



OFFICE OF THE INSPECTOR GENERAL

**FOLLOW-UP AUDIT ON THE
MILLENNIUM CHALLENGE
CORPORATION'S
IMPLEMENTATION OF
SELECTED AUDIT
RECOMMENDATIONS**

AUDIT REPORT NO. M-000-12-003-P
MARCH 30, 2012

WASHINGTON, D.C.



Office of the Inspector General

March 30, 2012

Mr. Daniel W. Yohannes
Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005

Dear Mr. Yohannes:

This letter transmits the Office of Inspector General's report "Follow-Up Audit on the Millennium Challenge Corporation's Implementation of Selected Audit Recommendations." In finalizing the report, we considered your written comments on our draft report and included those comments in their entirety in Appendix II.

This report contains four recommendations to strengthen the Millennium Challenge Corporation's (MCC's) management of audit recommendation follow-up. We consider that management decisions have been reached on Recommendations 1, 2, 3, and 4.

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

Sincerely,

/s/

Mark S. Norman
Acting Deputy Assistant Inspector General
for Audit
Millennium Challenge Corporation

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Abbreviations

The following abbreviations appear in this report:

- ITT indicator tracking table
- MCA Millennium Challenge Account
- MCC Millennium Challenge Corporation
- M&E monitoring and evaluation
- OIG Office of Inspector General
- OMB Office of Management and Budget

SUMMARY OF RESULTS

Government Auditing Standards (GAO-12-331G, December 2011 Revision), issued by the Government Accountability Office, requires that Office of Inspector General (OIG) auditors issue reports communicating the results of each completed performance audit. The standards also state that auditors should follow up on previous findings and recommendations to evaluate whether appropriate corrective action was taken to address them. The standards define corrective action as the measures taken to implement resolved audit findings and recommendations. The Inspector General Act defines final action as the completion of all actions that management considers necessary to respond to the findings and recommendations in the audit report.

Our audit objective was to determine whether the Millennium Challenge Corporation (MCC) took corrective actions to respond to four selected audit recommendations made by OIG. The audit found that MCC took sufficient corrective actions in response to all four. However, OIG identified the following weaknesses in MCC's management of the process for responding to audit recommendations:

- MCC reported final action on one recommendation, but final action occurred months later (page 3). The error indicates that MCC did not keep accurate records on the status of audit recommendations as required by Office of Management and Budget (OMB) Circular A-50.
- Follow-up procedures did not expedite time-sensitive recommendations (page 4). MCC did not act on a recommendation in time for it to be implemented in closure plans for six compacts. Because the recommendation applied to closeout, not implementing it sooner reduced its effectiveness.
- MCC did not establish timelines for final actions (page 5). Of 179 performance audit recommendations made between December 2007 and September 2011, 20 took more than 1 year to implement—some more than 2 years.

To address these concerns, OIG recommends that MCC:

1. Finalize and issue MCC's "Policy for Responding to Inspector General (IG) Audits" to provide guidance on audit recommendation follow-up responsibilities (page 4).
2. Review MCC final action notifications issued during fiscal years 2010 and 2011 to verify whether the recorded actions were taken on OIG recommendations (page 4).
3. Before finalizing its "Policy for Responding to Inspector General (IG) Audits," incorporate a procedure that requires analysis of the timeliness of recommendations, especially time-sensitive recommendations, such as those that are intended to assist Millennium Challenge Accounts during the compact closure period (page 5).
4. Before finalizing its draft "Policy on Responding to Inspector General (IG) Audits," incorporate a requirement that audit follow-up officials provide a justification for any final action that will not be completed within 12 months from the date of the audit report (page 6).

Detailed findings appear in the following section. The scope and methodology are included in Appendix I. Appendix II presents MCC's comments. Our evaluation of management comments is on page 7.

AUDIT FINDINGS

MCC Took Corrective Actions on Selected Recommendations

MCC took appropriate actions to justify final action (i.e., closure of the recommendation) on all four audit recommendations selected for review. Detailed below are each of the recommendations and a summary of the work OIG conducted to verify MCC's actions to address them.

Recommendation 4. "Audit of the Millennium Challenge Corporation Programs in Honduras," Report No. M-000-09-001-P, December 24, 2008, stated:

We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, clarify MCC's expectations on roles and responsibilities of the MCA's Monitoring and Evaluation function, specifically on the use of monitoring as a management tool.

In response to Recommendation 4, MCC issued its revised "Policy for Monitoring and Evaluation of Compact and Threshold Programs" on May 12, 2009. The revised policy clarifies the monitoring and evaluation (M&E) function and MCC's expectations. The policy also addresses using process milestone and output indicators to stress the importance of monitoring as a management tool. To test the implementation of the policy, five compact countries—Burkina Faso, Ghana, Mongolia, Namibia, and Senegal—were selected randomly to determine whether their M&E plans had process milestone and output indicators and explained the M&E roles and responsibilities of Millennium Challenge Accounts (MCAs). The countries' plans addressed the M&E function and MCC's expectations and included both kinds of indicators. Consequently, OIG believes that MCC's actions were sufficient to constitute final action on the recommendation.

Recommendation 5. "Audit of the Millennium Challenge Corporation Programs in Cape Verde," Report No. M-000-09-002-P, March 31, 2009, stated:

We recommend that the Millennium Challenge Corporation's vice president of the Compact Implementation department develop a policy to clarify the modification of the Indicator Tracking Tables and the Monitoring and Evaluation Plan.

In response to Recommendation 5, MCC revised its "Policy for Monitoring and Evaluation of Compact and Threshold Programs" to state that MCAs must adequately document modifications as annexes to their revised M&E plans. The policy also states that changes to indicators, baselines, or targets may not be made in indicator tracking tables (ITTs) until MCC has formally approved the changes. A review of the MCAs' M&E plans for the five selected compact countries found that the justifications for modifications were documented and that the M&E

plans and ITTs matched. Consequently, OIG believes that MCC's actions were sufficient to constitute final action on the recommendation.

Recommendation 6. "Audit of the Millennium Challenge Corporation Programs in Cape Verde," Report No. M-000-09-002-P, March 31, 2009, stated:

We recommend that the Millennium Challenge Corporation's vice president of the Compact Implementation department develop a policy to conduct a pre-feasibility study prior to entry into force.¹

In response to Recommendation 6, MCC issued a revised *Overview of the Compact Development Process* in December 2009, incorporating a feasibility study step into the process for all new compacts. The overview states that during the project development and appraisal phase, which occurs before entry into force, MCC assists with needed feasibility studies. We judgmentally selected two compacts with infrastructure projects²—Moldova and the Philippines, whose total value was \$696 million—that were signed after December 2009 to determine whether feasibility studies had been conducted. OIG found that studies were conducted for 11 irrigation systems in Moldova and for a road project in the Philippines before the compacts were signed and therefore before the compacts' entry into force. Consequently, OIG believes actions were sufficient to constitute final action on the recommendation.

Recommendation 6. "Review of the Termination of the Millennium Challenge Corporation Compact with Madagascar," Report No. M-000-10-002-P, March 31, 2010, states:

We recommend that the Millennium Challenge Corporation's Vice President for Compact Implementation include specific requirements on removing sensitive data in the next iteration of the Program Closure Guidelines.

In response to this recommendation, MCC revised its *Program Closure Guidelines*, effective May 9, 2011. MCC incorporated guidance in Section 5.4, "Disposition of Program Assets," requiring that all program assets be disposed of in an orderly manner and accounted for by the "Accountable Entity" (the principal entity designated to implement a compact). Specifically, MCC added Section 5.4.3.7, "Treatment of Sensitive Information," which requires the Accountable Entity to take "all reasonable steps to safeguard or remove sensitive data and information" when disposing of program assets. The guidelines also state that MCAs should include in their closure plans the procedures they will take "to safeguard or remove any data or information that may be sensitive prior to the disposition or storage" of program assets. Further, the guidelines recognize that the procedures may vary, depending on the nature of the information and a country's privacy laws. Consequently, OIG believes that MCC's actions were sufficient to constitute final action on the recommendation.

MCC Reported Final Action Before Completing Required Actions

OMB Circular A-50, "Audit Follow-Up," requires that agencies have a system for resolving audit recommendations and that the system maintains accurate records on the status of the

¹ Entry into force means the date the compact goes into effect.

² Compacts with infrastructure projects were selected because feasibility studies would be conducted on those types of projects.

recommendations. Although accurate records should be kept, MCC reported final action for one recommendation, but final action did not actually occur until several months later. To illustrate, MCC reported final action on September 15, 2010, for Recommendation 6 from OIG's "Review of the Termination of the Millennium Challenge Corporation Compact with Madagascar." However, MCC did not implement the recommendation until it issued its revised *Program Closure Guidelines* on May 9, 2011.

MCC officials explained that the inaccurate reporting occurred because MCC's management of audit recommendation follow-up was decentralized and because MCC lacked written instructions on resolving audit recommendations. The officials said that claiming final action on Recommendation 6 was an error. As a result, MCC did not keep accurate records on the status of audit recommendations as required by OMB Circular A-50. Therefore, additional reviews of final action notifications reported in fiscal year 2010—when the recommendation's final action was misstated—and in fiscal year 2011 should be performed to be certain that MCC's reports of final action are accurate.

Recently, MCC initiated an effort to improve its follow-up of audit recommendations by preparing a draft "Policy for Responding to Inspector General (IG) Audits." The policy includes a definition of final action and requires verification that corrective actions were taken. Finalizing that policy would help MCC verify that such actions are completed. Therefore, OIG makes the following recommendations.

Recommendation 1. *We recommend that Millennium Challenge Corporation's Assistant General Counsel for Administration in the Office of the General Counsel finalize and issue the Millennium Challenge Corporation's "Policy for Responding to Inspector General (IG) Audits" in order to provide guidance on responsibilities for recommendation follow-up to audit follow-up officials and provide a date by which the policy will be issued.*

Recommendation 2. *We recommend that Millennium Challenge Corporation's Assistant General Counsel for Administration in the Office of the General Counsel review final action notifications transmitted to the Office of Inspector General during fiscal years 2010 and 2011 to verify whether the notifications were accurate with regard to actions taken on the recommendations.*

Follow-Up Procedures Did Not Expedite Time-Sensitive Recommendations

OMB Circular A-50 requires agencies to assign a high priority to corrective actions on audit recommendations to ensure timely responses. MCC reached final action on Recommendation 6 from OIG's "Review of the Termination of the Millennium Challenge Corporation Compact with Madagascar" within 12 months of the management decision, as specified in OIG's policy handbook.

While the standard of 12 months is a useful tool, specific time-sensitive issues may require earlier implementation. For example, 11 months passed from the time a management decision was made in June 2010 to implement the recommendation until actual implementation in May

2011. This recommendation aimed to assist MCAs during the compact closure phase³ by reminding them to ensure that sensitive data were removed from program assets. However, between management decision on the recommendation in June 2010 and the first effective implementation of the recommendation in October 2011, six compacts⁴ reached their end dates.

MCC stated that the recommendation was not implemented immediately to all compacts preparing for or in a program closure phase because of the number of pressing issues that closure entails. MCC guidance directs MCC to reach agreement on compact closure plans with the MCA 1 year before the compact ends (which is when compact closure begins). Consequently, MCC did not apply the recommendation to four compacts that were already in closure before the updated guidelines were reissued in May 2011, or to two compacts that started the closure phase soon after the guidelines were reissued.

By not timely implementing Recommendation 6 to all six compacts, MCC did not maximize the recommendation's effectiveness. Therefore, MCC could improve its management of recommendation follow-up by analyzing recommendations and taking steps to implement them faster than the standards require if they are time sensitive. Therefore, OIG makes the following recommendation.

Recommendation 3. *We recommend that the Millennium Challenge Corporation's Assistant General Counsel for Administration in the Office of the General Counsel, before finalizing its draft "Policy for Responding to Inspector General(IG) Audits," incorporate a procedure that requires an analysis of the timeliness of recommendations and a commitment to best efforts to implement recommendations on a more expedited timeline if the recommendation is time sensitive, such as recommendations intended to assist the Millennium Challenge Accounts' actions during the compact closure period.*

MCC Did Not Establish Timelines for Final Actions

OMB Circular A-50 provides a time frame for an agency and its office of inspector general to reach a management decision. The circular requires that agencies assign a high priority to the resolution of recommendations (reaching a management decision) and to corrective action (reaching final action). The circular further requires that agencies resolve audit recommendations within 6 months from issuance of a final report and indicates that corrective action should proceed as rapidly as possible. It does not specify a time frame for reaching final action. However, OIG is required to report to Congress semiannually on the recommendations that have not been implemented within 12 months of MCC's management decisions.

Although audit recommendations should be implemented promptly, MCC did not monitor the implementation of OIG audit recommendations properly. Of 179 audit recommendations from performance audit reports issued from December 2007 through September 2011, 20 (11 percent) took between 13 and 25 months to implement. This lag occurred primarily because MCC did not have written procedures that specified when final action should be completed.

³ The compact closure period gives the MCA 120 days after a compact ends to conclude its operations.

⁴ The six compact countries were Armenia, Cape Verde, Georgia, Honduras, Nicaragua, and Vanuatu. The compacts with Honduras and Cape Verde ended within weeks of the final action memorandums and were unlikely to have the time needed to implement the recommendation. The other compacts had more time before reaching their end dates.

MCC provided OIG its draft “Policy for Responding to Inspector General (IG) Audits” on February 6, 2012. The policy states that audit follow-up officials will preferably submit notifications of final action no later than 12 months after the final audit report.⁵ When finalized, this policy will help ensure that final actions are reached within 12 months. However, the policy does not address what actions should be taken if MCC cannot reach final action within 12 months. Prompt, corrective action on audit recommendations is essential to improving the effectiveness and efficiency of government operations. Therefore, OIG makes the following recommendation.

Recommendation 4. *We recommend that Millennium Challenge Corporation’s Assistant General Counsel for Administration in the Office of the General Counsel, before finalizing its draft “Policy on Responding to Inspector General (IG) Audit,” incorporate a requirement that audit follow-up officials provide a justification for any final action that will not be completed within 12 months from the date of the audit report.*

⁵ Unless the management decision explicitly includes a later target date for completion.

EVALUATION OF MANAGEMENT COMMENTS

MCC's written comments on the draft report are included in their entirety in Appendix II of this report. In its comments, MCC agreed with the four recommendations.

MCC agreed with Recommendation 1, to finalize and issue its "Policy for Responding to Inspector (IG) Audits," which will provide guidance on recommendation follow-up to audit follow-up officials. MCC will finalize and issue the policy by April 30, 2012. OIG agrees with MCC's management decision. Final action will occur when MCC issues its policy.

MCC agreed with Recommendation 2, to review final action notifications transmitted to OIG during fiscal years 2010 and 2011 and verify whether the notifications were accurate with regard to actions taken on the recommendations. MCC stated that it would take a random sample of final action notifications transmitted to OIG during fiscal years 2010 and 2011 and review the notifications and supporting documentation to verify that final action had occurred before reporting it to OIG. OIG agrees with MCC's management decision. Final action will occur when MCC has completed its review of the final action notifications. MCC stated that final action will be completed by September 30, 2012.

MCC agreed with Recommendation 3, to incorporate in its "Policy for Responding to Inspector General (IG) Audits" a procedure that requires an analysis of recommendations and a commitment to implement them on a more expedited timeline if they are time sensitive. MCC stated that it will include a procedure in its policy to perform the analysis at least quarterly and will include a review of any OIG audit recommendations that correspond to compacts that will be closing within 120 days from the audit report date. The analysis will also include elevating the timetable for completing final action from within 12 months from the audit report date to as soon as possible. OIG agrees with MCC's management decision. Final action will occur when MCC issues its policy. MCC stated that final action will be completed by April 30, 2012.

MCC agreed with Recommendation 4, to incorporate in its "Policy for Responding to Inspector General (IG) Audits" a requirement that audit follow-up officials provide a justification for any final action that will not be completed within 12 months from the date of the audit report. OIG agrees with MCC's management decision. Final action will occur when MCC issues its policy.

SCOPE AND METHODOLOGY

Scope

OIG conducted this audit of MCC's implementation of selected audit recommendations 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 in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

Our objective was to determine whether MCC took corrective actions to respond to selected audit recommendations. The scope of the audit included evaluating corrective actions MCC took on OIG performance audit recommendations made in audit reports issued between December 2007 and September 2011. We conducted our fieldwork from December 6, 2011, to February 22, 2012, at MCC's headquarters in Washington, D.C.

We relied on OIG's Audit Information Management System⁶ to obtain audit recommendations to answer the audit objective. However, we verified only the data related to the four audit recommendations we reviewed. We conducted further tests to determine whether MCC took corrective actions on the recommendations. We tested performance audit recommendations made between December 2007 and September 2011 to determine the number of months that elapsed before MCC reached final actions. We also determined whether MCAs' M&E plans addressed MCA roles and responsibilities, and contained output and process milestone indicators. Finally, we determined when MCC conducted feasibility studies.

Methodology

To answer the audit objective, we established audit steps to determine whether MCC performed corrective actions as stated in its management comments on selected OIG audit recommendations. Specifically, we performed the following:

- Interviewed MCC officials in the Department of Administration and Finance and the Office of General Counsel.
- Interviewed legal counsel staff in USAID's OIG.
- Obtained from AIMS 573 audit recommendations from OIG audit reports dated from September 2004 to September 2011, from which we selected a sample of recommendations from performance audit reports.
- Judgmentally selected 4 from 15 audit recommendations (26 percent) that affected MCC's overall operations to determine MCC's actions to resolve the recommendations.
- Reviewed and analyzed documentation that supported MCC's corrective actions on the four selected audit recommendations to determine whether MCC had taken the reported actions.

⁶ AIMS is an audit recommendation management database used by the Office of Inspector General.

- Judgmentally selected 179 performance audit recommendations (31 percent of the initial universe of 573 covering the period September 2004 to September 2011) to determine how long MCC took to reach final action on those recommendations.
- Randomly selected five compact countries—Burkina Faso, Ghana, Namibia, Mongolia, and Senegal, whose compacts' total value was \$2.15 billion—to determine whether the MCAs' M&E plans contained (1) justifications for modifying indicators, (2) process milestone and output indicators, and (3) explanations of the M&E roles and responsibilities of the MCA.
- Judgmentally selected two compacts—Moldova and the Philippines, whose total value was \$696 million—that had infrastructure projects and were signed after December 2009 (the date of MCC's revised guidance on its compact development process) to determine whether feasibility studies had been conducted. Compacts with infrastructure projects were selected because feasibility studies would be conducted on those types of projects.

MANAGEMENT COMMENTS



MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Memorandum

Date: March 22, 2012

To: Mark Norman
Acting Assistant Inspector General
Millennium Challenge Corporation

From: John Mantini /s/
Assistant General Counsel, Administration
Millennium Challenge Corporation
Department of Administration and Finance

Subject: The Millennium Challenge Corporation (MCC) responses to the Office of Inspector General's (OIG) draft report entitled "Follow-up Audit of MCC's Implementation of Selected Audit Recommendations".

The Millennium Challenge Corporation appreciates the opportunity to respond to the OIG's Draft Audit Report entitled "Follow-up Audit of MCC's Implementation of Selected Audit Recommendations". Our responses to the OIG audit recommendations are as follows:

Recommendation 1. We recommend that Millennium Challenge Corporation's Assistant General Counsel for Administration in the Office of the General Counsel finalize and issue the Millennium Challenge Corporation "Policy for Responding to Inspector General (IG) Audits" in order to provide guidance on responsibilities for recommendation follow-up to audit follow-up officials and provide a date by which the policy will be issued.

MCC Response:

MCC concurs with this recommendations and will finalize and issue the "Policy for Responding to Inspector General (IG) Audits" by April 30, 2012.

Recommendation 2. We recommend that Millennium Challenge Corporation's Assistant General Counsel for Administration in the Office of the General Counsel review final action notifications transmitted to the OIG during fiscal years 2010 and 2011 to verify whether the notifications were accurate with regard to actions taken on the recommendations.

MCC concurs with this recommendation. The Office of General Counsel will take a random sample of the audit recommendations that were issued by the Office of General Counsel during the fiscal years

2010 and 2011 and review the notices of final action as well as the supporting documentation to verify that final action had occurred prior to our reporting of final action to the OIG. Final Action will be completed by September 30, 2012.

The following recommendations will be eliminated from the population for the reasons stipulated below:

- FISMA, and Privacy Audit related audit recommendations will be eliminated from the population because during the subsequent audits, the OIG has followed up on all previously issued recommendations and determined that final action had taken place and appropriately reported to the OIG.
- Audits related to Fiscal Accountability Statements of MCC's Compacts, and the MCC Financial Statement audits because during each subsequent audit, the Independent Public Accounting Firms (IPA) that conduct the audits follow up on all previously issued recommendations and reviews supporting documentation and determines whether final action has taken place.

Recommendation 3. We recommend that the Millennium Challenge Corporation's Assistant General Counsel for Administration in the Office of the General Counsel, before finalizing its draft "Policy for Responding to Inspector General (IG) Audits," incorporate a procedure that requires an analysis of the timeliness of recommendations and a commitment to best efforts to implement recommendations on a more expedited timeline if the recommendation is time sensitive, such as recommendations intended to assist the Millennium Challenge Accounts' actions during the compact closure period.

MCC Response:

MCC concurs with this recommendation and will incorporate into the "Policy for Responding to Inspector General (IG) Audits" a procedure that requires an analysis of the timelines of MCC's response to audit recommendations. The analysis will be performed at least quarterly and will include: (1) a review of any OIG audit recommendations for Compacts that are 120 days from the Compact closure date, and (2) an elevation of the time table for completing Final Action from within 12 months from the audit report date to as soon as possible. Final Action will be completed by April 30, 2012.

Recommendation 4. We recommend that Millennium Challenge Corporation's Assistant General Counsel for Administration in the Office of the General Counsel, before finalizing its draft "Policy on Responding to Inspector General (IG) Audit," incorporate a requirement that Audit Follow-up Officials provide a justification for any final action that will not be completed within 12 months from the date of the audit report.

MCC Response:

MCC concurs with this recommendation and will incorporate into the "Policy for Responding to Inspector General (IG) Audits" a requirement that Audit Follow-up Officials provide a justification for any final action that will not be completed within 12 months from the date of the audit report and provide a Final Action date. Final Action will be completed by April 30, 2012.

The actions specified above also constitute MCC's Management Decision for recommendations 1, 2, 3, and 4. If you have any questions, please contact Arlene McDonald, MCC's Compliance Officer at 202-521-7260.

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