Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

THE MINISTRY OF HEALTH AND SOCIAL WELFARE NATIONAL AIDS CONTROL PROGRAM DID NOT ALWAYS MANAGE AND EXPEND PEPFAR FUNDS IN ACCORDANCE WITH AWARD REQUIREMENTS

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Office of Inspector General

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Report in Brief
Date: August 2017
Report No. A-04-16-04044

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL

The Ministry of Health and Social Welfare National AIDS Control Program Did Not Always Manage and Expend PEPFAR Funds in Accordance With Award Requirements

Why OIG Did This Review

The President's Emergency Plan for AIDS Relief (PEPFAR) was authorized to receive $48 billion in funding for the 5-year period beginning October 1, 2008, to assist foreign countries in combating HIV/AIDS, tuberculosis, and malaria. Additional funds were authorized to be appropriated through 2018.

The act that implemented PEPFAR requires HHS, OIG, among others, to provide oversight of PEPFAR. To meet this requirement, we have conducted a series of audits of organizations receiving PEPFAR funds from HHS, Centers for Disease Control and Prevention (CDC).

The objective of our audit was to determine whether the Ministry of Health National AIDS Control Program (the Ministry), located in Dar es Salaam, Tanzania, managed and expended PEPFAR funds in accordance with the award requirements.

How OIG Did This Review

Our audit covered the budget periods from December 15, 2012, through March 31, 2015. These budget periods were for years 1 and 2 of a 5-year cooperative agreement. During the budget period under review, CDC awarded the Ministry $7.8 million, of which the Ministry expended $6.8 million. From these PEPFAR fund expenditures, we selected a judgmental sample of 52 transactions totaling $1 million.

What OIG Found

The Ministry did not always manage and expend PEPFAR funds in accordance with award requirements. Of the 52 financial transactions in our judgmental sample, 25 transactions totaling $510,584 were allowable, but 27 transactions totaling $495,379 were not. These transactions were unallowable because the Ministry did not provide adequate supporting documentation for the expenditures.

In addition, the Ministry did not have a time and attendance system to support $1.5 million in funded personnel costs, did not always record financial transactions correctly, filed an inaccurate Federal Financial Report (FFR), filed one of its FFRs more than 15 months late, did not maintain a United States dollar bank account, and paid unallowable value-added taxes.

What OIG Recommends

We recommend that the Ministry (1) refund to CDC $495,379 of unallowable expenditures from our sample review that it could not adequately support, (2) work with CDC to determine the allowability of the $1.5 million in personnel costs awarded to the Ministry during the audit period, and (3) develop and implement adequate policies and procedures to ensure that it prepares and submits accurate FFRs on time. We also made other procedural and policy recommendations.

In written comments on our draft report, the Ministry did not specifically concur or nonconcur with our recommendations. However, for many of the recommendations it described actions that it had taken or plans to take. In addition, the Ministry provided for consideration additional documentation to support expenditures questioned in our draft report. After considering the Ministry's comments and additional documentation, we adjusted our findings and recommendations where warranted.

The full report can be found at https://oig.hhs.gov/oas/reports/region4/41604044.asp.

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INTRODUCTION

WHY WE DID THIS REVIEW

The U.S. Congress authorized the President's Emergency Plan for AIDS Relief (PEPFAR) to receive $48 billion in funding for the 5-year period beginning October 1, 2008, to assist foreign countries in combating HIV/AIDS, tuberculosis, and malaria.[1] Congress authorized additional funds to be appropriated through 2018.[2]

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).[3] We selected the Ministry of Health and Social Welfare National AIDS Control Program (the Ministry) for review because it coordinated the Tanzanian health sector response to the HIV/AIDS epidemic.

OBJECTIVE

Our objective was to determine whether the Ministry managed and expended PEPFAR funds in accordance with the award requirements.

BACKGROUND

Centers for Disease Control and Prevention

As the U.S. science-based public health and disease prevention agency, CDC plays an essential role in implementing PEPFAR. CDC uses its technical expertise in public health science and longstanding relationships with ministries of health across the globe to work side by side with countries to build strong national programs and sustainable public health systems that can respond effectively to the global HIV/AIDS epidemic and to other diseases that threaten the health and prosperity of the global community.

Funded through PEPFAR, CDC's highly trained scientists work together with ministries of health and other partners in 60 countries to combat HIV/AIDS globally. Furthermore, CDC provides critical technical assistance to 18 additional countries.

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[1] 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).

[2] The PEPFAR Stewardship and Oversight Act of 2013 (P.L. No. 113-56).

[3] Appendix A contains a list of related OIG reports.

For fiscal year (FY) 2014, CDC obligated PEPFAR funds totaling $1.3 billion. CDC awarded these PEPFAR funds through cooperative agreements, which it uses in lieu of grants when it anticipates the Federal Government's substantial involvement with recipients in accomplishing the objectives of the agreements.[4] In response to a Funding Opportunity Announcement (FOA),[5] CDC awarded the Ministry grant number 1U2GGH000830 through a cooperative agreement for the project period December 15, 2012, through December 14, 2017.

Application of Federal Regulations

The grants administration rule at 45 CFR part 92 and the incorporated cost principles at 2 CFR part 225 apply to foreign governmental entities.[6]

Ministry of Health and Social Welfare National AIDS Control Program

The Ministry coordinates Tanzania's response to the HIV/AIDS epidemic. The Ministry's mission is to reduce the incidence of HIV infection and its associated morbidity and mortality.

With support from CDC, the Ministry implements various activities through its units: Counseling and Social Support, Strategic Information, Information and Communication, Epidemiology, Care and Treatment, Prevention of Mother to Child Transmission, Laboratory Services, and Quality Improvement.

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[4] The regulations that apply to Federal grants also apply to cooperative agreements.

[5] FOA number CDC-RFA-GH12-1240 was entitled "Building the Capacity of the National AIDS Control Program of the Ministry of Health to Expand Coordinated HIV Prevention, Care, Treatment, and Strategic Information Programs in the United Republic of Tanzania Under the President's Emergency Plan for AIDS Relief (PEPFAR)."

[6] We were recently informed, after applying 45 CFR part 92 to ministries of health in five audit reports issued since 2013 without any CDC comment, that CDC intended to apply the grants administration rule at 45 CFR part 74 to foreign governmental entities, including Ministries of Health. We maintain, however, that 45 CFR part 92 applies to these governmental entities. 45 CFR part 74 contains uniform administrative requirements for awards made to institutions of higher education, hospitals, other nonprofit organizations, and commercial organizations. 45 CFR part 92 contains uniform administrative requirements for State, local, and tribal governments. Our interpretation is informed by clear Departmental policy. HHS grants policy for internal use states that, "unless a specific exclusion or variation is indicated in this paragraph, HHS policy provides that the same administrative requirements that apply to grants to domestic recipients, including 45 CFR part 74 or 92 and cost principles *as appropriate for the type of entity*, apply equally to foreign grants" (HHS Grants Policy Directive 6.99.105, emphasis added). HHS's Grants Policy Statement (GPS), which provides general terms and conditions and HHS policies for grantees and others interested in the administration of HHS grants, also specifies that most HHS grants policies, "including the requirements of 45 CFR parts 74 or 92, apply to foreign entities, *as applicable to the type of foreign organization* and the cost principles incorporated by reference in those regulations" (GPS, section II-113, emphasis added). We note that both 45 CFR parts 74 and 92 were superseded by 45 CFR part 75, which applies to awards made on or after December 26, 2014. The new regulation did not apply to the awards made during our audit period.

HOW WE CONDUCTED THIS REVIEW

Our audit covered the budget periods from December 15, 2012, through March 31, 2015.[7] These budget periods were for years 1 and 2 of a 5-year cooperative agreement. During the budget period under review, CDC awarded the Ministry $7,801,209, of which the Ministry expended $6,822,460. From these PEPFAR fund expenditures, we selected a judgmental sample of 52 transactions totaling $1,005,963.

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

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

FINDINGS

The Ministry did not always manage and expend PEPFAR funds in accordance with award requirements. Of the 52 financial transactions in our judgmental sample, 25 transactions totaling $510,584 were allowable, but 27 transactions totaling $495,379 were not. These transactions were unallowable because the Ministry did not provide adequate supporting documentation for the expenditures.

Additionally, the Ministry:

- could not support $1,548,664 in funded personnel costs,
- did not always record financial transactions correctly,
- filed an inaccurate Federal Financial Report (FFR) for budget years 1 and 2,
- filed one of its FFRs more than 15 months late,
- did not maintain a United States dollar (USD) bank account, and
- paid unallowable value-added taxes (VAT).

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[7] During budget year 1, CDC approved the budget period to run through March 31 of the following year instead of December 14 of the budget year. Therefore, the first budget year covered a period of longer than 1 year, from December 15, 2012, through March 31, 2014. CDC revised the first budget period to end on March 31, 2014, instead of December 14, 2014, to realign the budget period to the April 1 through March 31 cycle. Budget year 2 began April 1, 2014, and ended March 31, 2015.

These errors occurred because the Ministry did not have adequate policies and procedures to ensure that it followed Federal regulations and did not have an adequate accounting system. The Ministry paid VAT because the Government of Tanzania denied the Ministry's VAT exemption. Also, the Ministry could not account for how much VAT it had paid.

THE MINISTRY DID NOT PROVIDE ADEQUATE SUPPORTING DOCUMENTATION

Grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. "These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income" (45 CFR § 92.20(b)(2)). All recordkeeping related to accounting must be executed under the direct supervision of the Programme Accountant under the necessary authorizing signatories (Finance Management and Accounting Manual for the National AIDS Control Programme).

Of the 52 sample financial transactions that we tested, 27 transactions totaling $495,379 were unallowable because the Ministry did not provide adequate supporting documentation, such as receipts, delivery notes, certificates of completion, or payment vouchers, for the expenditures.

The Ministry's policies and procedures, as stated above, were very broad and did not address the documentation requirements for Federal awards. After multiple requests, the Ministry could not provide adequate records.

THE MINISTRY COULD NOT ADEQUATELY SUPPORT PEPFAR-FUNDED PERSONNEL COSTS

When employees work solely on a single Federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications verifying that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisor having firsthand knowledge of the work performed by the employee (2 CFR part 225, Appendix B, § 8.h.(3)).

When employees work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that meets the standards in subsection 8.h.(5) (2 CFR part 225, Appendix B, § 8.h.)(4)). Personnel activity reports or equivalent documentation must, among other things, reflect an after-the-fact distribution of the actual activity of each employee, must account for the total activity for which each employee is compensated, must be produced at least monthly, and must coincide with one or more pay periods (2 CFR part 225, Appendix B, § 8.h.(5)).

The Ministry could not support $1,548,664 of PEPFAR-funded personnel costs.[8] The Ministry stated that it followed the Ministry of Health policies for time and attendance that required only a manual log for signing in and out. However, for those employees who worked solely on PEPFAR activities, these policies did not meet the Federal grant requirements because they did not include certifications that employees worked solely on PEPFAR activities. For those employees who worked on both PEPFAR and non-PEPFAR activities, these policies did not meet the Federal grant requirements because they did not require personnel activity reports that reflected an after-the-fact distribution of the actual activity performed by the employee.

The Ministry's time and attendance system was inadequate for supporting PEPFAR expenditures. As a result, the Ministry did not exercise proper stewardship over Federal funds in accordance with award requirements. The Ministry's time and attendance system could not account for the activities worked on by PEPFAR-funded employees.

THE MINISTRY DID NOT ALWAYS RECORD FINANCIAL TRANSACTIONS CORRECTLY

Grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities (45 CFR § 92.20(b)(2)).

The Ministry did not account for five transactions in our sample in the correct budget category. Specifically, the Ministry incorrectly categorized:

- three transactions totaling $6,289 as equipment, even though the transactions did not meet the dollar threshold to be categorized as equipment[9] and should be supplies;

- one transaction totaling $19,699 as equipment, even though the transaction was for training; and

- one transaction totaling $15,486 as supplies, even though $15,128 of the amount was for training.

The Ministry incorrectly categorized these transactions because it lacked an understanding of Federal requirements and made errors that could be attributed to an inadequate accounting system.

As a result, the Ministry did not exercise proper stewardship over Federal funds in accordance with award requirements.

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[8] The actual amount of money spent on personnel costs could not be determined because the Ministry's accounting records were unreliable. Therefore, we used the CDC-approved budgeted amount incorporated by reference in the Notice of Award (NOA).

[9] Equipment is tangible, nonexpendable, personal property having a useful life of more than 1 year and an acquisition cost of $5,000 or more per unit (45 CFR § 92.3).

THE MINISTRY SUBMITTED AN INACCURATE FEDERAL FINANCIAL REPORT

The financial management systems of grantees and subgrantees must meet the following standards for 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" (45 CFR § 92.20(b)(1)).

The FFR that the Ministry submitted for the audit period did not reconcile to its accounting records. The Ministry used a spreadsheet to track the Ministry's cooperative agreement transactions and to create the FFR. The Ministry reported expenditures on its FFR totaling $6,822,460; however, the Ministry's accounting records totaled $5,208,592. This resulted in the Ministry overreporting PEPFAR expenditures by $1,613,868.

The Ministry did not accurately report PEPFAR expenditures because it:

- used a spreadsheet that contained numerous errors[10] to track expenditures,
- could not distinguish between current and previous cooperative agreement PEPFAR expenditures, and
- did not have any policies and procedures to ensure that it prepared and submitted FFRs accurately.

In its comments on our draft report, the Ministry confirmed that it overstated the FFR for budget years 1 and 2 by $1,613,868 because it mistakenly included expenditures from budget year 3. The Ministry stated that it had adjusted the overstated amount on the FFR that it submitted for budget year 3.

If a recipient submits an inaccurate FFR, neither the recipient nor the awarding agency can properly manage Federal funds, and an inaccurate FFR may result in the awarding of unnecessary additional Federal funds in subsequent budget years.

THE MINISTRY FILED ITS FEDERAL FINANCIAL REPORTS LATE

The Ministry must submit an annual FFR within 90 days of the end of the grant year (45 CFR § 92.41(b)(4)). The NOA required the FFR for budget period one (December 15, 2012, to March 31, 2014) to be filed by March 14, 2014.

[10] Errors in the spreadsheet included total expenditures not reconciling with budget category totals, expenditures selected for our sample that the Ministry confirmed did not exist, inaccurate exchange rates used to calculate some expenditures, and clerical errors.

The Ministry filed both the year 1 and 2 FFRs on September 11, 2015. This filing was more than 15 months after the due date for the year 1 FFR and more than 2 months after the due date for the year 2 FFR.

Ministry officials stated that the Ministry filed the year 1 FFR late because it lacked oversight for complying with grant regulations. Ministry officials further stated that the Ministry filed the year 2 FFR late because CDC Tanzania requested revisions to the initial FFR and instructed the Ministry to prepare a carryover request. In addition, the Ministry stated that the United Republic of Tanzania Ministry of Health and Social Welfare Financial Management and Accounting Manual for the National AIDS Control Programme did not provide adequate instructions for filing an FFR on time.

Late FFRs may result in mismanagement of Federal funds.

THE MINISTRY DID NOT MAINTAIN A UNITED STATES DOLLAR BANK ACCOUNT

"A grantee or subgrantee shall maintain a separate bank account only when required by Federal or State agreement" (45 CFR § 92.21(h)(2)). The HHS Grants Policy Statement (GPS) strongly encourages foreign recipients to use United States banks to ensure that payments arrive on time (HHS GPS II-114).

The Ministry uses the National Microfinance Bank[11] for drawing funds from the Payment Management System (PMS).

The Ministry provided conflicting statements regarding why it did not have a United States dollar (USD) bank account. In 2007, the Ministry initially had a USD bank account. Ministry officials said that they closed the account because it was too difficult to maintain the USD account with PMS, and it was not easy to move funds from a USD account to a Tanzanian account. Later, Ministry officials stated that the Government of Tanzania prohibited the Ministry from opening a foreign bank account; however, they were unable to provide supporting documentation for this statement. Finally, Ministry officials stated that they had applied to the Tanzanian Ministry of Finance for a USD bank account.

The Ministry's not having a USD bank account did not affect the timeliness of payments. However, without a USD bank account, the Ministry put PEPFAR funds at risk because of the potential for currency fluctuations. When an entity has a USD bank account, funds drawn down from PMS are kept in USD in the account. A grantee should convert funds to a local currency account only when the entity has expenditures to pay and only in the amount of those expenditures. Funds drawn down into a USD bank account can be used to pay for expenditures that are invoiced in USD. Later, if a grantee needs to return funds, they would already be in USD and would not suffer the risk of currency fluctuations.

[11] A Tanzania bank.

Because the Ministry did not have a USD bank account, all PMS drawdowns were converted immediately to the local currency. This meant that any invoices that required payment in USD had to be converted back to USD from the local currency. Additionally, this put any unused funds that needed to be returned to CDC at risk of currency fluctuations because they had to be returned in USD.

THE MINISTRY INCORRECTLY PAID VALUE-ADDED TAXES TO THE TANZANIAN GOVERNMENT

"*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" (GPS, section II-114). HHS granted CDC a deviation from internal grants policies for the period September 30, 2012, through December 25, 2014. Under the deviation, VAT was permitted as an allowable expense for certain CDC grantees that were operating in countries where no applicable tax exemption existed through a bilateral or other agreement. (This policy change was communicated to applicable grantees by amended terms and conditions.)[12] However, the deviation did not apply to Ministries of Health.

The Tanzania Bilateral Agreement of 1968 states, "Any supplies, materials, equipment or funds introduced into or acquired in the United Republic of Tanzania by the Government of the United States of America, or any contractor financed by that Government, for purposes of any program or project conducted hereunder shall, while such supplies, materials, equipment or funds are used in Tanzania in connection with such a program or project, be exempt from any taxes on ownership or use of property. and any other taxes, investment or deposit requirements [*6] and currency controls in the United Republic of Tanzania, and the import, export, purchase, or use of any such supplies, materials, equipment or funds in connection with such a program or project shall be exempt from any tariffs, customs duties, import and export taxes, or taxes on purchase of property, and any other taxes or similar charges in the United Republic of Tanzania. No direct tax (whether in the nature of an income, profits, business tax or otherwise) shall be imposed upon any contractor not having a regular place of business in East Africa, who is financed by the Government of the United States of America hereunder."

The Tanzania VAT Act of 2014, § 7(b), which took effect on July 1, 2015, put into effect a reimbursement process whereby the Tanzanian Government would refund VAT for parties exempted under treaties upon application by the party. The Ministry was subject to this new provision.

[12] On December 26, 2014, new grants regulations addressed VAT allowability at 45 CFR § 75.470, which provides that foreign taxes that a non-Federal entity is legally required to pay in country are an allowable expense under Federal awards made on or after that date. CDC has interpreted this to mean that, to the extent the grantee is exempted from the payment of VAT via a reimbursement mechanism, payments are allowable with the understanding that the host country will reimburse the amount paid.

Prior to July 1, 2015, the Ministry requested VAT exemption from the Tanzanian Revenue Authority (TRA) but was denied. The Ministry used PEPFAR funds to pay VAT to the Tanzanian Government during the audit period, in violation of HHS policy.

Beginning July 1, 2015, the Ministry was to request refund of VAT from TRA on taxable items. However, the Ministry did not request reimbursement for VAT because it could not account for how much VAT it had paid.

RECOMMENDATIONS

We recommend that the Ministry:

- refund to CDC $495,379 of unallowable expenditures from our sample review that it could not adequately support;
- develop and implement adequate policies and procedures to ensure that it:
  - maintains adequate supporting documentation for expenditures and
  - prepares and submits accurate FFRs on time;
- work with CDC to determine the allowability of the $1,548,664 in personnel costs awarded to the Ministry during the audit period;
- implement a time and attendance system that can adequately document the time that employees work on PEPFAR-funded activities;
- implement an adequate accounting system that allows it to accurately account for Federal funds and VAT;
- obtain a USD bank account for PEPFAR expenditures; and
- work with CDC to obtain VAT reimbursement from the Tanzanian Government.

MINISTRY OF HEALTH AND SOCIAL WELFARE NATIONAL AIDS CONTROL PROGRAM COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the Ministry did not specifically concur or nonconcur with our recommendations. However, for many of our recommendations, it described actions it had taken, or planned to take, to address them, such as:

- strengthening its internal controls to ensure that:
    - the terms of the NOA are followed and
    - reports are submitted timely,
- migrating to an electronic accounting system,
- requesting a USD bank account from the Permanent Secretary of the Ministry of Health, and
- requesting reimbursement for VAT expenditures periodically.

Also, the Ministry provided additional supporting documentation regarding revised FFRs, policies, and VAT reimbursement. The Ministry's comments, excluding the additional documentation, are included as Appendix D.

Following is a summary of the Ministry's comments on those recommendations with which it did not appear to fully concur or that it asked us to consider further.

THE MINISTRY COULD NOT SUPPORT $1.6 MILLION OF PEPFAR EXPENDITURES ON THE FEDERAL FINANCIAL REPORT

Ministry Comment

The Ministry confirmed that it overstated the FFR by $1,613,868 for the period ended March 31, 2015, for budget years 1 and 2. It said that it had mistakenly included expedenitures that belonged to budget year 3, which began April 1, 2015. The Ministry stated that it had made the necessary adjustment on the FFR that it submitted on May 30, 2016.

Also, the Ministry reported that it had strengthened internal controls to ensure that NOA terms and conditions were strictly followed (i.e., timely reporting of expenditures and requesting carryover approval).

Office of Inspector General Response

We adjusted the related finding in our report and continue to recommend that the Ministry develop and implement adequate policies and procedures to ensure that it prepares and submits accurate FFRs on time.

THE MINISTRY DID NOT PROVIDE ADEQUATE SUPPORTING DOCUMENTATION

Ministry Comment

The Ministry stated that, during the time of the audit, it gave all payment vouchers to us and agreed to respond to any additional questions or issues through email. Also, the Ministry said that it made its last response to us in March 2016 and that it was not furnished with the final list of 27 items.

The Ministry requested that we send it the list of 27 sampled items that are still outstanding and that it would submit supporting documents for our verification.

Office of Inspector General Response

We continue to recommend that the Ministry refund to CDC $495,379 of unallowable expenditures from our sample review that it could not adequately support. We issued the draft report to the Ministry on April 18, 2017, and the Ministry acknowledged receipt on April 25, 2017. Through our secure online delivery server, we sent the Ministry a spreadsheet on April 25, 2017, that contained the 27 sample items that we had determined were missing supporting documentation. The Ministry acknowledged receipt on April 27, 2017, well ahead of the due date for comments on our draft report, May 18, 2017. However, the Ministry did not provide any additional documentation regarding the sample items.

THE MINISTRY COULD NOT ADEQUATELY SUPPORT PEPFAR-FUNDED PERSONNEL COSTS

Ministry Comment

The Ministry stated that, at the time of our audit, all staff signed in using the same attendance register, regardless of employment contract or terms.

Also, the Ministry said that it made all salary and other benefit payments in accordance with the governing rules and regulations, the nature of the engagement, the work performed, the right staff members, and the Government of Tanzania Standing Orders for the Public Service 2009.

Office of Inspector General Response

We continue to recommend that the Ministry work with CDC to determine the allowability of the $1,548,664 in personnel costs awarded to the Ministry during the audit period.

The Ministry's policies did not meet Federal grant requirements that it maintain applicable employee certifications or personnel activity reports for PEPFAR-funded employees. Without an adequate system for tracking time and attendance, the Ministry could not ensure that personnel costs were correctly allocated to the PEPFAR grant.

THE MINISTRY INCORRECTLY PAID VALUE-ADDED TAXES TO THE TANZANIAN GOVERNMENT

Ministry Comment

The Ministry stated that “reimbursement for paid VAT as from October 2015 is done periodically as per the circular and up to December 2016, a total of … $74,379.13 [USD] has already been refunded by Tanzania Revenue Authority.”

Office of Inspector General Response

Even though the Ministry has started the VAT reimbursement process, we continue to recommend that the Ministry work with CDC to obtain VAT reimbursment from the Tanzanian Government. Although the Ministry provided documentation to show that the Tanzanian Government had reimbursed some VAT, the expenditures were outside our audit period, December 2012 through March 2015. The documentation showed VAT reimbursement for expenditures dated October 2015 and later.

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
Management and Development for Health Did Not Always Manage the President's Emergency Plan for AIDS Relief Funds in Accordance with Award Requirements	A-04-16-04045	6/2017
Ariel Foundation Against Pediatric AIDS Managed and Expended the President's Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements	A-04-16-04052	6/2017
Mildmay Uganda Did Not Always Manage the President's Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements	A-04-15-04039	3/2017
Medical Access Uganda Limited Generally Managed the President's Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements	A-04-15-04040	6/2016
The Centers for Disease Control and Prevention Did Not Award President's Emergency Plan for AIDS Relief Funds for 2013 in Compliance With Applicable HHS Policies	A-04-14-04021	5/2016
The Ethiopian Public Health Institute Did Not Always Manage the President's Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements	A-04-13-04017	1/2015
The Ethiopian Public Health Association Generally Managed the President's Emergency Plan for AIDS Relief Funds but Did Not Always Meet Program Goals in Accordance With Award Requirements	A-04-13-04016	10/2014
The Centers for Disease Control and Prevention Generally Achieved Its Main Goals Related to Certain HIV/AIDS Prevention, Treatment, and Care Activities Under the Partnership Framework in Ethiopia	A-04-13-04011	10/2014
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	A-04-13-04015	9/2014
The Republic of Zambia, 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	A-04-13-04004	6/2014

Report Title	Report Number	Date Issued
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	A-04-13-04010	4/2014
The University Teaching Hospital (in Zambia) Generally Managed the President's Emergency Plan for AIDS Relief Funds and Met Program Goals in Accordance With Award Requirements	A-04-13-04005	3/2014
National Health Laboratory Service Did Not Always Manage President's Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements	A-05-12-00024	8/2013
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	A-05-12-00021	8/2013
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	A-05-12-00022	8/2013
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	A-05-12-00023	7/2013
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	A-06-11-00057	6/2013
The Centers for Disease Control and Prevention's Vietnam Office Generally Monitored Recipients' Use of the President's Emergency Plan for AIDS Relief Funds	A-04-12-04023	4/2013
Potentia Namibia Recruitment Consultancy Generally Managed the President's Emergency Plan for AIDS Relief Funds and Met Program Goals in Accordance with Award Requirements	A-06-11-00056	4/2013
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	A-04-12-04022	2/2013

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

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered $6,822,460 in PEPFAR funds expended by the Ministry for the budget period December 15, 2012, through March 31, 2015. We selected for review a judgmental sample of 52 financial transactions with PEPFAR expenditures totaling $1,005,963.

We limited our review of internal controls to those related to our objective. We conducted fieldwork at the Ministry office in Dar es Salaam, Tanzania, in February 2016.

METHODOLOGY

To accomplish our objective, we:

- reviewed relevant Federal laws and regulations, HHS guidance, the Tanzania Bilateral Agreement of 1968, the Tanzania VAT Act of 2014, the FOA, the NOA, and the Ministry's policies and procedures;

- interviewed and conducted meetings with CDC Tanzania 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, processes, and procedures related to financial accounting and reporting;

- attempted to reconcile the Ministry's FFR to its accounting records;

- selected a judgmental sample of 52 financial transactions totaling $1,005,963 from the cashbook transactions that the Ministry expended for the budget period of December 2012 through March 2015;

- reviewed the Ministry's time and attendance system;

- determined the VAT process that the Ministry followed; and

- discussed preliminary results with the Ministry.

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 Part 92

"The grant administration rules in 45 CFR part 92 apply to State, local, and tribal governments."

45 CFR § 92.20(b)(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."

45 CFR § 92.20(b)(2)

Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. "These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

45 CFR § 92.3

"Equipment means tangible, nonexpendable, personal property having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. A grantee may use its own definition of equipment provided that such definition would at least include all equipment defined above."

2 CFR Part 225, Appendix B, § 8.h.(3)

> Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

2 CFR Part 225, Appendix B, § 8.h.(4)

> Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,
(b) A Federal award and a non-Federal award,
(c) An indirect cost activity and a direct cost activity,
(d) Two or more indirect activities which are allocated using different allocation bases, or
(e) An unallowable activity and a direct or indirect cost activity.

2 CFR Part 225, Appendix B , § 8.h.(5)

Personnel activity reports or equivalent documentation must meet the following standards:
(a) They must reflect an after-the-fact distribution of the actual activity of each employee,
(b) They must account for the total activity for which each employee is compensated,
(c) They must be prepared at least monthly and must coincide with one or more pay periods, and
(d) They must be signed by the employee.

45 CFR § 92.41(b)(4)

"When reports are required on an annual basis, they will be due 90 days after the grant year."

45 CFR § 92.21(h)(2)

"A grantee or subgrantee shall maintain a separate bank account only when required by Federal-State agreement."

2 CFR § 92.22(b)

Allowable costs for governmental institutions are determined in accordance with cost principles laid out in Circular A-87, which was superseded by 2 CFR Part 225.

Tanzania Economic and Technical Cooperation of 1968, 5(a)

In order to assure the maximum benefits to the people of the United Republic of Tanzania from the assistance to be furnished hereunder:

(a) Any supplies, materials, equipment, or funds introduced into or acquired in the United Republic of Tanzania by the Government of the United States of America, or any contractor financed by that Government, for purposes of any programme or project conducted hereunder shall, while supplies, materials, equipment or funds are used in Tanzania in connection with such a programme or project, be exempt from any taxes on ownership or use of property, and any

> other taxes, investment or deposit requirements [*6] and currency controls in the United Republic of Tanzania, and the import, export, purchase, or use of any such supplies, materials, equipment or funds in connection with such a programme or project shall be exempt from any tariffs, custom duties, import and export taxes, or taxes on purchase of property, and any other taxes or similar charges in the United Republic of Tanzania. No direct tax (whether in the nature of an income, profits, business tax or otherwise) shall be imposed upon any contractor, not having a regular place of business in East Africa, who is financed by the Government of the United States of America hereunder.

HHS Grants Policy Statement, Section II-113

"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."

HHS Grants Policy Statement, Section II-114

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

APPENDIX D: MINISTRY OF HEALTH AND SOCIAL WELFARE NATIONAL AIDS CONTROL PROGRAM COMMENTS

MANAGEMENT LETTER FOR AUDIT ENDED MARCH 31, 2015

1 **The Ministry could not support $1.6 million of PEPFAR Expenditure on the Federal Financial Report (FFR). Of the $6,822,460 that the Ministry claimed on its FFR for the audit preiod, the Ministry's accounting records could not support expenditures totaling $1,613,868.**

Management response

The Federal Financial Report (FFR) for the period ending March 31, 2015 for budget year 1 and 2 was over stated by $1,613,868. We had mistakenly added expedenitures which belong to budget year 3 that began in April 1, 2015. The correct expenditure amount should have been reported $5,208,592 as of March 31, 2015.

However, the above over stated expenditure of $1,613,868 was adjusted in the FFR that was submited on May 30, 2016. Of the $4,225,868 total expenditures reported, $2,612,000 was for new expenditures during the period of July 2015 – March 2016 and the balance of $1,613,868 being expenditures already reported in FFR for budget year 2.

Month	Expenditures in USD
April 2015	486,526.73
May 2015	310,580.75
June 2015	816,760.52
Total	**1,613,868**

Please find below documents attached:

- FFR budget year 2; as of March 31, 2015 (see attach 1.0)
- FFR budget year 3: as of March 31, 2016 (see attach 1.1)
- Supporting documents for expenditure of $1,613,868 (see attach 1.2)

We have also strenghened the programme internal controls to ensure that terms and conditions of the Notice of Awards (NOA) are strictly followed up i.e. timely reporting on expenditures, requesting carryover approval etc.

2 **The Ministry did not provide adequate supporting documentantion. Of the 52 sample financial transactions that we tested, 27 transactions totaling $495,379 were unallowable because the Ministry did not provide adequate supporting documentation, such as receipts, delivery notes, certificates of completion or payment vouchers for expenditures.**

Management Response

During the time of the audit all payment vouchers were given to OIG team. However, we agreed with the OIG team that we shall respond to any additional questions/issues on line. Our last response to OIG team was done in March 2016. We were not furnished with the final list of 27 items.

We would like therefore to request that OIG team to send us the list of 27 sampled items that still outstanding that we can submit supporting documents for your verification as we believe that all documents sampled was appropriately supported.

3 **The Ministry could not adequately support PEPFAR funded personnel costs. The Ministry could not support $1,548,664 of PEPFAR – funded personnel costs.**

Manangement Response

At the time of audit the program the Ministry used a non-discriminative attendence register. In this register all staff despite of their nature of employment contract/terms of engagement used to sign in same attendence register.

Payment of salaries and other benefits were made according to the nature of engagement and work performed. The Minisry therefore would like to confirm that all payments were made according to governing rules and regulations, nature of engagement, right people/staff and at the correct amount. All personel costs were made as per the Government of Tanzania Standing Orders for the Public Service 2009. Specifically, the following sections can be refered to:-

i) Section F.1 – F8 ....Office hours and attendance registers
ii) Section F.12 – F19.......General rules regarding conducts
iii) Section F.26 – F 39........Discipline and displinary procedures
iv) Section D.42...................Staff perfomance review
v) Section D.62...................Perfomance appraisal system
vi) Section D.68...................Perfomance appraisal report

Please see attached GOT standing orders for the Public Service 2009. (attach 3.1)

4 **The Ministry did not always record financial transactions correctly that could be attributed to an inadequate accounting system.**

Management Response

Following difficults of retrieving financial information from mannual system during the Audit, and accordance with Auditor's recommendations, the Programs migrated from mannual to electronic system (quick Books) Since May 2016.

5 **The Ministry filed its Federal Financial Reports late. Both year 1 and 2 FFRs were submitted on September 11, 2015. This filing was more than 15 months after the due date for year 1 FFR and more than 2 months after the due date for year 2 FFR.**

Managmenet Response

Internal controls have been put in place to ensure reports will be submitted on a timely manner.

6 **The Ministry did not maintain a United States Dollar Bank Account to manage PEPFAR Funds.**

Management response
A request was made to the Permanent Secretary of the Ministry of Health in March 2016 to open a U.S. dollar bank account. To date the request has not been approved or disapproved.

7 **The Ministry incorrectly paid VAT to the Tanzanian Government. Beginning July 1, 2015 the Ministry was to request refund of VAT. However, the Ministry did not request reibursemment for VAT because it could not account for how much VAT it had paid.**

Management Response

Reimbursement for paid VAT as from October 2015 is done periodically as per the circular and up to December 2016, a total of Tshs. 148,758,251 ($74,379.13) has already been refunded by Tanzania Revenue Authority (TRA) as shown in the table below:

Month	Refund in TZS	USD
February 2016	7,773,108	3,886.55 (attach 7.1)
March 2016	27,966,600	13,983.30 (attach 7.2)
May 2016	38,542,452	19,271.23 (attach 7.3)
September 2016	35,429,883	17,714.94 (attach 7.4)

November 2016	16,807,680	8,403.84 (attach 7.5)
December 2016	22,238,528	11,119.26 (attach 7.6)
Total	**148,758,251**	**74,379.13**

Please find attachments documents for the above VAT reimbursements.