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United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General



Office of Inspector General

Audit of Sources and Uses of Global HIV/AIDS Initiative Global Health and Child Survival Funds Related to the President's Emergency Plan for AIDS Relief (PEPFAR) for FYs 2007 and 2008

Report Number AUD/SI-11-10, December 2010

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PREFACE

This report is being transmitted pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared as part of the Office of Inspector General's (OIG) responsibility to promote effective management, accountability, and positive change in the Department of State and the Broadcasting Board of Governors.

This report addresses the sources and uses of Global HIV/AIDS Initiative (GHAI) and Global Health and Child Survival (GHCS) funds related to the U.S. President's Emergency Plan for AIDS Relief (PEPFAR). The audit assessed the performance of seven participating agencies, including the Department of State's Office of the Global AIDS Coordinator (OGAC), by reviewing their internal control structure and documentation supporting the flow of PEPFAR funds and accompanying financial data for FYs 2007 and 2008. The report is based on interviews with employees and officials of relevant agencies, direct observation, and a review of applicable documents.

OIG contracted with the independent public accountant Clarke Leiper, PLLC, to perform this audit. The contract required that the accountant perform its audit in accordance with guidance contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. The accountant's report is included.

The accountant identified three areas in which improvements could be made: reconciliation of obligations and disbursements of funds, timely receipt and obligation of funds, and effectiveness of internal controls.

OIG evaluated the nature, extent, and timing of the accountant's work; monitored progress throughout the audit; reviewed supporting documentation; evaluated key judgments; and performed other procedures as appropriate. OIG concurs with the findings, and the recommendations contained in the report were developed on the basis of the best knowledge available and were discussed in draft form with those individuals responsible for implementation. OIG's analysis of management's response to the recommendations has been incorporated into the report. OIG trusts that this report will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of the individuals who contributed to the preparation of this report.

A handwritten signature in black ink, appearing to read "H. W. Geisel".

Harold W. Geisel
Deputy Inspector General

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Audit of Sources and Uses of Global HIV/AIDS Initiative Global Health and Child Survival Funds Related to the President's Emergency Plan for AIDS Relief (PEPFAR) for FYs 2007 and 2008

Office of Inspector General
U.S. Department of State
Washington, DC

Clarke Leiper, PLLC (referred to as "we" in this letter), has performed a consolidated sources and uses audit to track the flow of FY 2007 and 2008 Global HIV/AIDS Initiative (GHAI) and Global Health and Child Survival (GHCS) Funds Related to the President's Emergency Plan for AIDS Relief (PEPFAR). We evaluated the flow of PEPFAR GHAI/GHCS-State funds from initial appropriation to obligation and outlay via PEPFAR implementing agencies to/by award recipients. We also tracked the flow of financial data back through agency reports to the Department of State's Office of the Global AIDS Coordinator (OGAC).

This performance audit, performed under Contract No. SAQMPD04D0033, was designed to meet the objectives identified in Appendix A, "Objectives, Scope, and Methodology," of the report.

We conducted this performance audit from July 2009 through August 2010 in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We communicated the results of our performance audit and the related findings and recommendations to Department of State's Office of Inspector General.

We appreciate the cooperation provided by personnel in Department offices during the audit.



Clarke Leiper, PLLC
November 4, 2010

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Executive Summary

At the request of the Office of Inspector General (OIG), U.S. Department of State, in conjunction with the Office of the U.S. Global AIDS Coordinator (OGAC), an independent external auditor, Leonard G. Birnbaum & Company, LLP¹ (referred to as “we” in this report), has audited the sources and uses of Global HIV/AIDS Initiative (GHAI) and Global Health and Child Survival (GHCS) funds related to the U.S. President’s Emergency Plan for AIDS Relief (PEPFAR). We assessed the performance of seven participating agencies² by reviewing their internal control structure and documentation supporting the flow of PEPFAR funds and accompanying financial data for FYs 2007 and 2008.

The overall objective of the audit was to perform a consolidated “sources and uses” audit to track the flow of FY 2007 and FY 2008 PEPFAR GHAI/GHCS-State fund accounts from initial appropriation to their obligation and outlay (expenditure) via PEPFAR implementing agencies to/by award recipients and back through the agency reports to OGAC on quarterly obligations and outlays.

We found the following:

- OGAC was not ensuring that implementing agencies were reconciling obligations and disbursements reported to OGAC with the corresponding amounts contained on the forms submitted to the Department of the Treasury, and OGAC’s internal controls for agencies receiving PEPFAR funds were not always effective.
- Representatives of implementing agencies stated that funds were not always received timely.
- Funds were generally obligated in a timely manner except by the Department of Defense (DoD).
- Internal controls related to PEPFAR awards were not always effective.

We recommended the following:

- OGAC should require implementing agencies to reconcile obligations and disbursements reported to OGAC with amounts reported on Standard Form (SF) 133, Report on Budget Execution and Budgetary Resources.
- OGAC and representatives of certain implementing agencies should ensure that funding flow does not impede program performance.
- OGAC and representatives of DoD should determine whether DoD’s review and approval process for obligating funds can be streamlined.

¹ In March 2010, the Leonard G. Birnbaum & Company, LLP, name was changed, per novation and change-of-name agreements, to Clark Leiper PLLC, an independent public accountant.

² Participating agencies consisted of the U.S. Agency for International Development, the Department of Defense, the Department of Health and Human Services, the Department of Labor, the Department of State, the Global Fund/United Nations Program on HIV/AIDS, and the Peace Corps.

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- OGAC and representatives from the Department of Health and Human Services (HHS) should formulate a policy to ensure that the Centers for Disease Control and Prevention's (CDC) grant award and oversight practices comply with regulatory and policy requirements.
- Representatives from DoD's Navy Health Research Center (NHRC) and Walter Reed Army Institute of Research (WRAIR) should maintain full and complete records in accordance with generally accepted accounting principles.

OIG provided OGAC with a copy of the draft report on September 15, 2010. In its October 18, 2010, response (see Appendix B) to the draft report, OGAC agreed with all of the recommendations and stated that it found the report to be "helpful and will utilize it to improve internal control." OGAC's response also contained comments from DoD and CDC, which OIG has addressed and incorporated into the report as appropriate.

Background

HIV/AIDS has become one of the world's most important public health crises. Approximately 33 million people are infected worldwide; about two thirds of those people are concentrated in Africa. The number of new HIV infections each year worldwide has been estimated at 2.7 million. Because of the scale of this disease, it threatens the political stability of the affected countries and their neighbors and undermines their prospects for prosperity.

In 2003, PEPFAR was launched to combat global HIV/AIDS—the largest commitment by any nation to combat a single disease in history. The initial legislative authorization for PEPFAR passed by Congress in 2003 is the United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003.³ The act called for a comprehensive, integrated 5-year strategy to combat global HIV/AIDS; required coordination among the implementing executive branch departments or agencies, which consisted of the Department of State, the United States Agency for International Development (USAID), HHS, DOD, the Peace Corps, and the Department of Labor (DOL); and projected general levels of resources for achieving the act's goals. The act also provided for the establishment of the U.S. Global AIDS Coordinator within the Office of the Secretary of State and gave it primary responsibility for coordination and oversight of all U.S. Government activities to combat the HIV/AIDS pandemic internationally.

On February 23, 2004, the first U.S. Global AIDS Coordinator announced the PEPFAR program. The plan concentrated on 15 focus countries by providing most of the PEPFAR funds to the African countries of Botswana, Cote d'Ivoire, Ethiopia, Kenya, Mozambique, Namibia, Nigeria, Rwanda, South Africa, Tanzania, Uganda, and Zambia; Vietnam; Guyana; and Haiti.

In addition to the 15 focus countries, where 50 percent of the world's infections occur, PEPFAR funds have supported activities in 99 additional countries, for a total of 114 countries with

³ Pub. L. No. 108-25.

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PEPFAR activities since the program’s inception. PEPFAR’s goals by the end of FY 2008 were to fund the prevention of 7 million new HIV infections, the treatment of 2 million HIV-infected people with antiretroviral treatment drugs, and the care of 10 million people infected by HIV/AIDS.

The Congress has passed growing GHAI and GHCS appropriations since 2004. Almost all GHAI/GHCS–State funds pass through OGAC to implementing agencies. When GHAI/GHCS–State funds were combined with other PEPFAR funding accounts that go directly to implementing agencies, total funding⁴ grew from \$2.3 billion in FY 2004 to \$6 billion in FY 2008, amounting to a 5-year total of approximately \$18.8 billion.

For the GHAI/GHCS–State accounts, about \$7.9 billion was appropriated and allocated through transfers to several implementing agencies for FYs 2007 and 2008, as shown in Table 1.

Table 1. Allocation of Funds by Amount Allocated

| Agency | Funding (U.S. Dollars in Millions) |
|---|---|
| U.S. Agency for International Development | \$3,691 (47%) |
| Health and Human Services | 2,712 (34%) |
| Global Fund/UNAIDS | 923 (12%) |
| Department of Defense | 162 (2%) |
| Department of State | 379 (5%) |
| Peace Corps | 38 (<1%) |
| Department of Labor | 3 (<1%) |

OGAC allocates funds it receives to implementing agencies through various methods, including inter-agency transfers and allocations pursuant to sections 632(a) and 632(b) of the Foreign Assistance Act of 1961.⁵

In February 2008, the Department of State, Office of Inspector General (OIG), Office of Inspections, issued the report *Review of the Office of the U.S. Global AIDS Coordinator* (ISP-I-08-23). The report recommended that a collective, independent financial audit of PEPFAR funds be conducted, and, at a minimum, an audit of the GHAI/GHCS–State account. This audit is the result of implementation of the report’s recommendation.

Objectives

The primary objective of the audit was to track the flow of PEPFAR GHAI/GHCS–State funds from initial appropriation to obligation and outlay via PEPFAR implementing agencies to/by award recipients and to track the flow of financial data back from award recipients and

⁴ Under the Office of Management and Budget definition, PEPFAR funding includes funding for bilateral HIV/AIDS and tuberculosis programs and contributions to multilateral organizations.

⁵ 22 U.S.C. §§ 2393(a) and 2393(b).

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implementing agencies to OGAC. We also assessed the accuracy of amounts presented as obligations and outlays in quarterly reports submitted to Congress. Further, we assessed the performance of seven participating agencies⁶ by reviewing their internal control structure and documentation supporting the flow of PEPFAR funds and accompanying financial data for FYs 2007 and 2008.

The scope of our audit encompassed activity on PEPFAR funds for FYs 2007 and 2008. (The scope and methodology are detailed in Appendix A).

Audit Results

We tracked the flow of PEPFAR GHAI/GHCS-State funds as described in the section “Objectives” and found several areas that OGAC should address to enhance processes and procedures for the continued improvement of financial accounting and reporting of PEPFAR funding. These areas included the reporting of financial data both downward to ultimate recipients and back through required quarterly reports ultimately to the Congress of the United States and the internal control procedures and processes of OGAC and its implementing agencies and oversight of award recipients. The findings as they apply to the seven agencies audited are as described.

Finding 1 – Implementing Agencies Not Reconciling Amounts Reported to OGAC With Amounts Reported on Standard Forms 133

Implementing agencies were not reconciling obligations and disbursements reported to OGAC with the corresponding amounts reported on Standard Form (SF) 133, Report on Budget Execution and Budgetary Resources, submitted to the Department of the Treasury. As a result, the amounts reported to OGAC differ from the amounts included in the implementing agencies’ financial statements. This reconciliation is required by memoranda of agreement between OGAC and the implementing agencies. However, in the process of validating the obligations and disbursements reported by the agencies, OGAC has had to adjust the amounts reported to agree with the amounts reported on the corresponding SFs 133. While some of these differences may be attributable to timing, others are not. As a result, the process of OGAC’s reporting to Congress is complex and time consuming.

OGAC’s quarterly Summary Financial Status reports to Congress present cumulative (from FY 2004) amounts available, obligated, and outlaid (disbursed). These amounts are grouped by appropriation/program and by agency/program. In accumulating the data, OGAC provides each implementing agency with a template that the agency populates.

⁶ Participating agencies consisted of the U.S. Agency for International Development, the Department of Defense, the Department of Health and Human Services, the Department of Labor, the Department of State, the Global Fund/United Nations Program on HIV/AIDS, and the Peace Corps.

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In reviewing OGAC's quarterly Summary Financial Status reports to Congress covering FYs 2007 and 2008, we confirmed that the amounts presented as available funds, by agency, matched the amounts shown in the memoranda of agreement between OGAC and the implementing agencies that transferred funds to the implementing agency.

To validate the amounts presented as obligated and disbursed, OGAC's Management and Budget Office verifies the amounts reported to the related SFs 133 prepared by the implementing agencies for submission to the Department of the Treasury and the House of Representatives.

Since SFs 133 mirror the Statement of Budgetary Resources, a principal financial statement for Federal departments and agencies, and since the implementing agencies, except for DoD, have received unqualified opinions on their financial statements for FYs 2007 and 2008, there is reasonable assurance that the amounts reported to Congress as obligations and disbursements accurately present the amounts obligated and disbursed.

Recommendation 1. We recommend that the Office of the U.S. Global AIDS Coordinator (OGAC) require management of the implementing agencies to reconcile the obligations and disbursements reported to OGAC with the corresponding amounts reported on Standard Forms 133 before the data is submitted to the Department of the Treasury.

Management Response: OGAC concurred with the recommendation, stating that it was "reviewing the reporting format associated with the reconciliation of the SF133 and is exploring options to make the process of reconciliation more effective." OGAC stated that it planned to meet with all the agencies "to introduce the changes and to ensure that each agency will be able to effectively perform the reconciliation with the proposed new format."

OIG Analysis: Based on the response, OIG considers the recommendation resolved, pending receipt and acceptance of documentation supporting implementation of the new format.

Finding 2 - Funds Not Always Received Timely

Staff at several implementing agencies cited issues with respect to delays in receipt of funds from OGAC, stating that such delays unduly complicated program performance. Timely receipt of funds is needed in order to maintain continuity of the programs. We found, because of the timing of development and review of country operational plans,⁷ that funds are not distributed to implementing agencies at or near the time when they are made available by Congress. Instead, funds are distributed generally around April of each year. Personnel at USAID, DoD, and HHS (specifically, Health Resources and Services Administration) stated that any funds that are

⁷ A Country Operational Plan documents the U.S. Government's "annual investments and anticipated results in HIV/AIDS" and the basis for approving "annual [U.S. Government] bilateral HIV/AIDS funding." [Source: PEPFAR's FY 2010 Country Operational Plan (COP) Guidance: Programmatic Considerations, June 29, 2009.]

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unobligated by September 30 cannot be used by the recipient agency. Representatives of USAID stated that the agency was not experiencing any problems in that regard and that OGAC had readily provided interim funding as required when the funding was requested. However, representatives of the other agencies stated that the effect of such delays, that is, the inability to obligate funds during a period approximating the first 6 months of each fiscal year, hampers program continuity.

Recommendation 2. We recommend that the Office of the U.S. Global AIDS Coordinator, based on discussions with representatives of affected implementing agencies, develop a protocol that will ensure a flow of funds so that program performance is not impeded or interrupted.

Management Response and Comments: OGAC concurred with Recommendation 2, stating that it had recently taken actions to “increase . . . the timely receipt and obligation of funds.” In that regard, OGAC stated that in developing “a new FY 11 financial calendar, . . . all appropriated funds will be notified to Congress and transferred to the Agencies by mid-April of the appropriate fiscal year,” which will ensure that the funds “are obligated in the same fiscal year in which they are appropriated.” In addition, OGAC management and budget staff “are working with each agency to identify improvements . . . that will allow for a more streamlined and effective obligation and/or transfer of funds to the country teams for execution.”

In its comments, OGAC cited as “incorrect” the statement in the report that “any funds that are unobligated by September 30 cannot be used by the recipient agency.” OGAC explained that GHCS-State is a “no-year appropriation, and these funds do not expire.” Regarding the report’s statement that “the inability to obligate funds during a period approximating the first 6 months of each fiscal year, hampers program continuity,” OGAC stated that this statement “does not take into account the early funding process, which generally allows funds to programs within 3 months of the new fiscal year” and that “no-year money enables agencies to continue to obligate prior year money.”

OIG Analysis: Based on the response, OIG considers the recommendation resolved, pending receipt and acceptance of documentation supporting implementation of the “new FY 11 financial calendar.” However, regarding the obligation of no-year funds, the independent public accountant, during the audit, interviewed representatives of each agency who stated that although PEPFAR funds were no-year funds, the agencies were not permitted to obligate funds beyond the close of the fiscal year in which the funds had been received. Therefore, OGAC needs to discuss this issue with the recipient agencies and develop a protocol to ensure that the obligation and transfer of funds process permits agencies to carry over and use unobligated prior-year funds.

Finding 3 – Department of Defense Funds Not Always Obligated Timely

Each year, before distributing funds to the implementing agencies, OGAC and the implementing agencies develop, review, and approve country operational plans that focus on the individual plans for the countries identified as participants in the PEPFAR program, together with projects that are not targeted at specific countries. This planning, review, and approval process is extensive, detailed, and comprehensive. As a result, when funds are distributed to the implementing agencies, the end recipients and projects are known.

We found that when funds are received by the implementing agencies and are reallocated where appropriate, the funds are generally obligated in a timely manner except for DoD (the obligation of funds at DoD is discussed in the section “Department of Defense” in Finding 4). Funds allotted to DoD are routed through several levels within DoD before they arrive at the point of obligation. DoD officials stated that this process results in obligating funds on a basis that is not timely.

Funds allotted to DoD do not reach the point of ultimate obligation timely—generally, not until 9 months after the start of the government’s fiscal year. The organizational structure of the PEPFAR program within DoD requires multiple approvals before funds are released to the component where the funds are obligated.

Recommendation 3. We recommend that the Office of the U.S. Global Aids Coordinator discuss with Department of Defense (DoD) officials the need to streamline the review and approval process for obligating funds allotted through the President’s Emergency Plan for AIDS Relief program within DoD.

Management Response and OIG Analysis: OGAC concurred with the recommendation, citing the actions it had taken in response to Recommendation 2 to address the timely receipt and obligation of funds. OGAC stated that in developing its FY 2011 financial calendar, all appropriated funds will be notified to Congress and transferred to the agencies by mid-April of the appropriate fiscal year, which should help ensure the timely receipt and obligation of funds. Based on the response, OIG considers the recommendation resolved, pending receipt and acceptance of documentation supporting implementation of the FY 2011 financial calendar.

Finding 4 – CDC and DoD Internal Controls Related to PEPFAR Awards Not Always Effective

Of the implementing agencies, we found that USAID, the Health Resources and Services Administration (HRSA), the National Institutes of Health (NIH), the Global Fund/Joint United Nations Program on HIV/AIDS, the Peace Corps, the Department of State, and DOL had adequate internal controls over financial management of PEPFAR funds but that CDC and DoD did not. The internal controls and reasons for effective and ineffective controls are discussed for

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each of the principal implementing agencies and, where appropriate, for entities within the principal implementing agencies.

United States Agency for International Development

We concluded that USAID's internal controls related to the financial management of PEPFAR funds are adequate. USAID uses PEPFAR funds to centralize the domestic purchase of medical supplies and to implement individual projects in countries identified for participation in the PEPFAR program.

For both FYs 2007 and 2008, USAID's OIG issued agreed-upon procedures reports on balances reported to the Department of State on SFs 133 for child funds transferred to USAID by the Department of State. These reports determined (1) that the amounts recorded on USAID's general ledger for these funds were the result of the systems of transaction processing that are used for all of USAID's transaction processing and (2) that the current assessments of the effectiveness of internal controls over financial reporting by USAID did not disclose any material weaknesses in the areas relevant to the types of transactions that are included in the activities and balances reported to the Department of State on the SFs 133.

PEPFAR funding is channeled through USAID to implementing entities, which, in turn, make awards to and oversee the activities of still other entities. In some cases, these other entities make awards to still other entities.

Implementing entities assume principal oversight responsibility for the entities to which they award funds, which includes selecting and issuing awards, collecting programmatic and financial reporting, conducting site visits, and providing technical assistance.

USAID's Automated Directives System, Chapter 591, "Financial Audits of USAID Contractors, Recipients, and Host Government Entities," prescribes the requirements for audits of domestic, foreign, and host government entities that receive awards from USAID. In addition to imposing the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, on domestic grantees, the directive requires annual audits of foreign entities that expend over \$300,000 in USAID funds. The directive also provides guidance for pre-award audits and surveys, close-out audits, contract termination claims, and similar special-purpose objectives. Our review of annual audit plans of USAID's OIG, OIG semiannual reports to Congress, and selected individual audit reports elicited the conclusion that USAID implements these requirements.

Because USAID operates extensively in underdeveloped countries, OIG routinely conducts audits of its operations and projects in those countries to ensure that funds are safeguarded against fraud, waste, and abuse. This approach applies to all operations regardless of the source of funds. Moreover, USAID's OIG has conducted discrete audits of implementation of the PEPFAR program at headquarters and mission levels since 2004. While these audits assessed the effectiveness of USAID's overall internal controls related to PEPFAR, recommendations

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from these audits centered generally on programmatic areas such as improving the quality of data reporting.

Department of Health and Human Services

PEPFAR funds received by HHS are distributed within HHS to CDC, HRSA, NIH, the Food and Drug Administration (FDA), and the Substance Abuse and Mental Health Services Administration (SAMHSA). Since over 98 percent of PEPFAR funds distributed to HHS are allotted to CDC and HRSA, our audit focused on these two agencies only.

As with USAID, HHS accounts for PEPFAR funds in the same manner as it treats directly appropriated funds except that the financial results of PEPFAR activity are reported to the Department of State rather than being incorporated into HHS's financial statements. Accordingly, PEPFAR funds transferred to HHS are subject to the same internal controls accorded to directly appropriated funds. As noted in Finding 1, audits of HHS's financial statements have resulted in unqualified (clean) opinions. Accordingly, the amounts reported as obligations and outlays on SFs 133 for PEPFAR funds are considered to be accurate. Whether adequate internal controls exist to ensure that the obligations and outlays are or were made in compliance with relevant laws and regulations and in an effective and efficient manner are issues properly addressed at the level at which they are made.

The Centers for Disease Control and Prevention

Most of the PEPFAR funding allotted to CDC is used to support grants and/or cooperative agreements to foreign governmental or non-governmental entities. Several earlier internal reviews by CDC of internal control over grants disclosed several significant weaknesses. A review by the Government Accountability Office (GAO)⁸ reported issues related to the oversight of grants, including the fact that CDC representatives acknowledged that no pre-award financial reviews or audits had been conducted on CDC PEPFAR grantees. Our audit confirmed these deficiencies.

Specifically, in our review of files related to 25 grants by CDC, we found the following:

- 24 files contained assertions that the applicant had an adequate accounting system, but none of the files contained information as to how this determination was made.
- 24 files did not contain reports on audits of the grant, which was contrary to HHS policy.
- One file did not contain a required CDC checklist.
- Three files did not contain certification of availability of funds.
- Two files did not contain financial status reports.

⁸ *President's Emergency Plan for AIDS Relief – Partner Selection and Oversight Follow Accepted Practices but Would Benefit From Enhanced Planning and Accountability* (GAO-09-666, July 2009).

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HHS's Grants Policy Statement and implementing checklists require the following: (1) explanations as to how an applicant's accounting system was determined to be adequate; (2) audits to be conducted in accordance with OMB Circular A-133; and (3) financial status reports to be received in accordance with OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. CDC procedures require the use of a Grant File Checklist and a Funds Certification Checklist prior to award. However, CDC grants management staff did not comply with these Departmental and agency policies and procedures. As a result, these weaknesses, collectively, demonstrate a lack of effective implementation of the grant award and monitoring process.

Recommendation 4. We recommend that the Office of the U.S. Global AIDS Coordinator (OGAC), in coordination with representatives from the Department of Health and Human Services and/or the Centers for Disease Control and Prevention (CDC), formulate a policy for collaboratively monitoring the corrective action process necessary to ensure that CDC's grant award and oversight practices related to the President's Emergency Plan for AIDS Relief awards comply with applicable regulatory and policy requirements.

OGAC Response: OGAC concurred with the recommendation, and it included a plan of action from CDC regarding process improvements "to ensure better internal control of grants." OGAC stated that it was establishing a follow-up plan to ensure that each of the action steps is being implemented "on a regular basis."

CDC Comments: In the general comments (see Appendix C) it submitted on the report, CDC stated that it "generally concur[red]" with the report's recommendations (including Recommendation 4), and it included "immediate corrective actions . . . to strengthen internal controls." CDC committed to "conduct a 100% comprehensive quality control review of its 600 active international agreements immediately to ensure that all regulatory pre-award and post-award actions are completed fully and timely to include the requisite file documentation." CDC did dispute the accuracy of the records of files containing grant audit reports. It stated that its Procurement and Grant Office, Office of Policy, Oversight and Evaluation (OPOE), maintains a record of audits and that of the 25 grants identified in the report, OPOE's records showed that 13 grants had obtained audits, two grants were not subject to audit, and 10 grants did not have documentation that an audit was received.

OIG Analysis: Based on the response, OIG considers the recommendation resolved, pending receipt and acceptance of documentation supporting implementation of the policy for collaborative monitoring.

However, the independent public accountant could not confirm the accuracy of the record of audits maintained by OPOE because the audit focused on CDC's grant files, which are the designated repository of audit reports. Regardless, CDC has acknowledged that files

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within OPOE for 10 grants, or 40 percent of those examined, did not have documentation that an audit was received. Accordingly, the independent public accountant maintains that CDC lacks an effective grant monitoring process.

Health Resources and Services Administration

PEPFAR funds allotted to HRSA are distributed primarily to a core group of five domestic nonprofit entities (including three universities), supplemented by other nonprofit entities on an ad hoc basis, that provide clinical services, training, technical assistance, and related services in PEPFAR-designated countries. The costs incurred by these five entities in the performance of Federal grant awards are subject to being audited in accordance with OMB Circular A-133. Our review of related audit reports, including reports on internal control, did not disclose any conditions that would indicate that amounts reported by these entities as having been incurred under PEPFAR grants were inaccurate or improper. Accordingly, we concluded that the internal controls related to the financial management of PEPFAR funds by HRSA were adequate.

Global Fund/Joint United Nations Program on HIV/AIDS

PEPFAR funds allotted to the Global Fund and UNAIDS are treated as contributions to an international organization and are regarded as obligated and disbursed when the contribution is made. On average, since the inception of the Global Fund through 2009, the United States has contributed approximately 28 percent of annual donations received by the Global Fund. Once contributed, the U.S. funds lose identity because all funds are pooled. Details of financial activity (obligations and disbursements) related to individual projects supported by the Global Fund and UNAIDS are reported, by project, to the Global Fund Board and UNAIDS's Program Coordinating Board, respectively; the U.S. Government is a member of both boards. U.S. representatives monitor financial activity to ensure that sufficient amounts of non-U.S. funds are available to cover projects that are not authorized by U.S. funding or, expressed conversely, that obligations and disbursements related to projects authorized by U.S. funding exceed the amount of U.S. funding. Since the Department of State does not customarily audit contributions to international organizations, we considered this method of control to be adequate for funding provided to an international organization.

Department of Defense

PEPFAR funds received by DoD are distributed almost evenly between the Navy Health Research Center (NHRC) in San Diego, CA, and the Walter Reed Army Institute of Research (WRAIR) in Silver Spring, MD. PEPFAR funding through the Navy is related to military activity, while funding through the Army is related to civilian activity.

NHRC awards or transfers designated funds to the Fleet Industrial Supply Center (FISC), which, in turn, makes the actual awards to recipients. The contract and grant agreements indicate that all reporting and correspondence are handled by FISC. NHRC personnel communicate with FISC personnel and desk officers in-country on a regular basis to obtain the status of progress on the

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award. Supporting documentation related to routine payments on contract invoices or grant requests for advances or reimbursements is maintained at posts. NHRC staff does not obtain and therefore does not review these documents.

During our audit, we observed the following conditions for DoD organizations:

- NHRC was unable to provide adequate supporting documentation to support our requests for sampled obligation and disbursement transactions.
- Obligations are not approved by, or communicated to, NHRC. Obligation transactions are recorded after disbursements have already taken place based on summary data from Global Financial Services Vendor Audit Detail Reports. In many instances, disbursements cannot be matched with appropriate obligations.
- NHRC uses the Standard Accounting and Reporting System (STARS) financial system to compile the financial data used to populate OGAC's reporting templates. NHRC was unable to provide an accurate STARS report for FYs 2007 and 2008. As a result, we could not perform a conclusive comparison of transaction details to SFs 133, and a comparison of the NHRC report to OGAC could not be supported by reliable source documentation.
- Grants and cooperative agreements awarded by WRAIR are administered through the U.S. Military Research Acquisition Activity and provide for advance funding. Recipients are required to provide financial status reports and reports of Federal cash transactions. WRAIR staff was unable to provide copies of these reports for our review and did not provide adequate supporting documentation for our sample test items.
- NHRC is tasked with consolidating NHRC and WRAIR fund activities and with submitting a single DoD report to OGAC. WRAIR submits a populated template to NHRC on a quarterly basis. A discrete NHRC report is not prepared. We found, in our review of the combined submissions by NHRC, that the amounts did not agree with those on the SFs 133. NHRC staff did not provide explanations for the differences. Since NHRC and WRAIR each produce their own SFs 133, we determined that information on WRAIR submissions and on SFs 133 was consistent, indicating that the unreconcilable differences were within NHRC. Neither NHRC nor WRAIR was able to provide copies of WRAIR's quarterly submissions for FY 2007 and for the first and fourth quarters of FY 2008.

U.S. Government accounting principles and the memoranda of agreement between OGAC and the implementing agencies require that the implementing agencies maintain full and complete records in order to provide complete, timely, reliable, and consistent information for decision makers and the public. However, DoD organizations have not maintained adequate supporting records and documentation in a manner consistent with prescribed Government provisions. As a result, as indicated in the conditions cited, the overall effect of these situations is that reported information may be inaccurate or may not be adequately supported, and the resulting reporting may be unreliable. Accordingly, we conclude that DoD's internal controls over PEPFAR funds are inadequate.

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Recommendation 5. We recommend that the Office of the U.S. Global AIDS Coordinator (OGAC) require representatives from the Department of Defense's (DoD) Navy Health Research Center and Walter Reed Army Institute of Research to ensure that DoD maintains full and complete records in accordance with generally accepted U.S. Government accounting principles as required by the memoranda of agreement between OGAC and DoD.

Management Response: OGAC concurred with the recommendation, stating that it and DoD agreed that improvements in the execution and documentation standards were needed. OGAC stated that it will work with DoD to implement the recommendation and that "many process improvements" have been made since the audit was conducted, as described in DoD's response.

In its comments (see Appendix D), DoD stated that all comments about DoD in the audit should refer to the DoD HIV/AIDS Prevention Program (DHAPP), established by DoD directive in November 2006, to manage, oversee, and implement global HIV activities with foreign militaries because DHAPP is responsible for the use of GHAI and GHCS funds within DoD. DoD further stated that in addressing just NHRC and WRAIR, the audit omitted other activities that are "critical components of the program's execution." DoD cited "key organizations" that the audit did not review, stating that although NHRC and WRAIR "play critical, but only partial roles in the execution of funds," these other key organizations "disburse funds on behalf of DHAPP."

DoD explained that the conditions noted in the audit pertaining to NHRC regarding sampled obligation and disbursement transactions are applicable only "to the portion of funds that DHAPP executes through the posts" but that most of the funds directed by DHAPP "are executed by several internal DoD activities." DoD further explained that all of the obligations are approved and recorded before any funds are disbursed, which is different when the funds are executed by posts, "to which the auditors are referring." DoD stated that posts "obligate, disburse, and track funds under the direction and approval of DHAPP headquarters," and it described the accounting process and additional internal controls instituted by DHAPP headquarters since the audit took place. DoD acknowledged that "with the small portion of funds that are executed by post, the timing of obligations being recorded in the DHAPP headquarters system (versus posts) could be improved and that DoD "is working to eliminate the time lag of that situation."

Regarding the recommendation, DoD stated that DHAPP currently and previously maintained "full and complete records in accordance with generally accepted U.S. Government accounting principles" and that when DoD established DHAPP to respond to PEPFAR, DoD "recognized the need to effectively execute this program around the world." As such, according to DoD, the DHAPP-established "worldwide network of internal controls and complete record keeping" would require assessments in more locations than the current audit.

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OIG Analysis: Based on the response, OIG considers the recommendation resolved, pending receipt and acceptance of documentation showing that DoD is maintaining the records required by the memoranda of agreement between OGAC and DoD.

The independent public accountant stated that it was aware of and acknowledged the authority and responsibility of DHAPP with respect to DoD's implementation of the PEPFAR program at the departmental level. The independent public accountant observed that DHAPP is collocated with NHRC in San Diego and that it is not always easy to distinguish between the two entities. For example, some NHRC personnel fill DHAPP positions (the budget director). Regardless, the primary objective of the audit, as explained in the Objectives section of this report, was to track the flow of PEPFAR GHAI/GHCS-State funds from initial appropriation to obligation and outlay via PEPFAR implementing agencies to/by award recipients and to track the flow of financial data back from award recipients and implementing agencies to OGAC. During the period reviewed (FYs 2007 and 2008), all of the funds transferred by OGAC to DoD were transferred, in turn, via Funding Authorization Documents, to NHRC and WRAIR. The audit focused on NHRC and WRAIR (within DoD) because these activities were responsible for the receipt, distribution, and reporting of activities related to all funds received by DoD from OGAC, which, as stated, was the primary objective of the audit. DHAPP, as distinct from NHRC and WRAIR, did not receive, obligate, disburse, or report on any PEPFAR funds.

Attempts to obtain documentation from entities to which NHRC and WRAIR provide funds were unsuccessful. OIG agrees that DoD is not required to maintain the Department of State's posts' records, but the obligations and disbursements against these funds are reported as DoD financial activity and are therefore a DoD responsibility. Also, DHAPP's statement that DHAPP maintains full and complete records is at variance with the conditions observed during the audit, which are detailed in the previous section, ("Department of Defense").

Department of State

PEPFAR funds used by the Department, other than to fund OGAC, are allotted to three regional bureaus—the Bureaus of African Affairs, East Asian and Pacific Affairs, and Western Hemisphere Affairs—and to two functional bureaus—the Bureau of Population, Refugees, and Migration and the Bureau of Intelligence and Research. Funds allotted to the regional bureaus are assigned to individual posts for obligation.

Entities within the Department of State that are allotted funds are responsible for implementing internal controls to ensure that funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition. Our tests of internal controls coincident to the audit of the Department of State's 2007 and 2008 financial statements did not identify any deficiencies that had a direct impact on the accuracy of amounts reported as obligations and disbursements under the PEPFAR program.

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Funds designated for use by posts are, by Department of State policy, allotted first to the cognizant regional bureau. Regional bureau staff, however, are not involved in management of the PEPFAR program. While these funds are included in the individual country operational plans, they are not subject to oversight. As a result, the regional bureaus do not have assurance that PEPFAR funds are used appropriately or effectively.

Representatives of the regional bureaus stated that the bureaus function as a vehicle to forward funds to individual posts and acknowledged that regional bureaus' staff do not perform oversight of the use of such funds by the posts.

A review conducted in 2008 as part of the audit of the Department's annual financial statements⁹ of internal controls over grants by the Bureau of Population, Refugees, and Migration concluded that controls over grant funds were effective. Funds received by the Bureau of Intelligence and Research are used only for a contract for cartographic services, and these services were procured competitively.

We concluded that the internal controls related to the financial management of PEPFAR funds by the Department were adequate but that internal controls at the three regional bureaus were inadequate.

Recommendation 6. We recommend that the Department of State ensure that President's Emergency Plan for AIDS Relief funds allotted to individual posts are safeguarded against loss from unauthorized use, transactions are executed in compliance with laws and regulations, and funds are used effectively.

Management Response: OGAC concurred with the recommendation, stating that all funds issued to the regional bureaus are based upon approved country operational plan submissions. In most cases, according to OGAC, regional bureaus act as a conduit to transfer the funds to the in-country post. OGAC stated that it will "spearhead an annual process" to ensure that funds issued to the regional bureaus are used for their intended purpose, which OGAC "envisions . . . as a joint effort" between it, the regional bureau, and the PEPFAR country coordinator.

OIG Analysis: Based on the response, OIG considers the recommendation resolved, pending receipt and acceptance of documentation showing how PEPFAR funds are safeguarded and used effectively and transactions are executed in accordance with laws and regulations.

⁹ *Independent Auditor's Report on the U.S. Department of State's Financial Statements September 30, 2008, and 2007* (AUD/FM 09-02A, Dec. 2008).

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Peace Corps

As is true of the other PEPFAR implementing agencies, PEPFAR funds add to existing Peace Corps HIV/AIDS efforts that, since the inception of the PEPFAR program, have been incorporated into individual countries' operational plans. While most of the PEPFAR funds are used by other agencies to award contracts and grants, the Peace Corps uses these funds to provide additional volunteers and the attendant supporting costs.

The processing of all voucher payments, including those related to PEPFAR funds, requires transmission of the vouchers to the Peace Corps headquarters in Washington, DC, since field operations do not have the requisite authority to approve or process voucher payments. Upon review and approval, vouchers are transmitted from Washington to the Department of State Global Financial Services Center in Bangkok, Thailand, or Charleston, SC, for payment. Our review of obligation and disbursement transactions disclosed several instances of a lack of supporting documentation, such as invoices or acknowledgement of receipt of goods or services. Since the aggregate value of non-payroll transactions by the Peace Corps under the PEPFAR program is not significant, we are not making any recommendations to address this issue.

Department of Labor

Substantially all PEPFAR funds allotted to DOL are used to fund a grant to the International Labour Organization (ILO). The ILO is a specialized organization of the United Nations. DOL manages the grant in the same manner as it does grants awarded under its conventional grant programs. DOL requires ILO to submit performance progress reports, financial status reports, and reports of federal cash transactions. We concluded that the internal controls related to the financial management of PEPFAR funds by DOL were adequate.

Other Matters

Consistency Between Planned and Executed Budgets for Award Recipients

We found instances where award recipients were unable to execute planned budgets as originally contemplated despite comprehensive planning and pre-award review and approval. Considering the operating environment (primarily that in lesser developed countries), this is not unusual. From an overall perspective, comparison of obligations with disbursements discloses that there is no indication of an inordinate level of obligations that remains unliquidated. Consequently, there is reasonable assurance that general consistency exists between planned and executed budgets.

Consistency Between Executed Budgets and Quarterly Obligations and Outlay Reporting

As noted, OGAC ensures that the amounts reported quarterly as obligations and disbursements (outlays) by the implementing agencies correspond with the amounts reported on SFs 133 and submitted to the Department of the Treasury for the GHAI and GHCS-State accounts.

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Accordingly, there is consistency between executed budgets and quarterly obligation and outlay reporting.

Consistency Between Actual Flow of Funds as Designated in the PEPFAR Operational Plan

The flow of funds is governed by the memoranda of agreement executed by OGAC and the implementing agencies. Our review of the actual flow of funds from the country operational plans to the memoranda of agreement and through to the financial statements of each implementing agency revealed that the funding provided to the agencies was consistent with the PEPFAR operational plans.

Effectiveness of Financial Oversight of Award Recipients by Each Agency and Jointly as a PEPFAR Interagency Team

Financial oversight of award recipients has traditionally been the responsibility of the agency making the award, regardless of whether there is programmatic involvement by other agencies. This is appropriate, since the awarding department or agency may have policies unique to itself that have an impact on financial performance of an award. Examples would include limitations on the recovery of indirect expenses and limitations on deviations from amounts budgeted for individual object class line items. Accordingly, while we did not find any joint financial oversight, we do not consider this to be a weakness in management of the PEPFAR program.

As noted in Finding 2, the individual agencies, except for CDC and DoD, are obtaining appropriate financial reports from recipients together with audits, as required by OMB Circular A-133. Oversight of award recipients by CDC and DoD is addressed in Recommendations 4 and 5, respectively.

Acronyms

| | |
|--------|---|
| CDC | Centers for Disease Control and Prevention |
| DoD | Department of Defense |
| DOL | Department of Labor |
| FDA | Food and Drug Administration |
| FISC | Fleet Industrial Supply Center |
| GHAJ | Global HIV/AIDS Initiative |
| GHCS | Global Health and Child Survival |
| HHS | Department of Health and Human Services |
| HRSA | Health Resources and Services Administration |
| ILO | International Labour Organization |
| NHRC | Navy Health Research Center |
| NIH | National Institutes of Health |
| OGAC | Office of the U.S. General AIDS Coordinator |
| OIG | Office of Inspector General |
| PEPFAR | President's Emergency Plan for AIDS Relief |
| SAMHSA | Substance Abuse and Mental Health Services Administration |
| STARS | Standard Accounting and Reporting System |
| UNAIDS | Joint United Nations Program on HIV/AIDS |
| WRAIR | Walter Reed Army Institute of Research |

Scope and Methodology

We conducted this performance audit from July 2009 to August 2010 in accordance with standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Since the primary nature of the audit was to assess internal controls, the scope of the audit encompassed recent activity of President's Emergency Plan for AIDS Relief (PEPFAR) funds for FYs 2007 and 2008 and included the following actions:

- Compared the actual flow of funds with the information on the funds presented in the annual PEPFAR Operational Plan and related summary data that the Office of the U.S. Global Aids Coordinator (OGAC) prepares and distributes externally in order to independently determine consistency with reported funding allocations and/or uses to the extent feasible.
- Reviewed the financial reporting from the ultimate point of obligation and outlay back through the financial records of the implementing agencies to OGAC and to quarterly obligation and outlay reports submitted by OGAC to Congress.
- Identified the current internal controls/oversight used by OGAC and implementing agencies, including annual financial audits of PEPFAR recipient entities; performance audits; interagency portfolio/pipeline reviews; and other reviews directed by PEPFAR, the Office of Inspector General (OIG), agency management, or external stakeholders such as Congress and the Government Accountability Office (GAO).

Our audit included the following procedures:

- Obtained an understanding of the process by which decisions regarding allocations of funds to the recipient departments/agencies (for example, the United States Agency for International Development (USAID), the Department of Health and Human Services (HHS), the Department of State, and the Department of Defense (DoD)) are made (if not mandated by individual appropriations).
- Obtained an understanding of the process used by OGAC to gather and/or develop the financial data presented in its quarterly Summary Financial Status Reports (obligation and outlay reporting).
- Validated the processes as represented by tracking data presented in the most recent quarterly report to supporting documentation.

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- Assessed the reliability and credibility of the source documentation and the extent to which the documentation might be used to track the flow of allotments downward to the point of obligation and to track actual disbursements.
- Determined whether all PEPFAR funds received by the Department of State during FYs 2007 and 2008 originated via appropriated funds.
- Determined what specific funds within the Department of State financial statement structure are used to record PEPFAR activity.
- Traced debit entries to Fund Balance with Treasury in the identified PEPFAR funds to appropriation warrants or notifications of funds transferred in, by fiscal year for 2007 and 2008, and identified and investigated any discrepancies.
- Obtained copies of documents transferring PEPFAR funds from the Department of State to other implementing agencies by fiscal year.
- Obtained copies of allotments of PEPFAR funds within the Department of State by fiscal year.

United States Agency for International Development, the Department of Health and Human Services, the Department of Defense, the Department of Labor, and the Peace Corps

- Ensured, to the extent possible, that the amounts identified as transferred from the Department of State to recipient agencies (USAID, HHS, DoD, the Department of Labor (DOL), and the Peace Corps) agreed with amounts reported as nonexpenditure transfers on Standard Form 133, Report on Budget Execution and Budgetary Resources, submitted to the Department of State.
- Obtained an understanding of the processes used by these recipients at the department level to control allotment of PEPFAR funds and the related reporting of obligations and disbursements.
- Identified the entities and amounts within these departments to which PEPFAR funds were allotted (and suballotted) by year.
- At each entity/component that obligates PEPFAR funds to external entities, obtained an understanding of the controls used to evaluate the financial responsibility and program viability of potential PEPFAR fund award recipients.
- Obtained an understanding at each entity of the controls used to assess programmatic progress by the awardee and ensured that funds disbursed to the awardee were used for activities in the approved program/project. We specifically determined whether the awarding entity requires and obtains copies of audits of the costs incurred by the awardee under its PEPFAR funds.
- Selectively sampled awards made during the period of FYs 2007 and 2008 and reviewed available documentation to assess the effectiveness of post-award controls over PEPFAR funds.
- At these same entities, obtained an understanding of the process used to report obligations and expenditures of funds to the next higher level.

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- Selectively sampled reports of obligations and expenditures (outlays) during the period of FYs 2007 and 2008 and reviewed available documentation to assess the reliability of the reported amounts. Assessed whether actual expenditures reasonably approximated amounts budgeted (obligated).
- Reviewed the department's/agency's cycle memoranda and related tests prepared as required by Appendix A to Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, and determined whether the controls identified and tested are sufficient to be relied upon for purposes of attesting to obligations and disbursements reported on PEPFAR funds.
- Obtained an understanding of the processes used to report obligations and expenditures of PEPFAR funds to the next higher level.

Global Fund/Joint United Nations Program on HIV/AIDS

- Determined whether the recipient of funds identified as transferred to “Global Fund/UNAIDS (United Nations Program on HIV/AIDS UNAIDS)” is the Global Fund or UNAIDS.
- Determined whether OGAC considers funds allotted to Global Fund/UNAIDS as obligated at that point or whether OGAC requires Global Fund/UNAIDS to report in a manner similar to that of a Federal agency (that is, allotments, obligations, and disbursements).
- Obtained an understanding of the controls used to assess programmatic progresses by the awardee and ensured that funds disbursed to the awardee were used for activities in the approved program/project. Specifically determined whether the awarding entity requires and obtains copies of audits of the costs incurred by the awardee under its PEPFAR funds.

Department of State

- Obtained an understanding of the processes used by the Department of State to control allotment of PEPFAR funds and the related reporting of obligations and disbursements.
- Validated the processes as represented and assessed the reliability and credibility of the source documentation and the extent to which it might be used to track the flow of allotments down to the point of obligation and to track actual disbursements.
- Segregated the individual allotments as between those used internally within the Department of State (for example, for administration) and those awarded to external entities.

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Appendix B

Office of the U.S. Global AIDS Coordinator Response

From:
Sent: Monday, October 18, 2010 5:42 PM
To: (OIG)
Cc: (OIG);
Subject: Darft report of sources and uses of PEPFAR funds
Attachments: 2010-10-18 PEPFAR OIG comments_OGAC10182010.doc; PEPFAR OIG comments_CDC.DOCX; 2010-10-18 PEPFAR OIG comments_DoD-FINAL.DOCX

Thank you very much for the opportunity to provide comments on the draft report. We did find the report helpful and will utilize it to improve overall internal control. As per our response to your recommendations, you will note that we have already taken steps to address many of the issues raised by your report and do accept all of the recommendations.

We do have concern with the wording on several sections of the report that we believe should be changed before the report is made final.

The Executive Summary makes some general statements which we believe may be strengthened by adding some clarifying remarks in this section. For example, the third finding regarding timely obligations of funds by implementing agencies applies to DoD, and we would request that the finding be changed to note that it applies to that agency. Similarly, the fourth finding pertains to CDC only, and we would ask that the finding be clarified to note that it pertains to a single agency. [DoD and CDC comments are attached with this report as well. Based on the nature of the report findings we wanted to give them an opportunity to respond directly]

Specific comments on the report, recommendations, and finding are enclosed.

Once again, thank you for the opportunity to comment.

Please let me know if you would like to discuss any of our comments before the report is made final.

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(b) (6)
Office of the Global AIDS Coordinator
Department of State
(b) (6)

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This e-mail is UNCLASSIFIED based upon the definitions provided in E.O. 13526.

From:
Sent: Tuesday, September 28, 2010 9:29 AM
To:
Cc: Meade, Regina (OIG)
Subject: RE: Darft report of sources and uses of PEPFAR funds

Good Morning,

We have approved your request.

Office of the Inspector General, Office of Audits

From:
Sent: Tuesday, September 28, 2010 9:24 AM
To:
Cc:
Subject: Darft report of sources and uses of PEPFAR funds

Request extension to October 18, to respond to draft report. We are in the process of reviewing the findings and recommendations internally at OGAC, but are also allowing two of the partner agencies to review and provide us comments on the recommendations. The agencies have asked to be authorized additional time as the people required to review the report are also critical to the fiscal year end closing process.

Appreciate your consideration of the request.

If you need to discuss please let me know.

.....
.....
Office of the Global AIDS Coordinator
Department of State
.....

This e-mail is UNCLASSIFIED based upon the definitions provided in E.O. 13526.

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**Comments of the Office Global AIDS Coordinator (OGAC) on the
DEPARTMENT OF STATE'S DIRECTED AUDIT ENTITLED "AUDIT OF SOURCES
AND USES OF GLOBAL HIV/AIDS INITIATIVE GLOBAL HEALTH AND CHILD
SURVIVAL FUNDS RELATED TO THE PRESIDENT'S EMERGENCY PLAN FOR
AIDS RELIEF (PEPFAR) FOR FISCAL YEARS 2007 AND 2008"**

Steps Taken to Date

We agree with the recommendations you listed in the report and have already taken steps to address many of the issues raised. Below is a brief summary of the steps we have either already taken or are in the process of implementing to ensure the internal controls are in place that will eliminate these findings in the future.

Recommendation #1

Reconciliation of the SF 133: OGAC is currently in the process of reviewing the reporting format associated with the reconciliation of the SF133 and is exploring options to make the process of reconciliation more effective. We have a meeting scheduled this month (October 2010) with all agencies to introduce the changes and to ensure that each agency will be able to effectively perform the reconciliation with the proposed new format.

Recommendation #2 and #3

In the past few months, OGAC has taken steps to increase both the timely receipt and obligation of funds. OGAC has developed a new FY11 financial calendar in which all appropriated funds will be notified to Congress and transferred to the Agencies by mid-April of the appropriate fiscal year. This process will provide for the maximum time possible for each agency to receive their funds and ensure they are obligated in the same fiscal year in which they appropriated. This new approach has been briefed and agreed upon by all levels of management in the PEPFAR program and has already begun to be implemented. The first CN of FY11 has already gone through the initial clearance process, which is an improvement over the obligation cycle in FY07/08. In addition, the Management and Budget staff at OGAC are working with each agency to identify improvements that can be made to agency internal processes that will allow for a more streamlined and effective obligation and/or transfer of funds to the country teams for execution.

Recommendation #4

Please see attached detailed plan of action from CDC regarding process improvements to ensure better internal control of grants. OGAC is currently in the process of establishing a follow up plan to ensure each of the actions steps are being implemented on a regular basis.

Recommendation #5

Please see attached DoD response. Both OGAC and DoD agree with the need for improvements in the execution and documentation standards. DoD has provided comments as they relate to the

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audit. OGAC will be working with DoD to implement the recommendation. There have been many process improvements since this audit as described in the DoD response.

Recommendation #6

All funds issued to the regional bureaus are based upon approved COP submissions. In most cases, the regional bureaus act as a conduit to transfer the funds to the in-country post. OGAC will spearhead an annual process to ensure that all funds issued to the regional bureaus are utilized for their intended purpose. We envision this process as a joint effort between OGAC, the regional bureau, and the PEPFAR country coordinator.

OGAC Concerns and Clarifications

Below are general comments that should be reviewed before the document is made final.

1. Finding 2: Funds not always received timely

- a. There are statements in the paragraph that are incorrect.
 - i. The statement “Instead, funds are distributed generally around April of each year, and any funds that are unobligated by September 30 cannot be used by the recipient agency”:
 1. The statement is incorrect. GHCS-State is a no-year appropriation, and these funds do not expire. Recipient agencies can carryover their unobligated balances into following fiscal years to be obligated in subsequent quarters.
 - ii. The statement “...the inability to obligate funds during a period approximating the first 6 months of each fiscal year, hampers program continuity”:
 1. The statement does not take into account the early funding process, which generally allows funds to programs within 3 months of the new fiscal year. In addition, no-year money enables agencies to continue to obligate prior year money.
 2. Under a Continuing Resolution (CR), funding can only be notified and transferred up to the amounts under the CR. In recent years, the appropriations law has not been passed until late first quarter or into 2nd quarter of the fiscal year.

2. Finding 3: PEPFAR Funds Not Always Obligated Timely

- a. As addressed in our cover letter, we would hope that in the Executive Summary, this finding might be clarified to note that it pertains primarily to DoD

GENERAL COMMENTS OF THE CENTERS FOR DISEASE CONTROL AND PREVENTION (CDC) ON THE DEPARTMENT OF STATE'S DIRECTED AUDIT ENTITLED "AUDIT OF SOURCES AND USES OF GLOBAL HIV/AIDS INITIATIVE GLOBAL HEALTH AND CHILD SURVIVAL FUNDS RELATED TO THE PRESIDENT'S EMERGENCY PLAN FOR AIDS RELIEF (PEPFAR) FOR FISCAL YEARS 2007 AND 2008".

The CDC wishes to thank the Department of State for the opportunity to review and comment on this Draft Report. CDC generally concurs with the report recommendations and respectfully submits the following general comments and immediate corrective actions in light of the findings (CDC does not have any technical comments at this time).

General comments

With over 600 active awards issued in over 64 countries worldwide, of which approximately 450 awards support PEPFAR activities, CDC takes a pro-active approach to oversight of international recipients. Our approach has relied on a system of checks and balances listed below which provide for an overall set of internal controls that are substantial. Management and oversight of these funds will be further strengthened through the specific actions detailed below in response to the audit findings.

(1) Pre-Award Financial Reviews of Recipients

Currently, the Department of Health and Human Services (HHS) policy does not require a formal pre-award audit to be conducted prior to award. However, it is HHS policy for the Grants Management Officer (GMO) to determine the adequacy of a grantee's financial and business management systems. Therefore at CDC, the GMO is engaged in the following activities or relies on the following elements:

- Review of the Excluded Parties List System (EPLS) prior to award to ensure the grantee is not suspended or debarred from receiving USG funds.
- Grantee self-certification on the assurance document (SF 424B) submitted with the application certifying the organization has an adequate accounting system.
- Inclusion of an Administrative Requirement in the Funding Opportunity Announcement requiring the recipient to retain the services of a licensed certified public accountant or equivalent throughout the project period as a staff member or consultant to the recipient's accounting personnel and allowing for on-site evaluation prior to or immediately following the award.
- Review of the budget application to ensure the proposed budget expenses are necessary, reasonable, allowable, and allocable for the proposed activities being conducted under the award.

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- Conduct budget discussions with the grantee prior to the award of the agreement to ensure that proposed costs by the grantee are fair and reasonable.
- Information provided by CDC program officials familiar with the grantee. These officials are in-country and will alert the GMO if concerns arise regarding the grantee's financial controls or performance.

(2) Documentation for Determination of Adequate Recipient Accounting Systems

The GMO's determination of the adequacy of a grantee's accounting system is documented on the "New Awards and Continuation Cost Analysis Checklist". The GMO is required to complete a checkbox (yes, no, or n/a) signifying if the organization has an accounting system adequate to account for federal funds, and to explain in the comments section of the form how that determination was made. To date this determination has been made based on the criteria listed in Section 1.

(3) Audits of Recipients

Independent audits are required to be obtained by the recipient in accordance with the terms and condition of the award. The audit report is reviewed by the HHS OIG, and findings are sent to CDC for resolution. The CDC Procurement and Grant Office (PGO)/Office of Policy, Oversight, and Evaluation (OPOE) maintains a record of audits, tracks and resolves findings, and reports audit resolution to the HHS OIG.

Of the 25 grants reviewed, OPOE records show that 13 had obtained audits, two were not subject to audit, and 10 did not have documentation that an audit was received.

(4) File Documentation

The certification of funds availability is an electronic process required by our grants awarding system before obligation of an award can occur. CDC relies on this electronic process as the official funds certification for the grant award.

As CDC's official federal record, all grant files should maintain a copy of file checklists, financial status reports, and pertinent documentation that provides assurance to internal and external customers that CDC has strong, grant management controls over financial reporting, operations and compliance-related activities.

Immediate Corrective Actions

CDC Actions to Strengthen Internal Controls

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As a result of the findings and recommendations contained in this and other recent reports related to grants management, CDC is committed to immediately strengthening its internal controls.

- (a) CDC will dedicate additional staff to ensure receipt of recipient audit reports, report review, and resolution of audit findings for its global health grantees.
- (b) CDC will conduct a 100% comprehensive quality control review of its 600 active international cooperative agreements immediately to ensure that all regulatory pre-award and post-award actions are completed fully and timely to include the requisite file documentation. This review will include areas such as financial responsibility determinations, quality of cost analysis reviews and grantee compliance with reporting requirements. If any weaknesses are identified other than those contained in this report, they will be addressed through policy and training as needed.
- (c) CDC is exploring the viability of conducting pre-award audits for those recipients identified as high risk and to provide technical assistance in resolving any audit findings identified as a result of these audits or other assessments (such as the development of adequate business systems related to procurement, financial reporting, and property).
- (d) CDC will update training curriculum to emphasize financial and audit requirements.
- (e) CDC will issue a questionnaire to our foreign recipients for the purpose of better identifying those recipients that need technical assistance with their accounting systems.
- (f) CDC will provide policy and training to its grants management staff to emphasize the collection, analysis and resolution of audit comments.
- (g) CDC will put additional controls in place to ensure that cooperative agreement files contain the requisite audit or documentation as to audit status.
- (h) CDC will plan its FY 11 schedule of international grants management site visits for technical assistance and training in a manner that maximizes financial and audit resolution issues.

Department of Defense Comments

The following comments are provided to address observed discrepancies in the report titled “Audit of Sources and Uses of the Global HIV/AIDS Initiative, Global Health and Child Survival Funds Related to the President’s Emergency Plan for AIDS Relief (PEPFAR) for FYs 2007 and 2008” dated September 2010. These comments specifically address the section for the Department of Defense.

1. Response to entire DoD section of the report: All comments about DoD in the audit should refer to DHAPP. The auditors do not correctly present the DoD organization with respect to the Department’s participation in global HIV/AIDS activities and the PEPFAR program. The Secretary of Defense, through DoD Directive 6485.02E (Nov 7, 2006), established the DoD HIV/AIDS Prevention Program (DHAPP) to manage, oversee, and implement global HIV activities with foreign militaries. The DHAPP has the designated authority and responsibility for the use of GHAI and GHCS funds within the Department. As such the auditors should be referring all comments about the DoD implementation to DHAPP, and not to specific activities (Commands) within the DoD. By addressing just two of the DHAPP activities (NHRC and WRAIR) the auditors leave out several others which are critical components of the Program’s execution. It appears that the auditors did not review key organizations such as the Fleet Industrial Supply Centers (FISC) in San Diego or Naples or Yokosuka, or the Naval Facilities Engineering Command (NAVFAC), or the six Geographic Combatant Commands, or others. The significance of this oversight is that these activities are also the organizations actually disbursing funds on behalf of DHAPP. The two organizations that the auditors do comment on (NHRC and WRAIR), play critical, but only partial roles in the execution of funds.
2. Response to the first two bulleted conditions observed for DoD organizations: A portion of the funds executed under the direction of DHAPP are obligated and disbursed at State Department Posts. There is no requirement for DoD to maintain State Department Post’s records, and in the past, external auditors relied on SAS 70, which allows them access to Post’s financial records. While DHAPP does actively collect and track Post’s financial transaction records out of a responsibility for the proper execution of the Program, it is not our role to provide those records to external auditors. Since the tracking of obligations and disbursements is also handled by Posts, it is impossible to get a complete picture of the internal controls that are maintained over the use of GHAI/GHCS funds without including Posts. The audit did not review the processes at State Department Posts which support DoD in PEPFAR, which lead to incomplete conclusions.

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The conditions noted in the first two bullets are only applicable to the portion of funds that DHAPP executes through the Posts. However, the majority of all funds directed by DHAPP are executed by several internal DoD activities (FISCs, NAVFAC, etc). In the case of these internal DoD disbursements, all obligations are approved and recorded prior to any disbursement of funds. This is different than the process that occurs when the funds are executed by Posts, to which the auditors are referring. The Posts obligate, disburse, and track funds under the direction and approval of DHAPP headquarters. DHAPP HQ provides Posts with accounting data and specific Statements of Work for the use of these funds. Posts then make procurements, pay salaries, and award contracts using these lines of accounting. Obligations occur first, then disbursements take place, followed by tracking, and reporting of obligations and disbursements back to DHAPP HQ. These reports are then entered back into the DHAPP HQ financial system (DHAPP Central) and also into the NHRC STARS financial system for summarization and reporting as required by OGAC. Additional internal controls of this process have been instituted by DHAPP HQ since the audit took place, such as, DHAPP HQ now has direct access to the VADR system to ensure more real time tracking of obligations and disbursements of GHAI/GHCS funds at Posts. While DHAPP HQ feels that there is internal control of all funds executed totally within DoD activities, it is recognized that with the small portion of funds that are executed by Post, the timing of obligations being recorded in our DHAPP HQ system (versus Posts) could be improved and we are working to eliminate the lag time of that situation.

3. Response to recommendation #5: DHAPP does currently, and did in FY-2007/2008, maintain full and complete records in accordance with generally accepted US Government accounting principles. When DoD established DHAPP to respond to PEPFAR, the Department recognized the need to effectively execute this program around the world. DHAPP has establish a worldwide network of internal controls and complete record keeping, the appropriate audit of which, would require assessments in more than just Washington DC and San Diego CA.

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