

HEALTH ALLIANCE INTERNATIONAL

Financial Statements and Independent Auditors' Report
with Single Audit Reports

December 31, 2009

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Independent Auditors' Report***To the Board of Directors
Health Alliance International***Certified Public
Accountants
and Consultants

We have audited the accompanying statement of financial position of Health Alliance International (HAI) as of December 31, 2009, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of HAI's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year information has been derived from HAI's 2008 financial statements, which were audited by other auditors and whose report, dated June 25, 2009, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HAI as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants
August 6, 2010

HEALTH ALLIANCE INTERNATIONAL

Statements of Financial Position

December 31, 2009 and 2008

Assets	<u>2009</u>	<u>2008</u>
Cash	\$ 2,132,850	\$ 1,496,520
Grants receivable	597,863	803,009
Other receivables	171,815	32,922
Prepaid expenses and deposits	387,639	109,181
Property and equipment, net	<u>1,079,034</u>	<u>825,858</u>
Total Assets	<u>\$ 4,369,201</u>	<u>\$ 3,267,490</u>
 Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 860,712	\$ 580,858
Accrued liabilities	1,902,059	1,423,495
Loan payable	10,399	29,751
Deferred grant revenue	724,536	463,050
Deferred rent	<u>36,233</u>	<u>37,100</u>
Total Liabilities	3,533,939	2,534,254
 Net Assets:		
Unrestricted net assets	<u>835,262</u>	<u>733,236</u>
Total Net Assets	<u>835,262</u>	<u>733,236</u>
Total Liabilities and Net Assets	<u>\$ 4,369,201</u>	<u>\$ 3,267,490</u>

HEALTH ALLIANCE INTERNATIONAL

Statements of Activities

For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenues:		
Federal grants:		
Direct grants	\$ 18,539,264	\$ 15,779,594
Subcontracts	<u>1,052,565</u>	<u>458,821</u>
Total federal grants	19,591,829	16,238,415
Other revenue:		
Cost-sharing	940,913	1,654,415
World Bank grant		686,692
Other grants	579,488	428,867
Interest and other income	<u>23,288</u>	<u>47,132</u>
Total other revenue	1,543,689	2,817,106
Total Unrestricted Revenue	21,135,518	19,055,521
Expenses:		
Salaries and benefits	6,622,419	4,951,321
Other direct costs	4,197,890	3,566,089
Indirect costs	2,850,122	2,082,400
Participant training, monitoring and evaluation, research studies	1,823,162	1,754,350
Equipment and supplies	2,687,602	3,769,238
Cost-sharing expenses	945,327	1,580,963
Travel and transportation	982,902	727,510
Employee allowances	656,405	464,928
Depreciation	258,829	226,219
Other expenses	<u>8,834</u>	<u>21,555</u>
Total Expenses	21,033,492	19,144,573
Change in Unrestricted Net Assets	102,026	(89,052)
Net assets, beginning of year	<u>733,236</u>	<u>822,288</u>
Net Assets, End of Year	<u>\$ 835,262</u>	<u>\$ 733,236</u>

See accompanying notes to the financial statements.

HEALTH ALLIANCE INTERNATIONAL

Statements of Cash Flows

For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities:		
Change in unrestricted net assets	\$ 102,026	\$ (89,052)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	258,829	226,219
Donated vehicles		(76,308)
Changes in assets and liabilities:		
Grants receivable	205,146	(626,452)
Other receivables	(138,893)	14,694
Prepaid expenses and deposits	(278,458)	(20,452)
Accounts payable	216,315	101,011
Accrued liabilities	478,564	632,196
Deferred grant revenue	261,486	(689,248)
Deferred rent	(867)	5,000
	<u>1,104,148</u>	<u>(522,392)</u>
Net Cash Provided (Used) by Operating Activities	1,104,148	(522,392)
Cash Flows from Investing Activities:		
Purchases of furniture and equipment	(448,466)	(134,962)
	<u>(448,466)</u>	<u>(134,962)</u>
Net Cash Used by Investing Activities	(448,466)	(134,962)
Cash Flows from Financing Activities:		
Net repayment on loan payable	(19,352)	(17,569)
	<u>(19,352)</u>	<u>(17,569)</u>
Net Cash Used by Financing Activities	(19,352)	(17,569)
Change in Cash	636,330	(674,923)
Cash balance, beginning of year	1,496,520	2,171,443
	<u>1,496,520</u>	<u>2,171,443</u>
Cash Balance, End of Year	<u>\$ 2,132,850</u>	<u>\$ 1,496,520</u>
Non-Cash Investing and Financing Activities		
Donated vehicles	\$ -	\$ 76,308
Property and equipment costs incurred reflected in accounts payable	\$ 63,539	\$ -

See accompanying notes to the financial statements.

HEALTH ALLIANCE INTERNATIONAL

Notes to Financial Statements

Note 1 - Description of Operations and Significant Accounting Policies

Health Alliance International (HAI) is a not-for-profit organization whose mission is to improve the health and welfare of underserved peoples and work toward the equitable delivery of health services worldwide. Activities of HAI are realized collaboratively with international and domestic counterparts and include current operations in Mozambique, East Timor, Ivory Coast and Sudan. Emphasis is placed on partnership, technical exchange, and fostering self-sufficiency through training, assessment, implementation, and evaluation of health-related programs. A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Basis of Presentation - HAI's financial statements have been prepared on the accrual basis of accounting. Net assets, revenues, expenses and gains and losses are classified based on the existence or absence of donor-imposed restrictions. All activities of HAI are currently considered unrestricted.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that could affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents - HAI considers all highly liquid short-term investments with a maturity of three months or less to be cash equivalents. All cash accounts held in foreign countries at December 31, 2009 and 2008 have been translated at the exchange rates prevailing at that date. Amounts transferred to and disbursed in foreign countries are translated for financial statement purposes at the exchange rate prevailing at the date of the transfer. There were no cash equivalents at December 31, 2009 and 2008.

Cash held in foreign currency totaled \$437,943 and \$221,843 at December 31, 2009 and 2008.

Grants Receivable and Deferred Grant Revenue - Grants receivable are recorded for amounts due to HAI for expenses of reimbursable activities conducted in accordance with the provisions of HAI cost-reimbursement grant contracts. No allowance for uncollectible balances has been deemed necessary by management based upon HAI's historical experience in the collection of balances due and the nature of the receivables. Deferred grant revenue is recorded for advances of grant funds in excess of expenses incurred for the reimbursable grant activities.

Other Receivables - Other receivables are recorded for staff travel advances outstanding and credits due from outside vendors. Staff travel advances are resolved within a month of the advance.

Property and Equipment - Property and equipment is recorded at cost if purchased or fair value if contributed. All acquisitions in excess of \$5,000 with an estimated use exceeding one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of five to seven years. Title to all property and equipment acquired under the U.S. Agency for International Development (U.S. AID) grants vests with HAI, subject to certain use and disposition terms specified by U.S. AID. The majority of HAI's property and equipment are held outside the United States of America.

Revenue Recognition - Revenue is recognized for cost-reimbursement grants as expenses are incurred in accordance with the provisions of the grant.

HEALTH ALLIANCE INTERNATIONAL

Notes to Financial Statements

Note 1 - Continued

Interest and Other Income - Interest and other income, consisting of income earned on the cash accounts and other revenue, are recorded as earned. When stipulated by grant terms, unexpended interest and other income are retained in a designated fund, returned to the grantor, or applied to the purpose of the grant. When not stipulated by the terms of the grant, management has concluded that interest and other income are available for current operations.

Income Tax - The IRS has determined that HAI is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). As such, it is subject to income taxes only on unrelated business income. During the years ended December 31, 2009 and 2008, HAI had no unrelated business income and accordingly, no provision for federal income taxes has been reported in the accompanying financial statements.

Expense Allocation - Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. HAI's expenses are presented in the statement of activities using natural classification categories consistent with the management and monitoring of HAI grants.

Concentrations of Credit Risk - HAI maintains cash balances with financial institutions that exceed federally insured limits, which potentially subject HAI to concentration of credit risk. HAI has not experienced any losses related to these balances and believes that there is minimal credit risk.

For the year ended December 31, 2009, approximately 89% of HAI's total revenue and approximately 96% of grants receivable were from one funding source. For the year ended December 31, 2008, approximately 84% of HAI's total revenue and approximately 88% of grants receivable were from one funding source.

Subsequent Events - HAI has evaluated subsequent events through August 6, 2010, the date on which the financial statements were available to be issued.

Note 2 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2009</u>	<u>2008</u>
Property and office equipment	\$ 121,341	\$ 105,011
Software and computer equipment	5,614	5,614
Vehicles	1,734,376	1,340,156
Software development costs	<u>315,445</u>	<u>213,989</u>
	2,176,776	1,664,770
Less accumulated depreciation	<u>1,097,742</u>	<u>838,912</u>
	<u>\$ 1,079,034</u>	<u>\$ 825,858</u>

Included in property and equipment are three vehicles donated to HAI by UNICEF during 2008. HAI did not receive any property or equipment donations in 2009.

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Notes to Financial Statements

Note 3 - Accrued Liabilities

Accrued liabilities consist of the following at December 31:

	<u>2009</u>	<u>2008</u>
Salaries and wages	\$ 363,396	\$ 192,785
Vacation	325,679	282,461
Mozambique severance	<u>1,212,984</u>	<u>948,249</u>
	<u>\$ 1,902,059</u>	<u>\$ 1,423,495</u>

Under Mozambique labor laws, severance is required to be paid by HAI to employees upon termination based on length of service. HAI has accrued for such severance costs as of December 31, 2009 and 2008.

Note 4 - Line of Credit

HAI has a line of credit agreement with a bank. HAI can borrow up to \$100,000 at an interest rate of 9.75%. The line of credit is collateralized by the assets of HAI. There was no outstanding balance at December 31, 2009 or 2008.

Note 5 - Commitments

HAI signed a five year lease on November 1, 2007 for property located in Seattle, Washington to serve as HAI's headquarters office. Future minimum annual rental payments for this space for the years ended December 31 are as follows:

2010	\$ 110,000
2011	116,000
2012	<u>101,000</u>
	<u>\$ 327,000</u>

HAI received rent abatement and lease incentive considerations, which are recorded as deferred rent. HAI recognizes that amount on a straight line basis over the life of the lease. Rental expense for each of the years ended December 31, 2009 and 2008 was \$102,000.

HAI is in the process of upgrading its computer programs and systems. HAI capitalized the costs incurred in 2009 and 2008 for the system to be installed in 2010. A portion of the software costs were financed with a three year loan with interest at 9.7% and maturing in June 2010. Interest paid on the loan in the amount of \$2,040 was capitalized in 2009. The current portion of the loan payable of \$10,399 will be paid in 2010.

HAI has entered into a vendor agreement with the University of Washington (UW) whereby the UW provides personnel, services, and office supplies. For the years ended December 31, 2009 and 2008, expenses totaling \$2,461,000 and \$1,596,000 were incurred under this agreement. At December 31, 2009 and 2008, \$691,000 and \$513,000 were due to UW under this contract and were included in accounts payable. One of the board members of HAI is a faculty member of the UW.

HEALTH ALLIANCE INTERNATIONAL

Notes to Financial Statements

Note 6 - Functional Expenses

HAI's functional expenses consist of the following for the years ended December 31:

	<u>2009</u>	<u>2008</u>
Program Services		
President's Emergency Plan for AIDS Relief in Mozambique	\$ 16,140,486	\$ 15,106,269
Child Spacing Program - East Timor	514,724	260,966
Rapid Expansion of Human Immunodeficiency Virus Treatment in Cote d'Ivoire	363,380	40,713
Rapid Scale Up for HIV Care and Treatment Services in Northeastern Cote d'Ivoire	208,231	
Rapid Assessment of Orphans and Vulnerable Children in Sudan	186,813	28,814
Child Survival Project - East Timor	136,552	310,304
Malaria Control and Evaluation Partnership in Africa	134,817	
Doris Duke Foundation Population Health Implementation and Training	79,951	
African Health Initiative Population Health Implementation Training Partnership Planning Grant	67,248	30,139
Voluntary Counseling & Testing and Antiretroviral Treatment Supervision, Technical Assistance in Sudan	47,059	5,645
Pentecostalism & Utilization of Human Immunodeficiency Virus/ AIDS Treatment Services	26,799	78,666
Population Leadership Program contract to support training in Sudan	6,385	18,820
Reservoirs of Drug Resistant Human Immunodeficiency Virus-1	3,701	37,622
East Timor Maternal Health Project	954	2,855
Treatment Acceleration Program		549,353
Support for Prevention of Mother to Child Transmission Project in Cote d'Ivoire		223,780
Highly Active Antiretroviral Treatment Delivery Models Study		112,800
Technical Excellence for National Health Project		5,999
Technical Support for Sudan Human Immunodeficiency Virus/ AIDS Services		<u>3,060</u>
	<u>17,917,100</u>	<u>16,815,805</u>
Support Services - Management and General	<u>3,116,392</u>	<u>2,328,768</u>
	<u>\$ 21,033,492</u>	<u>\$ 19,144,573</u>

Note 7 - Contingencies and Concentrations

Granting Agencies - Expenses incurred under the grant programs are subject to audit by the granting agencies. If, as a result of such audit, certain expenses incurred are determined to be nonreimbursable, HAI may be liable for repayment of disallowed expenses previously claimed or received.

SCHEDULES AND REPORTS REQUIRED UNDER OMB CIRCULAR A-133

***Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with Government Auditing Standards***

***Board of Directors
Health Alliance International
Seattle, Washington***

We have audited the financial statements of Health Alliance International (HAI) as of and for the year ended December 31, 2009, and have issued our report thereon dated August 6, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered HAI's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HAI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of HAI's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (item 2009-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HAI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CLARK NUBER

HAI's responses to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit HAI's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public
Accountants
and Consultants



Certified Public Accountants
August 6, 2010

***Report on Compliance with Requirements
Applicable to Each Major Program and on
Internal Control over Compliance in
Accordance with OMB Circular A-133***

***Board of Directors
Health Alliance International
Seattle, Washington***

Compliance

We have audited the compliance of Health Alliance International (HAI) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. HAI's major federal programs are identified in the summary of auditor results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of HAI's management. Our responsibility is to express an opinion on the HAI's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about HAI's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of HAI's compliance with those requirements.

In our opinion, HAI complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2009-2, 2009-3 and 2009-4.

Internal Control over Compliance

Management of HAI is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered HAI's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HAI's internal control over compliance.

CLARK NUBER

Certified Public
Accountants
and Consultants

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2009-2, 2009-3 and 2009-4. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

HAI's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit HAI's response and, accordingly, express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of HAI as of and for the year ended December 31, 2009, and have issued our report thereon dated August 6, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies, and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants
August 6, 2010

HEALTH ALLIANCE INTERNATIONAL

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2009**

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Agreement Number</u>	<u>Federal Expenditures</u>
U.S. Agency for International Development (U.S. AID), U.S. AID Foreign Assistance for Programs Overseas:			
PEPFAR	98.001	656-A-00-04-00021-00	\$ 18,162,307
East Timor Child Survival and Health Grants Program	98.001	GHS-A-00-04-00022	134,401
Direct U.S. AID Sub-total			<u>18,296,708</u>
Passed through World Learning Promoting Community Demand for Child Spacing in Timor-Leste	98.001	GSM-004	599,571
Passed through U.S. AID Sub-total			<u>599,571</u>
Total U.S. AID and Foreign Assistance for Programs Overseas (CFDA #98.001)			18,896,279
Department of Health and Human Services, Centers for Disease Control and Prevention (CDC):			
Rapid Scale up for HIV Care and Treatment Services in Northeastern Cote d'Ivoire	93.067	1U2GPS001619-01	242,556
Direct CDC Sub-total			<u>242,556</u>
Passed through the Elizabeth Glaser Pediatric AIDS Foundation Rapid Expansion of Integrated HIV Care and Treatment	93.283	CA-05-9-140-01577-2	417,613
Passed through CDC Sub-total			<u>417,613</u>
Total CDC			660,169
National Institutes of Health (NIH):			
Passed through Children's Hospital and Regional Medical Center Reservoirs of Drug-Resistant HIV-1	93.856	1 R01 AI058723-01A2	4,294
Passed through University of Washington Pentecostalism & Utilization of HIV/AIDS Treatment Services in Central Mozambique	93.864	1 R21 HD055841-01	31,087
Passed through NIH Sub-total			<u>35,381</u>
Total U.S. Department of Health and Human Services			<u>695,550</u>
Total Federal Expenditures			<u>\$ 19,591,829</u>

HEALTH ALLIANCE INTERNATIONAL

Note to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Health Alliance International and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

HEALTH ALLIANCE INTERNATIONAL

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified Yes No
- Significant deficiency(s) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified Yes No
- Significant deficiency(s) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of Major Programs:

CFDA Numbers

98.001

Name of Federal Program or Cluster

U.S. AID Foreign Assistance for Programs Overseas

Dollar threshold used to distinguish between Type A and Type B programs:

\$587,755

Auditee qualified as low-risk auditee:

Yes No

HEALTH ALLIANCE INTERNATIONAL

***Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009***

Section II - Financial Statement Findings

FINDING 2009-1

MATERIAL WEAKNESS IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Criteria

Accrual basis accounting requires showing deposits paid in advance of incurring expenses as assets rather than expenses.

Condition and Context

During our audit, we noted several deposits made to construction contractors at the beginning of construction projects in Mozambique. These deposits were not booked in accordance with generally accepted accounting principles (GAAP), and were instead booked as expenses during 2009 although the construction work did not take place until after year end. An adjusting journal entry was made resulting in a decrease in expense and an increase in prepaid expense of \$124,824.

Cause

Staff that were recording and approving disbursements in field offices did not have adequate understanding of accrual basis accounting in regards to construction advances disbursed.

Effect

Before an adjusting journal entry was made, the financial statements were materially misstated.

Recommendation

All disbursements should be scrutinized for proper GAAP accounting treatment.

Views of Responsible Officials and Planned Corrective Action

Management agrees with audit finding 2009-1. An assessment of project completion will be communicated to financial department with payment request to ensure proper recording of disbursement.

HEALTH ALLIANCE INTERNATIONAL

***Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009***

Section III - Federal Compliance Findings

FINDING 2009-2

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER PROCUREMENT AND INSTANCES ON NONCOMPLIANCE WITH THE PROCUREMENT COMPLIANCE REQUIREMENT

Federal Agency: U.S. Agency for International Development (U.S. AID)

Program Title: USAID Foreign Assistance for Programs Overseas

CFDA Number: 98.001

Award Number: 656-A-00-04-00021-00

Award Period: January 21, 2004 to August 31, 2010

Criteria

22 CFR 208 set forth standards for use by recipients in establishing procedures for the procurement of supplies and other expendable property, equipment, real property and other services with Federal funds. These standards include written procurement procedures, documentation of cost and price analysis, and a system for contract administration.

Condition and Context

We reviewed 13 procurement transactions occurring during the year, consisting of seven construction projects and six other procurements. Our procedures noted the following:

- During the period examined, the Mozambique purchasing manual was not approved by Seattle headquarters and not compared with USAID and Circular A-110 provisions.
- Several inconsistencies were present in the documentation of authorization and analysis of bids, although we did not note any selections that appeared to be fraudulent or noncompliant with federal requirements.
- HAI does not perform a search for parties listed on the General Services Administration's List of Parties Excluded from Federal Procurement or Nonprocurement Programs in accordance with E.O.s 12549 and 12689, "Debarment and Suspension." However, none of the procurements reviewed during our engagement were listed as excluded parties on this list.
- General lack of oversight of the procurement process by the responsible administrator. This was brought to light during the engagement performed by Deloitte Mozambique, as it was noted that the procurement administrator was not applying required procedures to ensure procurement compliance. This staff member was subsequently relieved of his duties as procurement officer and the responsibilities have been overseen by a newly contracted employee who is knowledgeable in the grant requirements and federal/USAID compliance requirements.

Questioned Costs

Not determinable.

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***Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009***

Federal Compliance Findings - Continued

Cause

HAI's field office procurement administrator did not apply consistent procurement policies to all contracts entered on behalf of HAI. We noted an overall lack of procurement oversight, manifested in the ways detailed above (lack of updated Mozambique purchasing manual, inconsistencies in documentation, etc.).

Effect

As noted above, internal controls over procurement were not adequate during the period audited, and instances on noncompliance with procurement requirements occurred.

Recommendation

We recommend that the revised formal procurement policy be finalized and disseminated to all field offices. This policy should be accompanied by training for employees charged with oversight over compliance with the policy. The policy should include all of the required provisions of the applicable federal agencies' grant administrative requirements.

Views of Responsible Officials and Planned Corrective Action

Management agrees with audit finding 2009-2. HAI has approved and disseminated the new procurement manual based on required provisions of OMB Circular A-110. HAI is in the process of training staff on the new policy compliance provisions.

FINDING 2009-3

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER FINANCIAL MANAGEMENT AND INSTANCES OF NONCOMPLIANCE WITH THE FEDERAL MANAGEMENT COMPLIANCE REQUIREMENT

Federal Agency: U.S. Agency for International Development (U.S. AID)

Program Title: USAID Foreign Assistance for Programs Overseas

CFDA Number: 98.001

Award Number: 656-A-00-04-00021-00

Award Period: January 21, 2004 to August 31, 2010

Criteria

22 CFR 226 sets forth standards for financial management systems. These standards include requiring recipients of federal funds to have accurate, current and complete disclosure of the financial results of each federally-sponsored project or program. Additionally the standards include effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.

HEALTH ALLIANCE INTERNATIONAL

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2009

Federal Compliance Findings - Continued

Condition and Context

During our audit, we became aware of several deficiencies in internal control over compliance, summarized below:

Management Control Environment

- Mozambique Country Director does not appear to have direct control and effective approval of HAI/Mozambique's field office projects and related operations.
- HAI Provincial field offices including Maputo office were not using approved written policies and procedures for financial and administrative controls though policies have been in place since 2007. Existing written policies and procedures are still in draft and subject to approval by the Headquarters in Seattle.
- The Manica field office Provincial Coordinator resigned from his duties in March 2010. However, he had not been removed as an authorized bank signer and his signature was still in effect at the local bank. Additionally, HAI bank account requires two signatures for authorization, but only one authorized signature is needed to obtain funds.
- In-house training focuses on technical issues only.
- No written notice or authorization was issued to HAI/Mozambique staff advising of a key change in operational management with GSA (Grant and Section Administrator). General lack of oversight regarding personnel and staffing, duties of dismissed personnel were assigned to other HAI staff without a revision to the applicable job descriptions.

Accounting System

- Field office account statuses are reported separately to Seattle, rather than consolidating all field office account and submitting a single monthly general ledger to Seattle. Additionally, The Provincial Coordinator and the Country Director does not review the general ledgers prior to submission to Seattle, and general ledger supporting documents are not certified by an HAI/Mozambique senior staff member.

Cash and Banking

- Account records are maintained on a cash basis of accounting. Petty cash is held and distributed by the secretary, no cash counts or mitigating controls exist surrounding maintenance of the petty cash.
- Only one bank account is maintained by HAI, deposits from different funding sources are all made to the same account. USAID financial resources are comingled with other funding sources from HAI donors.
- HAI bank accounts require two signatures but payments require one signature.

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Schedule of Findings and Questioned Costs For the Year Ended December 31, 2009

Federal Compliance Findings - Continued

Questioned Costs

Not determinable.

Cause

Various key internal controls and compliance requirements over financial management were not adequately designed and implemented.

Effect

Discrepancies could occur between actual approved budgets and expenditures, overpayment to contractors, overpayment on travel advances, mismanagement of funds, general lack of procedures and implementation of policies could lead to fraudulent activity.

Recommendation

It should be noted that a detailed assessment of HAI's field office internal controls was conducted, and several recommendations were given from that assessment. Additionally, other procedures were performed by us in our audit and by other parties during various survey and review engagements. Our overall recommendation regarding the financial management of HAI, particularly in field offices, is that HAI continue to analyze the reports received from these engagements, and to develop and implement various policies and procedures addressing the deficiencies listed above. The recommendations below are specific key areas that should be addressed to respond to the deficiencies.

Management Control Environment

- Implement an organizational restructuring of operations, to ensure Maputo act as the Mozambique head office to manage and coordinate all operations including reporting from Mozambique to HAI Headquarters in Seattle.
- Establish written policies and procedures to ensure that the daily operations are based on standard business practice principles which clearly define the duties and responsibilities of existing and new staff members.
- Provide training to employees surrounding administrative duties and responsibilities. Training should include sessions to familiarize staff with compliance requirements of grant agreements and OMB Circulars, skills to interpret these requirements and apply procedures effectively. Further training for HAI's Senior Accountants and Grants and Section Administrator (GSA) should include budget management review and control of expenditures against the approved line items to prevent overspending or provide interim updates of budget expenditures for reporting purposes.
- Prepare a policy to define authority within the organization including a hierarchy of management and staff to clearly identify and ensure segregation of duties and overall management and administrative control of HAI operations.

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***Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009***

Federal Compliance Findings - Continued

Accounting System

- Maintain expenditures within approved budget line items limits and utilize the budget as a management tool for decision making.
- Provide a copy of award agreements and amendments to the Senior Accountant to assist in verification of approved budgets and analysis of disbursements made in accordance with the agreements.
- Consolidate financial operating accounts in to one general ledger and assign responsibility of these accounts to the Seattle Headquarters. All supporting documents of expenditures should be reviewed and approved by staff and financial data reviewed and approved by the Country Director.

Cash and Banking

- Apply consistency with GAAP to ensure integrity and accountability of HAI financial records.
- Open a separate bank account for USAID funds only.
- Establish a policy to require two authorized signatures to ensure safeguarding of resources. Notify the bank of signature requirements and authorized signers.

Views of Responsible Officials and Planned Corrective Action

Management agrees with finding 2009-3. HAI has planned corrective action in the areas of Management Control Environment, Accounting Systems and Cash and banking.

HEALTH ALLIANCE INTERNATIONAL

***Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009***

Federal Compliance Findings - Continued

FINDING 2009-4

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE WITH ALLOWABLE PAYROLL COSTS AND INSTANCES OF NONCOMPLIANCE WITH THE ALLOWABLE COST COMPLIANCE REQUIREMENTS OVER PAYROLL COSTS

Federal Agency: U.S. Agency for International Development (U.S. AID)

Program Title: USAID Foreign Assistance for Programs Overseas

CFDA Number: 98.001

Award Number: 656-A-00-04-00021-00

Award Period: January 21, 2004 to August 31, 2010

Criteria

OMB Circular A-122 sets standards for the allowability and support of salaries and wages. Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports. Additionally, a key internal control over payroll disbursements is documentation of an approved pay rate, typically retained in the personnel files.

Condition and Context

During our audit, we became aware that some of HAI's employees did not complete their own activity reports and the timesheets were prepared by the Human Resources Assistant. Additionally, Direcçao Provincial de Saude (DPS), Mozambique Government institution responsible for hiring and providing health services to the communities implementing HAI's program, are eligible for a salary based on the established individual employee contracts with HAI. It was disclosed that in all field offices DPS has requested HAI to pay salaries for their staff members, some not implementing HAI activities. Other DPS's employees salaries are paid by HAI while awaiting formal nomination from Tribunal Administrativo (TA) before becoming DPS staff.

During our testing of payroll transactions, we noted that the HR Department in Mozambique is currently using an Excel spreadsheet to keep track of the pay rate adjustment for each employee. This system does not document appropriate manager's approval of pay rates.

Questioned Costs

Not determinable.

Cause

Payroll policies in place during 2009 did not require timesheets to be prepared by individual employees. Internal controls surrounding DPS employee salaries paid by HAI were not adequate to ensure that documentation was in accordance with OMB Circular A-122. There is no formal policy and procedure to document the pay rate changes, with appropriate manager's approval.

Effect

Discrepancies could occur between actual approved pay rates and pay rates that are applied to the program (i.e. pay rates on the Excel schedule).

HEALTH ALLIANCE INTERNATIONAL

***Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009***

Federal Compliance Findings - Continued

Recommendation

In order to ensure proper tracking of employee activity, we recommend that a policy be implemented to require the preparation of timesheets that are certified in accordance with OMB Circular A-122. Additionally, all salary costs charged by the grant should be supported by documentation regarding the allowability and allocability of costs to the program.

Since payroll is a major expense of the program, the appropriate level of management should approve rate changes and the resulting new rates and that the approval should be documented. Written authorization for pay rate changes should be maintained in the personnel file. Management should periodically review the payroll master file and compare pay rates to the authorized rates contained in personnel files to determine that the current rates are appropriate. In addition, on a regular basis, the appropriate level of management should determine that the current pay rates agree with the approved rates.

Views of Responsible Officials and Planned Corrective Action

Management agrees with Finding 2009-4. A timesheet policy compliant with OMB Circular A-122 will be implemented. Management structures for authorizing pay rate changes will be reviewed and revised, and approved field office pay rate changes will be documented in individual personnel files. Periodic management review of payroll master files will be conducted to ensure current rates are appropriate and agree with approved rates.

HEALTH ALLIANCE INTERNATIONAL

***Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2009***

There were no prior audit findings; therefore, no matters are reportable.

OTHER SUPPLEMENTAL INFORMATION

HEALTH ALLIANCE INTERNATIONAL

**Schedule of Computation of the Indirect Cost Rate for U.S. Agency for International Development
For the Year Ended December 31, 2009**

<i>Description</i>	<i>Total Direct Costs</i>	<i>Total Indirect Costs</i>	<i>Indirect Cost Exclusions</i>	<i>Indirect Cost Pool</i>
Salaries and benefits	6,622,419	\$ 2,032,817	\$ -	\$ 2,032,817
Equipment and supplies	2,687,602	132,552		132,552
Other direct/indirect costs	4,206,720	432,765		432,765
Participant training, monitoring & evaluation, research	1,823,162			
Travel and transportation	982,902	181,273		181,273
Employee allowances	656,405	70,715		70,715
Depreciation		258,829	241,905	16,924
	<u>\$ 16,979,210</u>	<u>\$ 3,108,951</u>	<u>\$ 241,905</u>	<u>\$ 2,867,046</u>
 Calculation of Indirect Rate				
<i>Allowable indirect pool</i>	<u>\$ 2,867,046</u>			
Total direct costs	\$ 16,979,210			
Equipment purchases - direct	<u>394,220</u>			
<i>Direct cost base</i>	<u>\$ 17,373,430</u>			
 <u>Indirect Cost Pool</u>	 <u>\$ 2,867,046</u>	 =	 <u>16.50%</u>	
<u>Direct Cost Base</u>	<u>\$ 17,373,430</u>			

Exclusions: Total direct and indirect costs exclude costs associated with cost sharing contributions.

HEALTH ALLIANCE INTERNATIONAL

***Note to Schedule of Computation of the Indirect Cost Rate for
U.S. Agency for International Development***

Note 1 - Basis of Presentation

The accompanying schedule of computation of indirect cost rate for U.S. Agency of International Development is presented on the accrual basis of accounting.