

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MILDMAY UGANDA DID NOT ALWAYS
MANAGE THE PRESIDENT'S EMERGENCY
PLAN FOR AIDS RELIEF FUNDS IN
ACCORDANCE WITH AWARD
REQUIREMENTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Gloria L. Jarmon
Deputy Inspector General
for Audit Services

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Office of Inspector General

<https://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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Report in Brief

Date: March 2017
Report No. A-04-15-04039

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



Why OIG Did This Review

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

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

The objective of our audit was to determine whether Mildmay Uganda (Mildmay), located in Kampala, Uganda, managed and expended PEPFAR funds in accordance with the award requirements.

How OIG Did This Review

Our audit covered the budget periods from September 30, 2010, through March 31, 2015. These budget periods were for years 1 through 4 of a 5-year cooperative agreement. During the budget period under review, CDC awarded Mildmay \$40.6 million, of which Mildmay expended \$39.9 million. From these PEPFAR fund expenditures, we selected a judgmental sample of 61 transactions totaling \$4.3 million from the following budget categories: salaries and fringe benefits, contractual and consultancy, supplies, equipment, travel, and other.

Mildmay Uganda Did Not Always Manage the President's Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements

What OIG Found

Mildmay did not always manage PEPFAR funds in accordance with award requirements. Of the 61 financial transactions in our judgmental sample, 59 transactions totaling \$4.3 million were allowable, but 2 transactions totaling \$36,287 were not. Additionally, Mildmay used PEPFAR funds totaling \$173,193 to pay for unallowable costs. It also used PEPFAR funds to pay \$13,747 for costs that may not be allowable. Finally, Mildmay used \$190,653 in PEPFAR funds to pay value-added taxes (VAT) that have not been reimbursed by the Government of Uganda.

What OIG Recommends

We recommend that Mildmay (1) refund to CDC \$36,287 for transactions that were not adequately supported, (2) refund to CDC \$173,193 of unallowable costs, (3) work with CDC to determine the allowability of the remaining \$13,747 in costs spent during the audit period, and (4) work with CDC to obtain \$190,653 of VAT reimbursement from the Ugandan Government. We also made procedural and policy recommendations.

In written comments on our draft report, Mildmay generally agreed with our procedural recommendations. However, it generally disagreed with our recommendations to refund questioned costs. Mildmay provided additional documentation to support expenditures questioned in our draft report. After considering the additional documentation that Mildmay provided, we adjusted our findings in the final report. Mildmay conceded that a portion of the gift costs were unallowable and that all wedding costs were unallowable.

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INTRODUCTION

WHY WE DID THIS REVIEW

The U.S. Congress authorized the President's Emergency Plan for AIDS Relief (PEPFAR) to receive \$48 billion in funding for the 5-year period beginning October 1, 2008, to assist foreign countries in combating HIV/AIDS, tuberculosis, and malaria.¹ Congress authorized additional funds to be appropriated through 2018.²

The Act requires the Department of Health and Human Services (HHS), Office of Inspector General (OIG), among others, to provide oversight of the programs implemented under the Act, including PEPFAR. To meet this requirement, HHS OIG has conducted a series of audits of organizations receiving PEPFAR funds from HHS, Centers for Disease Control and Prevention (CDC).³ We selected Mildmay Uganda (Mildmay) for review because it was one of the largest recipients of PEPFAR funds in Uganda.

OBJECTIVE

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

BACKGROUND

Centers for Disease Control and Prevention

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

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

¹ The Tom Lantos and Henry J. Hyde United States Global Leadership Against HIV/AIDS, Tuberculosis, and Malaria Reauthorization Act of 2008 (P.L. No. 110-293) (the Act).

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

³ Appendix A contains a list of related OIG reports.

For fiscal year (FY) 2014, CDC obligated⁴ PEPFAR funds totaling \$1.3 billion. CDC awarded these PEPFAR funds through cooperative agreements, which it uses in lieu of grants when it anticipates the Federal Government's substantial involvement with recipients in accomplishing the objectives of the agreements.⁵ In response to a Funding Opportunity Announcement (FOA),⁶ CDC awarded Mildmay grant number 5U2GPS002909 through a cooperative agreement for the project period September 30, 2010, through March 31, 2016.

Application of Federal Regulations

The grant administration rules in 45 CFR part 92 apply to State, local, and tribal governments. The grant administration rules in 45 CFR part 74 apply to nonprofit organizations, hospitals, institutions of higher education, and commercial organizations.⁷ The HHS Grants Policy Statement (GPS), which provides general terms and conditions and HHS policies for grantees and others interested in the administration of HHS grants, specifies that foreign grantees must comply with the requirements of 45 CFR parts 74 or 92,⁸ as applicable to the type of foreign organization (GPS section II-113).

Mildmay Uganda

Mildmay, formerly Mildmay International in Uganda, is a national nongovernmental organization established in Uganda in 1998 as a "Centre of Excellence" for the provision of comprehensive HIV/AIDS prevention, care, treatment, and training services. Mildmay's core programs are concentrated in 16 districts of central Uganda with support from PEPFAR through CDC.

Mildmay uses a multidisciplinary approach to prevention, care, and treatment that focuses on the physical, social, spiritual, and emotional wellbeing of its clients.

⁴ "Obligated" funds are amounts for which the recipient has made binding commitments for orders placed for property and services, contracts and subawards, and similar transactions during a funding period that will require payment during the same or a future period, per HHS's *Grants Policy Directives* 1.02. On December 31, 2015, the Department released the *Grants Policy Administration Manual (GPAM)*, which supersedes both GPDs and AAGAMs. The GPAM was not in effect during our audit period.

⁵ The regulations that apply to Federal grants also apply to cooperative agreements.

⁶ FOA number CDC-RFA-PS10-1023 is entitled "Scaling up comprehensive HIV/AIDS services including Provider Initiated Testing and Counseling (PITC), TB/HIV, OVC, Care, and, ART for adults (including pregnant women) and children through public university teaching hospitals, regional referral hospitals, and public and private not-for-profit health facilities in the Republic of Uganda, under the President's Emergency Plan for AIDS Relief, (PEPFAR)."

⁷ The grants administration rules at 45 CFR parts 74 and 92 were superseded by 45 CFR part 75, which applies to grant awards issued on or after December 26, 2014.

⁸ On December 31, 2015, the Department released the *Grants Policy Administration Manual (GPAM)*, which supersedes both GPDs and AAGAMs. The GPAM was not in effect during our audit period.

HOW WE CONDUCTED THIS REVIEW

Our audit covered the budget periods from September 30, 2010, through March 31, 2015⁹ (audit period). These budget periods were for years 1 through 4 of the 5-year cooperative agreement. During the budget period under review, CDC awarded Mildmay \$40,670,311.

The accounting records that Mildmay provided to support its PEPFAR expenditures for the audit period contained 55,266 financial transactions totaling \$45,077,727,¹⁰ from which we selected a judgmental sample of 61 financial transactions totaling \$4,324,711. We also reviewed the transaction descriptions in the general ledger for additional potentially unallowable financial transactions that were not part of our judgmental sample.

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

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

FINDINGS

Mildmay did not always manage PEPFAR funds in accordance with award requirements. Of the 61 financial transactions that we tested, 59 transactions totaling \$4,288,424 were allowable, but 2 transactions totaling \$36,287 were not. These transactions were unallowable because Mildmay did not provide sufficient supporting documentation for the expenditures.

In addition, our separate review of general ledger accounts showed that Mildmay used PEPFAR funds to pay:

- \$170,386 for unallowable staff meals,
- \$1,119 for unallowable wedding costs,
- \$1,688 for unallowable gifts,

⁹ Our audit covered more than 4 years to accommodate Mildmay's change in institution from "Mildmay International" to "Mildmay Uganda." CDC administratively corrected the year 3 budget period to end on June 29, 2013, and extended budget year 4 by 5 months through March 31, 2015. This change put budget year 5, which was beyond the scope of our audit, on a new cycle from April 1, 2015, through March 31, 2016.

¹⁰ Mildmay maintained its accounting records in Ugandan shillings (UGXs) and used a weighted average exchange rate in its general ledger to convert expenditures from UGXs to United States dollars (USDs) instead of using the actual exchange rate on the date the expenditure was incurred. Because of exchange rate variances, the expenditures in Mildmay's general ledger exceeded the amount CDC awarded.

- \$13,747 for potentially unallowable gifts, and
- \$190,653 in value-added tax (VAT) to the Ugandan Government.

These errors occurred because Mildmay did not always follow Federal regulations or its established policies, did not have adequate policies, and did not have an adequate accounting system. Additionally, Mildmay paid VAT because the Government of Uganda recognized only State Department purchases as exempt or reimbursable under the bilateral agreement.

MILDMAY DID NOT PROVIDE ADEQUATE SUPPORTING DOCUMENTATION

Grantees' financial management systems must provide for effective control over and accountability of all funds, property, other assets, and accounting records that are supported by source documentation (45 CFR §§ 74.21(b)(3) and (b)(7)). Grantees are required to maintain supporting documentation for 3 years after they submit their final Federal Financial Reports (FFRs) (45 CFR § 74.53(b)).¹¹

Also, Mildmay's policies required it to keep historical financial records either for the period stipulated in any grant agreement or according to statutory provisions, whichever is longer. The policies stated that the current minimum period is 10 years before records may be destroyed (Mildmay Uganda Financial and Accounting Manual, chapter 6.2, section 4).

After multiple requests, Mildmay did not provide adequate supporting documentation for two transactions totaling \$36,287. For example, for one financial transaction related to training, we were unable to recreate the expenditure amount using the participant rate and roster of attendees provided. In a travel-related financial transaction for transportation, per diem, and visa fees,¹² Mildmay provided documentation for transportation costs and per diem allowances; however, it failed to provide a travel visa receipt.

Mildmay did not provide adequate supporting documentation because it followed neither Federal guidance regarding records retention nor its established policies requiring the maintenance of supporting documentation.

¹¹ Grantees are required to submit final FFRs at the end of the project period (45 CFR § 74.52(a)(1)). The project period for this cooperative agreement ended March 31, 2016.

¹² In April 2013, Mildmay paid for two officers from the Central Public Health Laboratories to attend a two-day "Labs for Life" meeting in Pretoria, South Africa. The purpose of the meeting was to strengthen laboratories in Africa and promote laboratory systems in limited resource settings. Travel expenses for this meeting included air fare, ground transportation, per diem, and visa fees to enter South Africa. International travel was included in the budget year 3 CDC approved budget.

MILDMAY USED PEPFAR FUNDS FOR UNALLOWABLE MEALS

“Costs associated with food or meals are allowable when consistent with OMB Circulars and guidance, DHHS Federal regulations, Program Regulations, DHHS policies and guidance. In addition, costs must be proposed in accordance with recipients approved policies and a determination of reasonableness has been performed by the recipients.” “Recipients approved policies must meet the requirements of 2 CFR parts 74 and 92 as applicable” (Notice of Award (NOA), “Special Terms and Conditions,” notes 9 and 13 for years 3 and 4).

Meals are generally unallowable, except “[w]hen an organization customarily provides meals to employees working beyond the normal workday, as a part of a formal compensation arrangement” (HHS GPS section II-36). In addition, meals are permitted when included with per diem as part of official travel (NOA, section IV. PS Special Terms and Conditions, Terms and Conditions of Award, note 16, “Food and Meals,” budget period September 30, 2011, through September 29, 2012).

Mildmay expended \$170,386 on unallowable staff meals under a “corporate nutrition” program for budget years 3 and 4.

In budget year 1, Mildmay included in its budget \$61,502 for staff meals, and CDC approved this expenditure in the budget for year 1. However, in budget year 2, CDC no longer allowed staff meals as a PEPFAR expenditure. Because CDC no longer approved staff meals in the budget, Mildmay officials told us that it created the corporate nutrition program as a way to continue paying for staff meals with PEPFAR funds. Mildmay entered costs for the corporate nutrition program as a fringe benefit in its year 2 budget, which CDC approved. Because CDC approved the budgets, we did not recommend disallowance of staff meal costs for budget year 1 or corporate nutrition program costs for budget year 2.

Although CDC did not approve costs for the corporate nutrition program for budget years 3 or 4, Mildmay used \$170,386 of PEPFAR funds to pay for staff meals under the corporate nutrition program for those years. Mildmay included corporate nutrition under the accounting code for staff pay. In essence, Mildmay misrepresented expenses for staff meals by coding corporate nutrition costs as staff pay in its accounting system.

Mildmay officials said that they requested PEPFAR funds for staff meals so that employees would not leave for the remainder of the workday when they went out for lunch. Mildmay officials stated that during budget year 1, they discussed this plan with CDC staff in the Uganda office and were advised against using grant funds to pay for staff meals because it was an unallowable cost. However, Mildmay disregarded this advice.

MILDMAY USED PEPFAR FUNDS FOR UNALLOWABLE WEDDING COSTS

To be allowable under an award, costs must “[b]e reasonable for the performance of the award and be allocable thereto ...” (2 CFR part 230, App. A, § A.2.a.). A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with

the relative benefits received. A cost is allocable to a Federal award if it (1) is incurred specifically for the award; (2) benefits both the award and other work and can be distributed in reasonable proportion to the benefits received; or (3) is necessary to the overall operation of the organization, even though a direct relationship to any particular cost objective cannot be shown (2 CFR part 230, App. A, § A.4.a.).

Mildmay paid \$1,119 for a staff wedding. Mildmay officials told us that they arranged for a pastor to come to the Mildmay location to perform a ceremony at which Mildmay staff or clients who could not otherwise afford a ceremony could marry.

Mildmay officials said that their rationale for using PEPFAR funds to pay for a wedding was that marriage promotes monogamy, and monogamy reduces the likelihood of HIV/AIDS transmission. Mildmay did not propose wedding costs in its award application and CDC did not provide for such costs in the FOA. The stated purpose of the award was “to provide comprehensive HIV/AIDS services to patients within clinical settings,” including activities such as testing, counseling, and provision of preventive care (CDC Funding Opportunity Announcement, page 4). Wedding expenses, particularly those that benefit staff, fall outside of these stated purposes and do not benefit the award. Therefore, the \$1,119 for a staff wedding was unallowable.

MILDMAY USED PEPFAR FUNDS FOR POTENTIALLY UNALLOWABLE GIFTS

To be allowable under an award, costs must “[b]e reasonable for the performance of the award and be allocable thereto ...” (2 CFR part 230, App. A, § A.2.a). A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs (2 CFR part 230, App. A, § A.3). Factors to be considered in determining reasonableness include, among others: (1) whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award and (2) whether the individuals involved acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government (2 CFR part 230, App. A, § A.3. a.–c.).

Mildmay spent at least \$15,435 on cash awards, gifts, and other tokens for employees. As examples, Mildmay used PEPFAR funds to pay for an honorarium, some anniversary gifts, some farewell gifts, and some holiday gifts. Mildmay used PEPFAR funds to pay for gifts on a regular basis, not merely for special occasions and not in a consistent manner. Because of Mildmay’s inconsistent accounting practices, we were unable to confirm whether we identified all expenditures for gifts.

Mildmay officials stated that they provided staff with gifts and awards to boost employee morale. While costs for employee morale, health, and welfare are allowable under the cost principles, examples of such allowable costs include “information publications, health or first-aid clinics and/or infirmaries, and recreational activities.” Gifts purchased on a regular basis seem significantly different in nature than the listed examples. The regulations also permit

“any other expenses incurred in accordance with the non-profit organization’s established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance ...” (2 CFR part 230, App. B, § 13.a).

A fundamental tenet of the allowability of a cost to a Federal award is reasonableness. Even if it could be argued that Mildmay followed its usual custom and that the costs were intended to improve employee morale, the \$15,435 in gift costs appear very high. A good argument could be made that the \$15,435 that Mildmay charged to the award for gifts, tokens, and honoraria exceeded the amount that would have been incurred by a prudent person under the circumstances prevailing at the time the costs were incurred. Gifts and awards are not ordinary and necessary for the performance of the award. Award funds were intended to fight the spread of HIV/AIDS by providing services and outreach to grantees; they were not intended to provide monetary and material benefits to employees. Moreover, Mildmay did not account for gifts consistently.

We note, however, that Mildmay included certain award costs in its CDC-approved budgets under the category of staff events. In its comments on our draft report, Mildmay stated that \$1,688 in gift costs were wrongly charged to the CDC award. Because CDC approved a budget that might provide for the allowability of some gift costs, we are unable to determine the unallowable portion of the remaining \$13,747 in gift-related expenses.

MILDMAY USED PEPFAR FUNDS TO PAY VALUE-ADDED TAX TO THE UGANDAN GOVERNMENT

“Customs and import duties. These costs, which include consular fees, customs surtax, value-added taxes, and other related charges, are unallowable under foreign grants and domestic grants with foreign components” (GPS, section II-114). HHS granted CDC a deviation from internal grants policies for the period of September 30, 2012, through December 25, 2014. Under the deviation, VAT was permitted as an allowable expense for certain CDC grantees operating in countries where no applicable tax exemption existed through a bilateral or other agreement.¹³

The Uganda Bilateral Agreement 1971 states, “[n]o tax (whether in the nature of an income, profits, business tax or otherwise), duty or fee of whatsoever nature shall be imposed upon any contractor financed by the Government of the United States of America hereunder.”

Mildmay’s *Summary Guidelines for Managing CDC Funds* included instructions for paying VAT and reporting quarterly to CDC the amount of VAT paid. Mildmay paid VAT to the Ugandan Government on taxable items and reported quarterly to CDC the amount of VAT that it paid. CDC then filed a request with the U.S. Embassy VAT office for reimbursement of the VAT already paid. The U.S. Embassy VAT office reported the amount of VAT paid to the State Department, which then filed a claim for reimbursement with the Ugandan Revenue Authority.

¹³ On December 26, 2014, new grant regulations addressed VAT allowability at 45 CFR § 75.470, which provides that foreign taxes that a non-Federal entity is legally required to pay in country are an allowable expense under Federal awards made on or after that date.

As of the audit period, after 4 years of seeking reimbursement, neither the U.S. Embassy nor CDC had received any reimbursement from the Government of Uganda.

Mildmay paid \$190,653 of PEPFAR funds to the Ugandan Government in VAT for our audit period. This payment of VAT and the lack of reimbursement occurred because of a disagreement over the interpretation of a provision of a bilateral agreement between the United States and the Government of Uganda. CDC believed that grantees were exempt from the payment of VAT and that the exemption would occur through reimbursement. However, the Government of Uganda recognized only State Department purchases and CDC direct procurement through the State Department as exempt or reimbursable of VAT under the bilateral agreement.

MILDMAY DID NOT ACCURATELY REPORT PEPFAR EXPENDITURES ON ITS FEDERAL FINANCIAL REPORT

Grantees' financial management systems must provide for accurate, current, and complete disclosure of the financial results of each HHS-sponsored program in accordance with regulatory reporting requirements (45 CFR § 74.21(b)(1)).

The FFR that Mildmay submitted to CDC did not reconcile to the general ledger. Mildmay reported expenditures on its FFR totaling \$39,928,137; however, Mildmay's general ledger contained expenditures totaling \$45,077,727, which resulted in a variance of \$5,149,590. In its comments on our draft report, Mildmay stated that the variance between the FFR and general ledger was due to the inclusion of stock adjustments¹⁴ in the general ledger. According to Mildmay, it removed stock adjustments from the general ledger when it was determining the figures to report on the FFR. Additionally, the expenditures reported on the FFR were converted to USDs using a yearly weighted average.

Mildmay included stock adjustments in its general ledger and reported expenditures on the FFR using a yearly weighted average because it used an inadequate accounting system.

Mildmay's accounting system was incapable of managing stock inventory and tracking expenses in both USDs and UGXs. Furthermore, Mildmay did not follow its policy to use "the ruling exchange rate for all transactions in foreign currency on the date of the transaction."¹⁵ Instead, Mildmay used a weighted average to convert the expenditures from UGXs to USDs at the end of

¹⁴ Stock adjustments were noncash transactions that were used to reconcile balances for laboratory supplies and anti-retroviral drugs to the physical count of stock on hand. According to Mildmay, the adjustments followed the International Financial Reporting Standards, which require the organization to recognize stock as an asset and expense it at the point of consumption. However, Mildmay's accounting system did not have a stock management module. Instead, Mildmay reconciled stock balances on a quarterly basis after it conducted a physical count and created adjustments in the general ledger to represent consumption, even though no expenditure was incurred.

¹⁵ Mildmay's finance manual, section 3.7, "Exchange Rates."

the budget period. As a result, CDC may not have been able to accurately fund the next budget period for Mildmay or determine whether it exercised proper stewardship over Federal funds in accordance with award requirements.¹⁶

MILDMAY’S ACCOUNTING PRACTICES WERE INCONSISTENT, AND IT HAD INADEQUATE FINANCIAL POLICIES AND PROCEDURES

The grantee’s financial management systems must provide for accurate, current, and complete disclosure of the financial results of HHS-sponsored programs (45 CFR § 74.21(b)(1)), and records must adequately identify the application of funds (45 CFR § 74.21(b)(2)). Additionally, grantees must maintain effective control over and accountability for all funds, property, and other assets (45 CFR § 74.21(b)(3)) and have written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the applicable Federal cost principles and the terms and conditions of the award (45 CFR § 74.21(b)(6)).

Mildmay’s accounting practices were inconsistent in ways that, viewed separately, were immaterial; however, in aggregate, they revealed systemic problems. For example, Mildmay:

- did not always obtain appropriate verification and approval signatures for payment vouchers;
- used inconsistent verbiage in journal entries and the general ledger that prevented the audit team from being able to review the allowability of certain costs, such as local staff transportation;
- coded a significant number of expenses to unfunded or incorrect budget codes that resulted in correcting entries; and
- had difficulty correctly tabulating the amount on some payment vouchers.

Moreover, Mildmay had inadequate policies and procedures for FFR preparation and reporting. It took Mildmay over a year to reconcile the \$5,149,590 variance between the FFR and the general ledger. With adequate policies and procedures in place, Mildmay would have been able to re-create the figures reported on the FFR.

Mildmay’s accounting practices created vulnerabilities in its financial management of PEPFAR funds. Also, we were unable to review some costs because we could not determine whether Mildmay had accurately identified to us all of the expenditures related to PEPFAR.

¹⁶ Because the accounting records could not be reconciled, the audit team used the weighted average amounts provided in the general ledger to determine the amounts of unallowable expenditures in our recommendations.

RECOMMENDATIONS

We recommend that Mildmay:

- refund to CDC \$36,287 for transactions that were not adequately supported,
- maintain adequate supporting documentation for expenditures,
- refund to CDC \$170,386 for unallowable meal costs,
- refund to CDC \$1,119 for unallowable wedding costs,
- refund to CDC \$1,688 for unallowable gifts,
- work with CDC to determine the allowability of \$13,747 in gifts,
- work with CDC to obtain \$190,653 of VAT reimbursement from the Ugandan Government,
- use the currency conversion rate in effect on the date it prepares the FFR rather than the weighted average,
- develop and implement policies and procedures for FFR preparation and records retention,
- enhance policies and procedures to include detailed steps to account for expenditures,
- follow established policies and procedures to ensure financial transactions are properly approved, and
- implement an accounting system that allows it to accurately account for Federal funds.

MILDMAY UGANDA COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Mildmay agreed to refund unallowable wedding costs. Also, Mildmay generally agreed with our procedural recommendations and described some of the actions it has taken or plans to take to address them, such as:

- enhancing its audit function with three full-time staff and risk committees at all management levels and

- acquiring and implementing a new accounting system that is capable of reporting in two currencies and of managing stock inventories outside of the general ledger.

Mildmay generally disagreed with our recommendations to refund amounts for transactions that were not adequately supported and transactions for staff meals and gifts. Separate from its comments, Mildmay provided us with additional supporting documentation to consider. However, it did not address our recommendation to maintain adequate supporting documentation for expenditures.

Mildmay's comments, excluding the additional documentation, are included as Appendix D.

After considering the additional documentation that Mildmay provided with its comments, we adjusted our findings and recommendations where warranted. Below is a summary of Mildmay's comments on our draft recommendations with which it did not concur and our responses to those comments.

Refund Transactions That Were Not Adequately Supported

Mildmay Comment

Mildmay did not concur with this recommendation and provided additional supporting documentation for 12 sample transactions that we had determined were not adequately supported.

Office of Inspector General Response

On the basis of our review of the additional documentation provided, we now consider 10 of the 12 sample transactions allowable; however, 2 sample transactions remain unallowable. Mildmay did not provide sufficient additional documentation for one sample transaction and did not provide a missing receipt for the other transaction. We adjusted our draft finding and now recommend that Mildmay refund to CDC \$36,287 for transactions that were not adequately supported.

Refund Unallowable Meal Costs

Mildmay Comment

Mildmay disagreed with this recommendation. Mildmay stated that its "staff contracts provide for gross salary in terms of employment. This category of costs is part of the staff pay and was not misrepresented. The staff meals are paid for and managed by the staff."

Office of Inspector General Response

We continue to recommend that Mildmay refund to CDC \$170,386 for unallowable staff meals because the meals provided under the corporate nutrition program did not meet the

requirements for allowability under applicable regulations and policy. As Mildmay stated in its response, staff contracts include, as part of salary, an amount for meals that it will provide. The contracts also include a statement that Mildmay will deduct this amount from staff pay. However, our analysis of the budget submissions for Years 3 and 4 indicates that Mildmay included the costs of these meals as staff pay and that individual salaries were augmented to compensate for the deducted meal costs.

Work With CDC To Determine the Allowability of Gifts

Mildmay Comment

Mildmay concurred in part with this recommendation and stated that \$1,688 of gift costs were wrongly coded to the CDC award. However, Mildmay maintained that the remaining \$13,747 in gifts were program-related costs geared toward encouraging better staff performance or represented performance awards for achievement in accordance with Mildmay 's written policies. Mildmay stated that recognition and awards for performance were part of its culture. Mildmay further explained, "[i]n consultation with CDC Uganda, these are considered normal program related activities designed to improve performance of staff, facilities and districts in achievement of PEPFAR goals and therefore allowable expenditure under the award."

Office of Inspector General Response

We added a recommendation for the \$1,688 that Mildmay agreed should not have been charged to the CDC award. We maintain that the remaining \$13,747 charged for gifts constituted unallowable costs. Mildmay argued that some of the gift payments were in essence incentive compensation made in accordance with written policies. Under the cost policies, incentive compensation is allowable to the extent that *the overall compensation is determined to be reasonable* and such costs are paid or accrued pursuant to an agreement entered into in good faith between the organization and the employees before the services were rendered, or pursuant to an established plan followed by the organization so consistently as to imply, in effect, an agreement to make such payment." (emph. added) (2 CFR Part 230, App. B, § 8.j.) We maintain that the remaining \$13,747 in gift costs appears unreasonably high. Moreover, not all of the gifts corresponded to the performance award scheme laid out in Mildmay's policies, and gifts and awards were often doled out haphazardly. The \$13,747 that Mildmay charged to the award for gifts, tokens, and honoraria exceeded the amount that would have been incurred by a prudent person under the circumstances prevailing at the time the costs were incurred. Award funds were intended to fight the spread of HIV/AIDS by providing services and outreach to grantees; they were not intended to provide monetary and material benefits to employees. We continue to recommend that Mildmay work with CDC to determine the allowability of these costs.

APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

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

Report Title	Report Number	Date Issued
<i>Medical Access Uganda Limited Generally Managed the President’s Emergency Plan for AIDS Relief Funds in Accordance With Award Requirements</i>	<u>A-04-15-04040</u>	6/2016
<i>The Centers for Disease Control and Prevention Did Not Award President’s Emergency Plan for AIDS Relief Funds for 2013 in Compliance With Applicable HHS Policies</i>	<u>A-04-14-04021</u>	5/2016
<i>The Ethiopian Public Health Institute Did Not Always Manage the President’s Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	<u>A-04-13-04017</u>	1/2015
<i>The Ethiopian Public Health Association Generally Managed the President’s Emergency Plan for AIDS Relief Funds but Did Not Always Meet Program Goals in Accordance With Award Requirements</i>	<u>A-04-13-04016</u>	10/2014
<i>The Centers for Disease Control and Prevention Generally Achieved Its Main Goals Related to Certain HIV/AIDS Prevention, Treatment, and Care Activities Under the Partnership Framework in Ethiopia</i>	<u>A-04-13-04011</u>	10/2014
<i>The Federal Democratic Republic of Ethiopia, Ministry of Health, Did Not Always Manage President’s Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	<u>A-04-13-04015</u>	9/2014
<i>The Republic of Zambia, Ministry of Health, Did Not Always Manage the President’s Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	<u>A-04-13-04004</u>	6/2014
<i>The University of Zambia School of Medicine Did Not Always Manage President’s Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	<u>A-04-13-04010</u>	4/2014
<i>The University Teaching Hospital (in Zambia) Generally Managed the President’s Emergency Plan for AIDS Relief Funds and Met Program Goals in Accordance With Award Requirements</i>	<u>A-04-13-04005</u>	3/2014
<i>Aurum Institute For Health Research Did Not Always Manage President’s Emergency Plan For AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	<u>A-05-12-00021</u>	8/2013

Report Title	Report Number	Date Issued
<i>The South African National Department of Health Did Not Always Manage President's Emergency Plan For AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	A-05-12-00022	8/2013
<i>National Health Laboratory Service Did Not Always Manage President's Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	A-05-12-00024	8/2013
<i>The Southern African Catholic Bishops' Conference AIDS Office Generally Managed President's Emergency Plan for AIDS Relief Funds and Met Program Goals in Accordance With Award Requirements</i>	A-05-12-00023	7/2013
<i>The Vietnam Administration for HIV/AIDS Control Did Not Always Manage the President's Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	A-06-11-00057	6/2013
<i>The Centers for Disease Control and Prevention's Vietnam Office Generally Monitored Recipients' Use of the President's Emergency Plan for AIDS Relief Funds</i>	A-04-12-04023	4/2013
<i>Potentia Namibia Recruitment Consultancy Generally Managed the President's Emergency Plan for AIDS Relief Funds and Met Program Goals in Accordance with Award Requirements</i>	A-06-11-00056	4/2013
<i>The Centers for Disease Control and Prevention's South Africa Office Did Not Always Properly Monitor Recipients' Use of the President's Emergency Plan for AIDS Relief Funds</i>	A-04-12-04022	2/2013
<i>The Republic of Namibia Ministry of Health and Social Services Did Not Always Manage the President's Emergency Plan for AIDS Relief Funds or Meet Program Goals in Accordance With Award Requirements</i>	A-04-12-04019	1/2013
<i>The Centers for Disease Control and Prevention's Namibia Office Did Not Always Properly Monitor Recipients' Use of the President's Emergency Plan for AIDS Relief Funds</i>	A-04-12-04020	11/2012
<i>Review of the Centers for Disease Control and Prevention's Oversight of the President's Emergency Plan for AIDS Relief Funds for Fiscal Years 2007 Through 2009</i>	A-04-10-04006	6/2011

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered the budget periods from September 30, 2010, through March 31, 2015 (audit period). These budget periods were for years 1 through 4 of the 5-year cooperative agreement. During the budget period under review, CDC awarded Mildmay \$40,670,311. The accounting records that Mildmay provided to support its PEPFAR expenditures for the audit period contained 55,266 financial transactions totaling \$45,077,727.

We limited our review of internal controls to those related to our objective. We conducted fieldwork at Mildmay's offices in Kampala, Uganda, in August 2015.

METHODOLOGY

To accomplish our objective, we:

- reviewed relevant Federal laws and regulations, HHS guidance, the FOA, the NOAs, and Mildmay's policies and procedures;
- interviewed and conducted meetings with CDC Uganda officials to determine the extent of the technical assistance they provided to Mildmay;
- interviewed and conducted meetings with Mildmay officials to determine their policies, processes, and procedures related to financial accounting and reporting;
- attempted to reconcile Mildmay's Financial Status Report and FFR to its accounting records;
- selected a judgmental sample of 61 financial transactions totaling \$4,324,711 from the grant award of \$40,670,311 and included expenditures such as:
 - transactions that might have included restricted funds and
 - transactions above or below the average transaction amount in an expenditure category;
- reviewed the 61 judgmentally selected financial transactions for supporting documentation such as receipts, contracts for employees, and payment vouchers;
- reviewed general ledger transaction descriptions for additional transactions that were not included in our judgmental sample;
- identified VAT that Mildmay paid with PEPFAR funds; and

- discussed the results of our audit with Mildmay officials.

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

APPENDIX C: FEDERAL REQUIREMENTS

45 CFR § 74.21(b)

“Recipients’ financial management systems shall provide for the following:”

45 CFR § 74.21(b)(1)

- “Accurate, current and complete disclosure of the financial results of each HHS-sponsored project or program in accordance with the reporting requirements set forth in § 74.52.”

45 CFR § 74.21(b)(2)

- “Records that identify adequately the source and application of funds for HHS sponsored activities.”

45 CFR § 74.21(b)(3)

- “Effective control over and accountability for all funds, property and other assets.”

45 CFR § 74.21(b)(6)

- “Written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.”

45 CFR § 74.21(b)(7)

- “Accounting records, including cost accounting records, that are supported by source documentation.”

45 CFR § 74.53(b)

“Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report.”

2 CFR Part 230, Appendix A, § A.2.a.

“Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:

- a. Be reasonable for the performance of the award and be allocable thereto under these principles.”

2 CFR Part 230, Appendix A, § A.3.a.–c.

“A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by Federal agencies. In determining the reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.
- b. The restraints or requirements imposed by such factors as generally accepted sound business practices, arms length bargaining, Federal and State laws and regulations, and terms and conditions of the award.
- c. Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal government.”

2 CFR Part 230, Appendix A, § A. 4.a.

A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other cost incurred for the same purpose in like circumstances and if it:

- (1) Is incurred specifically for the award.
- (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or
- (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

2 CFR Part 230, Appendix B, § 13.a.

The costs of employee information publications, health or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the non-profit organization’s established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable.

Notice of Award, Section IV. PS Special Terms and Conditions, Terms and Conditions of Award, Note 16, “Food and Meals” (Year 2, pg 7)

“Costs associated with food or meals are NOT permitted unless included with per diem as a part of official travel.”

Bilateral Agreement 1971

Uganda (Economic, Technical and Related Assistance 1971), ARTICLE 5

In order to assure the maximum benefits to the people of Uganda from the assistance to be furnished hereunder:

(a) Any supplies, materials, equipment or funds introduced into or acquired in Uganda by the Government of the United States of America, or any contractor financed by that Government, for purposes of any program or project conducted hereunder shall, while such supplies, materials, equipment or funds are used in connection with such a program or project, be exempt from any taxes on ownership or use of property, and any other taxes, investment or deposit requirements and currency controls in Uganda, and the import, export, purchase, use or disposition of any such supplies, materials, equipment or funds in connection with such a program or project shall be exempt from any tariffs, customs duties, import and export taxes, taxes on purchase or disposition of property, and any other taxes or similar charges in Uganda. No tax (whether in the nature of an income, profits, business tax or otherwise), duty or fee of whatsoever nature shall be imposed upon any contractor financed by the Government of the United States of America hereunder.



November 10, 2016

To:

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

Dear Ms. Jarmon,

Re: Mildmay Uganda Response to Report No A-04-15-04039:

Mildmay Uganda received the above referenced report on October 12, 2016. We have reviewed the findings and recommendations therein and hereby submit our consolidated response.

We have endeavoured as best as we can to respond to each of the issues raised and have provided copies of several support documents as referenced in our response. We remain committed to this process and are happy to provide further clarifications/documentation should you find this necessary.

Sincerely,

A handwritten signature in black ink, appearing to read "Barbara N. Mukasa", written over a horizontal line.

Dr. Barbara N. Mukasa
Executive Director
Mildmay Uganda

Cc: Steven Wiersman
Country Director
Centers for Disease Control and Prevention

Cc: Priscilla Partin
OIG, Centers for Disease Control and Prevention Liaison

Mildmay Uganda
PO Box 24985
Kampala
Uganda
tel: +256 312 210 200
fax: +256 312 210 205
www.mildmay.org/uganda
NGO NO. S.5914 / 9191

Title	Mildmay Uganda Response to draft report A-04-15-04039
To	Department of Health and Human Services Office of Inspector General Washington DC, 20201
Date of Submission	November 10, 2016

Mildmay International in Uganda was opened in 1998 as a Centre of Excellence for the delivery of HIV Care, Treatment and Support and Training of others in such care. Mildmay International in Uganda was transitioned into Mildmay Uganda a locally registered NGO. The CDC grant to Mildmay International was transferred to Mildmay Uganda (Mug) the newly registered NGO on the 30 June, 2013. Under the governance of a Board of Trustees, Mildmay Uganda has continued to deliver quality HIV and AIDS prevention, care, treatment and support services using a multi-disciplinary family-centered approach and provides technical assistance to 16 districts with over 400 public and private Health Facilities for the establishment of such services as part of routine health care delivery systems. Currently a total of 103,541 clients are in care in MUg supported facilities from a baseline of 43,300 in 2010.

Throughout this transition, the organization's internal systems and Governance mechanisms have also grown in response to program scale up. A Governing Board of Trustees was established and continues to be instrumental in shaping the policy environment within which Mildmay operates. The organization has been going through annual statutory audits in addition to internal audits as part of strengthening the internal control environment. Financial and Grant monitoring systems have grown over the years with associated staff capacity development.

We have provided response to the audit report in two major sections, including areas of Concurrence and non-concurrence;

Section I: Response to the specific Questionable Costs

Section II: Response to the specific Internal Control Environment

Section I: Response to the specific Questionable Costs.

Below are the responses to the various audit findings and recommendations;

Audit Recommendation:

1. *Refund to CDC \$2,043,723 for transactions that were not adequately supported*

Mildmay Uganda Response:

A review of the 12 transactions has been done and the transactions have been identified as per summary table A below.

Table A: Summary of expenses questioned (\$2,043,723)

Summary of the Expenses questioned			
Sample Number	Memo	Foreign Amount	Document Reference
1	Shipment costs Paid by UK Office Jun 10	1,300	M1
2	Airticket ground transportation per diem and Visa fees	3,368	M2
3	Staff Gratuity - October 2014	3,804	M3
4	consultancy 30 day,airtime and transport	5,450	M4
5	Training income from CDC sponsored Laboratory and counselling courses conducted by the training...	32,918	M5
6	Provision for UK technical support staff pay Oct10-Mar11 as per CDC budget Oct10-Sep11	34,710	M6
7	Payment for improvement of districts health Infrastructure contract	21,522	M7
8	Being payment for contract	18,840	M8
9	Decrease in Lab stock per June 2012 stock taking	281,558	M9
10	Decrease in CDC other Drugs stock as per 30/3/2013 stock taking	160,378	M10
11	To record increase stock of Laboratory as per stock count 2/4/2014	985,611	M11
12	To record decrease in stock of Other drugs as per stock values of 30 June 2014	494,262	M12
	Stock Adjustments which did not affect expenditure reported in CDC financial reports	1,921,810	
	Total	2,043,723	
13	Unallowable staff meals	170,386	M13
14	Unallowable wedding costs	1,119	M14
15	Potentially unallowable gifts	15,435	M15
16	Value added tax (VAT) to the Uganda Government"	190,653	M16

Sample # 1 (\$1,300): This cost was questioned on the basis of lack of sufficient support documentation. This was a relocation cost related to the staff as per the contractual terms. Note that the staff's contractual obligation was to pay a maximum of GBP 600 per person against shipping costs. Mildmay Uganda settled this cost with Mildmay UK through intercompany charging process. We have attached supporting documents including; Staff contracts and Invoice from the shipping company. See supporting documents [reference M1](#).

Non Concurrence: This should therefore be considered as normal employment costs and therefore allowable expenditure under the award

Sample #2 (\$3,368): Costs relate to travel of two staff [redacted] and [redacted] to South Africa for a program related meeting -Labs for life in Africa and Asia. Additional support documentation was required by the auditors to confirm [redacted] travel. A copy of [redacted] Visa and evidence of entry and exit into South Africa on 21st and 24th April 2013, respectively have been attached. The invitation letters, tickets and other supporting documents submitted earlier have also been provided in document [reference M2](#);

Non Concurrence: Based on the fact that the trip was related to the program scope and evidence of travel, we request that this be considered as allowable expenditure to the award

Sample #3 (\$3,804): The computation for gratuity cost in question has been attached in document [reference M3](#). Please note that there was an error in the narration in the ledger on the 28th November 2014. This cost was for the month of November 2014 and not October 2014.

Non Concurrence: Based on the evidence of computation for the gratuity amounts, we request that this be considered as allowable expenditure to the award.

Sample # 4 (\$5,450): This was a cost related to temporary hire of a management accountant [redacted] to work alongside various Mildmay Technical teams to support development of the CDC continuation application during a time when MUg Finance department was understaffed prior to recruitment of a substantive Management Accountant. We have attached invoice related to the transaction and copy of timesheet. See document [reference M4](#).

Non Concurrence: Please consider this as allowable expenditure under the award based on the proof of occurrence of activity.

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

Sample # 5 (\$32,918): This a training cost related to PEPFAR program activities. As part of the [REDACTED] partnership, the [REDACTED] provided collaboratively developed courses – Counselling for ART – August 6th to 15th and the Laboratory Managers’ Course – 6th to 16th August 2012. [REDACTED] sponsored 5 participants on each of the courses [reference M5](#). The rest of the slots were filled by health care workers from districts supported under the PEPFAR/CDC- funded Health Systems Strengthening project. Capacity building in Counseling for ART and Laboratory Management were and remain relevant to the achievement of PEPFAR goals to scale up access to quality HIV and AIDS prevention, diagnosis and treatment monitoring and support. A copy of the Mildmay Uganda Training and Education course rates including accommodation, meals, training materials and tuition is attached. See document [reference M5](#). The student rate charged was 93.5 USD per person per day for the taught days and 43USD weekend. This cost was discounted (i.e. 93.5USD vs 104USD) as the [REDACTED] grant supported the cost of producing the handbooks - 7.5USD and not 13USD and the certificates were printed at no cost to Mildmay Uganda by [REDACTED] in keeping with the mutual benefit principle governing our collaboration.

Non Concurrence: Please consider this as allowable expenditure under the award based on the additional support documentation ie including course reports, MOU [REDACTED]-Mildmay, letter of notice of support for the training from [REDACTED] and the Mildmay Uganda Training price list for 2011.

Sample # 6 (\$34,710): Copies of staff contracts and minutes of the UK board meeting held on October 13, 2009 (refer to minute 5) to support costs for the UK-based staff have been provided under document [reference M6](#).

Non Concurrence: Please consider this as allowable expenditure under the award based on the additional support documentation attached.

Sample # 7 (\$21,522): Mildmay Uganda contracted [REDACTED] Uganda on July 25, 2012 to do refurbishments for Health Infrastructure in the Districts of Wakiso, Nakaseke , Mubende , Mityana and Nakasongola. The total amount for the project was Ushs 203,176,436. Payments were made in 5 phases to the vendor as detailed in the document [reference M7](#). The portions of the payments that relate to Wakiso are specifically indicated in the payment schedule attached. Payments are supported by a payment voucher, invoices, works inspection reports and certificates of completion of works.

Non Concurrence: Please consider this as allowable expenditure under the award based on the additional support documentation attached

Sample # 8 (\$18,840): A separate contract for improvement of District Health Infrastructure in Nakasongola specifically was signed between [REDACTED] and Mildmay in October 24, 2012 for an amount of Ushs 48,591,300. The refurbishment of waiting sheds in Kalungi and Kakoge Health Center III was provided for in the work plan for the district at an estimate cost of UgShs 32,362,173 at the time of budgeting. See attached document [reference M8](#).

As shown in the reference document, after October 24, 2012, all payments to [REDACTED] included bills from the first and second contracts.

Payments are supported by a payment voucher, invoices, works inspection reports and certificates of completion of works.

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

Non Concurrence: Please consider this as allowable expenditure under the award based on the additional support documentation attached

Sample # 9-12 (\$1,921,810): Stock Adjustments

Stock accounting system:

Mildmay financial systems are developed with consideration of the International Financial Reporting Standards (IFRS) that require us to recognize stock as an asset and expense it at the point of consumption. At the time of these transactions Mildmay Uganda was using [REDACTED] accounting system which did not have a stock management module. As such stock balances were reconciled on a quarterly basis following a physical count (refer to document reference M9-12) and adjustments passed in the general ledger to represent consumption. The General Ledger therefore included both cash (actual expenditure) and non-cash transactions (stock adjustments).

CDC reporting requires that stock is expensed at time of purchase. Therefore at the time of preparing CDC reports, the effect of all stock adjustments are removed as they do not involve new expenditure (i.e. expense has already been captured at purchase).

Sample # 9 (\$281,558): This was Laboratory stock adjustment arising from the physical stock count reconciliation for the respective quarter **document reference M9**. This is a noncash entry and therefore did not affect the CDC expenditure report.

Sample # 10 (\$160,378): This was ARVs stock adjustments arising from the physical stock count reconciliation for the respective quarter **document reference M10**. This is a noncash entry and therefore did not affect the CDC expenditure report.

Sample # 11(\$985,611): This was Laboratory stock adjustments arising from the physical stock count reconciliation for the respective quarter **document reference M11**. This is a noncash entry and therefore did not affect the CDC expenditure report.

Sample # 12 (\$492,262): These were ARVs that Mildmay Uganda accessed in kind through [REDACTED] the PEPFAR/CDC supply chain partner. The adjustments arose from the physical stock count reconciliation for the respective quarter **document reference M12**. This is a noncash entry and therefore did not affect the CDC expenditure report.

Non Concurrence: The stock amounts worth \$ 1,921,810 reflected in the Consolidated Mildmay General ledger were not included in the CDC financial reports as expenditure. These were stock adjustments based on the quarterly stock staking. This amount therefore does not represent a cost charged to the award

Mildmay Uganda has since acquired a new Financial System [REDACTED] with an advanced stock management module to support real time tracking of consumption data. The quarterly physical stock counts continue as per policy guidelines and are validated by internal/external audit as appropriate.

Audit Recommendation

2. "We recommend that Mildmay:

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

- Refund to CDC \$170,386 for unallowable meals

Mildmay Uganda main site is located outside the city center where there is no easy access to eating places. To have lunch each staff would have to move far out of the premises to locate convenient places to eat. Mildmay Uganda has therefore always provided a corporate meal on site to avoid the otherwise inevitable disruption of the work day. In years 1 and 2 the CDC approved budgets provided for staff meals. Following communication from CDC regarding disallowability of meals, this item was not included in the Y3 budget. Staff were expected to pay for their meals henceforth from their salaries. To manage the continuous disruption arising out of staff challenges around accessing meals in the new environment, a Staff Food Committee was established. Members of the committee were nominated by the staff to manage all matters concerning staff meals while on site including negotiating provider contracts, determining prices, menus, quality and hygiene of meals, etc. Mildmay Uganda's responsibility was to deduct funds at source as advised by each staff and categorically stated in their signed contract. Mildmay Uganda is always open to support staff-driven initiatives to improve their wellbeing and job satisfaction. Such initiatives may involve deductions from salary as advised by staff e.g. for corporate nutrition, staff savings and welfare scheme (TM-SACCO), contributions to Social Responsibility Fund to support needy communities and dependants medical care among others. A copy of the employment contract is attached here under document [reference M13](#) we have also attached copies of some of the minutes of the Staff Food Committee meetings for your reference.

Non Concurrence: Mildmay Uganda Staff contracts provide for gross salary in the terms of employment. This category of costs is part of the staff pay and was not misrepresented. The staff meals are paid for and managed by the staff.

Audit recommendation

- Refund to CDC \$1,119 for unallowable wedding costs

Mildmay Uganda concurs with the recommendation to refund \$1,119.

The costs related to the staff wedding were erroneously charged to the CDC grant. These costs should have been charged to the staff social responsibility fund. Regular validation of system entries with the use of [REDACTED] which is superior to [REDACTED] should make the process easier.

Concurrence: Mildmay Uganda will refund \$1,119

Audit Recommendation

Work with CDC to determine the allowability of \$15,435 in gifts

We have done review of the various transactions reflected above and below are our responses and a schedule has been provided with the detailed explanation against each in document [reference M15](#).

Category A: \$13,747 of these costs relate to allowable program activities.

The system entries classified in this category include the following:

- i) [REDACTED] These are direct Program related costs \$3,899. Linkage facilitators are volunteers/ people living with HIV supporting the program to do community follow up of PLHIV pregnant and lactating mothers for adherence and retention on the EMTCT program. They also support functionality of family support group on ART clinic days. All volunteers will receive T/Shirts for ease of identification, transport facilitation and airtime to support their field work. The best performing volunteers as evidenced by accountability for/retention of clients attached to them, in care are rewarded with small increases in monthly airtime, an extra T/shirt, certificates of recognition, etc... at a district/health facility/community performance review meeting.

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

- ii) These are direct Program related cost \$4,353. Task compensation is a program strategy that was devised to improve health facility performance against targets by period. This cost was in the approved budget for year-Grant Award number: 5U2GPS002909-05. Each health facility at the beginning of the year is assigned program targets for each thematic program area. Mildmay Uganda provides technical support to the facilities to achieve against the set targets. Achievement of targets depends on a number of factors including staff motivation in the context of chronic under staffing in the districts. Poor staff motivation manifests in increased absenteeism, refusal to work beyond normal hours, incompleteness of records and failure to implement Quality Improvement projects, among others. Award of best performing health facilities was done at district /regional performance review meetings. The awards included (i) cash awards- these did not exceed the budgeted amount for the period per facility to support critical program improvement initiatives for the health facility like sanitation, support for Quality Improvement meetings, airtime to follow up clients, transport facilitation for health workers to support other clinics within the district that are very poorly staffed on ART days. (ii) Recognition plaques (iii) certificates. All these efforts are geared towards encouraging better performance by other facilities or staff within a given cluster on the PEPFAR program.
- iii) These are Program related cost \$5,188. They relate to recognition and award of staff for performance is a culture at Mildmay Uganda and is provided for within the policy framework. See document [reference M15- Mildmay Uganda policy extract from HR Manual and Mildmay Uganda Annual Performance Appraisal tool](#). Such awards for achievement against individual/program team program targets were done at quarterly program performance review meetings or at the annual staff team building event at the end of the year. MUg implements an intricate performance management appraisal system that requires individuals to set and perform against agreed annual targets aligned to the annual project work plans. Assessment of an individuals' performance is further validated through other mechanisms including peer appraisal against attributes not assessed directly through the routine appraisal system but relevant to achievement of program targets. Mug is a member of the [REDACTED] (Uganda's employers' umbrella body) and is expected to participate in annual member employers' HR practice performance reviews. These reviews benchmark best practices and thus improvement in MUg's management of its workforce
- iv) As per document [reference M15](#) titled "Updated schedule of rates for all Government officials attending Project activities" [REDACTED] a staff of the [REDACTED] was entitled to Shs.80,000 per day under the section of Facilitation and Writing fees as supporting MUg project activities.

Non Concurrence: *Mildmay Uganda requests that \$13,747 be approved as program related costs and therefore rightly charged to the CDC award. In consultation with CDC Uganda, these are considered normal program related activities designed to improve performance of staff, facilities and districts in achievement of PEPFAR goals and therefore allowable expenditure under the award.*

Category B

\$1,688 of these costs were wrongly coded to the CDC award. All expenses in this category should have been charged to the UK and not to CDC award. Regular checks of system entries with [REDACTED] which is superior to [REDACTED] will make monthly validation processes much easier.

Concurrence: *Mildmay Uganda will refund \$1,688.*

Audit Recommendation

“Work with CDC to obtain \$190,653 of VAT reimbursement Refund to CDC from Ugandan Government”

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

Mildmay Uganda agrees that VAT was paid using PEPFAR/CDC awarded funds in accordance to the requirements of the VAT act and appendix B to 2CFR part 230 selected items of cost. Mildmay Uganda continues to submit quarterly VAT reports to the CDC Uganda Country Office with the understanding that CDC Uganda will work with the government of Uganda to request re-imbursement for VAT paid on activities and expenditures incurred by Mildmay Uganda to fulfill the terms and conditions of the Cooperative Agreement.

Concurrence: Efforts to follow up VAT returns will continue. We carried out all the due processes in accordance with the grant requirements and consider this a matter beyond the jurisdiction of Mildmay.

Section II: Specific Internal Control Environment

Mildmay takes note of the audit comments on systems and controls in this report. Mildmay continues to implement continuous improvement initiatives as noted from routine project implementation and following recommendations by audit. Mildmay Uganda has intentionally strengthened grant compliance over the years to include the following;

- *A Grant Management and Compliance department has been carved out of the main stream finance department and established with focus on Grant Compliance, Budget control and Sub grantee monitoring among other roles. The Grants Finance Manager, under the guidance of the Director of Finance, leads this team. This department is responsible for backstopping all grant budget and compliance issues and ensures that the risk of dis-allowability of cost is negligible.*

The financial accounting department on the other hand focuses on strengthening the Internal Control Environment and compliance to statutory obligations.

- *Trainings sessions have been undertaken for key stakeholders, including staff across the organization, the board and sub-grantees. Mildmay Uganda continues to create awareness of the specific OMB guidelines relevant for the day-to-day implementation of the CDC grant. Through an enhanced internal audit function, we are positioned to pro-actively address Grant implementation risk through comprehensive Enterprise Risk Management Framework.*

Audit recommendation

- a) Use the currency conversation rate in effect on the date it prepares the FFR rather than the weighted average

Response

Mildmay Uganda takes note of auditors recommendations and hence forth will use conversion rate of preparing the FFR.

- b) Develop and implement policies and procedures for FFR preparation and records retention

Mildmay Uganda Response

Mildmay Uganda has a finance manual that largely focuses on International Financial reporting Standards that provide guidance on the treatment of grants, preparation of financial statements, reporting, budgeting and internal controls. A number of SOPs are in place to support specific financial grant reporting requirements. The SOPs for PEPFAR/CDC have been updated to include procedures for FFR preparation and records retention and recommended.

- c) Enhance policies and procedures to include detailed steps to account for expenditures

Mildmay Uganda Response

Mildmay Uganda has a finance manual that largely focuses on International Financial reporting Standards that provide guidance on the treatment of grants, preparation of financial statements, reporting, budgeting and internal controls. A number of SOPs are in place to support specific financial grant reporting requirements. The SOPs for PEPFAR/CDC have been updated.

- d) Follow established policies and procedures to ensure financial transactions are properly approved

Mildmay Uganda has an enhanced audit function with three full time staff. An organization risk register is in place and regularly tracked as part of managing organizational culture. Risk committees have been established at all management levels. Risk reporting is a standing agenda item at every Management/Board meeting. MUg board has active audit and finance committees that meet at least once every quarter to review management practice and ensure continuous improvement in the control environment. Staff and Board training in critical risk areas identified from the regular audits is on-going. Policies and procedures will be improved as Mildmay Uganda continues to learn from the experiences of implementing various grants.

- e) Implement an accounting system that allows it to accurately account for Federal funds

Mildmay Uganda Response

Mildmay Uganda acknowledges the limitation of [REDACTED] inability to simultaneously report on more than one currency and the lack of stock management module as highlighted in our various responses to this audit report. Starting July 2015 Mildmay Uganda rolled-out a new Enterprise Resource Planning system [REDACTED] after training the staff. This system has the capacity to report in two currencies simultaneously and also has a stock management module which is now in use. The system has the capacity to maintain a cash accounting ledger separate from the accrual based accounting ledger. This will resolve the issues highlighted concerning the differences between the FFR and General ledger.

Mildmay Uganda has provided a reconciliation document [reference M9-12](#) to explain the apparent discrepancy between the FFR and General ledger amount. In this note we refer to the auditors finding in the draft report on page 8 paragraph 2 to a variance of \$5,149,590 between the FFR report and the General ledger. This variance arose from the inclusion of stock adjustment figures in the General ledgers which amounts which figures are not reported in the FFRs since these expenditures were recognized at purchase.

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

Mildmay Uganda remains committed to providing further support to any additional questions that may arise after this submission.

Sincerely,



Dr. Barbara Mukasa

Executive Director

Mildmay Uganda