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and the Broadcasting Board of Governors
Office of Inspector General

Report of Audit

Survey of the Office of the U.S. Global AIDS Coordinator

Report Number AUD/IP-05-32, September 2005

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SUMMARY

The President's Emergency Plan for AIDS Relief (PEPFAR), a 5-year, \$15 billion initiative announced January 2003, aims to provide two million people with antiretroviral treatment in 14 of the world's most severely affected countries.¹ In May 2003, legislation established the Office of the U.S. Global AIDS Coordinator (S/GAC) within the Department of State (the Department). S/GAC is primarily responsible for all resources and international activities of the U.S. government to combat the worldwide HIV/AIDS pandemic, including U.S. contributions to the Global Fund to Fight AIDS, Tuberculosis, and Malaria, and to advance the HIV/AIDS prevention, care, and treatment goals under PEPFAR.

In support of the Office of Inspector General's (OIG) continuing responsibility to assist management through independent reviews of Department operations, OIG conducted a survey of S/GAC. The primary objectives were to (1) identify and quantify FY 2004 funding under the PEPFAR initiative; (2) ascertain the funding allocation mechanisms used to convey such funds to other federal agencies and organizations; and (3) determine the audit responsibility of the Inspectors General of agencies receiving funding under PEPFAR. In addition, OIG designed a questionnaire for U.S. Agency for International Development (USAID) OIG's use to elicit information from overseas personnel of various U.S. government agencies concerning S/GAC planning, coordination, and funding.

In FY 2004, Congress appropriated \$2.4 billion for the PEPFAR initiative. Of this amount, Congress appropriated \$1.9 billion directly to U.S. government agencies for ongoing bilateral HIV/AIDS programs, new funding for the Prevention of Mother-to-Child Transmission, and the Global Fund. The Department received the remaining \$488 million of new funding for the Global HIV/AIDS Initiative (GHAI).

S/GAC may provide funds to other U.S. government departments and nongovernmental organizations through such mechanisms as contracts, grants, and inter-agency transfers and allocations pursuant to Sections 632(a) and 632(b) of the

¹ The 14 countries were: Botswana, Cote d'Ivoire, Ethiopia, Guyana, Haiti, Kenya, Mozambique, Namibia, Nigeria, Rwanda, South Africa, Tanzania, Uganda, and Zambia. At a global AIDS conference on July 14, 2004, in Bangkok, S/GAC announced that Vietnam would receive special focus in the PEPFAR, raising the number of focus countries to 15.

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Foreign Assistance Act of 1961. OIG found that S/GAC transferred and/or allocated about 98 percent of the \$488 million received in FY 2004 to other federal agencies through interagency arrangements authorized by Section 632(a).

Pub. L. No. 108-7² mandates that the OIG for the agency receiving funds under the authority of Section 632(a) has accountability and shall perform periodic program and financial audits of the use of such funds. Under 632(b) agreements, the transferring agency's OIG is responsible for audits related to activities financed under the agreement. Several U.S. agencies currently implement PEPFAR. In summer 2004, the Inspectors General of USAID and the Departments of Commerce, Defense (DOD), Health and Human Services (HHS), Labor, and State signed a memorandum of agreement to implement the single audit concept in obtaining financial audits of foreign PEPFAR contractors, grantees, and recipients.

During OIG's survey, S/GAC was establishing policies and procedures and hiring staff. OIG will use the results of this survey as well as the responses to the questionnaire provided by USAID OIG in August 2005 to select activities for future audits. Although the primary purpose of the questionnaire was to help plan future work, OIG is providing some observations on S/GAC planning, coordination, and funding. In addition, OIG will advise the Inspectors General of agencies receiving FY 2004 PEPFAR funding under Section 632(a) authority of their respective audit responsibilities. FY 2004 was the first year of operation for S/GAC; therefore, OIG is not making any recommendations at this time.

²The United Consolidated Appropriations Resolution, 2003 (Feb. 20, 2003).

BACKGROUND

In January 2003, the President announced a 5-year initiative to combat the global HIV/AIDS pandemic. PEPFAR, as authorized through the U.S. Leadership Against HIV/AIDS, TB and Malaria Act of 2003,³ nearly triples the U.S. financial commitment to addressing the disease and targets \$9 billion in new funding to dramatically expand prevention, treatment, and care efforts in the world's most severely affected countries.

The administration's strategy seeks to streamline the U.S. approach to global HIV/AIDS treatment by coordinating and deploying U.S. agencies and resources through a single entity, S/GAC, created in January 2004 within the Department. The Senate confirmed the Coordinator, who reports directly to the Secretary of State, in October 2003. S/GAC received its initial appropriation in January 2004.

The S/GAC's authority includes operating internationally; transferring and allocating funds to relevant executive branch agencies; and providing grants to, and entering into contracts with, nongovernmental organizations (including faith- and community-based organizations) to carry out the purposes of PEPFAR. S/GAC is also responsible for establishing criteria for all recipients of PEPFAR funds and measuring the outcome of all PEPFAR activities by conducting appropriate auditing, monitoring, and evaluations. USAID and HHS are primarily responsible for implementing PEPFAR overseas.

³ Pub. L. No. 108-25.

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OBJECTIVES, SCOPE, AND METHODOLOGY

OIG's primary objectives were to (1) identify and quantify PEPFAR funding, (2) ascertain the funding mechanisms used to convey such funds to others, and (3) determine respective OIGs' audit responsibility for agencies receiving funding under PEPFAR. In addition, OIG designed a questionnaire for USAID OIG's use to elicit information from overseas personnel of various U.S. government agencies concerning S/GAC planning, coordination, and funding. The results will be used primarily to aid in future audit work. OIG's scope included funding appropriated for FY 2004.

To identify and quantify funding, OIG reviewed the PEPFAR FY 2004 Operational Plan, transfer and allotment documents, and congressional notification. OIG reconciled congressional appropriations to allotment, obligation, and expenditure reports.

To determine funding mechanisms, OIG interviewed S/GAC and Department officials on various aspects of PEPFAR support and implementation. OIG obtained and reviewed transfer documents, such as contracts, advice of allotments, and 632(a) and (b) interagency agreements. OIG also researched pertinent laws and regulations on the audit responsibility associated with the funding mechanisms.

To ensure that OIG did not duplicate the work of other auditors and to implement the single audit concept, OIG met with USAID OIG. At this meeting, OIG provided USAID OIG with a questionnaire related to S/GAC planning, coordination, and funding, and requested that USAID OIG administer it when meeting with U.S. government agencies overseas as part of their PEPFAR audits. Subsequently, USAID OIG provided questionnaire responses from U.S. officials in Ethiopia, Haiti, Rwanda, Uganda, Zambia, and Kenya. In addition to analyzing these responses, OIG reviewed USAID OIG's report on the implementation of PEPFAR in Ethiopia.⁴ Additionally, OIG consulted with representatives of the Government Accountability Office (GAO), which had issued a report on global health in July 2004.⁵

⁴*Audit of USAID/Ethiopia's Implementation of The President's Emergency Plan for AIDS Relief* (Audit Rept. No. 9-663-05-005-P, Mar. 30, 2005).

⁵*Global Health: U.S. AIDS Coordinator Addressing Some Key Challenges to Expanding Treatment, but Others Remain* (GAO-04-784, July 12, 2004).

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OIG conducted fieldwork from August 2004 through February 2005. OIG completed its work in August 2005 after receipt of the consolidated questionnaire from USAID OIG. The Office of Audits, International Programs Division conducted this survey in accordance with government auditing standards and included such procedures as OIG considered necessary in the circumstances.

SURVEY RESULTS

For FY 2004, Congress appropriated over \$2 billion for the PEPFAR initiative. Of this amount, S/GAC received \$488 million in new funding for the Global HIV/AIDS Initiative (GHAI). S/GAC primarily used interagency agreements to transfer or allocate funds to other agencies for program implementation. The OIGs for the agencies implementing PEPFAR entered into a memorandum of agreement for coordinating audit coverage of programs and activities.

PEPFAR FUNDING

According to the PEPFAR Fiscal Year 2004 Operational Plan, the budget for PEPFAR totaled \$2.4 billion. Of that amount, Congress appropriated \$1.9 billion directly for ongoing bilateral HIV/AIDS programs and the Global Fund.⁶ S/GAC received the remaining \$488 million of new funding for GHAI, which it managed directly within the Department. Table 1 details the distribution and purpose of PEPFAR funds.

Table 1: FY 2004 PEPFAR Funding

<i>Category of Funding</i>	<i>Agency</i>	<i>Amount (in millions)</i>	<i>Purpose</i>
Existing Programs	U.S. Agency for International Development	5750	Bilateral programs
	Department of Health and Human Services	493	Bilateral programs
	Department of State	1	Foreign Military Finance
	Department of Labor	10	Bilateral programs
	Department of Defense	4	Bilateral programs
New Funding	Department of State	488	GHAI for focus countries
	Department of Health and Human Services	149	PMTCT* for focus countries
Global Fund	Global Fund	547	Fight AIDS, tuberculosis, and malaria
Total		\$2,442	

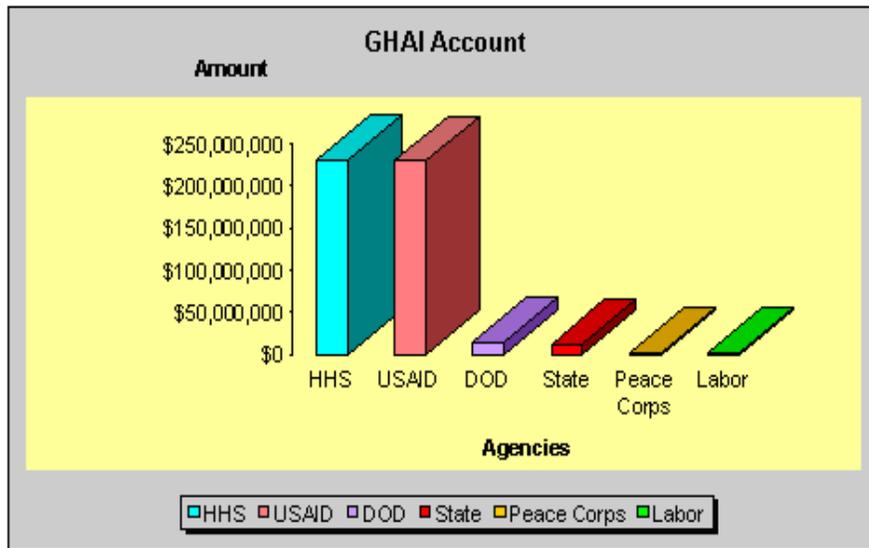
* Prevention of Mother-to-Child Transmission funds.
Source: OIG-generated from S/GAC's PEPFAR FY 2004 Operational Plan.

⁶ The Global Fund is a public-private partnership that receives money to fight AIDS, tuberculosis, and malaria. The United States is the largest contributor to the Global Fund, and the HHS Secretary of Health and Human Services chaired the Fund.

GHAI FUNDING

Of the \$488 million received by the Department, S/GAC provided \$476 million, or about 98 percent, to other federal agencies to carry out the approved activities of PEPFAR, such as country activities, central programs, headquarters technical support and management, and strategic information and evaluation as shown in Figure 1.

Figure 1: Allocation of GHAI account



Source: OIG-generated from S/GAC, GHAI Transfers to Agencies.

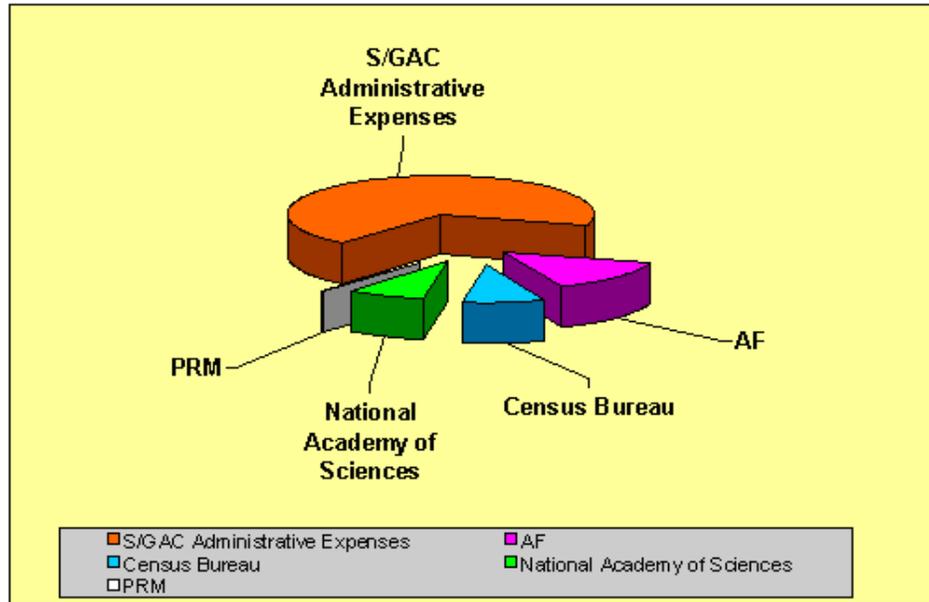
S/GAC allotted the remaining two percent, or \$12 million, in GHAI funding as follows (\$1 million remained unobligated as of October 21, 2004):

- \$8 million for its administrative expenses;
- \$976,000 to the Census Bureau for assistance in developing S/GAC's strategic information systems;
- \$1 million to the Department's Bureau of African Affairs (AF) for distribution to eight focus countries;⁷
- \$45,000 to the Bureau of Population, Refugees, and Migration (PRM) for Ethiopia; and
- \$943,000 for two contracts to the National Academy of Sciences for strategic evaluation services.

⁷ Ethiopia, Mozambique, Namibia, Nigeria, Rwanda, Tanzania, Uganda, and Zambia.

Figure 2 illustrates the use of the GHAI funds within the Department, excluding the unobligated funds.

Figure 2: Use of GHAI Funds Within the Department



Source: OIG-generated from S/GAC, GHAI Transfers to Agencies.

FUNDING MECHANISMS

S/GAC relies on a variety of funding allocation mechanisms, including agreements, allotments, contracts, and grants, to maximize flexibility and encourage innovation while responding to specific country needs. Section 632(a) of the Foreign Assistance Act of 1961, as amended, stipulates that the President may allocate or transfer to any agency of the U.S. government any part of any funds available for carrying out the purposes of the act. Section 632(b) of the act, as amended, allows any officer of the U.S. government carrying out functions under the act to use the services of, or acquire commodities from, any agency of the U.S. government.

S/GAC primarily used interagency transfers and allocations pursuant to Sections 632(a) and 632(b) to provide funds to other U.S. government departments and agencies. During 2004, S/GAC entered into Section 632(a) allocation or transfer arrangements with USAID, DOD, HHS, Labor, and Peace Corps totaling \$476 million. To obtain assistance in developing its strategic information systems, S/GAC entered into a 632(b) interagency agreement with the Census Bureau totaling about \$1 million. Table 2 summarizes the recipients, funding mechanisms, and amounts.

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Table 2: Summary of GHAI Funding Mechanism

<i>Recipient</i>	<i>Funding Mechanism</i>	<i>Amount</i>
Department of Labor	632(a)	\$400,000
U.S. Agency for International Development	632(a)	\$50,500,000
		<u>179,100,314</u>
		\$229,600,314
Department of Health and Human Services	632(a)	\$116,935,000
		<u>113,774,360</u>
		\$230,709,360
Peace Corps	632(a)	\$1,130,667
Department of Defense	632(a)	\$3,824,000
		<u>9,927,412</u>
		\$13,751,412
Bureau of African Affairs	Allotment	\$1,567,203
Bureau of Population, Refugees, and Migration	Allotment	\$45,342
Office of the Secretary	Allotment	\$7,952,800
Census Bureau	632(b)	\$976,000
National Academy of Sciences	Contract	\$499,879
National Academy of Sciences	Contract	\$443,149
Total		\$487,076,126*

*Total does not include the unobligated amount of \$1 million as of October 2004.
Source: Agreements, modifications, contracts, and advice of allotment.

AUDIT RESPONSIBILITY OF GHAI FUNDS

When the Department transfers or allocates funds to another federal agency under the authority of Section 632(a), the recipient agency is responsible for obligating the funds and is accountable for their use. The recipient agency is also required to provide financial reports to the Department on the status of obligations under allocations, but not for transfers. Thus, the receiving agency's OIG is responsible for audits.

Under 632(b) agreements, funds stay on the books of the allocating agency and remain part of the allocating agency's budget. Thus, the transferring agency's OIG is responsible for audits related to activities financed under the agreements. Table 3 shows a comparison of transferring and recipient agencies and respective OIG responsibilities under 632(a) and 632(b) agreements. Additionally, Pub. L. No.108-

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7 places requirements regarding both 632(a) transfers and allocations. The legislation states that “any agreement for the transfer or allocation of funds...under the authority of section 632(a) of the Foreign Assistance Act of 1961...shall expressly provide that the Office of Inspector General for the agency receiving...such funds shall perform periodic program and financial audits of the use of such funds....”

Table 3: Comparison of 632(a) and 632(b) Agreements

	<i>632 (a) Agreements</i>		<i>632 (b) Agreements</i>
	<i>Transfers</i>	<i>Allocations</i>	
Budget	Funds go off the books of the transferring agency and onto the books of the recipient agency. The funds become a part of the recipient agency's budget.	Funds stay on the books of the allocating agency and remain part of the allocating agency's budget.	Funds stay on the books of the allocating agency and remain part of the allocating agency's budget.
Obligation	Recipient agency is responsible for obligating funds.	Recipient agency is responsible for obligating funds.	Funds are obligated by signature of the agreements by both parties.
Accountability	Recipient agency is accountable for the use of the funds.	Recipient agency is accountable for the use of the funds.	Both parties are accountable for the use of the funds.
Audit	Recipient agency's OIG is responsible for audits.	Recipient agency's OIG is responsible for audits.	Transferring agency's OIG is responsible for audits related to activities financed under the agreement.

Source: MOA Between OIGs Coordinating Audit Coverage of PEPFAR Activities.

As PEPFAR is currently implemented by several U.S. agencies, in the summer of 2004, the Inspectors General of the Department, USAID, DOD, HHS, Commerce, and Labor signed a memorandum of agreement to implement the single audit concept in obtaining financial audits of foreign PEPFAR contractors, grantees, and recipients. Under Provision 1 of the agreement, an OIG planning and conducting performance audits of PEPFAR programs and activities in selected focus countries is to coordinate with the other OIGs that are signatories to this agreement to identify specific areas of concern and to agree upon the tests that will be performed to address those concerns.

The agreement does not limit the authority of the signatory OIG to conduct or arrange for additional audits nor authorize any auditee to constrain any OIG auditors from carrying out additional audits. Any additional audits should, however, be planned and performed in such a way as to build upon work performed by other auditors. Accordingly, OIG is sending a copy of this report to the agencies that have audit responsibility for PEPFAR funding.

S/GAC PLANNING, COORDINATION, AND FUNDING QUESTIONNAIRE

As previously noted, OIG developed a questionnaire concerning S/GAC fiscal year planning, coordination, and funding, which was administered by USAID OIG. The questionnaire's primary purpose was to aid future audit work; however, OIG is providing some observations, as follows.

With respect to planning, the majority of the officials interviewed indicated that S/GAC provided adequate guidance for developing country plans. The few officials that expressed reservations with the guidance generally acknowledged improvement from FY 2004 to FY 2005. Additionally, some made suggestions for improvement. For example, several officials suggested enhancements to the database for the country plans.

Regarding coordination, the establishment of the S/GAC and the Country Operational Plan process, according to most responding officials, improved the level of coordination at post.

Finally, the majority of the officials responding to funding questions did not indicate a problem obligating and expending funds. The few officials expressing concerns usually cited delays in the receipt of the funds as the cause of the difficulty. For example, one agency in Ethiopia said that its funding came later than the funding for other agencies.

