



OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

MEMORANDUM

DATE: April 17, 2023

TO: Millennium Challenge Corporation, Chief Risk Officer, Lori Giblin

FROM: Director of External Financial Audits Division (IG/A/EFA), David A. McNeil /s/

SUBJECT: Financial Audit of Millennium Challenge Corporation (MCC) Resources Managed by Millennium Challenge Account-Nepal, Under the Compact Agreement Between MCC and the Government of Nepal, for the period April 1, 2021, to September 30, 2021 (3-MCC-23-004-N)

This memorandum transmits the final audit report on Millennium Challenge Corporation (MCC) resources managed by Millennium Challenge Account-Nepal (MCA-Nepal), under the compact agreement between MCC and the Government of Nepal, for the period April 1, 2021, to September 30, 2021. MCA-Nepal contracted with the independent certified public accounting firm UHY Suvod Associates (UHY) to conduct the audit. UHY stated that it performed its audit in accordance with generally accepted government auditing standards (GAGAS) and The Guidelines for Financial Audits Contracted by the MCC's Accountable Entities (MCC Guidelines). However, UHY did not have an external quality control review and a continuing education program that fully satisfied the GAGAS requirements. UHY is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on MCA-Nepal's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.¹

The audit objectives were to (1) express an opinion on whether the fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate MCA-Nepal's internal controls; (3) determine whether MCA-Nepal complied with the awards' terms and applicable laws and regulations; (4) review cost-sharing contributions to determine whether cost-sharing contributions were provided and accounted for by the MCA-Nepal in accordance with the terms of the agreement; and (5) determine if MCA-Nepal has taken adequate corrective action on prior audit report recommendations.

¹ We reviewed the audit report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the audit firm's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

To answer the audit objectives, UHY: (a) reviewed general and program accounting records to determine whether costs incurred were properly recorded; (b) checked that funding received from the MCC was appropriately recorded in the MCA-Nepal's accounting records and those records were periodically reconciled with the information provided by the MCA-Nepal, and (c) reviewed procurement procedures to determine they were conducted in a manner consistent with the MCC Program Procurement Guidelines to ensure the use of sound commercial practices including competition and price reasonableness, as well as, ensuring that adequate controls were in place over the qualities and quantities received. The UHY examined the MCC costs of \$1,607,819, for the audited period.

UHY concluded that except for \$57 ineligible questioned costs, MCA-Nepal's assistance directly procured by Millennium Challenge Corporation presented fairly, in all material respects, the projects' revenues, costs incurred, and fund balance for the period audited. UHY identified three significant deficiencies in internal controls and one instance of noncompliance. Since the questioned costs did not meet the OIG's established threshold of \$25,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that Millennium Challenge Corporation, Chief Risk Officer determine the allowability of the \$57 in direct questioned costs and recover any amount determined to be unallowable. In addition, although we are not making a recommendation for the significant deficiencies noted in the report, we suggest that MCC's Chief Risk Officer, determine if MCA-Nepal addressed the significant deficiencies on pages 46 through 49 of the audit report. UHY determined that MCA-Nepal resolved eight of the nine prior audit recommendations. Also, UHY reported that MCA-Nepal presented fairly the cost-sharing schedule, in all material respects, in accordance with the basis of accounting used to prepare the cost-sharing contributions schedule. UHY noted other matters involving internal control and immaterial instances of noncompliance that were reported to the management of MCA-Nepal in a separate letter.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) ("commercial or financial information obtained from a person that is privileged or confidential").