

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**THE FEDERAL DEMOCRATIC REPUBLIC
OF ETHIOPIA, MINISTRY OF HEALTH,
DID NOT ALWAYS MANAGE PRESIDENT'S
EMERGENCY PLAN FOR AIDS RELIEF
FUNDS OR MEET PROGRAM GOALS IN
ACCORDANCE WITH AWARD
REQUIREMENTS**

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



Gloria L. Jarmon
Deputy Inspector General
for Audit Services

September 2014
A-04-13-04015

Office of Inspector General

<https://oig.hhs.gov>

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EXECUTIVE SUMMARY

The Federal Democratic Republic of Ethiopia, Ministry of Health, did not always manage the President's Emergency Plan for AIDS Relief funds or meet program goals in accordance with award requirements. Of the \$717,823 in judgmentally selected expenditures that we reviewed, \$294,654 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 Federal Democratic Republic of Ethiopia, Ministry of Health (the Ministry), for review.

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

BACKGROUND

Through a 5-year cooperative agreement (grant number 5U2GPS002087), CDC awarded PEPFAR funds totaling \$4,447,034 to the Ministry for the budget period September 30, 2011, through September 29, 2012.

The Ministry's mission is to reduce morbidity, mortality, and disability, and to improve the health status of the Ethiopian people through providing a comprehensive package of preventive, promotive, rehabilitative, and curative health services via a decentralized and democratized health system in collaboration with all stakeholders. The Ministry's overall goal for the cooperative agreement is to improve maternal health, reduce child mortality, and combat HIV/AIDS, malaria, tuberculosis, and other diseases.

WHAT WE FOUND

The Ministry did not always manage PEPFAR funds or meet program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, \$423,169 of the \$717,823 reviewed was allowable, but \$294,654 was unallowable. Of the 30 financial transactions tested:

- 1 transaction totaling \$1,287 was allowable;

- 21 transactions totaling \$87,616 were unallowable because funds were for restricted cost categories, expenditures not adequately supported, or expenditures not related to the PEPFAR cooperative agreement; and
- 8 transactions totaling \$628,920 were partially unallowable because funds were for restricted cost categories, expenditures not related to the PEPFAR cooperative agreement, or a no-bid contract (\$421,882 was allowable and \$207,038 was not).

Additionally, the Ministry:

- did not accurately report PEPFAR expenditures and cash disbursements for this cooperative agreement on its Federal financial report (FFR) submitted to CDC,
- withdrew \$1,905,957 in restricted funds from the Payment Management System,
- advanced funds to government entities for activities that were not related to the PEPFAR cooperative agreement or were restricted by CDC in the Notice of Award,
- 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 the 20 accomplishments included in the Ministry's annual progress report were all related to the goals of the cooperative agreement. Of these 20 accomplishments, documentation supported 9, partially supported 8, and did not support 3.

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

WHAT WE RECOMMEND

We recommend that the Ministry:

- refund to CDC \$294,654 in unallowable expenditures;
- submit an amended FFR 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; and
- develop and implement policies and procedures for:

- obtaining approval from CDC to release funds restricted by the Notice of Award prior to withdrawing or disbursing funds,
- maintaining adequate supporting documentation for expenditures and cash advances of Federal funds and accomplishments included in the progress report,
- advancing funds only for activities related to the cooperative agreement,
- accounting for VAT paid and seeking reimbursement from the Ethiopian Government,
- expending cooperative agreement funds only for allowed activities,
- obtaining contract bids when required,
- reconciling FFRs to the accounting records before submission, and
- submitting its annual financial audit report in a timely manner to the applicable United States agency.

**FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA, MINISTRY
OF HEALTH, COMMENTS AND OUR RESPONSE**

In comments on our draft report, Ministry officials did not concur with our first recommendation, partially concurred with our last recommendation, and fully concurred with our remaining recommendations. They also described corrective actions they had taken or planned to take to address the recommendations, such as developing Ministry policies and written procedures.

We reviewed the explanations in the Ministry's comments and the additional documentation provided with its comments. The explanations and additional documentation did not cause us to change any of our findings or recommendations. Therefore, we continue to recommend that the Ministry refund \$294,654 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 (recipients), Centers for Disease Control and Prevention (CDC).

We selected the Federal Democratic Republic of Ethiopia, Ministry of Health (the Ministry), for review.

OBJECTIVE

Our objective was to determine whether the Ministry 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) 2011, CDC obligated² PEPFAR funds totaling \$1.3 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. HHS internal departmental grants guidance is in the process of being updated in a new Grants Policy Administration Manual.

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 Ministry grant number 5U2GPS002087 through a cooperative agreement for the project period September 30, 2011, through September 29, 2012.

Application of Federal Regulations

The grant administration rules in 45 CFR part 92 apply to State, local, and tribal governments. The grant administration rules in 45 CFR part 74 apply to nonprofit organizations, hospitals, institutions of higher education, and commercial organizations. The HHS Grants Policy Statement (GPS), which provides general terms and conditions and HHS policies for grantees and others interested in the administration of HHS grants, specifies that foreign grantees must comply with the requirements of 45 CFR parts 74 or 92, as applicable to the type of foreign organization (GPS section II-113). Thus, the rules in 45 CFR part 92 apply to a foreign governmental entity.

Federal Democratic Republic of Ethiopia, Ministry of Health

The Ministry’s mission is to reduce morbidity, mortality, and disability, and to improve the health status of the Ethiopian people through providing a comprehensive package of preventive, promotive, rehabilitative, and curative health services via a decentralized and democratized health system in collaboration with all stakeholders. The Ministry’s overall goal for the cooperative agreement is to improve maternal health, reduce child mortality, and combat HIV/AIDS, malaria, tuberculosis, and other diseases.

HOW WE CONDUCTED THIS REVIEW

Our audit covered the budget period from September 30, 2011, through September 29, 2012. This budget period was the fourth year of a 5-year cooperative agreement. During the budget period under review, CDC awarded the Ministry \$4,447,034.

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-PS09-9104 is entitled Improving HIV/AIDS Prevention and Control Activities in the Federal Democratic Republic of Ethiopia under the President's Emergency Plan for AIDS Relief (PEPFAR).

FINDINGS

The Ministry did not always manage PEPFAR funds or meet program goals in accordance with award requirements. With respect to financial management, specifically financial transaction testing, \$423,169 of the \$717,823 reviewed was allowable, but \$294,654 was unallowable. Of the 30 financial transactions tested:

- 1 transaction totaling \$1,287 was allowable;
- 21 transactions totaling \$87,616 were unallowable because funds were for restricted cost categories, expenditures not adequately supported, or expenditures not related to the PEPFAR cooperative agreement; and
- 8 transactions totaling \$628,920 were partially unallowable because funds were for restricted cost categories, expenditures not related to the PEPFAR cooperative agreement, or a no-bid contract (\$421,882 was allowable and \$207,038 was not).

Additionally, the Ministry:

- did not accurately report PEPFAR expenditures and cash disbursements for this cooperative agreement on its Federal financial report (FFR) submitted to CDC,
- withdrew \$1,905,957 in restricted funds from the Payment Management System,⁵
- advanced funds to government entities for activities that were not related to the PEPFAR cooperative agreement or were restricted by CDC in the Notice of Award (NOA),
- 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 the 20 accomplishments included in the Ministry's annual progress report were all related to the goals of the cooperative agreement. Of these 20 accomplishments, documentation supported 9, partially supported 8, and did not support 3.

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

⁵ The Payment Management System is a full-service centralized grants payment and cash management system that provides tools to both awarding agencies and grant recipients to manage grant payment requests, drawdowns, and disbursement reporting activities.

FINANCIAL MANAGEMENT

Financial Transactions

The *HHS Grants Policy Statement (GPS)* (section II-49) states that prior approval is required for deviation from the award terms and conditions, including undertaking any activities disapproved or restricted as a condition of the award.

The NOA restricted several project activities and states in note 13 that “prior approval is required” to lift funding restrictions. *Section IV ... Special Terms and Conditions*, of the NOA, dated August 25, 2011, incorporated the FOA and the application (including the detailed budget) as part of this award by reference.

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 § 92.20(b)(6)).

Effective control and accountability must be maintained for all grants, and grantees must adequately safeguard all property and cash to assure that it is used solely for authorized purposes (45 CFR § 92.20(b)(3)).

With respect to procurement, all transactions will be conducted in a manner providing full and open competition. Specifically, grantees will have written selection procedures to ensure that all solicitations identify the requirements that must be fulfilled, as well as all other factors to be used in evaluating bids or proposals (45 CFR § 92.36(c)(1) and § 92.36(c)(3)(ii)).⁶

Of the 30 transactions totaling \$717,823 that we reviewed, 1 transaction totaling \$1,287 was allowable, 21 transactions totaling \$87,616 were unallowable, and 8 transactions totaling \$628,920 were partially unallowable (\$421,882 was allowable and \$207,038 was not). Of the 21 unallowable and 8 partially unallowable transactions, some contained more than 1 error. The table below summarizes the number of unallowable transactions associated with each category of error. Appendix D contains detailed sample results.

Table: Unallowable Financial Transactions*

Category	Number of Unallowable Items
Restricted funds	26
Supporting documentation	9
Not related to the cooperative agreement	2
No-bid contract	1

* The total number of unallowable items exceeds 29 because some items contained more than 1 error.

⁶ Although there are exceptions to open competition in 45 CFR § 92.36(d)(4)(i), none apply to the related finding.

Restricted Funds

According to the NOA dated August 25, 2011, CDC restricted funds in several cost categories totaling \$4,352,991. For 26 transactions, the Ministry spent funds on activities restricted by the NOA. For example, the Ministry expended funds related to the National Health Management Information System, HIV testing and counseling, and parliamentary training activities that CDC had restricted.

Supporting Documentation

For nine transactions, the Ministry was unable to provide adequate documentation to support the transactions. To meet its PEPFAR program goals, the Ministry advanced grant funds to local government entities. The entities reported their expenditures of PEPFAR funds to the Ministry using a Statement of Expenditure. The statement contained expenditures listed by cost categories, such as stationery, fuel, per diem, refreshments, etc.; however, the Ministry could not provide any other documentation to support the transactions.

Not Related to the Cooperative Agreement

For two transactions, the Ministry made expenditures for activities not related to the PEPFAR cooperative agreement. For one transaction, the Ministry spent PEPFAR funds on travel in support of its Blood Safety Cooperative Agreement for staff to receive training on donated dental equipment. The Ministry attributed the unallowable travel cost to a recording error. For the other transaction, the Ministry used grant funds to rent a facility to conduct gender assertiveness training in support of its Millennium Development Goals and World Health Organization grants. The Ministry approved payment of the rental cost because it had previously used funds from these grants to conduct PEPFAR activities. The Ministry said that it believed the reimbursement of funds borrowed from another grant was acceptable.

No-Bid Contract

One transaction was for a contract to broadcast information on tuberculosis prevention. The Ministry contracted with a broadcast company without obtaining bids from any other companies. Ministry officials said that they did not obtain bids because the broadcast company with which they contracted provided the widest dissemination of information.

Federal Financial Report

Grantees must maintain records that adequately identify the source and application of funds for financially assisted activities (45 CFR § 92.20(b)(2)), and their financial management reporting system must be able to demonstrate an accurate, current, and complete disclosure of the financial results of grant-funded activities (45 CFR § 92.20(b)(1)).

The Ministry submitted an FFR to CDC that did not agree with the Ministry's accounting records. The Ministry did not reconcile its general ledger to the report it used to create the FFR.

As a result, the Ministry underreported both expenditures and cash disbursements on the FFR for the cooperative agreement by \$7,625 and \$2,097, respectively.

Withdrawal of Restricted Funds

The GPS (section II-49) states that prior approval is required for deviation from the award terms and conditions, including undertaking any activities disapproved or restricted as a condition of the award.

According to the NOAs that CDC issued, only \$94,043 of funding was unrestricted and available for the Ministry's use prior to May 2012. During March 2012, the Ministry withdrew \$2 million from the Payment Management System. Of that, \$1,905,957 was restricted at the time of withdrawal. According to Ministry officials, the Ministry withdrew the restricted funds because it mistakenly thought that CDC had lifted all restrictions. At the completion of our fieldwork in September 2013, nearly a year after the end of our audit period, \$1,782,260 remained restricted.

Cash Advances

The GPS (section II-49) states that prior approval is required for deviation from the award terms and conditions, including undertaking any activities disapproved or restricted as a condition of the award.

The NOA restricted several project activities and stated in note 13 that "prior approval is required" to lift funding restrictions. *Section IV ... Special Terms and Conditions*, of the NOA, dated August 25, 2011, incorporated the FOA and the application (including the detailed budget) as part of this award by reference.

To help meet its PEPFAR program goals, the Ministry made cash advances to local government entities. In addition to our financial transactions review, we reviewed 11 of these cash advances totaling \$2,186,885 that the Ministry made to local government entities. Of these 11 advances, 2 that totaled \$240,895 were for allowable activities and 9 that totaled \$1,945,990 were not. In the NOA dated August 25, 2011, CDC restricted funds in several cost categories. These restricted funds totaled \$4,352,991. The Ministry made seven cash advances for activities restricted by the NOA related to the National Health Management Information System, HIV testing and counseling, and health worker experience sharing.

The Ministry also made two cash advances for activities not related to the PEPFAR cooperative agreement. In one case, the Ministry advanced PEPFAR funds to the Ethiopian Health and Nutrition Research Institute in support of its Influenza Cooperative Agreement. In the other, the Ministry advanced PEPFAR funds to the Ethiopian Pharmaceuticals Funds and Supply Agency (PFSA) for the purchase of eight x ray machines. However, the Ministry had previously advanced PEPFAR funds to PFSA for the purchase of the machines. At the completion of our fieldwork in September 2013, PFSA had not cashed the check for the second advance, nor had it returned the second advance to the Ministry. Ministry officials attributed these cash advance mistakes to accounting errors.

Expenditures for Value-Added Tax Potentially Unallowable

The 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 recipients that are funded by the United States and providing foreign aid.⁷ During the audit period, CDC Ethiopia had established a process for recipients to follow to obtain VAT reimbursement from the Ethiopian Revenue and Customs Authority.

Although we identified \$57,881 of VAT associated with our judgmentally selected expenditure transactions, we were unable to determine the total amount of VAT the Ministry paid during our audit period because the Ministry did not maintain an accurate record of VAT transactions. The Ministry paid VAT directly to suppliers for purchases under 5,000 Ethiopian birr but did not track or account for these VAT payments. The Ministry withheld and recorded VAT amounts over 5,000 Ethiopian birr in a VAT payable account and would periodically remit this to the Government. However, the Ministry did not consistently record VAT amounts to the payable account.

CDC Ethiopia provided training to recipients and assisted multiple recipients in requesting VAT refunds. However, the Ministry did not participate in the training and did not seek a refund for VAT from the Ethiopian Government. The Ministry said that it did not seek a VAT refund because it was unaware of the refund process that CDC Ethiopia had established.

PROGRAM MANAGEMENT

Progress Report Included Unsupported Accomplishments

Progress reports should contain a comparison of actual accomplishments with the goals established for the period, and the outputs of the programs should be quantified (45 CFR § 92.40(b)(2)).

Recipients are required to retain financial records, supporting documents, statistical records, and all other records “reasonably considered as pertinent to an award” for 3 years from the submission date of the final expenditure report for the funding period (45 CFR § 92.42). Additionally, the FOA states that the University should have measurable outcomes that are in alignment with the goals of PEPFAR activities that have been implemented.⁸

All 20 accomplishments in the Ministry’s progress report were related to the goals of the cooperative agreement. Of these 20 accomplishments, 9 were fully supported, 8 were partially supported, and 3 were not supported.

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 Ministry work with CDC to resolve the issue.

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

The Ministry provided documentation to partially support eight accomplishments that related to activities such as employees' salaries from the All Africa Leprosy Education Rehabilitation Training Research Center, the number of people who attended trainings, and the social mobilization and advocacy of the health extension program that two regions conducted. Additionally, the Ministry provided support for a greater number of printed copies of Health Management Information System health cards than was reported in the progress report.

For the three remaining transactions, the Ministry was unable to provide any documentation to support the reported accomplishments. Specifically, the Ministry could not provide documentation to support the implementation of backup generators, the number of supervisors that it reported as trained, and an extended broadcasting agreement that it reported in the progress report.

The Ministry had many goals for which it was unable to report accomplishments in the progress report because most of the associated activities were contingent on funds that CDC had restricted.

Because the Ministry's documentation was either insufficient or inaccurate for 11 accomplishments in the progress report, CDC did not have adequate information to focus its monitoring efforts and assist the Ministry in achieving the goals of the cooperative agreement.

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). Pursuant to 45 CFR § 74.26(d)(1), recipients that are commercial organizations are required to file one of the following types of audits: a financial-related audit or an audit that meets the requirements of OMB Circular A-133.

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).

Although the Ministry had A-133 audits covering the calendar years of 2011 and 2012, it did not submit its annual financial audit reports to NEAR in accordance with the award requirements. Because the Ministry did not submit the audit reports, NEAR was unable to monitor recipient findings.

INADEQUATE POLICIES AND PROCEDURES

The Ministry did not have adequate financial and programmatic policies and procedures in place to ensure that it:

- withdrew and disbursed only funds approved and unrestricted in the NOA,

- maintained adequate supporting documentation for allowable expenditures and cash advances under the cooperative agreement and accurately reported costs on its FFR,
- maintained an accurate record of VAT transactions paid and sought reimbursement from the Ethiopian Government,
- obtained and evaluated contract bids and proposals in accordance with applicable requirements,
- prepared an adequately supported progress report, and
- submitted its annual financial audit reports to NEAR as required by Federal regulations.

RECOMMENDATIONS

We recommend that the Ministry:

- refund to CDC \$294,654 in unallowable expenditures;
- submit an amended FFR 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; and
- develop and implement policies and procedures for:
 - obtaining approval from CDC to release funds restricted by the NOA prior to withdrawing or disbursing funds,
 - maintaining adequate supporting documentation for expenditures and cash advances of Federal funds and accomplishments included in the progress report,
 - advancing funds only for activities related to the cooperative agreement,
 - accounting for VAT paid and seeking reimbursement from the Ethiopian Government,
 - expending cooperative agreement funds only for allowed activities,
 - obtaining contract bids when required,
 - reconciling FFRs to the accounting records before submission, and
 - submitting its annual financial audit report in a timely manner to the applicable United States agency.

**FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA, MINISTRY OF HEALTH,
COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

Ministry of Health Comments

In comments on our draft report, Ministry officials did not concur with our first recommendation, partially concurred with our last recommendation, and fully concurred with our remaining recommendations. They also described corrective actions they had taken or planned to take to implement them.

In comments on our first recommendation to refund \$294,654 in unallowable expenditures, Ministry officials stated that CDC had released almost all restrictions on the funds as of August 27, 2012, and that these funds had been used for implementation of programmatic activities. Ministry officials also addressed the findings related to this recommendation. They said that sample items 8 and 27, bank charges, were not subject to restrictions and that they had misidentified some sampled expenditures as “HMIS TOT” funds rather than as “CIS supportive supervision” funds. In addition, Ministry officials stated that, while not made available to us during the audit, documentation to support the Statement of Expenditure was maintained at the local government entities. Finally, the Ministry concurred with our findings for unallowable expenditures not related to the cooperative agreement and a no-bid contract.

In comments on our last recommendation to develop and implement additional policies and procedures, the Ministry concurred with all but one item. Specifically, Ministry officials did not agree that they should create a policy for maintaining adequate supporting documentation for expenditures and cash advances of Federal funds and accomplishments included in the progress report. For the other policies and procedures that we recommended the Ministry implement, Ministry officials described actions that they had taken or planned to take and provided written procedures and Ministry policies to support their concurrence with our recommendations.

In comments on our finding that some accomplishments in the progress report were not supported, Ministry officials stated that it was unclear which of the activities we considered partially supported or unsupported and requested an opportunity to provide additional documentation to support these activities.

The Ministry’s comments are included as Appendix E. However, we did not include the attachments because they were too voluminous.

Office of Inspector General Response

Financial Management

With respect to the Ministry’s nonconcurrence with our first recommendation, we acknowledge that CDC lifted almost all of the funding restrictions in a revised NOA dated August 27, 2012. However, the Ministry expended funds that were restricted during the first 11 months of the cooperative agreement, and \$1.8 million of the award remained restricted at the end of the year. Regarding sample items 8 and 27, which Ministry officials stated were not subject to restrictions,

we did not determine sample item 8 to be unallowable (see Appendix D), and we determined that sample item 27 was unallowable because this bank charge was associated with the Ministry's \$2-million withdrawal of restricted funds. Although Ministry officials stated that they erroneously identified support for some sample expenditures as "HMIS" rather than as "CIS," both types of funds were restricted and not available for use.

Pertaining to the Ministry's partial concurrence with our last recommendation to develop and implement additional policies and procedures, we acknowledge that Ministry officials said that documentation to support the Statement of Expenditure was maintained at the local government entities. We provided the Ministry opportunities to provide missing documentation while conducting our review, as well as in its response to our draft report. However, the Ministry did not do so. The Uniform Administrative Requirements for Grants and Cooperative Agreements at 45 CFR §§ 92.20(b)(6) and 92.42(a) require the Ministry to maintain supporting documentation for expenditures and cash advances of Federal funds and for accomplishments included in the progress report. This includes support for the Statement of Expenditure.

Program Management

While conducting our review at the Ministry, we shared details of our findings with Ministry officials, including the specific activities we considered to be partially supported or unsupported. We provided the Ministry opportunities at that time, as well as in its response to our draft report, to provide the missing supporting documentation. However, the Ministry did not do so.

On the basis of our review of the explanations and additional documentation provided with the Ministry's comments, we maintain that our findings and recommendations are valid and continue to recommend that the Ministry refund \$294,654 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>The Republic of Zambia, Ministry 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-04-13-04004</u>	6/2014
<i>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</i>	<u>A-04-13-04010</u>	4/2014
<i>The University Teaching Hospital Generally Managed President’s Emergency Plan for AIDS Relief Funds and Met Program Goals in Accordance With Award Requirements</i>	<u>A-04-13-04005</u>	3/2014
<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>	8/2013
<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>	8/2013
<i>National Health Laboratory Service 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-05-12-00024</u>	8/2013
<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>	7/2013
<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>	6/2013
<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>	4/2013
<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>	4/2013

Report Title	Report Number	Date Issued
<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>	A-04-12-04022	2/2013
<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>	A-04-12-04019	1/2013
<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>	A-04-12-04020	11/2012
<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>	A-04-10-04006	6/2011

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered the budget period from September 30, 2011, through September 29, 2012. This budget period was the fourth year of a 5-year cooperative agreement. During the budget period under review, CDC awarded the Ministry \$4,447,034.

We limited our review of internal controls to those related to our objective. We conducted fieldwork at the Ministry's office in Addis Ababa, Ethiopia, from August 6 through August 29, 2013.

METHODOLOGY

To accomplish our objective, we:

- reviewed relevant Federal laws and regulations, HHS guidance, the FOA, the NOA, and the Ministry's policies and procedures;
- interviewed and conducted meetings with CDC Ethiopia officials to determine the extent of the technical assistance they provided to the Ministry;
- interviewed and conducted meetings with Ministry officials to determine their policies and procedures related to financial accounting and reporting and to program goals and accomplishments;
- reconciled the Ministry's FFR⁹ to its accounting records for the budget period under review;
- selected and reviewed a judgmental sample of 30 financial transactions with expenditures totaling \$717,823 (including VAT) from the grant award of \$4,447,034 and included types of expenditures such as:
 - transactions that may have included restricted funds,
 - transactions that may have included unallowable VAT on purchases,
 - transactions that may not have been related to the cooperative agreement, and

⁹ OMB, through the Federal Register on December 7, 2007 (72 FR 69248), established the Government-wide *Federal Financial Report* (FFR). This report consolidated into a single report the current Financial Status Report (SF-269 and SF-269A) and the Federal Cash Transactions Report (SF-272 and SF-272A). The information collected through the FFR is required by Federal agencies to aid in monitoring their grant funds.

- transactions for purchases that may have required bids;
- selected and reviewed a judgmental sample of 11 cash advances totaling \$2,186,885 that the Ministry made to local government entities;
- compared the accomplishments described in the Ministry's annual progress report to the cooperative agreement's goals;
- reviewed all 20 accomplishments described in the Ministry's annual progress report and reviewed supporting documentation to determine whether the Ministry met program goals; and
- reviewed the Ministry'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

45 CFR § 74.26(d)

Recipients that are commercial organizations are required to file one of the following types of audits: a financial-related audit or an audit that meets the requirements of OMB Circular A-133.

45 CFR § 92.20(b)

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

(2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities

(3) *Internal control.* Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

(6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

45 CFR § 92.26(a)

Grantees and subgrantees are responsible for obtaining audits in accordance with the Single Audit Act Amendments of 1996 (31 U.S.C. 7501–7507) and revised OMB Circular A–133, “Audits of States, Local Governments, and Non-Profit Organizations.”

45 CFR § 92.36(c)(1)

“All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of § 92.36.”

45 CFR § 92.36(c)(3)(ii)

(3) Grantees will have written selection procedures for procurement transactions. These procedures will ensure that all solicitations: (ii) identify all requirements

which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.

45 CFR § 92.40(b)(2)(i)

(2) Performance reports will contain, for each grant, brief information on the following: (i) A comparison of actual accomplishments to the objectives established for the period. Where the output of the project can be quantified, a computation of the cost per unit of output may be required if that information will be useful.

45 CFR § 92.41(b)

(1) *Form.* Grantees will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all nonconstruction grants and for construction grants when required in accordance with § 92.41(e)(2)(iii).

(4) *Due date.* When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. When required on an annual basis, they will be due 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of grant support.

45 CFR § 92.42(a)

Grantees are required to retain financial and programmatic records and supporting documents, both those required by the grant agreement and those “otherwise reasonably considered as pertinent to program regulations or the grant agreement” for three years from the submission date of the final expenditure report for the funding period.

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-49

Prior approval is required for deviation from the award terms and conditions, including undertaking any activities disapproved or restricted as a condition of the award.

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 for-profit organizations (specified in 45 CFR 74.26(d)).

APPENDIX D: SAMPLE RESULTS

Sample No.	Restricted Funds	Lack of Documentation	Not Related to the Award	No-Bid Contract	Value of Sample Transaction	Unallowable Amount
1	X	X			\$9,467	\$9,467
2	X	X			627	627
3	X	X			458	458
4	X				136,340	40,902
5	X				132,057	39,617
6	X	X			16,380	16,380
7			X		2,018	2,018
8					1,287	0
9				X	20,473	17,802
10	X				314,331	94,299
11			X		1,934	1,682
12	X				2,292	2,292
13	X				10,648	9,259
14	X				27,602	27,602
15	X				2,786	2,423
16	X				313	313
17	X				313	313
18	X				21	21
19	X	X			2,353	2,353
20	X	X			98	98
21	X	X			12,404	12,404
22	X	X			1,159	1,159
23	X	X			198	198
24	X				259	259
25	X				259	259
26	X				5,635	5,635
27	X				5,000	5,000
28	X				368	368
29	X				393	393
30	X				10,350	1,053
Total	26	9	2	1	\$717,823	\$294,654

APPENDIX E: FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA,
MINISTRY OF HEALTH, COMMENTS

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Federal Democratic Republic of
Ethiopia
Ministry of Health

23 JUL 2014

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Ref. No. _____

Department of Health and Human Services

Office of Inspector General

Attn. To: Gloria L. Jarmon

(Deputy Inspector General for Audit service)

Subject: FMOH Management response on the draft OIG audit findings

For the years ended 29 September 2012

Dear Jarmon,

We have received and checked the draft OIG auditor's draft audit findings and recommendations on the audit of the accounts of Center for Disease Control HIV/TB Project for the years ended 29 September 2012.

Pleased find enclosed here with FMOH response organized in three parts: financial management, Additional Issues, recommendation on the draft audit findings for the years 29 September, 2012.

Yours Sincerely

Amir Aman Hagos (Dr.)
State Minister of Health

- H.E Office of Mister
 - State Minister (Operation)
 - Financial Resource Mobilization Directorate (FRM)
 - Finance and Procurement Directorate
- MOH



251-(0)11-5517011
251-(0)11-5515425
251-(0)11-5159869
251-(0)11-5518031

Fax 251-(0)11-5519366
251-(0)11-5159657
251-(0)11-5524549

E-mail: moh@ethionet.et
Web site: www.moh.gov.et



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Addis Ababa,
Ethiopia

Audit of the Ethiopian Ministry of Health PEPFAR Funds (A-04-13-04015)

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In reply Please Refer to our Ref. No.

1. Financial Transactions

Of the 30 transactions totaling \$717,823 that we reviewed, 1 transaction totaling \$1,287 was allowable, 21 transactions totaling \$87,616 were unallowable, and 8 transactions totaling \$628,920 were partially unallowable (\$421,882 was allowable and \$207,038 was not).

1.1. Restricted Funds

According to the NOA dated August 25, 2011, CDC restricted funds in several cost categories totaling \$4,352,991. For 26 transactions, the Ministry spent funds on activities restricted by the NOA. For example, the Ministry expended funds related to the National Health Management Information System, HIV testing and counseling, and parliamentary training activities that CDC had restricted.

Response

The Federal Ministry of Health (FMOH) do not accepts these findings. We admit there was confusion about the timing of the restriction lifting given the delays in its processing and the receipt of other revised NOAs during this period. The interest of the FMOH was implementation of the programmatic activities as per the work plan; and with no intent of violating USG rules and regulations.

Even if there was an administrative restriction at the beginning of the budget year, almost all restrictions were lifted and revised notice of award was received dated 08/27/2012. Besides, as we recognized that HMIS TOT was restricted this was not part of our expenditure statement for the budget year. Most of the expenses incurs were for fuel and travel which exactly related with CIS supportive supervision. We would like to note that our source documents erroneously stated to be HMIS TOT, instead of CIS TOT. As stated below out of the total selected 30 samples 26 are reported as restricted, however all restriction was lifted as per the revised notice of award dated 08/27/2012 except HMIS TOT requested budget.

The FMOH has developed SOPs and tool to track funding restrictions and restriction lifting to ensure restricted fund is not drawn down. The SOP and tool, effective as of October 1, 2013 are shown as Annex 1 and 2.

Since this audit finding, restricted funds have not been drawn down. The following table (Table 1) shows you the sample transaction analysis.

Table 1 Amounts restricted and their status after August 27/2012

Sample No.	Restricted Funds	Value of Sample Transaction	Unallowable Amount	Description	Status as of August 2012
1	X	9,467	9,467	Afar SoE for HIV/AIDS STI/TB	Restriction lifted
2	X	627	627	Afar SoE for HIV/AIDS STI/TB	Restriction lifted
3	X	458	458	Afar SoE for HIV/AIDS STI/TB	Restriction lifted
4	X	136,340	40,902	HMIS Printing	Restriction Lifted
5	X	132,057	39,617	HMIS Printing	Restriction Lifted
6	X	16,380	16,380	Somali SoE for HIV/AIDS STI/TB	Restriction Lifted
10	X	314,331	94,299	HMIS Printing	Restriction Lifted
12	X	2,292	2,292	HIV STI/TB Supervision Fuel	Restriction Lifted
13	X	10,648	9,259	HIV Exposed Infant Printing	Restriction Lifted
14	X	27,602.00	27,602.00	Fuel for HMIS and CIS supportive supervision	Restriction Lifted



15	X	2,786.00	2,423.00	HMIS related stationary procurement	Restriction Lifted
16	X	313	313	HIV TOT for Extension Worker	Restriction Lifted
17	X	313	313	HIV TOT for Extension Worker	Restriction Lifted
18	X	21.00	21.00	Hotel arrangement for cont. application	Restriction Lifted
19	X	2,353	2,353	Gambela SoE For HIV STI/TB	Restriction lifted
20	X	98	98	Gambela SoE For HIV STI/TB	Restriction lifted
21	X	12,404	12,404	Gambela SoE For HIV STI/TB	Restriction lifted
22	X	1,159	1,159	Gambela SoE For HIV STI/TB	Restriction lifted
23	X	198	198	Gambela SoE For HIV STI/TB	Restriction lifted
24	X	259.00	259.00	HMIS Supportive Supervision	Restriction Lifted
25	X	259.00	259.00	HMIS Supportive Supervision	Restriction Lifted
26	X	5,635	5,635	HIV STI/TB Training	Restriction Lifted
27	X	5,000	5,000	Bank Service Charge	Restriction Lifted
28	X	368	368	HIV STI/TB Perdiem	Restriction Lifted
29	X	393.00	393.00	CIS Travel cost	Restriction Lifted
30	X	10,350.00	1,053.00	Fuel for HMIS and CIS supportive supervision	Restriction Lifted

In summary samples leveled as:

- **Sample # 1, 2, 3, 4, 5, 6, 10, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, and sample # 30** expenditures incurred for the purpose of the cooperative agreement into consideration and all restrictions as per August 2011 was lifted as per NOA as of 27 August 2012 .
- **Sample # 14, 15, 18, 24, 25, 29, and sample # 30** are expenditures incurred for the purpose of the cooperative agreement, and all related with CIS supportive supervision as stated on table 1 above. It was erroneously stated that program activity implementers always wrote budget source as HMIS TOT though it was other HMIS/CIS related activity.
- **Sample # 8 and 27** are incurred for bank service charge and not subject to restrictions.

1.2 Supporting Documentation

For nine transactions, the Ministry was unable to provide adequate documentation to support the transactions. To meet its PEPFAR program goals, the Ministry advanced grant funds to local government entities. The entities reported their expenditures of PEPFAR funds to the Ministry using a Statement of Expenditure. The statement contained expenditures listed by cost categories, such as stationery, fuel, per diem, refreshments, etc.; however, the Ministry could not provide any other documentation to support the transactions.

Response

The Ministry does not accept these findings. As per the Government of Ethiopia financial regulation/policy, original supporting documents are kept at Regional Health Bureau (RHB) custody when activities are conducted with cash advances. We recognize that these were not made available to the OIG at the time of the audit. As other auditors FMOH is dedicated to make ready documents at the regional, zonal, and could also be at the woreda level at their own custody only.

The FMOH collects the Statement of Expenditure with supporting document reference number, date of expenditure, invoice number, etc. The FMOH Finance and procurement department team members visit the RHBs to cross-examine documents and validate the SOEs submitted by RHBs. For example, sample financial monitoring report, monitoring Checklist and Financial monitoring checklist is attached as Annex 3. The following table analyses sample transactions related with regional advances "no supporting documents"



Table 2 Amount related SOE (Statement of Expenditure)

Sample No.	Lack of Documentation	Value of Sample Transaction	Unallowable Amount	Description	Status as of August 2012
1	X	9,467	9,467	Afar SoE for HIV/AIDS STI/TB	Source documents are available at the regions custody
2	X	627	627	Afar SoE for HIV/AIDS STI/TB	Source documents are available at the regions custody
3	X	458	458	Afar SoE for HIV/AIDS STI/TB	Source documents are available at the regions custody
6	X	16,380	16,380	Somali SoE for HIV/AIDS STI/TB	Source documents are available at the regions custody
19	X	2,353	2,353	Gambela SoE For HIV STI/TB	Source documents are available at the regions custody
20	X	98	98	Gambela SoE For HIV STI/TB	Source documents are available at the regions custody
21	X	12,404	12,404	Gambela SoE For HIV STI/TB	Source documents are available at the regions custody
22	X	1,159	1,159	Gambela SoE For HIV STI/TB	Source documents are available at the regions custody
23	X	198	198	Gambela SoE For HIV STI/TB	Source documents are available at the regions custody

1.3 Not Related to the Cooperative Agreement

For two transactions, the Ministry made expenditures for activities not related to the PEPFAR cooperative agreement.

Response

The FMOH accepts this finding. We wish to clarify that the two transactions in question were not expenditures for activities outside of the CDC CoAg, but were recording errors. These transactions have been corrected on both the accounting records and on the FFR. Please see the attached the corrected copies of the FFR and general ledger shown as Annexes 4 and 5.

The FMOH have a system of verifying trial balances on a regular basis (every 60 days). In addition, the FMOH has opened a separate bank account for the CDC grants to ensure separate processing and recording.

1.4 No-Bid Contract

One transaction was for a contract to broadcast information on tuberculosis prevention. The Ministry contracted with a broadcast company without obtaining bids from any other companies.



Response

FMOH accept this finding. This was a onetime event that the ministry will correct it as soon as possible. The ministry conducts all procurements of goods and services based its decision on the government procurement policy and procedures as shown on annex. As per the government policy it is clearly stated that at least three price quotations are required and the one with the lowest price is awarded.

As on sample # 9, the Ministry did not obtain bids because the broadcast company selected was the only broadcaster which can provide the widest coverage to address the community at large. So this decision also was as per the government procurement directives.

In addition, Fana Broadcast is the first FM radio which has wider coverage especially in all cities. Beside there was an assessment made that Fana Broadcast has very large number of listener in cities. It is also known that prevalence of HIV/TB co infection was very high at cities and towns than rural villages. However FMOH now understand to review its stand to bid procurement of air time once again.

2. Additional Issue

2.1. Federal Financial Report

The Ministry submitted FFR to CDC that did not agree with the Ministry's accounting records. The Ministry did not reconcile its general ledger to the report it used to create the FFR. As a result, the Ministry underreported both expenditures and cash disbursements on the FFR for the cooperative agreement by \$7,625 and \$2,097, respectively.

Response

The FMOH accepts this finding. The FFR has been corrected using the corrected and reconciled accounting records. The FFR and reconciled accounting records are shown as Annexes 4 and 5.

The FMOH has developed a SOP to ensure that the FFR is prepared based on the accounting records (general ledger). This SOP, effective as of October 2013 is shown as Annex 6.

2.2. Withdrawal of Restricted Funds

According to the NOAs that CDC issued, only \$94,043 of funding was unrestricted and available for the Ministry's use prior to May 2012. During March 2012, the Ministry withdrew \$2 million from the Payment Management System. Of that, \$1,905,957 was restricted at the time of withdrawal.

Response

The FMOH accepts this finding and has taken action to ensure that no future drawdown of restricted funds occurs. As mentioned under 1.1, the FMOH has developed an SOP and tool to track funding restrictions and restriction lifting to ensure restricted funds are not drawn down. Please reference Annexes 1 and 2.

Since this audit finding, restricted funds have not been draw down.

2.3. Cash Advances



To help meet its PEPFAR program goals, the Ministry made cash advances to local government entities. In addition to our financial transactions review, we reviewed 11 of these cash advances totaling \$2,186,885 that the Ministry made to local government entities. Of these 11 advances, 2 that totaled \$240,895 were for allowable activities and 9 that totaled \$1,945,990 were not.

In the NOA dated August 25, 2011, CDC restricted funds in several cost categories. These restricted funds totaled \$4,352,991. The Ministry made seven cash advances for activities restricted by the NOA related to the National Health Management Information System, HIV testing and counseling, and health worker experience sharing.

Response

FMOH accepts the finding. The response we provided on 1.1 and 2.2 above could also be applied for this. Besides This finding reflects three separate issues, addressed below:

1. The advance of restricted funds. FMOH wishes to clarify that the unallowability of the cash advances, with two exceptions noted below, were related to the fund restriction, not that funds were used for expenses other than PEPFAR/CDC CoAg activities included in the project plan and budget. Please note the actions described under 1.1 to ensure that FMOH does not drawdown restricted funds and the reference documents shown as Annexes 1 and 2.
2. Advance to the Ethiopian Health and Nutrition Research Institute for the Avian Influenza (EHNRI): This advance was the result of a recording error due to confusion between two CoAgs – namely FMOH HIV/AIDS and Avian Influenza - using one account (B0705G1) in the Payment Management System (PMS). The FMOH has established a separate subsidiary ledger for each CoAg and corrected the error. The corrected documents are attached as Annex 7. FMOH understands that the FFR will need further correction to adjust for this adjustment in accounts and can provide a revised FFR within two weeks.

The Avian Influenza CoAg has now been shifted to EHNRI directly and is managed in a separate bank account to avert any such confusion.

3. Two advances made to PFSA: The second advance to PFSA was made to meet additional funding requirement for the procurement of 14 digital x-ray machines. The procurement of the x-ray machines was stopped given the funding restrictions. The restriction was lifted in August 2012 with the 1st advance of funds. As PFSA did not require the 2nd advance as expected, the check was returned to FMOH. FMOH voided the check and reversed its account on October 24, 2013. Copies of the voided check, transaction detail and reversal documentation is attached as Annex 8.

2.4. Expenditures for Value-Added Tax Potentially Unallowable

During the audit period, CDC Ethiopia had established a process for recipients to follow to obtain VAT reimbursement from the Ethiopian Revenue and Customs Authority.

Although we identified \$57,881 of VAT associated with our judgmentally selected expenditure transactions, we were unable to determine the total amount of VAT the Ministry paid during our audit period because the Ministry did not maintain an accurate record of VAT transactions. The Ministry paid VAT directly to suppliers



for purchases under 5,000 Ethiopian birr but did not track or account for these VAT payments. The Ministry withheld and recorded VAT amounts over 5,000 Ethiopian birr in a VAT payable account and would periodically remit this to the Government. However, the Ministry did not consistently record VAT amounts to the payable account.

Response

The FMOH accepts this finding. The FMOH has submitted a request for this VAT reimbursement directly to the Ministry of Finance and Economic Development (MoFED). This request sent on June 24/2014 for reimbursement of USD 106,804.10 is attached as Annex 09. In the future the FMOH will request VAT reimbursement on a yearly basis so as to use the VAT reimbursement advantage provided by the government.

The FMOH is now accurately recording and tracking all VAT payments. Please see attached copy of ledgers showing detail of VAT payments for the audit period and subsequent funding periods. These are shown as Annex 10.

2.5. Progress Report Included Unsupported Accomplishments

All 20 accomplishments in the Ministry's progress report were related to the goals of the cooperative agreement. Of these 20 accomplishments, 9 were fully supported, 8 were partially supported, and 3 were not supported.

Response

It is not clear to the FMOH which of the reported activities the OIG considers to be partially supported or unsupported. The FMOH would appreciate an opportunity to provide additional supporting documentation for these activities once we have a better understanding.

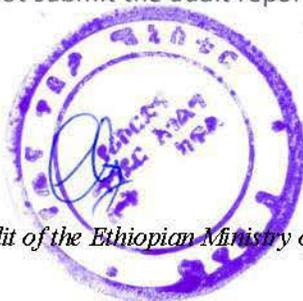
For example, FMOH does not find reference to the implementation of back-up generators in the progress report. The procurement of generators was restricted and as such was not completed. The FMOH requests the OIG to clarify the source document which noted the activity as completed. There are two training activities for supervisors reported, however it's not clear for which the OIG felt documentation was inadequate. As such, additional clarification is requested.

To substantiate the extended broadcast agreement, please find attached a copy of the contract with FANA Broadcasting. This is shown as Annex 11.

The FMOH has endorsed a directive regarding the provision of trainings and conducting workshops, which provides emphasis to produce training reports on timely basis that includes all supporting documents such as attendances, and registration sheets. A copy of the Directive is attached as Annex 12.

2.6. NON-FEDERAL AUDIT REPORTS

Although the Ministry had A-133 audits covering the calendar years of 2011 and 2012, it did not submit its annual financial audit reports to NEAR in accordance with the award requirements. Because the Ministry did not submit the audit reports, NEAR was unable to monitor recipient findings.



Response

The FMOH agrees with this finding. Audits are up to date and audit reports for 2011, 2012 and 2013 will be submitted to NEAR. Please see attached scanned copy of recent audit report submitted shown as Annex 13.

The FMOH was unclear on this requirement and had been submitting audit reports to CDC-Ethiopia. It is now clear that official reporting is to NEAR; this will be closely adhered to in the future.

2.7. INADEQUATE POLICIES AND PROCEDURES

- FMOH has developed SOP not to withdraw funds restricted effective as of October 1, 2013.
- FMOH has developed SOP for regularly recording and requesting for reimbursement then after effective as of October 1, 2010.
- Government of Ethiopia has used procurement directives which enable us to evaluate contract bids among at least three suppliers effective as of June 2010.
- FMOH will prepare and submit SOP for establishing a system of preparing an adequately supported and well documented progress report.

3. Recommendations

3.1. Refund to CDC \$294,654 in unallowable expenditures

The FMOH do not concurs with this recommendation. The majority of the unallowable expenditures are related to funding restrictions. It should be noted that the restrictions were lifted in August 2012 and that funds were used for timely implementation of program activities as per the work plan. FMOH recognizes the error made and has taken steps to ensure compliance to USG rules and regulations regarding funding restrictions. FMOH would respectfully request the OIG to reconsider their position on these expenditures.

Due to the reasons mentioned above 1.1, 1.2 and below, we are not expected to refund back the full amount stated here.

3.2. Submit an amended FFR for the budget period of the cooperative agreement that we reviewed

The FMOH concurs with this recommendation, and has amended the FFR which is attached as Annex 4. However, the FMOH will need to further amend the FFR to incorporate the reversal of the cash advance to EHNRI referenced under section 1.3. FMOH will submit a final revised FFR within two weeks of this submission.

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

The FMOH concurs with this recommendation. FMOH recognizes that in the NOA it is clearly stated that VAT payment is not allowed. Accordingly, the FMOH has requested reimbursement of VAT paid from MoFED. A copy of the letter is attached as Annex 9. FMOH will ensure timely VAT reimbursement requests in the future.

3.4. Develop and implement policies and procedures for



1. Obtaining approval from CDC to release funds restricted by the NOA prior to withdrawing or disbursing funds

The FMOH concurs with this recommendation and understands the need for restriction lifting through a revised NOA prior to drawdown of restricted funds. A SOP and tracking tool have been developed to ensure that the status of funding restrictions are tracked and use of restricted funds averted. These are attached as Annexes 1 and 2.

The FMOH will develop a SOP outlining the processes for requesting restriction lifting from CDC.

2. Maintaining adequate supporting documentation for expenditures and cash advances of Federal funds and accomplishments included in the progress report

The FMOH do not concurs with this recommendation. The FMOH collects the Statement of Expenditure with supporting document reference number, date of expenditure, invoice number, etc. The FMOH Finance and procurement department team members visit the RHBs to cross-examine documents and validate the SOEs submitted by RHBs. For example, sample financial monitoring report, monitoring Checklist and Financial monitoring checklist is attached as Annex 3.

3. Advancing funds only for activities related to the cooperative agreement

The FMOH concurs with this recommendation. The FMOH have a system of verifying trial balances on a regular basis (every 60 days). In addition, the FMOH has opened a separate bank account for the CDC grants to ensure separate processing and recording.

4. Accounting for VAT paid and seeking reimbursement from the Ethiopian Government

The FMOH concurs with this recommendation. The FMOH has submitted a request for this VAT reimbursement directly to the Ministry of Finance and Economic Development (MoFED).

5. Expending cooperative agreement funds only for allowed activities

The FMOH concurs with this recommendation. The FMOH have a system of verifying trial balances on a regular basis (every 60 days). In addition, the FMOH has opened a separate bank account for the CDC grants to ensure separate processing and recording. Please see the attached the corrected copies of the FFR and general ledger shown as Annexes 4 and 5.

6. Obtaining contract bids when required

The FMOH concurs with this recommendation. Government of Ethiopia procurement directives mandate the process of obtaining contract bids as shown on Annex 14

7. Reconciling FFRs to the accounting records prior to submission

The FMOH concurs with this recommendation. Currently expenditure reported on the FFR is subject to be reconciled and FFR attached with accounting ledgers at the back of the report and easy for reconciliation. (Please see the annex # 6 referred for SOP developed and effective as of October 2013).



8. Submitting its annual financial audit report in a timely manner to the applicable United States agency
The FMOH concurs with this recommendation. FMOH will strive to submit audit report on time as stated on the USG rules and regulations. The audit is up to date but there was confusion on for whom to send the report for. Attached is Audit report for year 03 budget periods (Annex 13).

