



*Office of Inspector General  
for the Millennium Challenge Corporation*

August 31, 2011

Mr. Patrick Fine  
Vice President of Compact Operations  
Millennium Challenge Corporation  
875 Fifteenth Street, N.W.  
Washington, DC 20005

Subject: Limited Scope Review of the Millennium Challenge Corporation (MCC) Resources Managed by Millennium Challenge Account-Mongolia (MCA-Mongolia), Under the Compact Agreement Between MCC and the Government of Mongolia (Report No. M-000-11-009-S)

Dear Mr. Fine:

This letter transmits our final report pertaining to our limited scope review of MCA-Mongolia. In finalizing the report, we considered your written comments on our draft report and included those comments in their entirety in appendix II of this report.

The report contains seven recommendations to improve the likelihood that the compact will be completed by its end date and to improve internal controls related to procurement and travel. We consider that management decisions have been reached on all seven Recommendations and final action taken on Recommendations 1, 2, 3, 6, and 7. Final action will be reached on Recommendations 4 and 5 when MCC provides additional documentation.

I appreciate the cooperation and courtesy extended to my staff during this review.

Sincerely,

/s/

Alvin A. Brown  
Assistant Inspector General  
Millennium Challenge Corporation

cc: John Mantini, MCC, Assistant General Counsel  
[mantinijc@mcc.gov](mailto:mantinijc@mcc.gov)

Arlene McDonald, MCC, Compliance Officer  
[mcdonalda@mcc.gov](mailto:mcdonalda@mcc.gov)

William Gallagher, MCC, Director of Compact Implementation  
[gallagherwj@mcc.gov](mailto:gallagherwj@mcc.gov)

Bikram Sachdeva, MCC, Director, Fiscal Accountability  
[sachdevab@mcc.gov](mailto:sachdevab@mcc.gov)

Robert Reid, MCC, Resident Country Director for Mongolia  
[reidr@mcc.gov](mailto:reidr@mcc.gov)

Burak Inanc, MCC, Deputy Resident Country Director for Mongolia  
[inancbc@mcc.gov](mailto:inancbc@mcc.gov)

# SUMMARY

On October 22, 2007, the Millennium Challenge Corporation (MCC) signed a 5-year, \$285 million compact with the Government of Mongolia aimed at reducing poverty and promoting sustainable economic growth through investments in four projects. This MCC compact represented the largest foreign donor project being implemented in Mongolia, and was entered into force on September 17, 2008, with a 5-year timeline for project implementation. Initially, the single largest component of the compact was a \$188 million railroad project.

At the request of the Government of Mongolia, the rail project was canceled and the associated funds were reallocated through an amendment to the compact in January 2010. Approximately \$370,000 was spent on the rail project before it was terminated. The compact was amended and MCC reallocated \$127 million of the \$188 million previously obligated for the rail project to a road project and an energy and environmental project. The remaining \$61 million was reallocated to the remaining initial projects, including increases to monitoring and evaluation and program administration.

The amended compact is composed of five projects and is designed to increase economic activity by: (1) providing more effective registration of property land titles in major urban areas, (2) providing for sustainable management and utilization of rangelands in selected peri-urban areas, (3) improving vocational training to help Mongolians qualify for more demanding and financially rewarding market-oriented jobs, (4) ensuring that Mongolians become healthier and more productive as they enter the marketplace, (5) increasing the adoption of energy-efficient products and homes in the ger<sup>1</sup> districts supporting the development of renewable energy, and (6) improving the road in the critical north-south economic corridor.

The objective of this Office of Inspector General (OIG) review was to determine:

- Are there issues that may prevent completion of project activities by compact end?
- Is the Millennium Challenge Account-Mongolia (MCA-Mongolia) complying with its Procurement Operations Manual and MCC's Program Procurement Guidelines?
- Are there weaknesses in MCA-Mongolia's existing internal controls related to travel and human resources?

For the first objective, this review concluded that there are a number of issues that could impact MCA-Mongolia's ability to successfully complete all projects by the end of the compact. First, the termination of the rail project and subsequent restructuring of the \$188 million resulted in some unavoidable delays in implementing a significant portion of the five-year compact. Additionally, MCA-Mongolia was operating at about 70 percent of its planned personnel capacity; some personnel had not been hired to implement critical project activities. The lack of adequate staffing, increases the risk that some of the projects may not be completed in a timely manner. Target indicators and baseline data for several of the projects also had not been developed. Without such data, it will be difficult to measure the success of the projects. Further, there is the challenge of implementing project activities (such as road construction)

---

<sup>1</sup> The traditional, transportable dwelling of Mongolian nomads.

during the harsh winter conditions in Mongolia. Temperatures can drop to -40°F, impeding the ability to complete the compact within the remaining 25 months.

For the second objective, MCA-Mongolia did not always comply with its Fiscal Accountability Plan and MCC's Program Procurement Guidelines. Procurement requisition forms were not prepared for two of three procurements reviewed as required by the fiscal accountability plan.

For the third objective, the review identified internal control weaknesses related to travel and human resources. The international travel expenses incurred by MCA-Mongolia were much higher than those incurred by most other MCAs we have visited. Further, travel expenses were incurred for numerous international destinations. Although international travel and related costs were not reviewed in detail, we concluded that there is potential for abuse of compact travel funds.

To address the above project implementation, procurement, and internal control issues, the OIG recommends:

***Recommendation 1.*** We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Mongolia's management to meet with its Board of Directors and reassess the compact status in relationship to the remaining compact duration and develop and implement a plan to help ensure timely completion of the compact (page 6).

***Recommendation 2.*** We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Mongolia to review the critical personnel needs of all five projects and prioritize the vacant positions essential for compact success (page 7).

***Recommendation 3.*** We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Mongolia to develop and implement a plan to expedite the hiring of qualified essential individuals (page 7).

***Recommendation 4.*** We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Mongolia to develop and implement a plan to update its Monitoring and Evaluation plan to reflect the current status of the projects in the amended compact (page 7).

***Recommendation 5.*** We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Mongolia to develop and implement a plan to address the annual target indicators and baseline data for all projects to use in measuring progress toward end-of-compact goals (page 7).

***Recommendation 6.*** We recommend that the Millennium Challenge Corporation Vice President of Compact Operations send a memo or letter to Millennium Challenge Account-Mongolia emphasizing the importance of preparing procurement requisition forms (page 8).

***Recommendation 7.*** We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require that all proposed Millennium Challenge

*Account-Mongolia international travel be approved by the Millennium Challenge Corporation Resident Country Director (page 8).*

Detailed results of this review appear in the following section. The scope and methodology are included in Appendix I. MCC agreed with all seven recommendations. Management decisions have been reached on all seven Recommendations. Final action has been taken on Recommendations 1, 2, 3, 6, and 7, but MCC will need to provide additional documentation before final actions can be taken on Recommendations 4 and 5.

# REVIEW RESULTS

## **Plans Need to Be Developed to Ensure Timely Completion of Compact Activities**

MCA-Mongolia's project activities under the compact must all be completed within the remaining 25 months. However, there are a number of issues that could impact MCA-Mongolia's ability to complete the compact in a timely manner. The \$285 million compact had to be restructured owing to the termination of the planned \$188 million rail project. The rail project termination resulted in some unavoidable delays in implementing a significant portion of the compact. Additionally, an uncontrollable challenge in implementing the compact is the harsh weather conditions in Mongolia for about 5 months of the year, when temperatures can drop to -40°F. As of June 30, 2010 (approximately 22 months into the compact), \$18 million had been disbursed and \$90 million contractually committed of the \$285 million compact. MCA-Mongolia's goal was to finish all procurements by the end of calendar year 2010. Thus, significant procurement activities involving significant dollar amounts needed to be advertised, bid, and signed within a short time.

A planned rapid procurement of services and goods will be necessary in order to complete the compact within the remaining 25 months. However, MCA-Mongolia officials stated that procurements were taking an average of 4 to 6 months from advertisement to contract signing. Consequently, proper internal control within the procurement process will be crucial to reduce vulnerability and help ensure the efficient use of compact funds.

To ensure successful compact completion, numerous project activities with large expenditures need to be efficiently and effectively implemented. MCA-Mongolia's Board of Directors has final decision-making authority over the implementation of the compact. To ensure timely completion, OIG makes the following recommendation:

***Recommendation 1.*** *We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Mongolia's management to meet with its Board of Directors and reassess the compact status in relationship to the remaining compact duration and develop and implement a plan to help ensure timely completion of the compact.*

## **Critical Personnel Need To Be Hired**

A study done by an MCC consultant identified the need for an additional 30 to 40 employees. At the time of the review, there were about 100 employees at MCA-Mongolia, and more were needed to implement all of the compact projects. Job descriptions would also need to be developed for the proposed additional positions. MCA-Mongolia's Chief Executive Officer, Chief Operating Officer, Personnel Specialist, and MCC's Resident Country Director explained that specialized personnel were needed to implement this compact, and it was difficult to find qualified technical personnel who also spoke English.

At the time of the review, MCA-Mongolia was operating at about 70 percent personnel capacity. Although recruiting was being conducted, the process needed to be expedited in order to ensure successful compact implementation. It will be difficult to accomplish the annual target

indicators for the compact's five projects without the needed technical personnel on board in time. To address this issue, OIG makes the following recommendations:

***Recommendation 2.*** We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Mongolia to review the critical personnel needs of all five projects and prioritize the vacant positions essential for compact success.

***Recommendation 3.*** We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Mongolia to develop and implement a plan to expedite the hiring of qualified essential individuals.

### **Target Indicators and Baseline Data Need to Be Developed for Some Projects**

Annual target indicators had not yet been established for the \$127 million road and energy and environmental projects. These projects were developed when the railroad project was terminated in January 2010. In addition, a health project aimed at ensuring that Mongolians become healthier and more productive as they enter the marketplace had no baseline data or target indicators included in the Monitoring and Evaluation (M&E) Plan. According to MCA-Mongolia's M&E coordinator, the restructuring and the resulting late start on the compact are part of the reason for the incomplete indicators. The M&E Plan is subject to periodic changes and revisions, and according to the M&E coordinator it was expected to be updated in late 2010 or early 2011—at which point the compact duration will be about half completed. MCA-Mongolia plans to contract with a short-term local economist to collect economic data that will be used to develop target indicators. However, to address concerns with the M&E plan and the lack of annual targets and baseline data, OIG makes the following recommendations:

***Recommendation 4.*** We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Mongolia to develop and implement a plan to update its Monitoring and Evaluation plan to reflect the current status of the projects in the amended compact.

***Recommendation 5.*** We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Mongolia to develop and implement a plan to address the annual target indicators and baseline data for all projects to use in measuring progress toward end-of-compact goals.

### **Procurement Requisition Forms Should Be Used**

Procurement requisition forms were not prepared for two of the three procurements reviewed by OIG. The two procurements and their estimated amounts were included in MCA-Mongolia's procurement plans as follows:

- Technical assistance for the prevention and control of non-communicable diseases and injuries for \$6,597,000; and
- Consulting services for the vocational education project for \$5,700,000.

Section 6.2 of MCA-Mongolia's Fiscal Accountability Plan states,

The relevant Project Director (PD) or the designated "budget accountable person" for the Program Admin Budget shall initiate a procurement request by filling out a Requisition Form that specifies but is not limited to the description; quantity; sources of funds, market survey, or sole source justification, as required.

Although we could not determine why procurement requisition forms were not prepared for the two procurements, the preparation of requisition forms is important to ensure that funding is available prior to the initiation of the procurement process. To address this concern, OIG makes the following recommendation:

***Recommendation 6.*** We recommend that the Millennium Challenge Corporation Vice President of Compact Operations send a memo or letter to Millennium Challenge Account-Mongolia emphasizing the importance of preparing procurement requisition forms.

### **Control Over International Travel Should Be Strengthened**

The Resident Country Director should be involved in the approval process for international travel expenses incurred by MCA-Mongolia. MCA-Mongolia's travel expenses are several times those incurred by many other MCAs we have visited. As of August 5, 2010, MCA-Mongolia had incurred international travel and related costs of \$364,672. This included such costs as training registration fees for four individuals in the amounts of \$3,950, \$3,950, \$4,058, and \$8,000. Most of the international travel appeared to relate to attending training and conferences, with travel destinations that included Australia, Armenia, Canada, Czech Republic, Denmark, Finland, Germany, Hong Kong, Italy, Japan, Malaysia, Morocco, the Netherlands, Russia, Vietnam, and many locations in the United States. Although this review did not examine international travel and related costs in detail, we concluded that this is a vulnerable area, and there is potential for improper use of compact travel funds. Consequently, MCC needs to strengthen the internal control environment at MCA-Mongolia related to international travel by requiring the MCC Resident Country Director to become involved in the approval process for international travel. To address this concern, OIG makes the following recommendation:

***Recommendation 7.*** We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require that all proposed Millennium Challenge Account-Mongolia international travel be approved by the Millennium Challenge Corporation Resident Country Director.



# EVALUATION OF MANAGEMENT COMMENTS

Our draft report contained eight recommendations. However, based on clarification provided by MCC in its response to the draft report, we removed one of the eight recommendations from the final report.

MCC agreed with all seven recommendations in the report. Management decisions have been reached on all seven Recommendations. Final action has been taken on Recommendations 1, 2, 3, 6, and 7, but MCC will need to provide additional documentation before final actions can be taken on Recommendations 4 and 5.

MCC agreed with **Recommendation No. 1** for MCA-Mongolia to assess the compact status in relationship to the remaining compact duration and implement a plan to help ensure timely completion of the activities. According to MCC, MCA-Mongolia has already undertaken several initiatives since the review to ensure it is managing the project schedule to compact completion. MCA-Mongolia, with guidance from MCC, has updated and integrated project work plans and developed project risk matrixes. These tools are updated regularly and are being used by MCA-Mongolia to manage project progress, and provide quarterly reports to its Board of Directors. OIG considers that a management decision has been reached which also constitutes final action.

MCC agreed with **Recommendation No. 2** for MCA-Mongolia to review critical personnel needs and prioritize vacant positions essential for compact success. Since the OIG's field work, MCA-Mongolia has assessed its critical personnel needs for each of the projects, modified its staffing plan to address identified resource constraints, and filled all of the essential positions. OIG considers that a management decision has been reached which also constitutes final action.

MCC agreed with **Recommendation No. 3** for MCA-Mongolia to develop and implement a plan to expedite the hiring of qualified essential individuals. In 2010, MCA-Mongolia added approximately 50 new qualified staff to address human resource constraints. OIG considers that a management decision has been reached which also constitutes final action.

MCC agreed with the general intention of **Recommendation Nos. 4 and 5** to implement plans to (a) update its M&E plan, and (b) address annual target indicators and baseline data to use in measuring progress. MCC stated that this aligns with MCC policy and MCA practice. Within MCC, the Department of Policy and Evaluation (DPE) sets policy on M&E, including revisions of MCA M&E plans. DPE works with other departments, particularly the Department of Compact Operations (DCO) to assist MCA units in revising their compact M&E plans, which include annual target indicators.

MCA-Mongolia last revised its M&E plan in May 2010, after the significant compact rescoping. MCA-Mongolia and MCC realized that additional revisions would be needed after additional

survey and administrative data was collected and analyzed to provide baseline data and calculate targets for new indicators and to update some existing indicators and targets. MCA-Mongolia has designed and currently is procuring several data collections in coordination with project activities to inform the M&E plan revision. MCC and MCA-Mongolia staff therefore will complete this revision in the first quarter of fiscal year 2012 and expect that the MCA Board will approve the changes in the first quarter of fiscal year 2012 or the second quarter of fiscal year 2012 depending on their meeting schedule. OIG considers that a management decision has been reached, and MCC will advise OIG once this revision is completed. Final action will take place on Recommendations 4 and 5 after MCC has completed the revisions.

MCC agreed with **Recommendation No. 6** for MCA-Mongolia to emphasize the importance of preparing procurement requisition forms. A letter from MCC emphasizing the importance of preparing procurement requisition forms as required under section 6.2 of the MCA-Mongolia Fiscal Accountability Plan was drafted on July 12, 2011 and was sent to the MCA-Mongolia Chief Executive Officer on July 18, 2011. OIG considers that a management decision has been reached which also constitutes final action.

MCC agreed with **Recommendation No. 7** for MCA-Mongolia to have the Regional Country Director review international travel by MCA-Mongolia staff under a no objection approach. Since the time the review was conducted, MCA-Mongolia has submitted all proposed MCC-funded international travel to the MCC Resident Country Director for no objection. OIG considers that a management decision has been reached which also constitutes final action.

# SCOPE AND METHODOLOGY

## Scope

The Office of Inspector General conducted this review of Millennium Challenge Account-Mongolia (MCA-Mongolia) to determine the current status of its compact projects. Also, we conducted the review to develop recommendations that would improve the likelihood that the compact projects will be finished by the compact end date, and to identify obvious internal control weaknesses in the procurement process to lessen the probability of waste, fraud, and abuse. Although this review was not an audit, we conducted this review in accordance with Government Auditing Standards, specifically Chapter 3 and Chapter 7, Sections 7.55 and 7.72 to 7.79. We planned and performed this review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our review objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions. The fieldwork for this review was conducted from July 26 to August 10, 2010, in Ulaanbaatar, Mongolia.

## Methodology

We interviewed MCA-Mongolia management, including relevant project directors. We tested three procurements for compliance with MCA-Mongolia's Procurement Operations Manual and MCC's Program Procurement Guidelines. Also, we reviewed travel advances, reconciliations related to the Common Payment System, policies and procedures manuals and pertinent documentation related to the status of the compact projects. Finally, we reviewed MCA-Mongolia's monitoring and evaluation plan.

To answer the review objectives, review steps were established to determine the following:

- Are there issues that may prevent completion of project activities by compact end?
- Is MCA-Mongolia complying with its Procurement Operations Manual and MCC's Program Procurement Guidelines?
- Are there weaknesses in the existing internal controls related to travel and human resources?

# MANAGEMENT COMMENTS



DATE: July 19, 2011

TO: Mr. Alvin Brown, Assistant Inspector General  
Millennium Challenge Corporation

FROM: Mr. Patrick C. Fine, Vice President - Department of Compact Operations  
Millennium Challenge Corporation /ss/

Dear Mr. Brown:

The Millennium Challenge Corporation (MCC) appreciates the opportunity to respond to the Office of Inspector General's (OIG) draft report entitled "Limited Scope Review of the Millennium Challenge Corporation (MCC) Resources Managed by Millennium Challenge Account-Mongolia (MCA-Mongolia), Under the Compact Agreement between MCC and the Government of Mongolia (Report No. M-000-11-00X-S)". In addition to providing a response to the eight recommendations within the draft report, MCC has commented on several inaccurate conclusions found within the draft report which are addressed herein.

MCC's specific responses to the eight recommendations in the draft report are detailed below.

***Recommendation No. 1: We recommend that the Millennium Challenge Corporation's Vice President for Compact Operations require Millennium Challenge Account-Mongolia's management to meet with its Board of Directors and reassess the compact status in relationship to the remaining compact duration and develop and implement a plan to help ensure timely completion of the compact.***

***MCC Response:*** MCC agrees with the recommendation that MCA-Mongolia assesses the compact status in relationship to the remaining compact duration and implement a plan to help ensure timely completion of the activities. From the time the audit was conducted in July of 2010, MCA-Mongolia has already undertaken several initiatives to ensure it is managing the project schedule to compact completion. MCA-Mongolia, with guidance from MCC, has updated and integrated project work plans and developed project risk matrixes. These tools are updated regularly and are being used by MCA-Mongolia to manage project progress, and provide quarterly reports to its Board of Directors. This constitutes MCC's management decision and final action.

***Recommendation No. 2: We recommend that the Millennium Challenge Corporation's Vice President for Compact Operations require Millennium Challenge Account-Mongolia to review the critical personnel needs of all five projects and prioritize the vacant positions essential for compact success.***

***MCC Response:*** MCC agrees with the recommendations that MCA-Mongolia's critical personnel needs should be reviewed and that vacant positions essential for compact success should be prioritized. Since the OIG's audit field work was conducted in July 2010, MCA-Mongolia has assessed its critical personnel needs for each of the projects, modified its staffing plan to address identified resource constraints, and filled all of the essential positions. This constitutes MCC's management decision and final action.

***Recommendation No. 3: We recommend that the Millennium Challenge Corporation's Vice President for Compact Operations require Millennium Challenge Account-Mongolia to develop and implement a plan to expedite the hiring of qualified essential individuals.***

***MCC Response:*** MCC agrees with the recommendation that MCA-Mongolia should develop and implement a plan to expedite the hiring of qualified essential individuals. In 2010, MCA-Mongolia has added approximately 50 new qualified staff to address human resource constraints. MCC will provide to the OIG a revised organizational chart with new positions which have been filled during this period and since the audit was conducted. MCC will deliver this under separate cover by Wednesday, July 20<sup>th</sup>. This constitutes MCC's management decision and final action.

***Recommendation No. 4: We recommend that the Millennium Challenge Corporation's Vice President for Compact Operations require Millennium Challenge Account-Mongolia to develop and implement a plan to update its Monitoring and Evaluation plan to reflect the current status of the projects in the amended compact.***

***Recommendation No. 5: We recommend that the Millennium Challenge Corporation's Vice President for Compact Operations require Millennium Challenge Account-Mongolia to develop and implement a plan to address the annual target indicators and baseline data for all projects to use in measuring progress toward end-of-compact goals.***

***MCC Response to Recommendations No. 4 and No. 5:*** MCC agrees with the general intention of these recommendations, as this aligns with MCC policy and MCA practice. Within MCC, the Department of Policy and Evaluation (DPE) sets policy on M&E, including revisions of MCA M&E plans. DPE works with other departments, particularly the Department of Compact Operations (DCO) to assist MCA units in revising their compact M&E plans, which include annual target indicators.

Section 5.2.4 of MCC's Policy for Monitoring and evaluation of Compacts and Threshold Programs states that, "there is no pre-determined schedule for modifying M&E Plans. However, M&E Plans will be revised on an as needed basis...."

MCA-Mongolia last revised its M&E plan in May 2010, after the significant compact rescoping. MCA-Mongolia and MCC realized that additional revisions would be needed after additional survey and administrative data was collected and analyzed to provide baseline data and calculate targets for new indicators and to update some existing indicators and targets. MCA-Mongolia has designed and currently is procuring several data collections in coordination with project activities to inform the M&E plan revision. MCC and MCA-Mongolia staff therefore will complete this revision in the first quarter of fiscal year 2012 and expect that the MCA Board will approve the changes in the first quarter of fiscal year 2012 or the second quarter of fiscal year 2012 depending on their meeting schedule. This constitutes MCC management decision, and MCC will advise OIG once this revision is completed.

***Recommendation No. 6: We recommend that the Millennium Challenge Corporation's Vice President for Compact Operations review and approve or disapprove the \$1.2 million sole-source procurement related to the prevention and early detection of strokes and heart attacks.***

***MCC Response:*** MCC wishes to point out that the \$1.2 million action that is characterized as a "sole-source procurement" in the recommendation is not, in fact, a \$1.2 million contract as implied by the draft audit report. Rather, it is a \$1.4 million donor agreement between MCA-Mongolia and the World Health Organization to provide increased assistance in strengthening the national program for the prevention, early identification and treatment of stroke and heart attack. The MCA-Mongolia Board of Directors provided its approval to enter into this direct agreement on May 24, 2010. The agreement was then cleared by the MCC Mongolia Implementation Support Team's health, procurement and legal experts, and approved by the Resident Country Director on August 10, 2010. The agreement was executed in September 2010. Upon review of this grant to an international organization the Vice President for Compact Operations notes that MCC's grants manual explicitly provides that "[competition is not required for grants with PIOs]" (Appendix D, section 1.3), and that MCC need not require competition for an MCA grant in a similar situation. Therefore, the VP has concluded that appropriate assistance procedures were followed and confirms the approval of the grant by MCC. This constitutes MCC's management decision and final action.

***Recommendation No. 7: We recommend that the Millennium Challenge Corporation's Vice President for Compact Operations send a memo or letter to Millennium Challenge Account-Mongolia emphasizing the importance of preparing procurement requisition forms.***

***MCC Response:*** MCC agrees with the recommendation that MCC emphasize to MCA-Mongolia the importance of preparing procurement requisition forms. A letter from MCC emphasizing the importance of preparing procurement requisition forms as required under section 6.2 of the MCA-Mongolia Fiscal Accountability Plan was drafted on July 12, 2011 and is being sent to the MCA-Mongolia Chief Executive Officer on July 18, 2011. This constitutes MCC's management decision and final action.

***Recommendation No. 8: We recommend that the Millennium Challenge Corporation's Vice President for Compact Operations require that all proposed Millennium Challenge Account-Mongolia international travel be approved by the Millennium Challenge Corporations Resident Country Director.***

***MCC Response:*** MCC agrees with the recommendation that where MCC provided funds are used for international travel by MCA-Mongolia staff that MCC provide a no objection. Since the time the audit was conducted in July 2010, MCA-Mongolia has submitted all proposed MCC-funded international travel to the MCC Resident Country Director for no objection. This is further emphasized in the above referenced letter from MCC to the MCA-Mongolia CEO. This constitutes MCC management decision and final action.

***Additional MCC Comments on the Limited Scope Review draft report.***

The draft report incorrectly notes that the termination and subsequent restructuring of the planned \$188 million rail project resulted in about 18 months of lost time to implement the five-year compact. This conclusion requires revision for two reasons. The first is the incorrect assertion that the rail project termination and restructuring caused a delay in the implementation of the entire compact. Although the cancelation and restructuring of the rail project required a significant amount of effort on behalf of MCC and MCA-Mongolia, implementation of the original Health, Vocational Education, and Property Rights projects continued to proceed in their implementation. The second is the amount of time (18 months) used as the length of a delay. MCC disagrees with the length of time used and its characterization as a delay of the compact. The OIG should describe how it calculated the length of time and describe what it considers to be a delay.

The draft report outlines three objectives of the limited scope review. However, these three objectives differ significantly from the objectives outlined in the official notice of audit sent to MCC on July 1, 2010. MCC requests that the OIG notify MCC in writing of changes in the objectives of future reviews or audits.

The actions specified above constitute management decision for all eight of the above recommendations and final action for recommendations 1, 2, 3, 6, 7, and 8. If you have any questions, please contact Pat McDonald, MCC Compliance Officer, at (202) 521-7260.