

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**THE UNIVERSITY OF ZAMBIA SCHOOL
OF MEDICINE 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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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

The University of Zambia School of Medicine did not always manage the President's Emergency Plan for AIDS Relief funds or meet program goals in accordance with award requirements. Of the \$208,709 in judgmentally selected expenditures that we reviewed, \$76,638 was not allowable.

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 of Zambia, School of Medicine (the University) for review.

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

BACKGROUND

Through a 5-year cooperative agreement (grant number 5U2GPS000749), CDC awarded PEPFAR funds totaling \$730,000 to the University for the budget period September 15, 2010, through September 14, 2011.

The University's mission is to strengthen and upgrade the Master of Public Health degree program to increase the number of trained public health professionals in Zambia that are capable of effectively addressing the challenges of human immunodeficiency virus, acquired immunodeficiency syndrome, tuberculosis, and sexually transmitted infections (HIV/AIDS/TB/STI). The University's overall goal of the cooperative agreement is to create a pool of highly trained public health professionals to perform public health evaluations and help sustain the PEPFAR program in Zambia by:

- supporting limited scholarships for students,
- enhancing teaching methodologies,
- managing internships in locally based organizations working on HIV/AIDS/TB/STI, and

- upgrading the learning resource center by purchasing computer equipment and providing Internet connectivity.

WHAT WE FOUND

The University did not always manage PEPFAR funds or meet program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, \$132,071 of the \$208,709 reviewed was allowable, but \$76,638 was unallowable. Of the 48 financial transactions tested:

- 21 transactions totaling \$132,071 were allowable,
- 25 transactions totaling \$72,875 were unallowable because the funds were restricted or the expenditures were not supported by adequate documentation, and
- 2 transactions totaling \$3,763 were partially unallowable because the expenditures were not fully supported by adequate documentation.

Additionally, the University:

- did not accurately report PEPFAR expenditures for this cooperative agreement on its financial status report (FSR) submitted to CDC,
- submitted its annual FSR 4 months late,
- used an undetermined amount of PEPFAR funds to pay potentially unallowable value-added taxes (VATs) on purchases, and
- did not submit its annual financial audit report to the National External Audit Review Center in accordance with the award requirements.

Our program management review showed that, of the 34 accomplishments included in the University's annual progress report, 3 were not related to the goals of the cooperative agreement. Of the remaining 31 accomplishments, documentation supported 21, partially supported 8, and did not support 2. Also, the University submitted its annual progress report to CDC 9 months late.

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

WHAT WE RECOMMEND

We recommend that the University:

- refund to CDC \$76,638 in unallowable expenditures;

- submit an amended FSR for the budget period of the cooperative agreement that we reviewed;
- work with CDC to resolve whether VAT was an allowable expenditure under the cooperative agreement;
- develop and implement policies and procedures for:
 - reconciling FSRs to the accounting records before submission,
 - submitting its FSRs in a timely manner,
 - obtaining prior approval from CDC to spend funds restricted by the Notice of Award,
 - maintaining adequate supporting documentation for expenditures of Federal funds and accomplishments included in the progress report,
 - creating an annual progress report that includes goals related to the cooperative agreement, and
 - submitting the progress report in a timely manner; and
- submit its annual financial audit report in a timely manner to the applicable United States agency.

UNIVERSITY OF ZAMBIA SCHOOL OF MEDICINE COMMENTS AND OUR RESPONSE

In comments on our draft report, University officials partially concurred with our first recommendation and fully concurred with our remaining recommendations. In comments on our first recommendation to refund \$76,638 in unallowable expenditures, the University stated that CDC had released all restrictions on the funds and that the funds had been used for their intended purposes. The University also provided additional documentation meant to support certain transactions that we had questioned in the draft report.

In comments on our remaining recommendations, University officials described the actions they had taken to address them, such as creating a grants and research management office that is responsible for the administration of all grants and cooperative agreements at the University, including audits and financial and operational reports. Additionally, University officials said that they have created policies and procedures to address our other recommendations. Furthermore, University officials said that CDC's Zambia office has conducted training programs to emphasize the importance of adherence to regulations and conducted monthly meetings along with visits to the University to discuss challenges in program implementation. Finally, University officials said that they have obtained a VAT exemption certificate and no longer pay VAT.

We acknowledge that CDC lifted the funding restrictions in a revised NOA dated September 17, 2013. However, the release of these restrictions did not precede the expenditures. Also, the documentation that the University provided with its comments on our draft report did not offer any additional support for the transactions we determined to be unallowable. Therefore, we maintain that our findings are valid and continue to recommend that the University refund \$76,638 in unallowable expenditures.

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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 audits¹ of organizations receiving PEPFAR funds from HHS, Centers for Disease Control and Prevention (CDC).

We selected the University of Zambia School of Medicine (the University) for review.

OBJECTIVE

Our objective was to determine whether the University 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

¹ Appendix A contains a list of related OIG 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.

anticipates the Federal Government’s substantial involvement with recipients in accomplishing the objectives of the agreements.³ In response to a Funding Opportunity Announcement (FOA),⁴ CDC awarded the University grant number 5U2GPS000749 through a cooperative agreement for the project period September 15, 2007, through September 14, 2012.

University of Zambia School of Medicine

The University’s mission is to strengthen and upgrade the Master of Public Health degree program, to increase the number of trained public health professionals in Zambia that are capable of effectively addressing the challenges of human immunodeficiency virus, acquired immunodeficiency syndrome, tuberculosis, and sexually transmitted infections (HIV/AIDS/TB/STI). The University’s overall goal of the cooperative agreement is to create a pool of highly trained public health professionals to perform public health evaluations and help sustain the PEPFAR program in Zambia by:

- supporting limited scholarships for students,
- enhancing teaching methodologies,
- managing internships in locally based organizations working on HIV/AIDS/TB/STI, and
- upgrading the learning resource center by purchasing computer equipment and providing Internet connectivity.

HOW WE CONDUCTED THIS REVIEW

Our audit covered the budget period from September 15, 2010, through September 14, 2011. This budget period was the fourth year of a 5-year cooperative agreement. During the budget period under review, CDC awarded the University \$730,000.

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.

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

⁴ FOA Number CDC-RFA-PS07-709 is entitled “Strengthening the Quality and Scope of the Master of Public Health Degree Program in the School of Medicine in the Republic of Zambia under the President’s Emergency Plan for AIDS Relief (PEPFAR).”

FINDINGS

The University did not always manage PEPFAR funds or meet program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, \$132,071 of the \$208,709 in judgmentally selected expenditures that we reviewed was allowable, but \$76,638 was unallowable. Of the 48 financial transactions tested:

- 21 transactions totaling \$132,071 were allowable,
- 25 transactions totaling \$72,875 were unallowable because the funds were restricted or the expenditures were not supported by adequate documentation, and
- 2 transactions totaling \$3,763 were partially unallowable because the expenditures were not fully supported by adequate documentation.

Additionally, the University:

- did not accurately report PEPFAR expenditures for this cooperative agreement on its financial status report (FSR) submitted to CDC,
- submitted its annual FSR 4 months late,
- used an undetermined amount of PEPFAR funds to pay potentially unallowable value-added taxes (VATs) on purchases, and
- did not submit its annual financial audit report to the National External Audit Review (NEAR) in accordance with the award requirements.

Our program management review showed that, of the 34 accomplishments the University included in the annual progress report, 3 were not related to the goals of the cooperative agreement. Of the remaining 31 accomplishments, documentation supported 21, partially supported 8, and did not support 2. Also, the University submitted its annual progress report to CDC 9 months late.

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

FINANCIAL MANAGEMENT

Financial Transactions Not Adequately Supported

Accounting records must be supported by source documentation, such as canceled checks, paid bills, payrolls, time and attendance records, and contracts and subgrant award documents (45 CFR § 74.21(b)(7)). Also, Federal regulations (2 CFR part 220, Appendix A, § J.10.c.) require that charges to awards for salaries and wages be based on documented records signed by the employee, principal investigator, or responsible official of the organization.

The Notice of Award (NOA) states that “restricted funds shall not be withdrawn until approval is received and the restrictions have been lifted by an amended notice of award.” *Section IV, ... Special Terms and Conditions*, of the NOA, dated July 27, 2010, incorporates the FOA and the grant application (including the detailed budget) as part of this award by reference.

Of the 48 transactions totaling \$208,709 that we reviewed, 21 transactions totaling \$132,071 were allowable, 25 transactions totaling \$72,875 were unallowable (Table 1), and 2 transactions totaling \$3,763 were partially unallowable.

Table 1: Unallowable Financial Transactions

Category	Sample Transactions	Total
Restricted funds	18	\$46,654
Salary	3	13,221
Travel costs	4	13,000
Total	25	\$72,875

According to the NOA, dated July 27, 2010, CDC restricted funds in several cost categories totaling \$788,000.⁵ For 18 transactions we reviewed, the University spent funds restricted by the NOA in categories related to the Lecture Theatre, Laboratory, and Male Circumcision programs prior to requesting and receiving the required approval. As of October 2012, over a year after the audit period, the University had submitted a request to CDC to obtain a release of these restricted funds, and the request was in process at the time of our fieldwork. However, the request should have preceded the expenditure of restricted funds.

For three transactions reviewed associated with salary payments to employees, the University could not provide supporting documentation showing that these employees worked on the cooperative agreement. For four travel-related transactions that we reviewed, the University was unable to provide supporting documentation for the expenditures.

For two transactions totaling \$3,763 that were partially unallowable, the University was unable to provide sufficient supporting documentation for the salary- and travel-related expenditures.

Financial Status Report Incorrect and Submitted Late

Recipients must submit an FSR no later than 90 calendar days after the end of the specified report period for annual and final reports (45 CFR § 74.52(a)(1)(iv)). The NOA provides the due date for the FSRs.

A recipient’s financial management reporting system must be able to demonstrate an accurate, current, and complete disclosure of the financial results of grant-funded activities in accordance

⁵ According to the NOA, the restricted funds amount is greater than the award amount of \$730,000 because of prior-year carryover funds.

with the financial reporting requirements of the grant (45 CFR § 74.21(b)(1)). In addition, recipients must maintain effective control over and accountability for all funds so as to adequately safeguard them and assure they are used solely for authorized purposes (45 CFR § 74.21(b)(3)).

The FSR that the University submitted did not agree with its accounting records. The University did not perform a reconciliation of the report used to create the FSR and the general ledger. As a result, the University underreported expenditures on the FSR for the cooperative agreement by \$153,997.

Additionally, the University did not meet the 90-day Federal requirement for submitting its annual FSR. The University's grant year ended September 14, 2011. However, the University submitted the FSR 4 months late on April 19, 2012. Without an accurate and timely FSR, CDC could not determine whether the recipient exercised proper stewardship over Federal funds in accordance with award requirements.

Expenditures for Value-Added Tax Potentially Unallowable

The *HHS Grants Policy Statement* (GPS) (section II-114) states that certain costs, including VAT,⁶ 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 recipients that are funded by the United States and providing foreign aid.⁷

Our review of the sampled transactions showed that the University used PEPFAR funds to pay VAT, a potentially unallowable cost under this cooperative agreement. However, we were unable to determine the amount of VAT the University paid during our audit period because of the way it documented VAT on invoices. For example, some invoices contained a specific dollar amount of VAT, some invoices stated VAT was inclusive but listed no dollar amount, some invoices did not mention VAT, and other invoices contained a VAT percentage that varied by invoice. Additionally, the University did not maintain a record of VAT transactions.

The University said that it no longer pays VAT and provided documentation to support that it had received a VAT exemption from the Zambian Government during 2011.

⁶ VAT is a form of consumption tax.

⁷ HHS is currently reexamining the applicability of the GPS provision; thus, we are not recommending disallowance of these expenditures. Instead, we recommend that the University work with CDC to resolve the issue.

PROGRAM MANAGEMENT

University Progress Report Did Not Include Only Related and Supported Accomplishments

Progress reports should contain a comparison of actual accomplishments with the goals established for the period, and whenever appropriate, the outputs of the programs should be quantified (45 CFR § 74.51(d)(1)).

Recipients are required to retain financial records, supporting documents, statistical records, and all “other records pertinent to an award” for 3 years from the submission date of the final expenditure report for the funding period (45 CFR § 74.53 (b)). Additionally, the FOA states that the University should have measurable outcomes that align with the goals of PEPFAR activities that have been implemented.⁸

Of the 34 accomplishments included in the University’s progress report, 3 did not relate to the goals of the cooperative agreement under review and should not have been included. The 31 remaining accomplishments related to the goals of the cooperative agreement. (See Table 2.)

Table 2: Progress Report Accomplishments Summary

Accomplishments	Sample Transactions
Not related to the cooperative agreement	3
Related items were:	
Supported	21
Not supported	2
Partially supported	8
Total	34

The University provided documentation to support 21 of the 31 accomplishments that related to the goals of the cooperative agreement. However, the University provided no documentation to support 2 of the 31 accomplishments. Specifically, the University could not provide documentation to support the number of neonatal male circumcision facilitators or providers that it reported in the progress report as having been trained.

For the remaining eight accomplishments, the University provided documentation to partially support activities such as the total number of at-risk male and female patients served, the number of voluntary counseling and testing patients that tested positive, and two site visits that the University conducted. Specifically, the University provided support for only one of the two program coordinators who performed site visits to provinces noted in the sample item. Additionally, the University could not provide documentation supporting the statistics reported for the number of at-risk patients served and those who received counseling and testing. Because

⁸ Section IV of the NOA, *Special Terms and Conditions*, makes the requirement found in the FOA part of the award by reference.

the University constantly updated both its database of at-risk patients served and its counseling and testing database and did not save the original numbers it reported, it provided us with higher numbers than were reported in the progress report.

Because the University included accomplishments that did not relate to the goals of the cooperative agreement and was unable to fully support some accomplishments on the progress report, CDC did not have accurate and sufficient information to focus its monitoring efforts and assist the University in achieving the goals of the cooperative agreement.

University Progress Report Submitted Late

Recipients are required to submit annual progress reports 90 days after the grant-year end (45 CFR § 74.51(b)). The NOA provides the specific due dates for progress reports.

The University did not meet the 90-day Federal requirement for submitting its annual progress report. The University's grant year ended September 14, 2011. Therefore, the annual progress report was due to CDC on December 14, 2011. However, the University submitted its progress report 9 months late on September 24, 2012. Without timely progress reports, CDC could not determine whether the recipient met program goals in accordance with award requirements.

NON-FEDERAL AUDIT REPORTS

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

OMB Circular A-133 states that audits must be completed annually and submitted for review within the earlier of 30 days after receipt of the auditor's report or 9 months after the end of the organization's FY, unless a longer period of time is agreed to by the agency (subpart B §__.220 and subpart C §__.320).⁹

Although the University had a completed A-133 audit covering the year ended December 31, 2010, it did not submit its annual financial audit report to NEAR in accordance with the award requirements. According to University officials, the University sent the audit report to CDC because it mistakenly thought that CDC would forward the audit reports to NEAR on the University's behalf. Because the University did not submit the audit report, NEAR was unable to monitor recipient findings.

⁹ If a foreign entity chooses to have a financial-related audit, the same due dates apply (45 CFR § 74.26(d)). (See *Clarification of Audit Requirements of For-Profit Organizations Including SBIR/STTR Grantees*, issued by the HHS National Institutes of Health, Jan. 11, 2006.)

INADEQUATE POLICIES AND PROCEDURES

The University did not formally document its financial and programmatic policies and procedures to ensure that it:

- maintained adequate supporting documentation for allowable expenditures under the cooperative agreement and accurately reported costs on its FSR in a timely manner,
- submitted its progress report in a timely manner and included only items related to the agreement that it could fully support, and
- submitted its annual financial audit report to NEAR in accordance with the award requirements.

RECOMMENDATIONS

We recommend that the University:

- refund to CDC \$76,638 in unallowable expenditures;
- submit an amended FSR for the budget period of the cooperative agreement that we reviewed;
- work with CDC to resolve whether VAT was an allowable expenditure under the cooperative agreement;
- develop and implement policies and procedures for:
 - reconciling FSRs to the accounting records before submission,
 - submitting its FSRs in a timely manner,
 - obtaining prior approval from CDC to spend funds restricted by the NOA,
 - maintaining adequate supporting documentation for expenditures of Federal funds and accomplishments included in the progress report,
 - creating an annual progress report that includes goals related to the cooperative agreement, and
 - submitting the progress report in a timely manner; and
- submit its annual financial audit report in a timely manner to the applicable United States agency.

UNIVERSITY OF ZAMBIA SCHOOL OF MEDICINE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

University of Zambia School of Medicine Comments

In comments on our draft report, University officials partially concurred with our first recommendation and fully concurred with our remaining recommendations. In comments on our first recommendation to refund \$76,638 in unallowable expenditures, the University stated that CDC had released all restrictions on the funds, and the funds had been used for their intended purposes. The University also provided additional documentation meant to support certain transactions that we had questioned in the draft report.

In comments on our remaining recommendations, University officials described the actions they had taken to address them, such as creating a grants and research management office that is responsible for the administration of all grants and cooperative agreements at the University, including audits and financial and operational reports. Additionally, University officials said that they have created policies and procedures to address our other recommendations. Furthermore, University officials said that CDC's Zambia office has conducted training programs to emphasize the importance of adherence to regulations and conducted monthly meetings, along with visits to the University to discuss challenges in program implementation. Finally, University officials said that they have obtained a VAT exemption certificate and no longer pay VAT.

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

Office of Inspector General Response

We acknowledge that CDC lifted the funding restrictions in a revised NOA dated September 17, 2013. However, the release of these restrictions did not precede the expenditures. Also, the documentation that the University provided with its comments on our draft report did not offer any additional support for the transactions we determined to be unallowable. Therefore, we maintain that our findings are valid and continue to recommend that the University refund \$76,638 in unallowable expenditures.

APPENDIX A: RELATED 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>	8/23/13
<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>	8/23/13
<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>	7/23/13
<i>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</i>	<u>A-06-11-00057</u>	6/10/13
<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>	4/22/13
<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>	4/19/13
<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>	2/12/13
<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>	1/14/13
<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>	11/19/12
<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>	6/15/11

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered the budget period from September 15, 2010, through September 14, 2011. This budget period was the fourth year of a 5-year cooperative agreement. During the budget period under review, CDC awarded the University \$730,000.

We limited our review of internal controls to those related to our objective. We conducted fieldwork at the University'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 University's policies and procedures;
- interviewed and conducted meetings with CDC Zambia officials to determine the extent of the technical assistance they provided to the University;
- interviewed and conducted meetings with University officials to determine their policies and procedures related to financial accounting and reporting and to program goals and accomplishments;
- reconciled the University's FSR¹⁰ to its accounting records for the budget period under review;
- selected and reviewed a judgmental sample of 48 financial transactions with expenditures totaling \$208,709 from the grant award of \$730,000 and included types of expenditures such as:
 - transactions that might have included restricted funds;
 - transactions that might have included unallowable costs;
 - transactions above or below the average transaction amount in an expenditure category; and
 - one item, at least, within each program area;
- compared the accomplishments described in the University's annual progress report to the cooperative agreement's goals;

¹⁰ 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 all 34 accomplishments described in the University’s annual progress report and reviewed supporting documentation to determine whether the University met program goals; and
- reviewed the University’s annual financial audit report.

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 C: FEDERAL REQUIREMENTS

2 CFR Part 220, Appendix A § J.10.c.

(2) ... the distribution of salaries and wages by the institution will be supported by activity reports ... (a) Activity reports will reflect the distribution of activity expended by employees ... (c) Reports will ... be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed.

45 CFR § 74.21(b)(1)

(b) Recipients' financial management systems shall provide for the following:
(1) Accurate, current and complete disclosure of the financial results of each HHS-sponsored project or program in accordance with the reporting requirements set forth in § 74.52.

45 CFR § 74.21(b)(3)

(b) Recipients' financial management systems shall provide for the following:
(3) 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 § 74.21(b)(7)

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

45 CFR § 74.26 (d)(1)

Recipients and subrecipients that are commercial organizations (including for-profit hospitals) have two options regarding audits: a financial related audit or an audit that meets the requirements of OMB Circular A-133.

45 CFR § 74.51 (b)

The HHS awarding agency will prescribe the frequency with which the performance reports shall be submitted [P]erformance 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.

45 CFR § 74.51 (d)(1)

(d) 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.

45 CFR § 74.52 (a)(1)(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 the 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.

OMB Circular A-133

Audits must be completed annually and submitted for review within the earlier of 30 days after receipt of the auditor's report or 9 months after the end of the organization's FY, unless a longer period of time is agreed to by the agency [subpart B §__.220 and subpart C §__.320].

HHS, Grants Policy Statement, January 1, 2007, Audit Requirements, 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.

HHS, Grants Policy Statement, January 1, 2007, Audit Requirements, Section II-115

Foreign recipients are subject to the same audit requirements as commercial organizations specified in 45 CFR § 74.26(d).



UNIVERSITY OF ZAMBIA
School of Medicine
P.O BOX 50110, Lusaka. Zambia

February 3, 2014

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

Dear Ms Jarmon

Re Response to Draft Audit Report –University of Zambia School of Medicine (A-04-13-04010)

We provide responses to the Draft Audit Report as follows:

- 1. University of Zambia School of Medicine to refund to CDC USD76, 638.05 in unallowable expenditures.**

Response: We partially concur with the recommendations.

We feel that the OIG should reconsider this recommendation as these activities were implemented as planned. We would like to put it on record that it is not the school's deliberate policy to ignore restrictions in the Notice Award. On this restriction being referred to in this draft report, we actively engaged CDC on these restrictions and indications from this engagement with CDC were that the restrictions would be lifted. We accept though that these were just indications without official communication. For areas such as Lecture Theatre expenses, these funds were rebudgeted to other areas that were eventually approved. We accept however, that the auditors were right that these funds should not have been spent before official communication was received. We accept that this was an oversight on the part of

the school but was done in its pursuit to balance timeliness in implementing the CoAg activities. We are happy to report though that all the restrictions were eventually lifted. In ensuring that these issues of restrictions and non-compliance do not recur the school, through its Grants and Research Management office, has developed and put in place policies and regulations to govern different programs. Training programs have also been run to grant management staff to acquaint themselves with respective donor's regulations and policies. CDC Zambia has also put in place these training programs to emphasize the importance of adherence to these regulations. Different fora have been created by CDC Zambia through for instance monthly meetings and 'open door' policy where their staff has visited the school to discuss challenges in programs implementation. We think that this has been very helpful in understanding the donor requirements and regulations in general and USG regulations in particular.

To support our request for the Auditors to reconsider their recommendation to refund CDC expended funds we provide a detailed explanation of all the amounts in questions as follows:

a. Response: \$ 13 220.81. We partially concur with the recommendation.

We note that the reason that this amount is requested to be refunded to CDC is that it was not supported with time sheets. During the audit these issues were discussed and please allow us to explain that, the system that is used for paying wages/salaries at UNZA is based on signed contracts for accomplishing a certain activity. Specifically for this CoAg payments were initially based on contracts and time efforts agreed with the employees. After discussions with CDC long after the beginning of the program, it was agreed that this was not enough to meet CDC regulations and thus it was necessary that time sheets needed to be introduced. The time sheets were introduced later on in the program and samples of timesheets were availed to the auditors though these time sheets presented did not cover the period of the audit. We request that the contracts signed with employees that were inspected by the auditors be accepted as enough evidence (documentation) to support these payments. We provide a couple of contracts to support our explanation as Appendix I

b. Response: \$ 3 763.36. We partially concur with the recommendation.

It is important to note that this CoAg supported programs that are running in the school and at times it is difficult to have all students/lecturers' sign that the classes actually took place. As this issue came up frequently during the time of audit, we have taken measures to ensure that all students / lecturers sign on the attendance list. As pointed out in the auditors notes what we keep for our records are schedules of classes for that particular month. We have now undertaken to improve this process through proper timetables, class attendance lists and accounting for the lecturer's time during these lectures/trainings.

c. Response: \$ 29,480. We partially concur with the recommendation.

We are aware that in certain situations there was no specific provision for travel for some of the staff that travelled. However we justified this travel which in all instances involved travel for research administration training to strengthen our capacity in both financial and administration for our PI, Grants and finance staff. The varying of these funds to support these trainings was also based on the rule that we could vary budget amounts up to 25% cumulatively each budget period to meet such important activities as long as we did not change the scope of work of the CoAg. Our decision was further based on the premise that this expenditure was not only allocable but also reasonable. We request that you reconsider your recommendation to refund these funds to CDC, as these funds given to UNZA were used to support improvement of capacity (financial and program administration) for implementing this CoAg. We strongly believe that these travels for training were necessary because:

i. NVIVO (\$2,500). We partially concur with the recommendation.

We supported a member of staff on the CoAg to go for training for NVIVO in her capacity as Analytical support person to assist students and faculty in NVIVO training. NVIVO is qualitative research software. The purpose of NVIVO is to manage qualitative data i.e. data capture, management and manipulation. NVIVO therefore is part of Masters of Public Health (MPH) Curricula. NVIVO helps Public Health Professionals to work with data, i.e. to sort, organize, and analyze information in addition to working

with themes and ideas for shaping findings. This software helps in grouping and exploring data, visualizing, reporting and presenting one's findings in addition to creating models and relationships of data.

ii. **Mombasa Conference (\$5,000)**. We partially concur with your recommendation.

This was a regional workshop hosted jointly by the East and Central African Public Health Association; the National Institute of Medical Research (NIMR) and with Ministry of Health, Tanzania aiming at standardizing the training of public health professionals especially epidemiologists and biostatisticians. Following the strategic reforms that started in 2007 that coincided with the commencement of this CoAg (PS749) that supported similar public health activities, World Congress of Public Health Association followed closely the events in Zambia and hence this invitation. This conference helped the school in charting the strategic direction it is currently taking in weaning off the Department of Public Health into a department of national character and functioning one of the main aims of the CoAg. The funds spent to support Dr Michelo for this conference also helped in establishing linkages with other public health training schools for the main purpose of identifying guest lecturers to come to teach at UNZA. This led to receiving guest lecturers from College of Medicine in Malawi for instance to teach in many newly introduced courses supported by this CoAg. The importance UNZA attached to this conference saw the sending of Dr Selestine Nzala (in charge of postgraduate training) and other Public Health faculty (Dr Oliver Mweemba, Charles Mwinuma, Joseph Zulu just to mention but a few.

iii. **Finance and Research Administration Training (\$16,840)**. We partially concur with the recommendation

In our continuing discussions within the school, it was felt that since we were anticipating more funding from the USG agencies (NIH, CDC, etc), we needed to create capacity in financial management and administration in our pursuit to start grants and research management office. We cannot overemphasize that the training in financial and research administration played an important role in creating capacity for

implementation of this CoAg. Dr Michelo and Ms Mutanti Simonda responded to the call for training from the Centre for Public Management that is mandated to offer trainings on behalf of USAID/CDC on various USAID/CDC policies. This training took place in Arlington Virginia, USA from the 6th to 22nd October 2010. The training covered the following areas: Allowances, Differentials, Pay, Travel on USAID/CDC Awards, Management of CoAgs upto Closeout, Administrative Compliance Requirements, Financial Management, and Mastering USAID/CDC Rules and Regulations, just to mention but a few. These courses are highly recommended by CDC for staff that deal with day to day running of CoAgs.

iv. Internship support (\$5,500). We partially concur with the recommendation.

We believe that travel costs involving internship support was approved under MPH program area. This was one of the outputs planned on this CoAg for the year under review. We quote the output excerpt in the FY2010 continuation application under the theme Strengthening the quality and scope of Master of Public Health Degree “*Output 2 – strengthen the MPH Program by running a mentorship and internship program for students.*” We accordingly request that this cost be allowed as it supported one of the approved areas of the program. We provide support for our explanation a budget request excerpt for our continuation application for the period under review as Appendix II excerpts from budget continuation application 2010/2011 No 6 –travel.

d. Response: \$18,325.60 restricted amounts (Resident Engineer). We partially concur with the recommendation.

We realize there was a misunderstanding as regards these amounts. The explanation however, is that we were asked by CDC to provide Drawings for the proposed Lecture Theatre and UNZA had to engage staff to deal with these issues concerning the drawings, such as relevant preliminary approvals for the drawings and Bill of Quantities (BoQ), and indeed the payment for the drawing itself. The deliberations for this were recorded as the auditors have rightly pointed out in their draft report. We realize that CDC was not represented at this meeting but we

request that UNZA should not repay this money to CDC since all restrictions were eventually lifted and was used for the intended purpose.

- i. **Response: \$876.95 Internet charges. We non-concur with the recommendation.**

We believe that these were budgeted amounts and were necessary for the running of the program and since they were all properly supported we request that UNZA does not repay this money to CDC. Appendix II excerpts from budget continuation application 2010/2011 No 5 –Supplies (Communication)

- e. **Response: \$10,611.33 Curriculum Review/Lab Supplies/Animal House. We partially concur with the recommendation.**

The restrictions were eventually lifted and expenditure approved. Please refer to Appendix III- NoA Section IV Note 1(b) attached. We realize that the release of these restrictions may not have been documented at the time of the audit but discussions were ongoing with CDC to have all these restrictions lifted and the motivation to spend this money was based on balancing the performed activities for CoAg with expenditure and to ensure the program meets all its set objectives. We accordingly request that you rescind the decision to refund these funds as they are properly documented and were used in good faith and for the approved purpose.

2. **Submit an amended FSR for the budget period of the cooperative agreement that we reviewed**

Response: We concur with the recommendation.

As this program has come to close, we have had an opportunity to correct FSR (which is now referred to FFR) through the close out Federal Financial Report (FFR). Please refer to Appendix V for corrected closeout report and email accepting the closeout FFR

3. **Work with CDC to resolve whether VAT was an allowable expenditure under the cooperative agreement**

Response: We concur with the recommendation.

We have had an opportunity to discuss the VAT issue with CDC before this recommendation was received. The University of Zambia has gone further to obtain VAT exemption certificate and this issue has since been resolved. The school does not pay VAT anymore as they have the VAT exemption certificate.

4. **Develop and implement policies and procedures for:**

a. **Reconciling FSRs to the accounting records before submission**

Response: We concur with the recommendation.

We accept your recommendation and please allow us to mention that all our accounts are computer generated (through accounting package software) by our experienced accounting staff, and thus we ensure that we to reconcile FSRs with the accounting records (by all possible means) before submission. The policies to cover these gaps have been developed and implemented. We believe that this aspect of management has greatly improved since the auditors visit. The grants office which is now fully functional since its introduction in 2010/2011 and looks after all grants /CoAgs in the school is comprised of Grants Manager, Finance Manager, Business/Research Manager, Assistant Finance Manager, 2 Program Officers, Grant Officer, 2 Finance Officers and other support staff. This unit looks after all grants in the school and deals with all grant, programmatic and financial issues in the school and has created enough and unique capacity for the school to run multiple grants. The OIG Auditors had an opportunity to inspect the accounting and human resources manuals. We provide a copy of inspected documents as Appendix VI

b. **Submitting its FSRs in a timely manner**

Response: We concur with the recommendation.

The policies have been developed and are being implemented through the Grants and Research Management unit of the school. With the employment of a Grants Manager and Finance Manager to look after multiple grants in terms of enforcing reporting timelines, policy and regulation implementation, UNZA has greatly improved its reporting requirements for both Finance, Programmatic and Grants Administration. The Grants Manager keeps timetables and

schedules for all reports and reminders are sent to individual programs as required. UNZA now submits reports within the stated deadlines.

- c. Obtaining prior approval from CDC to spend funds restricted by Notice of Award

Response: We concur with the recommendation

We thank the auditors for this recommendation and are now in full compliance with this regulation.

- d. Maintain adequate supporting documentation for expenditures of Federal funds and accomplishments included in the progress report

Response: We concur with the recommendation.

The policy has been developed and is being implemented at the school is based on GAAP and the International Accounting Standards. Where the grants requirements for adequate supporting documentation are superior to GAAP and IAS we follow the funders' policies and regulatory requirements.

- e. Creating an annual progress report that includes goals related to the cooperative agreement

Response: We concur with the recommendation.

We accept the recommendation with the understanding that there are so many linkages and synergies with other grants (cooperative agreements) that are doing similar work when running these programs. We take advantage of these synergies and linkages to supplement activities where funding from one cooperative agreement (grant) might be limiting. This therefore requires that we acknowledge the support given by the grant where the objectives and outputs may be similar. We are now in compliance with this recommendation.

- f. Submitting the progress report in a timely manner

Response: We concur with the recommendation.

The corrective actions were put in place when the Grants and Research Management Unit was put in place in 2010/2011. We agree this is important and thank you for the recommendation.

5. **Submit its annual financial audit report in a timely manner to the applicable United States agency.**

Response: We concur with the recommendation.

We appreciate your recommendation and as indicated above, the school has introduced a Grants and Research Management Centre to deal with all audits, financial operational (programmatic) reports. This Unit is manned by highly qualified and experienced staff. Reports are now submitted within the specified timelines.

6. **Conclusion**

Please allow us to thank you most sincerely for sending the Auditors to the University of Zambia School of Medicine. The OIG Auditors' visit benefited the School in that we had an opportunity to learn the detailed requirements and expectations of your office in managing PEPFAR funds and meeting program goals. The indepth audit of our accounting, internal control and programmatic systems has helped the school in improving these systems. We undertake to continue improving these systems in this dynamic environment.

Although we do concur with many of your observations, whilst partially concurring with other observations, we have taken all the recommendations seriously and applying them to manage the PEPFAR funds more efficiently to benefit the intended beneficiaries and be in compliance with U.S. government regulations.

We believe that our explanations will be sufficient to reconsider your final conclusion for this audit.

Thank you

Dr Charles Michelo