitor Recipients’ Use of the President’s Emergency Plan for AIDS Relief Funds</i>	<u>A-04-12-04022</u>	2/12/2013
<i>The Republic of Namibia, Ministry of Health and Social Services, Did Not Always Manage the President’s Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	<u>A-04-12-04019</u>	1/14/2013
<i>The Centers for Disease Control and Prevention’s Namibia Office Did Not Always Properly Monitor Recipients’ Use of the President’s Emergency Plan for AIDS Relief Funds</i>	<u>A-04-12-04020</u>	11/19/2012
<i>Review of the Centers for Disease Control and Prevention’s Oversight of the President’s Emergency Plan for AIDS Relief Funds for Fiscal Years 2007 Through 2009</i>	<u>A-04-10-04006</u>	6/15/2011

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered the budget period from September 30, 2010, through September 29, 2011. This budget period was the second year of a 5-year cooperative agreement. During the budget period under review, CDC awarded the Hospital \$4,938,673.

We limited our review of internal controls to those related to our objective. We conducted fieldwork at the Hospital's offices in Lusaka, Zambia, from January through February 2013.

METHODOLOGY

To accomplish our objective, we:

- reviewed relevant Federal laws and regulations, HHS guidance, the FOA, the NOA, and the Hospital's policies and procedures;
- interviewed and conducted meetings with CDC Zambia officials to determine the extent of the technical assistance they provided to the Hospital;
- interviewed and conducted meetings with Hospital officials to determine their processes and procedures related to financial accounting and reporting and program goals and accomplishments;
- reconciled the Hospital's FSR¹⁴ to its accounting records for the budget period under review;
- selected and reviewed a judgmental sample of 39 financial transactions with expenditures totaling \$1,067,564 from the grant award of \$4,938,673 and included expenditures such as:
 - bid proposal items over \$10,000 for audit, maintenance, and equipment;
 - consulting and government fees;
 - accounts that were questioned in the fund accounting audit report, i.e. salaries, overtime, equipment and travel; and
 - other unusual transactions;
- identified the amount of VAT that the Hospital paid with PEPFAR funds;
- compared the accomplishments described in the Hospital's program results report¹⁵ to the cooperative agreement's goals; and

¹⁴ FSRs are due to the CDC Grants Management Office 90 days after the end of the budget period (45 CFR § 74.52(a)(1)(iv)). FSRs provide information to CDC on current expenditures and on carryover balances (if any). In addition, these documents are considered in future funding decisions.

- reviewed supporting documentation for all of the goals reported in the Hospital's annual program results report that related to the goals in the cooperative agreement.

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.

¹⁵ The Hospital did not submit an annual progress report as required by Federal regulations and the NOA. It did, however, submit a program results report covering October 1, 2010, through September 30, 2011, that reported on selected PEPFAR activities as required by OGAC.

APPENDIX C: FEDERAL REQUIREMENTS

45 CFR § 74.21(b)(7)

Recipients' financial management systems shall provide for the following:
Accounting records, including cost accounting records, that are supported by source documentation.

45 CFR § 74.21(b)(3)

Recipients' financial management systems shall provide for the following:
Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.

45 CFR § 74.51(b)

The HHS awarding agency will prescribe the frequency with which the performance reports shall be submitted. Except as provided in paragraph (f) of this section, performance reports will not be required more frequently than quarterly or, less frequently than annually. Annual reports shall be due 90 calendar days after the award year; quarterly or semi-annual reports shall be due 30 days after the reporting period. The HHS awarding agency may require annual reports before the anniversary dates of multiple year awards in lieu of these requirements. The final performance reports are due 90 calendar days after the expiration or termination of the award.

45 CFR § 74.51(d)(1)-(3)

Performance reports shall generally contain, for each award, brief information on each of the following: (1) A comparison of actual accomplishments with the goals and objectives established for the period, the findings of the investigator, or both. Whenever appropriate and the output of programs or projects can be readily quantified, such quantitative data should be related to cost data for computation of unit costs. (2) Reasons why established goals were not met, if appropriate. (3) Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

45 CFR § 74.52(a)(1)(iv)

The following forms are used for obtaining financial information from recipients: (1) SF-269 or SF-269A, Financial Status Report. (iv) Recipients shall submit the SF-269 and SF-269A (an original and two copies) no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and 90 calendar days for annual and final reports. Extensions of reporting due dates may be approved by the HHS awarding agency upon request of the recipient.

45 CFR § 74.53(b)

Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report.

HHS Grants Policy Statement, Section II-114

Customs and import duties. These costs, which include consular fees, customs surtax, value-added taxes, and other related charges, are unallowable under foreign grants and domestic grants with foreign components.



REPUBLIC OF ZAMBIA
MINISTRY OF HEALTH
University Teaching Hospital

Fax: +260 211 250305
e-mail: mduth@yahoo.com

P/Bag Rw 1X
Lusaka - Zambia
Tel: +260 211 253947 (Switch Board)
+260 211 251451

OFFICE OF THE SENIOR MEDICAL SUPERINTENDENT

Our Ref:

Your Ref:

16th January 2014

Gloria L. Jarmon
Deputy Inspector General for Audit Services
Department of Health and Human Services
Office of the Inspector General
Washington DC, 20201

Dear Ms. Jarmon

RE: RESPONSES TO OIG AUDIT QUERIES, REPORT NUMBER: A-04-13-04005

"The University Teaching Hospital Generally Managed the President's Emergency Plan for AIDS Relief Funds and Met Program Goals in Accordance with Award Requirements" (A-04-13-04005)

Attached are the University Teaching Hospital HIV/AIDS Program (UTH-HAP), Co-Agreement Number U2GPS001932, responses to audit queries raised in the Office of the Inspector General's (OIG) Audit Report number A-04-13-04005 dated December 2013 carried out for the budget period September 30, 2010 through September 29, 2011.

Yours sincerely,

Dr. L. Kasonka
Senior Medical Superintendent

Dr. Chipepo Kankasa
PI/Program Director



University Teaching Hospital

HIV/AIDS Program

GRANTEE INFORMATION:

Grant Number: U2GPS001932-02

Grantee Name: University Teaching Hospital HIV AIDS Program

(UTH-HAP)

Centers for Disease Control and Prevention

Support for the National government Monitoring and Evaluation System, Surveillance and laboratory Infrastructure, and Pediatric and Adult HIV Care and support in the Republic of Zambia under the President's Emergency Plan for AIDS Relief (PEPFAR)

Responses to OIG Audit Queries

“The University Teaching Hospital Generally Managed the President's Emergency Plan for AIDS Relief Funds and Met Program Goals in Accordance with Award Requirements” (A-04-13-04005)

Date of Submission: January 16, 2014



MINISTRY OF HEALTH
UNIVERSITY TEACHING HOSPITAL HIV/AIDS PROGRAM
(UTH-HAP)
DEPARTMENT OF PAEDIATRICS AND CHILD HEALTH
P.O BOX 50440
LUSAKA



Findings:

1. The Hospital generally managed PEPFAR funds and met program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, \$1,054,011 of \$1,067,565 reviewed was allowable, but \$13,554 was potentially unallowable because the Hospital paid value-added taxes (VAT) on purchases.
2. In addition the Hospital did not always follow its policies and procedures. For 11 of the 39 financial transactions tested:
 - 5 transactions totaling \$661,414 were paid without approval payment vouchers and
 - 6 transactions totaling \$61,356 were recorded to the incorrect expense account in the general ledger.
3. The program management review showed that the Hospital did not submit an annual progress report to CDC as required by Federal regulations and the Notice of Award. The Hospital did, however, submit an annual program results report covering October 1, 2010 through September 30, 2011, that reported on selected PEPFAR activities as required by the Office of the U.S. Global AIDS Coordinator (OGAC). However, the program results report did not show progress on 8 of the Hospitals 21 goals included in its approved cooperative agreement.
4. Furthermore, of the 13 goals on which the Hospital reported, 5 were supported by documentation, but 8 were only partially supported.
5. These errors occurred because the Hospital did not have adequate policies and procedures.

Recommendation:

1. Work with CDC to resolve whether the \$13,554 of VAT was an allowable expenditure under the cooperative agreement.

We concur that the VAT payments were not allowable however, in August 2013 OGAC imposed a penalty on all USG partners that had paid VAT expenses with PEPFAR funds. This was done through a reduction in awarded funds at 200% penalty of the VAT total payments in the YR05 funding allocation of which the \$ 13,554 was included. Therefore payment to the US Treasury has been made (refer to Appendix).

UTH-HAP now processes all VAT rated purchases for exemption through the CDC/American Embassy, for issuance of a local purchase order.

University Teaching Hospital HIV/AIDS Program (UTH-HAP)
University Teaching Hospital, Department of Paediatrics and Child Health, Nationalist Road,
PO Box 50440, Ridgeway, Lusaka, Zambia
Tel. +260-1-257535-6 Fax: +260-1-257534



MINISTRY OF HEALTH
UNIVERSITY TEACHING HOSPITAL HIV/AIDS PROGRAM
(UTH-HAP)
DEPARTMENT OF PAEDIATRICS AND CHILD HEALTH
P.O BOX 50440
LUSAKA



2. Work with the Zambian government for VAT exemption and refund of VAT disbursement;

- The University Teaching Hospital HIV/AIDS Program (UTH-HAP) falls under the Ministry of Health (MOH) and abides by the Government of Republic of Zambia (GRZ) policies and guidelines. Under the GRZ VAT liability Guide, second schedule, Group 5 – Medical Supplies, item b) explanatory notes, certain medical supplies are zero-rated while others are taxable. UTH-HAP processes all imported equipment, reagents and medical supplies through the Ministry of Health/Finance and these are zero-rated.

The VAT liability Guide, second schedule, Group 2 under “*supplies to privileged persons*”, item d), also gives zero-rating provision for goods or services supplied or imported under a technical aid program or project which are paid through donor funding. The VAT liability Guide explanatory notes for item d) states:

“Supplies under technical aid agreements are zero-rated only when the technical aid agreement signed with the Republic of Zambia expressly provide the tax relief. Aid agencies or contractors of the donor should use a purchase order system in order for the supplies made to them to be zero-rated. This enables the donor or aid agency to provide the supplier of the goods with a purchase order indicating the quantities, description and value of the goods and services. They should also indicate that the goods or services are paid for using donor or aid funds. Where the donor is not in a position to issue required purchase orders, ZRA is available to issue”.

UTH-HAP will continue to follow CDC Zambia regulations to process payments through CDC until a time when the program obtains its own exemption status.

- Refund of VAT already remitted is not possible as the Zambia Revenue Authority stipulates that once paid, funds cannot be reclaimed. As already stated above, reimbursement to the U.S. Treasury Department was already made through the reduction in COP 13 funding.

University Teaching Hospital HIV/AIDS Program (UTH-HAP)
University Teaching Hospital, Department of Paediatrics and Child Health, Nationalist Road,
PO Box 50440, Ridgeway, Lusaka, Zambia
Tel. +260-1-257535-6 Fax: +260-1-257534



MINISTRY OF HEALTH
UNIVERSITY TEACHING HOSPITAL HIV/AIDS PROGRAM
(UTH-HAP)
DEPARTMENT OF PAEDIATRICS AND CHILD HEALTH
P.O BOX 50440
LUSAKA



3. Enhance internal controls by updating policies and procedures to include detailed steps to account for and report PEPFAR funds not limited to but including:

- **Recording and approving payments for PEPFAR expenditures'**

We concur that during the period under review the policies and procedures were lacking sufficient detail and were not being adequately enforced as highlighted by the External auditors. UTH-HAP was already in the process of updating the program's SOPs and internal controls and these have since been finalized in line with the audit recommendations and being enforced. This is evidenced by the latest external audit report dated August 2013 which stated:

"With respect to internal control, we did not identify any significant deficiency. We found no instances of substantial non-compliance with requirements for federal financial management systems, federal accounting standards, or the US Standard General Ledger. UTH-HAP has taken adequate corrective action on prior period report recommendations."

The challenges experienced during the period under audit that led to the queries was mainly due to inadequate monitoring and enforcing of the programs SOPs, financial procedures and policies, internal controls and compliance on the part of the program Internal Auditor, whose abilities in this capacity were found wanting. The program, on the 1st of November 2012, employed a new Internal Auditor, a Chartered Certified Accountant (ACCA) who works closely with the UTH-HAP PI/Director, Program Administrator and Management Accountants, to ensure that the program performs in line with GRZ and CDC requirements for PEPFAR funds.

In the financial audit queries raised above the following were the challenges experienced:

- i. **5 transactions totaling \$661,414 were paid without approval payment vouchers**

We acknowledge that the UTH-HAP was unable to retrieve the specified payment vouchers for the above mentioned transactions. However, a concerted effort was made to reconstruct the files and evidence of purchase was available for the full amount of \$661,414 including bank statements proof of transfer of funds, receipts, and a physical inventory of the equipment was done during the audit and all items were verified and accounted for by the OIG auditors.

University Teaching Hospital HIV/AIDS Program (UTH-HAP)
University Teaching Hospital, Department of Paediatrics and Child Health, Nationalist Road,
PO Box 50440, Ridgeway, Lusaka, Zambia
Tel. +260-1-257535-6 Fax: +260-1-257534



MINISTRY OF HEALTH
UNIVERSITY TEACHING HOSPITAL HIV/AIDS PROGRAM
(UTH-HAP)
DEPARTMENT OF PAEDIATRICS AND CHILD HEALTH
P.O BOX 50440
LUSAKA



UTH-HAP has Accounting and Procurement Procedures in place following GRZ and HHS/CDC guidelines for recording and approving payments for PEPFAR funds. All checks and bank transfers are prepared based on approved GRZ payment vouchers. A number of factors are likely to have played a role in the misplacement of the payment vouchers:

- 1) During this period, the Pediatric HIV/AIDS Centre of Excellence (PCOE), which houses the secretariat for UTH-HAP, moved from its temporary accommodation in the refurbished containers and several other locations around the University Teaching Hospital (UTH), to the new PCOE building within UTH. It is conceivable that the file containing the aforementioned vouchers (the 5 transactions are a series of purchases made at the same time) was misplaced.
- 2) The program uses a UTH appointed clearing agent and all relevant documentation is supplied to him for clearing purposes. It is possible that through the movement of files, such as through the Ministry of Finance, the documentation may not have been returned to UTH-HAP. As stated above, the Internal Auditor at the time failed to ensure that all the relevant documentation was appropriately accounted for and filed.

ii. 6 transactions totaling \$61, 356 were recorded to the incorrect expense account in the general ledger.

We partially concur with the OIG findings. One of six transactions equating to \$5,477.77 was posted to the correct account, "Other Direct Costs" (refer to Appendix).

1. According to the HHS/CDC budget guidelines, payment of non-Co-Ag salaried personnel falls under the "Other Direct" budget cost category: Overtime is paid to UTH staff who work for UTH-HAP when off duty. They fill-in "overtime forms" that are countersigned by the ward/lab in-charge highlighting shifts done. They are paid according to approved UTH overtime rates. However, we concur that the transaction was erroneously posted as "Training" instead of "Overtime".

University Teaching Hospital HIV/AIDS Program (UTH-HAP)
University Teaching Hospital, Department of Paediatrics and Child Health, Nationalist Road,
PO Box 50440, Ridgeway, Lusaka, Zambia
Tel. +260-1-257535-6 Fax: +260-1-257534



MINISTRY OF HEALTH
UNIVERSITY TEACHING HOSPITAL HIV/AIDS PROGRAM
(UTH-HAP)
DEPARTMENT OF PAEDIATRICS AND CHILD HEALTH
P.O BOX 50440
LUSAKA



We concur, however, that five out of six transactions equating to US \$55,603 were erroneously recorded. The possible reason for this could be that during the period under audit, UTH-HAP was migrating from the old excel based accounting system to a new electronic accounting software package (QuickBooks) as per recommendation of the USG approved External Auditors following the YR01 financial audit of the program. The Internal Auditor was mandated to oversee this migration in which each budget line was coded. It was noted that:

1. Travel for people that do not appear within the "salary" budget cost category should be placed in the "Others Direct Costs" (i.e. hired research personnel under HVSI \$6,099.84) and not under travel.
2. Foreign travel was posted under Maintenance and Repair costs (\$12,118.40)
3. Some lab reagents were posted under "Employee Morale, health and welfare expense" (\$6,861.10), instead of under supplies.
4. Another Foreign travel (\$6,958.00) was classified as "fuel" under "Other Costs category".
5. Other lab reagents (\$23,565.73) were posted to "Others Costs Category" sub-code Cleaning and security costs instead of under supplies

To overcome these errors, every letter of request is now appropriately coded, and posting of disbursements is done by the Co-Ag management accountant who understands the budgets well. We have remarkably improved our internal controls as evidenced by the YR03 External Auditors Report.

- **Submitting annual progress reports, in addition to the annual program results reports, in a timely manner;**

In YR02, the program completed the Office of the U.S. Global AIDS Coordinator (OGAC) report and submitted to both OGAC and CDC. This was due to the fact that CDC Zambia informed partners that it was acceptable to submit the OGAC report as the CDC Annual Reporting requirement.

University Teaching Hospital HIV/AIDS Program (UTH-HAP)
University Teaching Hospital, Department of Paediatrics and Child Health, Nationalist Road,
PO Box 50440, Ridgeway, Lusaka, Zambia
Tel. +260-1-257535-6 Fax: +260-1-257534



MINISTRY OF HEALTH
UNIVERSITY TEACHING HOSPITAL HIV/AIDS PROGRAM
(UTH-HAP)
DEPARTMENT OF PAEDIATRICS AND CHILD HEALTH
P.O BOX 50440
LUSAKA



At the time under review CDC/Zambia PGO were accepting the OGAC annual performance report for the CDC annual reporting requirement. As stated we now complete two separate reports and submit to the respective agencies.

Of note: UTH-HAP had timely submitted separate annual progressive reports for YR01 and subsequently for YR03 & YR04 as per SOPs.

- **Maintaining adequate support documentation for goals reported in the annual progress report;**

UTH is a tertiary-level hospital and the largest hospital in Zambia with patients being referred from all over the country. Client information is recorded in ward registers and individual paper files, from where it is collected and stored electronically. Clients referred back to their nearest health facility, which can be hundreds of miles from Lusaka, take their paper files with them. This movement of files presents a major challenge in maintaining hard copies of patient information at UTH. A recommendation following the audit was made that photocopies can be made of all files for clients being transferred out. This raises the question of feasibility. UTH sees thousands of clients monthly many with bulky patient files. The program will need resources including a dedicated copier, stationery supplies and personnel to continually run the copies, storage, and so on.

Solution: The program is slated in 2014 to become active on the electronic Smartcare patient tracking system introduced country-wide which is a more viable option for tracking patient files as well as data collection and analysis.

- **Maintaining backups of electronic databases used to calculate and track quantitative amounts to support “point of time” progress reported.**

We concur with the OIG findings: The program has since implemented a system of taking a point-of-time snapshot of data at each time of reporting.