



*Office of Inspector General
for the Millennium Challenge Corporation*

September 28, 2009

Mr. Darius Mans
Acting Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005

Dear Mr. Mans:

This letter transmits our Report No. M-000-09-001-S regarding (a) MCC's reduction of the excess cash balances held by accountable entities once the common payment system (CPS) was implemented, (b) selected accountable entities' compliance with the MCC's "Policies and Procedures for Common Payment System" and the applicable fiscal accountability plans (FAPs), and (c) selected accountable entities' compliance with "Cost Principles for Government Affiliates Involved in MCC Compact Implementation." Your comments have been included in their entirety as Appendix A to this report.

Although we identified issues of noncompliance with the MCC's "Policies and Procedures for Common Payment System" and the applicable FAP, we have not made any audit recommendations. In lieu of recommendations, we issued guidance to the independent auditors to include steps to assess compliance with CPS and report such results during the audits of the accountable entities.

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

Sincerely,

Alvin A. Brown /s/
USAID Assistant Inspector General
Millennium Challenge Corporation

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BACKGROUND

The Millennium Challenge Corporation (MCC) is a U.S. Government corporation designed to work with some of the poorest countries in the world. Established in January 2004, MCC is based on the principle that aid is most effective when it reinforces good governance, economic freedom, and investments in people. MCC's mission is to reduce global poverty through the promotion of sustainable economic growth.

In Audit Report No. M-000-06-001-C, dated December 6, 2005, the USAID Office of Inspector General for the Millennium Challenge Corporation (OIG/MCC) issued recommendation no. 3.1, which recommended that MCC management "develop policies and procedures to ensure that the payment schedules and other agreements entered into with grantees are reflective of the Treasury requirements concerning advances and immediate cash needs." This recommendation arose because the OIG/MCC observed that several of MCC's accountable entities had cash balances that exceeded their immediate cash needs.

In response to this recommendation, MCC piloted the common payment system (CPS) at MCA-Mali in June 2007 and implemented the CPS at the other accountable entities in 2008. Once the fiscal agent has received and approved an original invoice from the vendor, MCC's accountable entities use the CPS to request U.S. Treasury funds through the National Business Center. As a result, MCC does not need to transfer large cash balances to its accountable entities before funds are needed to pay vendors, employees, and others. The overall goal of the CPS is to eliminate cash balances that are greater than the immediate cash needs of the accountable entities.

The CPS was implemented in July 2008 and April 2008 at MCA-Nicaragua and FOMILENIO (El Salvador), respectively. The OIG/MCC elected to review the CPS implementation and operations in Nicaragua and El Salvador in conjunction with other OIG/MCC work being performed at these locations.

OBJECTIVES

The OIG/MCC performed this review to answer the following questions:

Did the MCC reduce the excess cash balances held by accountable entities once the CPS was implemented?

Are the accountable entities complying with MCC's "Policies and Procedures for Common Payment System" and their individual fiscal accountability plans (FAPs)?

Are MCC's accountable entities' expenditures allowable, allocable, and reasonable, in accordance with MCC's "Chapter 37: Cost Principles for Government Affiliates Involved in MCC Compact Implementation"?

DISCUSSION

This letter provides the results of the fieldwork performed to address the review's objectives mentioned above.

Did the MCC reduce the excess cash balances held by accountable entities once the CPS was implemented?

Once the CPS was implemented, MCC significantly reduced the excess cash balances held by the accountable entities.¹ This reduction was reflected in the total amount of cash held by the accountable entities at the end of fiscal year (FY) 2007, when compared to FY 2009's first quarter. Specifically, at FY-end 2007 (September 30, 2007), 9 accountable entities maintained cash balances totaling \$22 million, whereas at the end of FY 2009's first quarter (December 31, 2008), 15 accountable entities maintained cash balances totaling \$7.5 million. This represents a decrease of \$14.5 million in cash outstanding, even though during the period the number of accountable entities increased from 9 to 15.

The range of cash balances held by the accountable entities also showed improvement. To illustrate, the cash balances maintained by the 9 accountable entities at FY-end 2007 ranged from \$515,000 to \$4.5 million, whereas the cash balances maintained by the 15 accountable entities at the end of FY 2009's first quarter ranged from \$1,300 to \$3.3 million. This represents a significant improvement by MCC in reducing the cash balances held by the accountable entities.

Are the accountable entities complying with MCC's "Policies and Procedures for Common Payment System" and their individual fiscal accountability plans (FAPs)?

We found that the fiscal agent at FOMILENIO (El Salvador) did not comply with all of MCC's "Policies and Procedures for Common Payment System" nor its FAP. In contrast, MCA-Nicaragua complied with both MCC's "Policies and Procedures for Common Payment System" and its FAP.

Contrary to MCC's "Policies and Procedures for Common Payment System," the fiscal agent in El Salvador requested and received at least (approximately) \$173,000 before the funds were needed to pay invoices and other expenses. The fiscal agent submitted the payment request forms before receipt and approval of original invoices. According to the fiscal agent, the requests were submitted because suppliers, vendors, and others often require payment within 2 or fewer days after issuing an invoice, even though the CPS process requires more than 2 days before FOMILENIO receives funds.

Section 7.2.1, "Creating a CPS Payment Request," of MCC's "Policies and Procedures for Common Payment System" states:

1. The vendor sends an original invoice to the appropriate AE [accountable entity] for payment.

¹ The CPS is the overarching system that uses the U.S. Department of Treasury International Treasury Services System and Secure Payment System to make compact disbursements to U.S. banks and non-U.S. banks, respectively.

2. The Fiscal Agent and the AE Accounting staff process the invoice for payment following the payment procedures outlined in the Fiscal Accountability Plan (FAP).
3. Once the invoice has been approved and certified for payment, the FA Accountant determines whether the vendor's bank is a U.S. or non-U.S. bank based on the SWIFT (non-U.S.) or ABA (U.S.) routing number and the bank address.

Similarly, page 22 of FOMILENIO's FAP states,

The payment process is initiated by the submission of approved invoices and payment request forms. All MCA invoices are approved in accordance with the policies and procedures outlined in the Fiscal Accountability Plan (FAP). Once an invoice has been approved, the Fiscal Agent prepares and submits the appropriate payment request form.

It is clear in both MCC's "Policies and Procedures for Common Payment System" and in FOMILENIO's FAP that the CPS process is to start with the acceptance of an original invoice.

The OIG/MCC does not make any recommendations for MCC to take action regarding FOMILENIO's noncompliance with the CPS. Instead, OIG/MCC issued guidance to the independent audit firms to include steps to assess compliance with the CPS during all semiannual audits of the accountable entities. However, OIG/MCC reserves the right, in the future, to make recommendations regarding accountable entities' noncompliance with the CPS.

Are MCC's accountable entities' expenditures allowable, allocable, and reasonable, in accordance with MCC's "Cost Principles for Government Affiliates Involved in MCC Compact Implementation"?

The expenditures at both FOMILENIO and MCA-Nicaragua were in compliance with MCC's "Cost Principles for Government Affiliates Involved in MCC Compact Implementation."

EVALUATION OF MANAGEMENT COMMENTS

In responding to the draft letter, MCC's management was pleased that the report came to conclusions similar to the Corporation's evaluation of the CPS. MCC also noted that the draft letter reported that MCA El Salvador did not always comply with the CPS requirements. MCC stated that the MCA El Salvador had been informed that the practice of submitting payment request forms before the invoices were received, which is not allowed, must cease. MCC was in agreement with the steps that the independent auditors included in their semiannual audits to test for compliance with the CPS.

MANAGEMENT COMMENTS



Date: July 30, 2009

To: Alvin Brown, Assistant Inspector General, Millennium Challenge Corporation

From: Michael Casella, Acting Vice President Department of Administration and Finance, Millennium Challenge Corporation /s/

Regarding: Response to the Draft Report on the CPS Implementation

This memo serves as MCC's management response to the draft report on the OIG's review of MCC's common payment system program (CPS). MCC appreciates the opportunity to comment on the review of CPS.

Based on the report, the OIG considered the effectiveness of CPS in reducing excess cash balances; the compliance of the accountable entities with CPS's policies and procedures and the compliance with MCC's cost principles.

With respect to the first consideration, MCC is pleased that the OIG's report came to similar conclusions as the Corporation in its evaluation of CPS. As noted in the Report MCC has significantly reduced the cash balances held by MCC's accountable entities (a major objective of CPS) and the range of cash balances held by these entities has improved.

We did note in the OIG's report the instance of non-compliance by MCA El Salvador in submitting some payment request forms early before invoices were received. This was done in an effort to ensure compliance with the prompt payment guideline and did not indicate a systemic problem with the MCA. MCC informed MCA El Salvador that they were not in compliance with CPS guidance and the practice ceased in March 2009. In fact, MCA El Salvador typically has small permitted account balances and has become very rule-driven in its fiscal matters. We should note that balances for April, May and June of 2009 were \$36,735, \$40,190 and \$28,060 respectively. MCC welcomes the OIG's guidance issued to the independent auditors to include steps to assess compliance with CPS during semiannual audits of the MCAs.

MCC looks forward to continuing to work with the OIG to ensure we have sound controls over the common payment system process.

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