

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**THE NATIONAL INSTITUTE OF HEALTH  
IN MOZAMBIQUE DID NOT ALWAYS  
MANAGE AND EXPEND THE PRESIDENT'S  
EMERGENCY PLAN FOR AIDS RELIEF  
FUNDS IN ACCORDANCE WITH AWARD  
REQUIREMENTS**

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A-04-16-04051

# *Office of Inspector General*

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## Report in Brief

Date: April 2018

Report No. A-04-16-04051

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



### 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 the Department of Health and Human Services (HHS), Office of Inspector General (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 National Institute of Health in Mozambique (the Institute), located in Maputo, Mozambique, managed and expended PEPFAR funds in accordance with the award requirements.

### How OIG Did This Review

Our audit covered the budget periods from September 30, 2011, through March 31, 2016. These budget periods were for a 5-year cooperative agreement. During the budget period under review, CDC awarded the Institute \$9 million, of which it expended \$8.5 million. From these PEPFAR fund expenditures, we selected a judgmental sample of 50 transactions totaling \$1.3 million.

## The National Institute of Health in Mozambique Did Not Always Manage and Expend the President's Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements

### What OIG Found

The Institute did not always manage and expend PEPFAR funds in accordance with award requirements. Among the most significant problems, the Institute was unable to reconcile its accounting records to the \$8.5 million that it claimed on its Federal Financial Report (FFR) for the audit period. Of the \$1.3 million we reviewed, \$623,637 was allowable, but \$431,458 was unallowable and \$291,185 was for unsupported personnel costs. Additionally, the Institute classified transactions totaling \$795,295 in the wrong budget category. Finally, the Institute did not have a functioning accounting system and did not have a time and attendance system to support \$1.3 million in PEPFAR-funded personnel costs.

### What OIG Recommends and Institute Comments

We recommend that the Institute (1) refund to CDC \$431,458 of unallowable expenditures, (2) implement an accounting system that allows it to accurately account for Federal funds, and (3) work with CDC to determine the allowability of the \$1.3 million in personnel costs expended during the audit period. We also made other policy and procedural recommendations.

In addition, we provided a memorandum to CDC to alert it of the potential risk of fraud, waste, and abuse that PEPFAR funds could be subjected to in the event of future awards. CDC responded to the memorandum and described controls that it put in place to monitor the funds.

Although the Institute did not specifically concur with any of our recommendations in its written comments on our draft report, it described some of the actions it had taken, or planned to take, to address all but our first recommendation. The Institute partially agreed with our first recommendation to refund transactions that were unallowable or inadequately supported. Along with its comments on our first recommendation, the Institute provided additional supporting documentation for certain transactions and expenditures. After considering its comments and additional documentation, we adjusted our findings and recommendations accordingly.

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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.<sup>1</sup> Congress authorized additional funds to be appropriated through 2018.<sup>2</sup>

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).<sup>3</sup> We selected Mozambique's National Institute of Health (the Institute) for review because it is a component of the Ministry of Health<sup>4</sup> in Mozambique, and it was awarded more CDC PEPFAR funding than any other governmental entity in Mozambique for our audit period.

### OBJECTIVE

Our objective was to determine whether the Institute 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.

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<sup>1</sup> 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).

<sup>2</sup> The PEPFAR Stewardship and Oversight Act of 2013 (P.L. No. 113-56).

<sup>3</sup> Appendix B contains a list of related OIG reports.

<sup>4</sup> Foreign ministries of health are an audit priority for OIG because one of the goals of the PEPFAR legislation is to sustain the program by ultimately transferring it and all related activities to the respective ministries and other foreign governmental entities.

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.

For fiscal year 2015, 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.<sup>5</sup> In response to a Funding Opportunity Announcement (FOA),<sup>6</sup> CDC awarded the Institute grant number U2GGH000080 through a cooperative agreement for the project period September 30, 2011, through March 31, 2016.

### **Application of Federal Regulations**

The grant administration rules in 45 CFR part 92 and the incorporated cost principles at 2 CFR part 225 apply to foreign governmental entities.<sup>7</sup>

### **The National Institute of Health in Mozambique**

The Institute is a technical and scientific institution within the Ministry of Health in Mozambique. Its mission is to participate in improving the health of the people of Mozambique through the generation and promotion of scientific and technical solutions to the main public health problems in Mozambique. Among the Institute's major functions are laboratory reference services, surveillance, research, and training.

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<sup>5</sup> The regulations that apply to Federal grants also apply to cooperative agreements.

<sup>6</sup> FOA number CDC-RFA-GH11-1158 was entitled "Strengthening the National Institute of Health in the Republic of Mozambique, under the President's Emergency Plan for AIDS Relief, (PEPFAR)."

<sup>7</sup> 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 September 30, 2011, through March 31, 2016.<sup>8</sup> These budget periods were for a 5-year cooperative agreement. During the budget period under review, CDC awarded the Institute \$9,046,564, of which the Institute reported \$8,517,276 in expenditures. From these PEPFAR fund expenditures, we selected for review a judgmental sample of 50 transactions totaling \$1,346,280.

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

## FINDINGS

The Institute did not always manage and expend PEPFAR funds in accordance with award requirements. Among the most significant problems, the Institute was unable to reconcile the \$9,210,817 shown in its accounting records to the \$8,517,276 that it claimed on its Federal Financial Reports (FFRs) for the audit period.

Additionally, of the \$1,346,280 we reviewed, \$623,637 was allowable, but \$431,458 was unallowable and \$291,185 was for unsupported personnel costs.<sup>9</sup> (See Appendix D.) The unallowable transactions either did not have adequate supporting documentation or were unrelated to the PEPFAR cooperative agreement. Table 1 on the next page provides a summary of the unallowable costs.

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<sup>8</sup> The budget period for years 1 through 3 began on September 30 and ended on September 29 of the following year (September 30, 2011–September 29, 2012, September 30, 2012–September 29, 2013, and September 30, 2013–September 29, 2014, respectively). To align the period to an April 1 through March 31 cycle, CDC revised the budget period for year 4, reducing it to a 6-month period from September 30, 2014, to March 31, 2015. The budget period for year 5 began on April 1, 2015, and ended on March 31, 2016.

<sup>9</sup> The \$291,185 in personnel costs captured in our sample was part of \$1,289,859 in total PEPFAR-funded personnel costs for the audit period that the Institute could not support.

**Table 1: Summary of Unallowable Costs**

<b>Number of Transactions</b>	<b>Description</b>	<b>Amount</b>
3	Documentation errors	\$37,281
3	Repayment of loans for undocumented costs	239,861
1	Unjustified highest bid for vehicle purchased	102,101
<b>7 Subtotal</b>	<b>Inadequate supporting documentation</b>	<b>\$379,243</b>
7	Non-PEPFAR activities	52,215
<b>14 Total</b>	<b>Unallowable Costs</b>	<b>\$431,458</b>

Additionally, the Institute:

- could not support \$1,289,859 in PEPFAR-funded personnel costs;
- classified 19 transactions, totaling \$795,295, in the wrong budget category;
- did not track PEPFAR funds separately from other funds; and
- used PEPFAR funds to pay an undetermined amount of value-added taxes (VAT).

These errors occurred primarily because the Institute:

- did not have an accounting system that complied with Federal regulations,
- did not have a time and attendance system that complied with Federal regulations, and
- did not receive adequate oversight from CDC regarding the financial aspects of the award.

**THE INSTITUTE COULD NOT RECONCILE ACCOUNTING RECORDS TO THE 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)).

Federal regulations require grantees to use a standard form<sup>10</sup> to report program expenditures at the frequency specified for the program (45 CFR §§ 92.41(b)(1), (2), and (3)).

CDC requires grantees to document expenditures on the FFR. Grantees should submit the FFR annually, and CDC uses it to monitor the financial progress of awards.

Our attempted reconciliation of the Institute’s FFRs to its spreadsheets showed that the Institute had underreported expenditures on its FFRs for 3 of the 5 years of the grant. The Institute reported total expenditures of \$9,210,817 on its spreadsheets, which exceeded by a net amount of \$693,541 the \$8,517,276 that it reported on its FFRs (Table 2). In addition, the Institute was able to draw down \$136,933 more than CDC awarded it because the Institute shared a Payment Management System (PMS) account, which was used for other cooperative agreements, with the Ministry of Health.

**Table 2: Reconciliation to Spreadsheets of Expenditures Reported on FFRs**

<b>Year</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
FFR	\$1,213,427	\$1,854,449	\$2,703,812	\$1,016,305	\$1,729,283	\$8,517,276
Spreadsheets	538,148	2,365,083	3,331,582	1,427,655	1,548,349	9,210,817
<b>Difference</b>	<b>\$675,279</b>	<b>\$(510,634)</b>	<b>\$(627,770)</b>	<b>\$(411,350)</b>	<b>\$180,934</b>	<b>\$(693,541)</b>

The Institute’s inability to reconcile its accounting records to the FFR occurred because it did not have an accounting system that complied with 45 CFR § 92.20(b)(1). Further, the absence of fiscal oversight by CDC allowed this problem to persist throughout the audit period.

Without an adequate accounting system or accurate FFRs, neither the recipient nor the awarding agency can properly manage Federal funds. The underreporting of expenditures on the FFR may have resulted in CDC awarding the Institute with additional, unnecessary Federal funds during part of the grant period.

### **THE INSTITUTE USED PEPFAR FUNDS FOR UNALLOWABLE COSTS**

Of the \$1,346,280 we reviewed, \$431,458 was unallowable either because of a lack of supporting documentation or because it was unrelated to the PEPFAR cooperative agreement.

### **Regulations, Statements, and Decrees**

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)).

<sup>10</sup> The Financial Status Report (Standard Form 269) was replaced by the FFR (Standard Form 425).

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)).

The financial management systems of other grantees and subgrantees must meet the following standards for 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 § 92.20(b)(6)).

Under the applicable regulations, Governmental grantees are to use their own procurement procedures provided that these procedures comply with applicable Federal law and procurement standards (45 CFR § 92.36(b)).

Grantees must maintain records sufficient to detail the significant history of a procurement. These records will include the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price (45 CFR § 92.36(b)(9)).

Mozambique's procurement regulations generally mandate acceptance of the lowest price bid (Mozambique Council of Ministers Decree No. 15/2010, Article 36). In making that assessment, the "best quality of services or goods made to the public" may be taken into account (Mozambique Council of Ministers Decree No. 15/2010, Article 39, 1.c.), but the analysis of best quality "must be weighed in accordance with objective parameters detailed in the Tender documents" (Mozambique Council of Ministers Decree No. 15/2010, Article 39, 3.).

To be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of 2 CFR part 225 (2 CFR part 225, App. A, § C.1.b.).

A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received (2 CFR part 225, App. A, § C.3.a.).

### **The Institute Did Not Provide Adequate Supporting Documentation for Sample Transactions**

Of the \$431,458 that was unallowable, the Institute was unable to provide adequate documentation for \$379,243 relating to 7 of the 14 unallowable transactions.

#### *Documentation Errors*

For three of the seven transactions, totaling \$37,281, the Institute was missing supporting documentation such as receipts, invoices, payment vouchers, or training attendance sheets.

The Institute did not explain why it did not have supporting documentation for some transactions.

### *Repayment of Loans for Undocumented Costs*

Three of the seven transactions, totaling \$239,861,<sup>11</sup> were for the repayment of loans. The Institute took out loans to cover funding shortfalls caused by higher than expected expenditures and to support ongoing PEPFAR activities. The Institute repaid these loans with PEPFAR funds without providing adequate support for the costs covered by the borrowed funds. Because of CDC's lack of oversight, it was unaware that the Institute took out loans and repaid those loans with PEPFAR funds.

### *Unjustified Highest Bid for Vehicle Purchased*

One of the seven transactions, totaling \$102,101, was to purchase a vehicle for which the Institute received three bids, of \$47,417, \$86,506, and \$104,409, respectively.

The Institute accepted the highest of the three bids, which was for a different brand name than the two less expensive vehicles. The grantee's files did not contain the required cost or price analysis or any other documentation supporting its decision. In justifying its decision to CDC, the Institute cited the higher quality and lower maintenance costs of that particular brand of vehicle versus the other two. It did not, however, provide any supporting documentation or analysis that would justify the selection of the highest bid, which was 120 percent higher than the lowest bid and 21 percent higher than the middle bid.<sup>12</sup>

Officials at the Institute stated that they followed Mozambique's Public Procurement Regulations for Government Bodies and Institutions (Decree 15/2010) in procuring the vehicle. However, the Institute did not maintain any documentation in its files or provide any documentation to CDC to support its assessment that the much higher price of the vehicle would be balanced by lower maintenance costs. Further, although CDC approved the purchase, its rationale for doing so does not appear in the file.

The Institute purchased the more expensive vehicle because it chose to procure on the basis of preference and undocumented cost-benefits rather than on price. Additionally, CDC granted approval even though the purchase did not conform to Federal procurement standards.

By failing to provide adequate supporting documentation, the Institute increased the risk of funds being mismanaged or misappropriated.

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<sup>11</sup> The Institute repaid three loans during the audit period in the amounts of \$10,772, \$100,015, and \$129,074.

<sup>12</sup> The actual purchase price was \$102,101, \$2,308 less than the bid amount.

## **The Institute Used PEPFAR Funds To Pay for Non-PEPFAR Activities**

For 7 of the 14 unallowable transactions, the Institute used \$52,215 of PEPFAR funds for expenditures that were not allocable to the PEPFAR cooperative agreement.

A cost is allocable to a Federal award if it is incurred specifically for the award, benefits the award, and can be distributed in reasonable proportion to the benefits received.

For one of the seven transactions, the Institute used PEPFAR funds to pay for an independent audit that covered its PEPFAR and Influenza cooperative agreements. The total cost of the audit was \$12,882, of which \$2,147 should have been paid with funds from the Influenza cooperative agreement. The Institute used PEPFAR funds to pay the entire amount. For the other six transactions, it used PEPFAR funds to support travel and training for employees who did not work on the PEPFAR cooperative agreement. None of these costs should have been charged to the PEPFAR award because the PEPFAR award received no benefit.

The Institute did not have an adequate accounting system to properly allocate its expenses across projects. Also, the Institute chose to fund its activities without regard for the project funding source.

As a result, PEPFAR funds were used for purposes other than those authorized for this cooperative agreement.

## **THE INSTITUTE COULD NOT 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, App. 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, App. 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, App. B.8.h.(5)).

Our sample included 12 transactions for personnel costs totaling \$291,185. The amount captured in our sample was a part of \$1,289,859 in total PEPFAR-funded personnel costs that the Institute could not support. The Institute used employee timesheets that did not account for the total activity that each employee expended on each project; therefore, it was impossible to determine how much time each employee worked on PEPFAR activities.

The Institute could not support personnel costs because it did not have an adequate time and attendance system. However, an Institute official stated that the Institute was working on improving its time and attendance system.

As a result, PEPFAR funds may have been used to fund non-PEPFAR activities through the payment of salaries. The Institute did not exercise proper stewardship over Federal funds in accordance with award requirements.

### **THE INSTITUTE CLASSIFIED TRANSACTIONS IN THE WRONG BUDGET CATEGORY**

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 Institute did not account for 19 transactions in our sample in the correct budget category. Specifically, the Institute incorrectly categorized \$795,295 as:

- Salaries and Wages, Equipment, Others, and Supplies, 12 transactions totaling \$524,189 that should have been categorized as Contractual;
- Supplies and Not Applicable (N/A),<sup>13</sup> 3 transactions totaling \$172,209 that should have been categorized as Equipment;
- Equipment and Others, 2 transactions totaling \$13,296 that should have been categorized as Supplies; and
- N/A, 2 transactions totaling \$85,600 that should have been categorized as Travel.

The Institute classified these transactions in the wrong budget category because it lacked an adequate accounting system. Also, in accounting for funds advanced to subrecipients, the initial budget category recorded did not agree with the actual expenditures. For example, an advance for equipment was actually used for, among other things, paying rent on office space.

As a result, for PEPFAR expenditures, the Institute may have exceeded the budgeted amounts that CDC approved and may not have used them for certain budget categories as CDC intended.

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<sup>13</sup> Officials at the Institute stated that the budget category "N/A" was used in the general ledger for fund transfers from the Institute's United States dollar bank account to its Mozambican metical bank account when there were no specific expenditures corresponding to the transferred amounts.

## **THE INSTITUTE DID NOT TRACK PEPFAR FUNDS SEPARATELY FROM OTHER FUNDS**

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)).

Notice of Award 5U2GGH000080-03, August 30, 2013, Note 6, requires PEPFAR funds to be tracked and reported separately from non-PEPFAR funds, to be used in support of approved PEPFAR activities, and not be commingled with any other funds.

The Institute received its PEPFAR funds through a shared PMS account that was also used to receive funds for other cooperative agreements within the Ministry of Health. Under this arrangement, PEPFAR funds were intermingled with funds for other awards, making it difficult to track drawdowns. For example, we identified a total of \$1,191,052<sup>14</sup> of PEPFAR funds that were erroneously deposited into the bank accounts of two non-PEPFAR Ministry of Health projects.

The Institute did not have a PMS account in place prior to this award because this was its first CDC cooperative agreement.<sup>15</sup> Its attempts to establish an account during the audit period were unsuccessful, but the Institute was unable to provide a reasonable explanation why it did not establish a PMS account dedicated to the receipt of PEPFAR funds. CDC was unable to successfully assist the Institute in establishing its own PMS account for PEPFAR.

As a result, the Institute used some funds intended for the PEPFAR cooperative agreement for other CDC-funded, non-PEPFAR cooperative agreements.

## **THE INSTITUTE USED PEPFAR FUNDS TO PAY VALUE-ADDED TAXES TO THE GOVERNMENT OF MOZAMBIQUE**

*“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 13, 2012, through September 30, 2014. Under the deviation, VAT was permitted as an allowable expense for certain CDC grantees that were

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<sup>14</sup> This total is a product of two separate draws of PEPFAR funds, one for \$1,091,052 and another for \$100,000. In addition to this error, \$1,152,896 intended for a separate Ministry of Health project was mistakenly deposited into the Institute’s PEPFAR bank account.

<sup>15</sup> The Institute was able to establish a separate PMS account for its subsequently awarded CDC Influenza cooperative agreement.



operating in countries where no applicable tax exemption existed through a bilateral or other agreement.<sup>16</sup> However, the deviation did not apply to Ministries of Health.

*The Agreement for Economic and Technical Cooperation Between the Government of the United States of America and the Government of the Republic of Mozambique*, signed in December 2015, provided a framework for refunding all taxes levied by the Government of the Republic of Mozambique on United States assistance to Mozambique, in compliance with United States laws governing United States assistance funds.

*Standard Operating Procedures Tax Reporting CDC Mozambique* requires United States Government implementing partners to collect and submit information on taxes paid with United States foreign assistance funds starting January 2016.

The Institute used PEPFAR funds to pay an undetermined amount of VAT during the audit period, in violation of HHS policy. The payment of VAT with PEPFAR funds was allowable only after the December 2015 agreement between the governments of the United States and Mozambique, which included a provision to refund all taxes levied on United States assistance in Mozambique.

The Institute did not have any written policies or procedures relating to VAT. We were unable to determine the amount of VAT the Institute paid because it did not have an adequate accounting system that could track its payment of VAT.

As a result, the award activities were not funded to the level intended because some PEPFAR funds were diverted to pay VAT to the Government of Mozambique.

### **INADEQUATE ACCOUNTING AND TIME AND ATTENDANCE SYSTEMS AND A LACK OF FINANCIAL OVERSIGHT FROM CDC WERE MAJOR CONTRIBUTORS**

The Institute did not manage and expend PEPFAR funds in accordance with award requirements because it did not have an adequate accounting system that complied with Federal regulations. Instead, the Institute used inaccurate and incomplete spreadsheets that prevented it from being able to:

- reconcile its FFRs to its PEPFAR expenditures,
- segregate PEPFAR expenditures from other expenditures,

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<sup>16</sup> The new grants rule addresses VAT allowability at 45 CFR § 75.470(c), which provides that foreign taxes that a non-Federal entity is legally required to pay in country are an allowable expense under Federal awards. 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 United States Government.

- allocate expenditures across projects, and
- account for funds advanced to subrecipients.

In addition, the institute did not have a time and attendance system that complied with Federal regulations and did not have, and was unable to establish, a PMS account prior to this award.

Furthermore, the Institute did not provide documents justifying the cost-benefits of purchasing a more expensive vehicle.

Finally, the Institute did not have policies and procedures that addressed the payment of VAT using PEPFAR funds and did not receive adequate oversight from CDC regarding the financial aspects of the award.

### **OFFICE OF INSPECTOR GENERAL MEMORANDUM AND CDC RESPONSE**

Certain preliminary findings of this review prompted us to issue a memorandum to CDC. The purpose of the memorandum was to alert CDC to the potential risk of fraud, waste, and abuse that PEPFAR funds could be subjected to in the event of future awards. Additionally, we suggested to CDC that it impose specific award conditions to mitigate the risks prior to making any future awards to the Institute.

Appendix E contains the memo and CDC's response.

In response to our memorandum, CDC described actions that it was taking at both CDC Headquarters and CDC Mozambique:

- CDC Headquarters:
  - designated the Mozambique MOH as a high-risk organization, affecting all CDC funding to the Institute;
  - added special award conditions to all cooperative agreements with the Mozambique MOH and the Institute, including manual drawdowns, corrective action plans, and additional monitoring;
  - conducted a followup site visit in December 2016 and performed an assessment of all of the Mozambique MOH cooperative agreements "impacted by the high-risk designation";
  - delayed any new funding to the Mozambique MOH and the Institute; and
  - made plans to conduct a risk and business system assessment in the fall of 2017 and prior to any new award to the Mozambique MOH or to the Institute.

- CDC Mozambique:
  - put in place a United States direct-hire project officer to manage the government-to-government portfolio in Mozambique with full-time oversight responsibility;
  - was working with the Institute to assess business management practices and develop and implement a plan to ensure proper systems and practices are in place, including the purchase and use of proper accounting software and implementation of an appropriate staffing structure; and
  - initiated a procurement action for a contractor to work closely with the Institute to assess systems challenges and support development and implementation of sustainable business systems and accountability practices.

### **RECOMMENDATIONS**

We recommend that the Institute:

- refund to CDC \$431,458 of unallowable expenditures: \$379,243 that it could not adequately support and \$52,215 that it used to support non-PEPFAR activities;
- implement an adequate accounting system that complies with 45 CFR § 92.20(b)(1) and allows it to:
  - accurately manage and account for Federal funds,
  - reconcile accounting records to the FFR,
  - segregate PEPFAR expenditures from other expenditures,
  - allocate expenditures across projects,
  - account for funds advanced to subrecipients, and
  - accurately classify transactions in the correct budget category;
- work with CDC to determine the allowability of the \$1,289,859 in personnel costs expended during the audit period;
- ensure that it maintains documentation to fully support expenditures;

- adhere to Federal regulations and Government of Mozambique policies when procuring assets with PEPFAR funds;
- allocate expenses across all projects to ensure that award funds are used solely for authorized purposes;
- implement a time and attendance system that can adequately document and allocate the time that employees work on PEPFAR-funded activities;
- work with CDC to obtain VAT reimbursement from the Government of Mozambique;
- establish a PMS account that will be used only for PEPFAR funds; and
- implement policies and procedures that address the payment of VAT using PEPFAR funds.

#### **NATIONAL INSTITUTE OF HEALTH IN MOZAMBIQUE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, the Institute partially agreed with our first recommendation to refund transactions that were unallowable or inadequately supported. Along with its comments on our first recommendation, the Institute provided additional supporting documentation for certain transactions and expenditures. Although the Institute did not specifically concur with our remaining recommendations, it described some actions it had taken, or planned to take, to address them.

We included the Institute’s comments as Appendix F. However, we did not include the Institute’s additional supporting documentation because it was too voluminous.

#### **INSTITUTE COMMENTS ON OUR FIRST RECOMMENDATION**

The Institute agreed with our assessment and recommended disallowance for 2 of the 16 transactions included in our first recommendation. It provided a brief explanation for each of the 16 transactions and additional supporting documentation for 8.<sup>17</sup>

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<sup>17</sup> The first recommendation in our draft report included a total of 16 unsupported and unallowable transactions. In the Institute’s written response, it provided additional documentation that adequately supported 2 of the 16 transactions, thereby reducing this total to 14.

## OFFICE OF INSPECTOR GENERAL RESPONSE

On the basis of our review of the additional documentation that the Institute provided, we reduced the unallowable amount from \$439,011 to \$431,458. We now recommend that the Institute refund to CDC \$431,458 for the 14 transactions that were either unsupported or used to fund non-PEPFAR activities.

## INSTITUTE COMMENTS ON OUR OTHER RECOMMENDATIONS

With regard to our other recommendations, the Institute described actions that it had taken, or planned to take, to address them, such as:

- implementing a new accounting system,
- working with CDC to determine the allowability of personnel costs,
- establishing a department to organize and control documentation of expenditures,
- employing a senior advisor and a lawyer to ensure that procurements conform to the law,
- installing a senior manager and new procedures to align project activities with project budgets,
- implementing a new time and attendance system,
- working with CDC to obtain VAT reimbursement,
- establishing a PMS account to be used only for PEPFAR funds, and
- working with CDC to implement policies and procedures for the payment of VAT.

The Institute indicated in its written comments that four<sup>18</sup> of the nine actions listed above were in process and that five had been implemented. Additionally, the Institute provided revised FFRs for our audit period and a corrective action plan it developed with CDC to address the preliminary findings identified in our memo to CDC.

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<sup>18</sup> The Institute stated in its comments that the following four actions were in process: determining the allowability of personnel costs, obtaining VAT reimbursement, establishing a PEPFAR-only PMS account, and implementing policies and procedures for the payment of VAT.

## OFFICE OF INSPECTOR GENERAL RESPONSE

We were unable to review the actions listed above because the Institute did not provide documentation to support the implementation of the five actions identified as completed. In addition, the Institute did not provide any general ledger or other accounting records to support the revised FFRs. Furthermore, the Institute did not provide supporting documentation for the 19 focus areas shown on the corrective action plan, 18 of which were shown as 100 percent complete.<sup>19</sup>

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<sup>19</sup> The corrective action plan, dated October 2017, indicated that one focus area, Accounting Systems and Processes, was 95 percent complete and that the actual completion date was November 2017.

## **APPENDIX A: AUDIT SCOPE AND METHODOLOGY**

### **SCOPE**

Our audit covered \$8,517,276 in PEPFAR funds expended by the Institute for the budget periods September 30, 2011, through March 31, 2016. We selected for review a judgmental sample of 50 financial transactions totaling \$1,346,280 in PEPFAR expenditures.

We limited our review of internal controls to those related to our objective. We conducted fieldwork at the Institute's office in Maputo, Mozambique, in August 2016.

### **METHODOLOGY**

To accomplish our objective, we:

- reviewed relevant Federal laws and regulations, HHS guidance, the FOA, the Notice of Award, the Institute's policies and procedures, and the December 2015 bilateral agreement between the United States and Mozambique;
- interviewed and conducted meetings with CDC Mozambique officials to determine the extent of the technical assistance they provided to the Institute;
- interviewed and conducted meetings with officials at the Institute to determine their policies, processes, and procedures related to financial accounting and reporting;
- attempted to reconcile the Institute's Federal Financial Report to its accounting records;
- selected a judgmental sample of 50 financial transactions totaling \$1,346,280 from the general ledger transactions that the Institute expended for the budget period of September 2011 through March 2016; and
- discussed preliminary results of the review with officials at the Institute.

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: RELATED OFFICE OF INSPECTOR GENERAL REPORTS**

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

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>
<i>Aurum Institute Generally Managed and Expended the President’s Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<a href="#"><u>A-04-17-01003</u></a>	3/2018
<i>The Ministry of Health and Social Welfare National AIDS Control Program Did Not Always Manage and Expend PEPFAR Funds in Accordance With Award Requirements</i>	<a href="#"><u>A-04-16-04044</u></a>	8/2017
<i>Ariel Foundation Against Pediatric AIDS Managed and Expend the President’s Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<a href="#"><u>A-04-16-04052</u></a>	6/2017
<i>Management and Development for Health Did Not Always Manage the President’s Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<a href="#"><u>A-04-16-04045</u></a>	6/2017
<i>Mildmay Uganda Did Not Always Manage the President’s Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<a href="#"><u>A-04-15-04039</u></a>	3/2017
<i>Medical Access Uganda Limited Generally Managed the President’s Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<a href="#"><u>A-04-15-04040</u></a>	6/2016
<i>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</i>	<a href="#"><u>A-04-14-04021</u></a>	5/2016
<i>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</i>	<a href="#"><u>A-04-13-04017</u></a>	1/2015
<i>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</i>	<a href="#"><u>A-04-13-04016</u></a>	10/2014
<i>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</i>	<a href="#"><u>A-04-13-04011</u></a>	10/2014
<i>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</i>	<a href="#"><u>A-04-13-04015</u></a>	9/2014



<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>
<i>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</i>	<a href="#">A-04-13-04004</a>	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>	<a href="#">A-04-13-04010</a>	4/2014
<i>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</i>	<a href="#">A-04-13-04005</a>	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>	<a href="#">A-05-12-00021</a>	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>	<a href="#">A-05-12-00022</a>	8/2013
<i>National Health Laboratory Service Did Not Always Manage President's Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	<a href="#">A-05-12-00024</a>	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>	<a href="#">A-05-12-00023</a>	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>	<a href="#">A-06-11-00057</a>	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>	<a href="#">A-04-12-04023</a>	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>	<a href="#">A-06-11-00056</a>	4/2013

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>
<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 href="#">A-04-12-04022</a>	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 href="#">A-04-12-04019</a>	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 href="#">A-04-12-04020</a>	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 href="#">A-04-10-04006</a>	6/2011

## APPENDIX C: FEDERAL REQUIREMENTS

### **45 CFR § 75.470(c)**

“Value Added Tax (VAT) Foreign taxes charged for the purchase of goods or services that a non-Federal entity is legally required to pay in country is an allowable expense under Federal awards.”

### **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 § 92.20(b)(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.”

### **45 CFR § 92.20(b)(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 § 92.36(b)**

Under the applicable regulations, Governmental grantees are to use their own procurement procedures provided that these procedures comply with applicable Federal law and procurement standards.

#### **45 CFR § 92.36(b)(9)**

Grantees must maintain records sufficient to detail the significant history of a procurement. These records will include the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

#### **45 CFR §§ 92.41(b)(1), (2), and (3)**

Grantees will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all nonconstruction grants.

Each grantee will report program outlays and program income on a cash or accrual basis as prescribed by the awarding agency.

The Federal agency may prescribe the frequency of the report for each project or program. However, the report will not be required more frequently than quarterly. If the Federal agency does not specify the frequency of the report, it will be submitted annually.

#### **2 CFR part 225, App. A, § C.1.b**

To be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of 2 CFR part 225.

#### **2 CFR part 225, App. A, § C.3.a**

A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

#### **2 CFR part 225, App. 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 first hand knowledge of the work performed by the employee.

#### **2 CFR part 225, App. 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 . . . .”

## **2 CFR part 225, App. B, § 8.h.(5)**

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.

## **Notice of Award, Section IV. GH Special Terms and Conditions, Note 6**

PEPFAR funds must be tracked and reported separately from non-PEPFAR funds. PEPFAR funds must be used in support of approved PEPFAR activities and cannot be comingled with any other funds.

## **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.”

## **Agreement for Economic and Technical Cooperation Between the Government of the United States of America and the Government of the Republic of Mozambique, Article I**

“This Agreement covers economic, technical, humanitarian and related assistance that may be furnished by the Government of the United States in the Republic of Mozambique. The furnishing of such assistance shall be subject to applicable United States laws and regulations governing the furnishing of such assistance.”

## **Agreement for Economic and Technical Cooperation Between the Government of the United States of America and the Government of the Republic of Mozambique, Article VI 1.**

[T]he Government of Mozambique will ensure that each of the following is free from the payment of any taxes, duties, levies, contributions or other comparable charges other than fees for services that are charged and collected by private entities (collectively referred to as “Taxes”) of or in Mozambique or that such Taxes on the following will be covered through a contribution from the Government of Mozambique: (i) any goods, supplies, material, equipment, property, services or funds introduced into, acquired, or used in the Republic of Mozambique by the Government of the United States, or by any person or entity (including but not limited to contractors and grantees) financed by the Government of the United States, as part of, or in conjunction with, the assistance provided hereunder; (ii) the export, as well as the sale or transfer of such goods, supplies, materials, equipment, property, services or funds to another person or entity in the Republic of Mozambique that is free from taxation; (iii) persons and entities that provide such goods, works, services and

assets financed by the Government of the United States under the assistance furnished hereunder, except for social security, income or profit taxes imposed on citizens or permanent residents of the Republic of Mozambique or entities organized under the laws of the Republic of Mozambique. The Parties acknowledge and agree that the foregoing includes, inter alia, value added and other transfers, property and ad valorem items and import and export of goods (including for goods imported and re-exported for personal use).

### **Standard Operating Procedures, Tax Reporting, CDC Mozambique**

“USG implementing partners are now required to collect and submit information on taxes paid with U.S. foreign assistance funds starting from January 2016.”

### **Mozambique Council of Ministers Decree No. 15/2010, Article 36**

The decision based on the lowest price must provide the choice of proposals at the level of quality and qualification of the tenderer necessary to achieve the public interest, in accordance with the tender documents. In the price evaluation, the payment conditions may be taken into account, as long as this criterion is defined objectively and in advance in the tender documents.

### **Mozambique Council of Ministers Decree No. 15/2010, Article 39, 1.c.**

Notwithstanding to specific legislation, the decision of a Competitive Tendering for the concession of works or rendering of public services may be adopted, in isolation or in a conjugated manner, the following criteria: Best quality of services or goods made available to the public.

### **Mozambique Council of Ministers Decree No. 15/2010, Article 39, 3.**

“The best-quality criterion encompasses techniques used to ensure regularity, efficiency, safety, currency, generality and courtesy in rendering the service to users or in the enjoyment of the good and must be weighed in accordance with objective parameters detailed in the Tender Documents.”

## APPENDIX D: SAMPLE TRANSACTION ANALYSIS

Of the 50 sample transactions that we tested, 24 transactions were allowable, 7 transactions were not allowable, and 7 transactions were partially allowable. Twelve transactions totaling \$291,185 were for personnel costs; this amount was part of \$1,289,859 in total PEPFAR-funded personnel costs for the audit period that the Institute could not support. The table below provides a summary of our analysis of the sample transactions.

**Table 3: Sample Transaction Analysis Summary**

<b>Sample Transactions</b>	<b>Allowable Costs</b>	<b>Unallowable Costs</b>	<b>Personnel Costs</b>	<b>Total<sup>20</sup></b>
24	\$557,255	\$0	\$0	<b>\$557,255</b>
7	0	365,722	0	<b>365,722</b>
7	66,382	65,737	0	<b>132,119</b>
12	0	0	291,185	<b>291,185</b>
<b>50 Total</b>	<b>\$623,637</b>	<b>\$431,458</b>	<b>\$291,185</b>	<b>\$1,346,280</b>

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<sup>20</sup> Some rows or columns may not add up precisely because of rounding.

APPENDIX E: MEMORANDUM ALERT AND RESPONSE



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

WASHINGTON, DC 20201



NOV 15 2016

**TO:** Thomas R. Frieden, M.D., MPH  
Director  
Centers for Disease Control and Prevention

**FROM:** Amy J. Frontz  
Assistant Inspector General for Audit Services

**SUBJECT:** Review of Institution Nacional de Saude Ministry of Health Cooperative Agreement U2G GH000080 (A-04-16-04051)

The purpose of this memorandum is to alert you that the President's Emergency Plan for HIV/AIDS Relief (PEPFAR) funds awarded to the Mozambique Instituto Nacional de Saude (INS) may be at risk for fraud, waste, and abuse. INS was the recipient of Cooperative Agreement U2GGH000080, totaling \$14,297,972 from September 30, 2011, to March 31, 2017. During our audit of Cooperative Agreement U2GGH000080, we found that the INS:

- did not have an accounting system that complied with 45 CFR § 92.20(b)(1),<sup>1</sup> which requires a financial management system capable of producing accurate, current, and complete disclosure of financial results in accordance with the financial requirements of the grant;
- did not use its own Payment Management System account to receive PEPFAR funds, in accordance with the Notice of Award 5U2GGH000080-03, August 30, 2013, NOTE 6, which requires PEPFAR funds to be tracked and reported separately from non-PEPFAR funds, to be used in support of approved PEPFAR activities, and not be comingled with any other funds;
- could not support the expenditures reported on its Federal Financial Report either in a financial management system or by other means of documentation, in violation of 45 CFR § 92.20(b)(1), which requires a financial management system capable of producing accurate, current, and complete financial disclosure in accordance with the financial reporting requirements of the grant, and in violation of 45 CFR § 92.20(b)(6),

<sup>1</sup> Although 45 CFR part 75 superseded 45 CFR part 92 for awards made on or after December 26, 2014, CDC continued to apply 45 CFR part 92 in all Notices of Award during our audit period.



which requires accounting records to be supported by source documentation such as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.; and

- repaid loans with PEPFAR funds without providing any support for the costs covered by the loan funds, in violation of 45 CFR § 92.20(b)(6), which requires accounting records to be supported by source documentation such as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

INS is the sole eligible applicant for Centers for Disease Control and Prevention's (CDC) Funding Opportunity Announcement CDC-RFA-GH17-1723, which closed on October 18, 2016, and has an award ceiling of \$6.5 million annually. The new award project period is April 1, 2017, through March 31, 2022, for a potential 5-year total of \$32.5 million.

Because of the above preliminary findings and the impending award, we suggest that CDC impose specific award conditions as detailed in 45 CFR § 75.207 and in part F, chapter 4, of the HHS Grants Policy Administration Manual, to mitigate the risk exposure for PEPFAR funds prior to making any future awards to INS.

If you have any comments or questions about this memorandum, please do not hesitate to call me, or your staff may contact Lori S. Pilcher, Regional Inspector General for Audit Services, at (404) 562-7750 or through email at [Lori.Pilcher@oig.hhs.gov](mailto:Lori.Pilcher@oig.hhs.gov).



Centers for Disease Control  
and Prevention (CDC)  
Atlanta GA 30329-4027

**TO:** Assistant Inspector General for Audit Services, U.S. Department of Health and Human Services (HHS)

**FROM:** Director, Centers for Disease Control and Prevention (CDC)

**DATE:** January 3, 2017

**SUBJECT:** CDC Response to Office of Inspector General (OIG) Review of Ministry of Health (Mozambique), Cooperative Agreement, Institution Nacional de Saude, U2G GH000080 (A-04-16-04051)

In the fall of 2016, OIG auditors traveled to Mozambique and reviewed Instituto Nacional De Saude (INS) financial and internal controls. OIG shared the initial INS audit findings listed below:

1. **Lack of an Accounting System:** INS did not have an accounting system that complied with 45 CFR 92.20(b)(1), which requires a financial management system capable of producing accurate, current, and complete disclosure of financial results in accordance with the financial requirements of the grant;
2. **INS President's Emergency Plan for HIV/AIDS Relief (PEPFAR) Funds Directed to Other Cooperative Agreements:** INS did not use its own Payment Management System account to receive PEPFAR funds, in accordance with the Notice of Award 5U2GGH000080-03, August 30, 2013, NOTE 6, which requires PEPFAR funds to be tracked and reported separately from non-PEPFAR funds, to be used in support of approved PEPFAR activities, and not be comingled with any other funds;
3. **Unable to Support Reported Expenditures:** INS could not support the expenditures reported on its Federal Financial Report either in a financial management system or by other means of documentation, in violation of 45 CFR 92.20(b)(1), which requires a financial management system capable of producing accurate, current, and complete disclosure of financial results in accordance with the financial requirements of the grant, and in violation of 45 CFR 92.20(b)(6);
4. **Loans:** INS repaid loans with PEPFAR funds without providing any support for the costs covered by the loan funds, in violation with 45 CFR 92.20(b)(6), which requires accounting records to be supported by source documentation such as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Note:

- Cooperative Agreement, GH000080, audited by the OIG, awarded to the Mozambique Ministry of Health (MOH). INS part of the Mozambique MOH. Findings from the audit and any corrective actions will be addressed to the MOH. Currently, CDC has a total of four awards to the Mozambique MOH.
- OIG referenced 45 CFR 92 in their audit findings; however, 45 CFR 92 is applicable to state, local, and tribal governments, not foreign institutions. The correct regulation for the audit period is 45 CFR 74 (or 45 CFR 75), as referenced in their notice of award.

To address the audit findings, CDC is already taking actions at headquarters and in the field to enhance oversight and work with the grantee to develop specific actions are listed below..

**From Headquarters, CDC:**

- Designated the Mozambique MOH as a high-risk organization by letter dated November 22, 2016. This designation will impact all CDC funding to the MOH / INS program.
- Added special award conditions to all Mozambique MOH/INS cooperative agreements, in accordance with 45 CFR 75.207, effective November 22, 2016, which include:
  - Manual drawdown: A review of all costs and prior approval is now required before funds are released from the Payment Management System to the grantee.
  - Corrective Action Plan (CAP): Action items have been developed that address specific focus areas, such as organization infrastructure, internal controls, budgetary systems, budget execution, and accounting systems. The MOH must set a timeline for completion and a point of contact to each action item.
  - Additional monitoring: CDC will monitor progress with the CAP through regular conference calls, requests for documentation, and if needed, in-person site visits. CDC will also provide any technical assistance required.
- Conducted a follow-up site visit on December 6-9, 2016. CDC's Office of Grant Services staff performed an assessment of all of the MOH cooperative agreements impacted by the high-risk designation.
- Delay of any new funding to the Mozambique MOH / INS. The INS award is in its final year, which ends March 30, 2017. INS was approved to receive a new cooperative agreement under a new Funding Opportunity Announcement (FOA), starting April 1, 2017. Instead of receiving a new award under a new FOA, the MOH's award (INS, GH000080-05) will be extended for one year to address the audit findings and ensure successful completion of the action items within the CAP before receiving a new award.
- Will conduct a risk and business system assessment in the fall of 2017 and prior to any new award to the MOH or INS.

**From the Field, CDC:**

- Established and has on-boarded a U.S. Direct Hire Project Officer to manage the government-to-government portfolio in Mozambique with full-time oversight responsibility.
- Working with the grantee to assess business management practices and develop and implement a plan to ensure proper systems and practices are in place. This includes:
  - Ensuring purchase and use of proper accounting software as part of an overall effort to develop an appropriate business management system.
  - Reviewing the grantee's business management staffing and development and implementation of an appropriate staffing structure.
- Has initiated a procurement action for a contractor to work closely with the grantee to assess systems challenges and support development and implementation of sustainable business systems and accountability practices. CDC Mozambique staff will be responsible for monitoring and evaluating implementation of the business improvement plan on an ongoing basis, including after the completion of the contract.

Our goal is to ensure the MOH receives necessary technical assistance and oversight to improve their capacity and infrastructure and reduce any further risk to U.S. government funds.

If you have any questions, please contact Priscilla Patin, OIG, CDC Liaison. Ms. Patin can be reached at [iggao@cdc.gov](mailto:iggao@cdc.gov) or (404) 639-7094.



Thomas R. Frieden, MD, MPH



REPÚBLICA DE MOÇAMBIQUE  
**MINISTÉRIO DA SAÚDE**  
**INSTITUTO NACIONAL DE SAÚDE**

**Gloria L. Jarmon**  
**Deputy Inspector General for Audit Services**  
**Office of Inspector General**  
**Department of Health and Human Services**

Maputo, 28<sup>th</sup> December 2017

Reference: Report Number A-04-16-04051

Dear Ms. Jarmon,

In reference to the report number A-04-16-04051 entitled *The National Institute of Health in Mozambique Did Not Always Manage and Expend the President's Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements*, please find enclosed our written comments on each recommendation.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Ilesh V. Jani'.

Ilesh V. Jani, MD PhD  
Director General  
National Institute of Health  
Ministry of Health  
Mozambique

Attached: INS Response to Report Number A-04-16-04051

# RESPONSE to OIG Audit Report A-04-16-04051

## 1. Introduction

The OIG Report on the funds made available under the Cooperative Agreement between Mozambique's National Institute of Health (INS) and the Centers for Disease Control and Prevention (CDC) for the period 2012 to 2016 was received at the INS on November 28<sup>th</sup>, 2017. The report produced by the OIG Audit team, as well as the method used during the verification of procedural and documentary compliance, will serve as a guide for continuous improvement in the strict compliance of the different rules governing the management of funds made available for the INS. The OIG audit process has boosted the improvement of our internal procedures and financial management systems, and the INS team remains committed to attain the highest standards of administrative and financial management.

## 2. Brief Description of Steps Taken

After the presentation of the preliminary findings of the OIG audit in September 2016, the INS took immediate steps to correct the deficiencies identified by the OIG team. Since then, the INS has developed an extensive corrective action plan (CAP) in collaboration with the CDC. To date, the INS has completed the great majority of the tasks listed in the corrective action plan and expect to resolve the remaining few in the coming months. More details can be found in the attached CAP ([Annex 1 INS OGS- OFR CAP MOZ RevF 1710 revf.xlsx.pdf](#)).

CDC Mozambique has been working closely with the INS in assessing business management practices, developing and implementing the CAP, ensuring proper systems and good practices are in place, using a suitable accounting software and implementing an appropriate staff structure. More details are provided below in response to specific recommendations.

## 3. Response to Recommendations

### **3.1 Recommendation #1: Refund to CDC \$439,011 of unallowable expenditures: \$386.796 that it could not adequately support and \$52.215 that it used to support non-PEPFAR activities**

Statements on each of the issues raised in Table 1 of the OIG Draft Report are described below.

#### *3.1.1 Documentation errors (\$44,834)*

Our responses to each one of the five transactions are described in Table 1 below.



Table 1. Responses to five transactions considered to be unallowable costs due to documentation errors

G/L Amount	Amount Tested	Category per G/L	Actual Category	Total Disallow	OIG Notes	INS Response
\$4,412.55	\$4,412.55	Contractual	Contractual	\$4,413	No invoice provided to substantiate this expenditure.	Please find attached ( <u><a href="#">Annex 2A Gmail - Report Number A-04-16-04051 Samples Supporting Documents and Answers.pdf</a></u> ) the email from [REDACTED] to [REDACTED] (CDC) on the October 14, 2016 where the invoice was attached ( <u><a href="#">Annex 2B Sample#2.pdf</a></u> )
\$33,109.83	\$33,109.83	Contractual	Contractual	\$3,311	Contract stipulated penalties to be paid by Contractor for Contractor-induced delays. Due date was 06/03/15, final product was delivered 10/25/15, 144 days late. The penalty was 0.25% per day calculated on the Contract Price, up to a maximum of 10% of the Contract Price. The per-day calculation came to \$12,547; 10% of the Contract Price came to \$3,485. Since the sample item amount is 95% of the full payment, we will disallow 95% of the penalty, or \$3,311.	We agree with the OIG assessment. However, the INS did not pay 100% of the contract value. Only 95% of the contract value was paid ( <u><a href="#">Annex 3 Invoice and Transfer Sample#5.PDF</a></u> ).
\$10,450.00	\$3,140.37	Equipment	Contractual	\$3,140	Disallow \$3,140.37 rent payment - although INS provided a lease agreement (between INS and the landlord) and a sub-agreement (between INS and ALM), those documents were not sufficient to prove that the payment of rent was agreed to as part of the subaward, or covered by the approved budget. Also misclassified as Equipment rather than Contractual.	This value was for payment of two months of rent. This expense was approved as part of the subaward ( <u><a href="#">Annex 4 Carryover Budget COP 12 FY3 Sample#11.xls</a></u> ), <u><a href="#">CHECK CELL: [Annex 4 Carryover Budget COP 12 FY3 Sample#11.xls]Other'!\$A\$9.</a></u>

**Office of Inspector General Note** - The deleted text has been redacted because it is personally identifiable information.

\$28,950.00	\$28,950.00	Travel	Travel	\$14,950	<p>Monthly allowance (in Rio de Janeiro) doubled due to "the termination of FUJB's cooperative agreement with CDC, which was responsible for payment of accommodation expenses..." and the "recent enhancement of the cost of living in this city..." - no evidence of CDC approval  1 month @ \$1,000 + 13 months @ \$2,150 = \$28,950  Budget allows for \$1,000/month  14 months @ \$1K = \$14,000 for a difference of \$14,950</p>	<p>The budget category for Out State Travel had \$44,000, of which \$20,200 were initially planned for post-graduation scholarships in Rio de Janeiro (<b><u>Annex 5 Carryover Budget COP 13 Sample#21.xls</u></b>).  <b><u>CHECK CELL: [Annex 5 Carryover Budget COP 13 Sample#21.xls]Travel!\$D\$119</u></b></p> <p>Due to the termination of FUJB's agreement with CDC, INS had to spend additional funds in this subcategory which amounted to a total of \$28,950. This is still within the limit approved for the Budget Category and according to the CoAg management rules.</p>
\$25,020.14	\$25,020.14	Supplies	Supplies	\$19,020	<p>This item is payment for printer toner. The Supplies budget included \$6,000 for the purchase of 40 toners. This payment is for 341 toners @ \$25,020.14. There is insufficient evidence to substantiate that this purchase was for the exclusive benefit of the INS PEPFAR coag. Allow the budgeted amount of \$6,000; disallow the remainder.</p>	<p>A total of 368,035 were available for the Supplies Budget Category (<b><u>Annex 6 Budget COP 11 Sample#55.xls</u></b>) under which printer toners were purchased. Although more funds were spent on toners than initially planned, these were well within the limits that were established for the Supplies Category.  In that year, INS spent \$45,982.25 on Supplies. The increased need of printer toners were to cover the scale-up of external quality assessment of laboratories in the context of PEPFAR activities.  <b><u>CHECK CELL: [Annex 6 Budget COP 11 Sample#55.xls]Supplies!\$D\$275</u></b></p>



### 3.1.2 Repayment of loans for undocumented costs (\$239,861)

First, we would like to elucidate that no loans were taken by the INS to pay for project expenses. Since the CoAg bank account did not have enough funds to cover for the immediate need to pay for these expenses, the INS used the Cost Reimbursement Methodology to implement these urgent activities. These were all PEPFAR activities that were part of the CoAg between INS and CDC, and all costs incurred were allowable and documentation is provided in Annex. At the time, the INS-CDC CoAg was operating under manual drawdown and within the PMS of another CoAg, which made the withdrawing of funds a long process of around 4-6 weeks.

A) \$10,771.99: these expenses were related to training of trainers for the Laboratory Accreditation Program ([Annex 7 Documentation of the Training.pdf](#)).

B) \$129,073.84: these expenses covered the initial training of the IMASIDA AIDS Indicator Survey ([Annex 8 Documentation of the Training.pdf](#)).

C) \$100,015.25: INS transferred this value to the CoAg account but almost immediately a PMS disbursement took place. Therefore, this value was not used to pay for expenses and was wired back to the INS bank account.

### 3.1.3 Unjustified highest bid for purchased vehicle (\$102,101)

The request for the lifting of the restriction for the acquisition of a vehicle was submitted to the CDC. The INS requested the acquisition of a Toyota brand vehicle due to its durability and availability of maintenance services throughout the country. This process was approved by the CDC as per the attached email correspondence ([Annex 9A Email Re APPROVED FW Country Concurrence FW GH000080-02 Purchase of vehicle August 19.pdf](#)).

Following this approval from CDC, the INS followed Mozambique's Procurement Regulations to acquire the vehicle. This vehicle acquisition was approved by the Permanent Secretary of the Ministry of Health and had the final endorsement by Mozambique's Administrative Court, which is the country's highest authority in providing administrative conformity to procurement processes ([Annex 9B Administrative Court.pdf](#)).

### 3.1.4 Non PEPAR activities (\$52,215)

In addition to staff paid using PEPFAR funds, other INS staff that are not paid for by PEPFAR substantially contribute to the implementation of CoAg-related activities. These professional's salaries represent the financial contribution of the INS to PEPFAR related activities. All of the staff that went for training have a level of effort to support PEPFAR activities.

Table 2. Responses to seven trainings considered to include non-PEPFAR activities

G/L Amount	Amount Tested	Category per G/L	Actual Category	Total Disallow	Notes	INS Response
\$12,881.59	\$12,881.59	Contractual	Contractual	\$2,147	E&Y audit of PEPFAR and Influenza was paid for entirely with PEPFAR funds. Original split was to be 5/1 PEPFAR/Influenza (see p8); total cost was \$12,881.59. Disallow \$2,146.93 (one sixth of the total).	INS agrees with this assessment
\$5,074.00	\$5,074.00	Out-State Travel	Out-State Travel	\$5,074	The two employees who traveled to this training are not on the INS PEPFAR roster. There is insufficient evidence to determine whether or not the employees in question worked on the INS PEPFAR coag, therefore disallow.	These staff provide a level of effort to PEPFAR activities but their salaries are covered by Mozambique government funds.
\$11,567.80	\$11,567.80	Out-State Travel	Out-State Travel	\$10,411	Of the ten employees who traveled to this event only one [REDACTED] appears to be associated with the coag. The other nine are not on the INS PEPFAR roster (nor is [REDACTED]).	These staff provide a level of effort to PEPFAR activities but their salaries are covered by Mozambique government funds.

					There is insufficient evidence to determine whether or not the employees in question worked on the INS PEPFAR CoAg, therefore disallow 90%.	
\$2,960.00	\$2,960.00	Out-State Travel	Travel	\$2,960	The employee who traveled to this training is not on the INS PEPFAR roster. There is insufficient evidence to determine whether or not the employee in question worked on the INS PEPFAR coag, therefore disallow.	These are not PEPFAR funds but other funds channeled by CDC through this CoAg.
\$7,832.20	\$7,832.20	Travel	Travel	\$5,874	Disallow 3/4 of the amount (5,874.15) since only one of the four trainees appears on the PEPFAR roster. $7,832.20 \times 0.75 = 5,874.15$	These staff provide a level of effort to PEPFAR activities but their salaries are covered by Mozambique government funds.
\$15,726.00	\$15,726.00	Travel	Travel	\$15,726	The employees who traveled to this training are not on the INS PEPFAR roster. There is insufficient evidence to	These are not PEPFAR funds but other funds channeled by CDC through this CoAg.

					determine whether or not the employees in question worked on the INS PEPFAR coag, therefore disallow.	
\$12,757.03	\$12,757.03	Travel	Travel	\$10,023	<p>Sample item amount covers conference attendance (two same/similar conferences occurring on different dates) for a total of 28 people (12+16). Of the 28 attendees, only 6 could be traced to the coag employee roster.</p> <p><math>(6/28) \times \\$12,757.03 = \\$2,733.65</math></p> <p>Allowed.</p> <p>Disallow \$10,023.38</p>	<p>These staff provide a level of effort to PEPFAR activities but their salaries are covered by Mozambique government funds. There were two different workshops, although for the same target audience. Both workshops fall under ANC surveillance activities although under different CoAg projects</p>

**3.2 Recommendation #2: Implement adequate accounting system that complies with 45 CFR § 92.20(b)(1)**

These issues were addressed with the Corrective Action Plan (CAP) and through the implementation of the [REDACTED] accounting system. The following activities were implemented:

- 1.1 We have reconciled the FFR's for years 1 to 5 of the CoAg;
- 1.2 We have segregated PEPFAR expenditures from all other expenditures;
- 1.3 We are accurately classifying budget and expenditures according to projects, categories and subcategories using the [REDACTED] system;
- 1.4 We have developed and implemented procedures for the PEPFAR CoAg;
- 1.5 We have implemented a time and attendance procedure;
- 1.6 We assure the exclusive use of bank accounts for the PEPFAR CoAg.

The OIG Report states that among the most significant Problems, the institute was unable to reconcile the \$9,210,817.00 dollars showing in its accounting records an amount of \$8,517,276.00 that it claimed/ reported on its Federal Financial report (FFR's) for the audit Period. The INS received \$ 9,145,342 in its bank account during the audit period. During the reconciliation process conducted by the INS, the FFR's have been corrected and the expenditures now amount to \$ 8,945,198.77 (Table 3 and "[Annex 10 with Corrected FFRs.pdf](#)").

*Table 3. Values Reported in Corrected FFRs, Years 1 to 5*

YEAR	2012	2013	2014	2015	2016	Total
FFR's	\$523,721.31	\$2,353,414.07	\$3,252,760.11	\$1,274,583.43	\$1,540,719.85	\$8,945,198.77

**3.3 Recommendation #3: Work with CDC to determine the allowability of the \$1,289,859 in personnel costs expended during the audit period**

The INS is working with CDC in order to determine the allowability of the personnel costs.

**3.4 Recommendation #4: Ensure that it maintains documentation to fully support expenditures**

The INS has established a sector to implement the control of documentation. Currently, six personnel work in this sector, including two that are in charge of organizing and controlling documentation archive.

**3.5 Recommendation #5: Adhere to Federal regulations and Government of Mozambique policies when procuring assets with PEPFAR funds**

The procurement unit at the INS has undergone reforms. A senior adviser has now been employed to train and support staff, and verify the conformity to the Law of every purchase. In addition, a lawyer has also been employed to monitor contracts with suppliers.

***3.6 Recommendation #6: Allocate expenses across all projects to ensure that award funds are used solely for authorized purposes***

A senior manager has now been employed to assure the alignment between activities and Project budgets. Procedures have been established for the management of the CoAg and all involved professionals have been trained.

***3.7 Recommendation #7: Implement a time and attendance system that can adequately document and allocate the time that employees work on PEPFAR-funded activities***

A system to document time and attendance has been implemented since October 2016.

***3.8 Recommendation #8: Work with CDC to obtain VAT reimbursement from the Government of Mozambique***

A bilateral agreement between the USA and Mozambique Governments was signed in 2015. This agreement includes a process for VAT reimbursement. INS is working with CDC to implement this process with respect to the CoAg.

***3.9 Recommendation #9: Establish a PMS account that will be used only for PEPFAR funds***

The process of establishing a separate PMS account only for PEPFAR funds for INS is currently under way. CDC have requested INS and MISAU to reconcile the financial accounts for separating the PMS accounts. INS has completed the reconciliation work, and obtained its own EIN and DUNS numbers. The establishment of the separate PMS account for PEPFAR funds is estimated to be completed in first quarter of 2018.

***3.10 Recommendation #10: Implement policies and procedures that address the payment of VATs using PEPFAR funds***

INS is working with CDC to implement policies and procedures that address payment of VATs.