



OFFICE OF INSPECTOR GENERAL for the Millennium Challenge Corporation

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S FINANCIAL STATEMENTS, INTERNAL CONTROLS, AND COMPLIANCE FOR THE PERIOD ENDING SEPTEMBER 30, 2012 AND 2011

AUDIT REPORT NO. M-000-13-001-C
November 15, 2012

WASHINGTON, DC

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.



*Office of Audit
for the Millennium Challenge Corporation*

November 15, 2012

Mr. Daniel Yohannes
Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005-2203

Subject: Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2012 and 2011 (Report No. M-000-13-001-C)

Dear Mr. Yohannes:

Enclosed is CliftonLarsonAllen LLP's, final report on the subject audit. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP, to audit the financial statements of the Millennium Challenge Corporation (MCC) for the period ending September 30, 2012. The contract required that the audit be performed in accordance with United States Generally Accepted Government Auditing Standards, Office of Management and Budget (OMB) Bulletin 07-04 as amended, Audit Requirements for Federal Financial Statements, and the GAO/PCIE Financial Audit Manual.

The Independent Auditors expressed an unqualified opinion on MCC's FY 2012 Financial Statements. The report stated that the financial statements referred to above present fairly, in all material respects, the net position of MCC as of September 30, 2012, and its net cost, changes in net position and budgetary resources for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America. MCC's financial statements as of September 30, 2011 were audited by other auditors.

In its audit of MCC's fiscal year 2012 financial statements the auditor's identified one issue that was considered a material weakness and three other issues that were considered significant deficiencies. These matters are listed below and are detailed in the auditor's report.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Material Weakness

- Ineffective and Inefficient Interrelationship among Software, Personnel, Procedures, Controls and Data within MCC's Financial Management Systems

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Significant Deficiencies

- Validation Control over Grant Accrual Estimates Needs to be Strengthened
- Monitoring Control over Funds Provided to MCAs Needs Improvement
- Information Systems Controls Need Improvement

The auditors did not note any instance of material non-compliance with laws and regulations.

In carrying out its oversight responsibilities, the OIG reviewed CliftonLarsonAllen LLP, Internal Audit Report and audit documentation. This review, as differentiated from an audit in accordance with U.S. Generally Accepted Government Auditing Standards was not intended to enable the OIG to express, and we do not express, opinions on MCC's financial statements, or internal control; or on MCC's compliance with other laws and regulations. CliftonLarsonAllen LLP is responsible for the attached auditor's report, dated November 15, 2012, and the conclusions expressed in the report. However, our review disclosed no instances where CliftonLarsonAllen LLP, did not comply, in all material respects, with applicable standards.

To address the material weakness and significance deficiencies in internal controls reported by CliftonLarsonAllen LLP, we are listing below the findings with 22 recommendations to MCC's management:

Material Weakness

Ineffective and Inefficient Interrelationship among Software, Personnel, Procedures, Controls and Data within MCC's Financial Management Systems

Recommendations: With regards to the core financial system, we recommend that MCC:

1. Perform a comprehensive review and determine whether the service provider's financial management system is substantially in compliance with the federal financial management system's requirements and meeting MCC financial management and reporting needs. As part of this review, management should determine if a separate grants management system that focuses on program administrations that interfaces with the core financial system is needed.
2. Investigate and correct the causes for the underlying system errors and limitations that prevent or delay the recording, processing, and summarizing of accounting transactions.
3. Review USSGL transaction posting models so that all routine accounting transactions are included in the normal accounting processes. Manual adjusting journal entries should be used for limited transactions like unusual one-time entries. All valid recurring entries that are currently entered manually should have standard transaction codes set-up to prevent posting errors.

With regards to the workbook, we recommend that MCC:

4. Hard code key cells in the excel spreadsheets used in preparing and generating the financial statements to prevent unintentional or inadvertent changes.
5. Limit access and ability to make changes to the workbook to a few personnel. Assign a staff and a designate as primarily responsible and accountable for the workbook.
6. Create a log to document changes to the workbook, the date of change, the person making the change, and the changes made.
7. Investigate the use of alternative approaches such as the use of a financial statement generation software tool or other financial management system that can interface with the trial balance or the core financial system and automatically generate the financial statements.

With regards to supervisory reviews, we recommend that MCC:

8. Develop a comprehensive financial statements review process that details specific steps performed, results of such reviews, steps taken to resolve discrepancies noted, and related management resolution.
9. Implement an effective management review using the comprehensive review process developed in recommendation 8 to ensure that all transactions for the accounting period are accurately and completely reflected in the financial statements, current year beginning balances agreed to prior year audited balances, and reconciling items are recorded timely. Such management reviews should be performed quarterly and at year-end timely with evidence of management sign-off signifying levels of reviews performed.

With regards to financial staff resource management, we recommend that MCC:

10. Cross-train MCC financial staff on the financial statements preparation process to ensure that there is more than one person knowledgeable and can prepare the financial statements.

Significant Deficiencies

Validation Control over Grant Accrual Estimates Needs to be Strengthened

Recommendations: We recommend that MCC:

11. Perform a grant accrual look back analysis on a quarterly basis. The look back analysis and the results should provide MCC sufficient information to explain unusual variances between actual and estimates, or support updating the current grant accrual methodology. Such periodic assessment of the adequacy of the grant accrual methodology should be documented and supported by data analysis. The accrued liability amount is subject to the risks that actual subsequent disbursement amount may be significantly different from management's estimate. When this occurs, management should further analyze the drivers/factors to ensure the validity and reasonableness of the estimation methodology.
12. Update the Expense Accruals Policy and Procedures to reflect the change in the methodology.
13. Develop audit procedures for the MCA audit to compare spending authority request amount against actual expenses, and investigate and document significant variances. The results should be provided to MCC, which can use this information collected from the MCA audits as data store to validate or enhance the current methodology.
14. Continue to enhance the accrual methodology.

Monitoring Control over Funds Provided to MCAs Needs Improvement

A. Audit Reports

Recommendations:

15. MCC management should have control over how these audits should be conducted to meet its financial and programmatic accountability, needs and requirements. MCC management should collaborate with USAID OIG to clarify and document management roles, responsibilities, and performance standards and the USAID OIG oversight role with regards to MCA audits.
16. MCC needs to evaluate its resources, capability, and ability to monitor and review the quality and performance of the audits and the audit firms to track and conduct follow-up of corrective action plans with the MCAs in a timely manner.

B. Final Quarterly Financial Report (QFR)

Recommendations:

We recommend that MCC:

17. Utilize the QFRs and the monthly reconciliations as monitoring tools over the MCA's financial reporting process and the MCC's validation of its financial records. To be effective as monitoring tools, the re-designing of the QFR form and the development and documentation of the monthly reconciliation process should ensure that relevant data and information are reported by the MCAs and reported timely.
18. Ensure that MCA reconciliations are provided to MCC and reviewed to investigate material variances and make corrections, if any.
19. Require the MCA audit firms to test the design and effectiveness of the MCA's internal control over the QFRs and the monthly reconciliation, and to test for the accuracy of the balances and reconciliation.
20. Develop and implement reconciliation procedures to document the complete reconciliation between the MCA's final QFR and MCC's records.

C. Expired Compacts Not Financially Closed-Out

Recommendations:

We recommend that MCC:

21. Timely assess the MCA's need for the remaining compact funds so that the funds could be de-obligated within the timeline in the policy and procedures after the compact expires.
22. Develop and implement a financial management policy that separates the programmatic close-out process from the financial close-out process. This policy should clearly layout the expected timing for de-obligation.

Information Systems Controls Need Improvement

Recommendation:

We are not repeating the recommendations which are included in the USAID OIG Report titled "Audit of Millennium Challenge Corporation's Fiscal Year 2012 Compliance with Federal Information Security Management Act of 2002," Audit Report M-000-13-001-P, dated November 6, 2012.

In finalizing the report, CliftonLarsonAllen LLP, evaluated MCC's response to the report and acknowledged that management decisions have been reached on all of the recommendations.

MCC plans to complete its corrective actions by June 30, 2013, or have documented the appropriate timeline in which actions will be completed.

The OIG acknowledges MCC's management decisions for all 22 recommendations. Please inform us when final action has been achieved.

We appreciate the cooperation and courtesies extended to our staff and to the staff of CliftonLarsonAllen LLP, during the audit. Please contact Fred Jones at (202) 216-6963, if you have any questions concerning this report.

Sincerely,

/s/

Richard J. Taylor
Deputy Assistant Inspector General
for Audit
Millennium Challenge Corporation

cc: Steven Kaufmann, Chief of Staff
kaufmannsm@mcc.gov

Chantale Wong, Vice President of Administration and Finance
wongcy@mcc.gov

Margaret Yao, Deputy Vice President of Administration and Finance
yaoml@mcc.gov

Patrick Fine, Vice President of Compact Operations
finepc@mcc.gov

Terry Bowie, Chief Financial Advisor
tlbowie@mcc.gov

Eric Redmond, Assistant Deputy Chief Financial Officer
redmondeg@mcc.gov

Arlene McDonald, Compliance Officer
mcdonalda@mcc.gov

MILLENNIUM CHALLENGE CORPORATION (MCC)

September 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Inspector General
U.S. Agency for International Development

To the Board of Directors
Millennium Challenge Corporation

We have audited the accompanying balance sheet of the Millennium Challenge Corporation (MCC) as of September 30, 2012, and the related statements of net cost and changes in net position, and the combined statement of budgetary resources ("financial statements") for the year then ended. The objective of our audit was to express an opinion on the fairness of these financial statements. In connection with our audit, we also considered the internal control over financial reporting and considered MCC's compliance with laws and regulations. In our audit, we found:

- The financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America (U.S.);
- One material weakness and three significant deficiencies in internal control over financial reporting and compliance with laws and regulations;
- No instance of reportable noncompliance with selected provisions of laws and regulations tested.

The following sections and exhibits discuss in more detail: (1) above conclusions, (2) Management's Discussion and Analysis (MD&A) and other accompanying information, (3) management's responsibility for the financial statements, (4) our responsibility for the audit, (5) management's response and our evaluation of their response, and (6) the current status of prior year's findings and recommendations.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of MCC as of September 30, 2012 (FY 2012), and its net cost; changes in net position; and budgetary resources for the year then ended in conformity with accounting principles generally accepted in the United States. The financial statements of MCC as of and for the year ended September 30, 2011 (FY 2011) were audited by other auditors, whose report dated November 10, 2011, expressed an unqualified opinion on those financial statements. MCC reclassified certain financial statement line items of the combined statement of budgetary resources (SBR) for FY 2011 to be consistent with FY 2012 presentation in accordance with accounting principles generally accepted in the United States. The other auditors reported on the financial statements before these reclassifications. We have audited the reclassifications in the SBR. In our opinion, such reclassifications are appropriate and have been properly applied.

Report on Internal Control over Financial Reporting and Compliance

In planning and performing our audit, we considered MCC's internal control over financial reporting and compliance (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MCC's internal control or on management's assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of MCC's internal control or on management's assertion on internal control included in the MD&A.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the MCC's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a control deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified a combination of deficiencies in internal control described in Exhibit 1 that we consider to be a material weakness and other deficiencies described in Exhibit 2 that we consider to be significant deficiencies.

Also, as required by Office of management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended, we compared the material weakness disclosed during the audit with those material weaknesses reported in the MCC's Federal Managers Financial Integrity Act (FMFIA) report that relate to the financial statements. Our audit did not identify any material weakness that were not identified by MCC in their FMFIA report.

We also noted non-reportable matters that we communicated to MCC and will include in a separate management letter to MCC to be dated November 12, 2012.

Report on Compliance and Other Matters

In connection with our audit, we performed tests of MCC's compliance with selected provisions of applicable laws and regulations. The results of our tests disclosed no instances of noncompliance that are required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States or OMB Bulletin 07-04, as amended. However, the objective of our audit was not to provide an opinion on compliance with laws and regulations. Accordingly, we do not express such an opinion.

Status of Prior Year's Audit Findings and Recommendations

We have reviewed the status of MCC's corrective actions with respect to the findings and recommendations included in prior year's Independent Auditor's Report dated November 10, 2011. The status of prior year's findings and recommendations is presented in Exhibit 3.

Other Information

Accounting principles generally accepted in the U.S. require that MCC's MD&A be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information included in the Annual Financial Report, other than the financial statements, MD&A, and the Independent Auditor's Report is presented for additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Management's Responsibility for the Financial Statements

MCC management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the U.S., (2) designing, implementing, and maintaining internal control to provide reasonable assurance that the broad control objectives of FFMFIA are met, and (3) complying with other applicable laws and regulations.

Auditor's Responsibility

We are responsible for conducting our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 07-04, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the U.S. We are also responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements, and laws for which OMB Bulletin 07-04 requires testing, (3) performing limited procedures with respect to certain other information appearing in the published Annual Financial Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessed the appropriateness of the accounting policies used and the reasonableness of significant estimates made by management; (3) evaluated the overall presentation of the financial statements; (4) obtained an understanding of MCC and its operations, including its internal control related to financial reporting (including safeguarding of assets) and compliance with laws and regulations (including execution of transactions in accordance with budget authority); (5) evaluated the effectiveness of the design of internal control; (6) tested the operating effectiveness of relevant internal controls over financial reporting and compliance; (7) considered the design of the process for

evaluating and reporting on internal control and financial management systems under FMFIA; (8) tested compliance with selected provisions of certain laws and regulations. The procedures selected depend on the auditor's judgment, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. We believe we obtained sufficient and appropriate audit evidence on which to base our conclusions.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to MCC. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on MCC's financial statements and those required by OMB Bulletin 07-04 that we deemed applicable to MCC's financial statements for the fiscal year ended September 30, 2012. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

MCC's Comments and our Evaluation

Management concurred with all our findings and recommendations. Management's response to our report is presented in Exhibit 4.

This report is intended solely for the information and use of MCC management, U.S. Agency for International Development (USAID) Office of Inspector General, OMB, the Government Accountability Office (GAO), and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

CLIFTONLARSONALLEN LLP

Arlington, Virginia
November 12, 2012

**MILLENNIUM CHALLENGE CORPORATION
INDEPENDENT AUDITOR'S REPORT EXHIBIT 1
September 30, 2012**

MATERIAL WEAKNESS

1. Ineffective and Inefficient Interrelationship among Software, Personnel, Procedures, Controls and Data within MCC's Financial Management Systems

GAO *Standards for Internal Control in the Federal Government* states that internal control is not one event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis. Control activity, which is one of the standards for internal control, may be applied in a computerized information system environment, or through manual processes. Information system control should be installed at an application's interfaces with other systems to ensure that all inputs are received and are valid, and outputs are correct and properly distributed. Some control activities include: controls over information processing, management of human capital, proper execution of transactions and events, accurate and timely recording of transactions and events, and appropriate documentation of transactions. Monitoring, which is another standard for internal control, is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

Accounting is a systematic process of identifying, recording, measuring, classifying, verifying, summarizing, interpreting and communicating financial events. These financial events are ultimately presented in financial statements through the financial reporting process. Each step in the accounting process is an integral part of the financial reporting process.

A financial management system includes the core financial system and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures and controls, data, software, and support personnel dedicated to the operation and maintenance of system functions.

MCC has made significant progress this year by developing and implementing a grant accrual methodology which will be the foundation for future enhancements. MCC has also reduced some manual processes in its financial statements preparation where financial data and new accounts are no longer manually entered and financial data are now automatically populating all statements, including new accounts. However, MCC needs to continue to strengthen its financial reporting processes and controls. The interrelationship among software, personnel, procedures, controls and data within MCC's financial management systems (both manual and automated) is ineffective and inefficient as described below:

- a. MCC uses a shared services provider (SSP) to process its accounting transactions. The SSP's core financial system current configurations prevent MCC from recording significant transactions in a systematic manner. Our review of the September 30, 2012 SSP's open system ticket report, which tracks financial system issues, identified issues that remain unresolved for an unreasonable period of time. Due to the volume and variety of transactional financial events that MCC must record relating to its grantees; MCC frequently has to prepare manual adjustments at the back end of the transactions to correct errors such as the differences between the a) Purchase Order (PO) and General Ledger (GL) module, b) Accounts Payable (AP) and GL module, c) incorrect postings, d) system interface errors, and e) others. This system deficiency, combined with inadequate and untimely corrective actions, negatively impact MCC's ability to record transactions timely, properly, and accurately. Although MCC applied

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September 30, 2012

compensating controls to detect and correct these errors, with the sheer volume and complexity of these transactions (automated and manual), there is a high risk that errors will not be detected and corrected timely or not detected at all. Our audit identified instances where this situation occurred. Moreover, this system deficiency negatively impacts MCC's limited staff resources.

OMB Circular A-127, *Financial Management Systems*, which is the government-wide policies and standards issued pursuant to FMFIA, states that agencies are responsible for managing their financial management system even when they utilize a service provider to implement, operate and maintain the systems. Agencies must ensure that their financial management systems meet applicable Federal requirements and are adequately supported throughout the systems' life cycle. Furthermore, agencies must monitor the service provider's performance and ensure that service failures are resolved promptly.

- b. Although MCC has made strides in improving its financial reporting process by implementing certain quality control review processes in response to prior year's findings, much still need to be done. MCC's financial statements preparation process continues to be manually intensive and susceptible to errors even though certain functionalities have been automated. MCC uses a complex excel workbook (workbook) to generate its financial statements. Trial balances from the core financial system and USAID are cut and pasted into the workbook. Manual journal entries and on-top adjustments (OTAs) are also posted into the workbook. The workbook then automatically generates the financial statements from these data inputs. Due to system issues described in 1.a. above, the trial balance generated by the core financial system did not have the prior year final audited balances. Therefore, MCC has to post OTAs pertaining to prior year to correct beginning balances. In addition, MCC posts similar OTAs but for the current year to adjust or correct ending balances. These beginning and ending balances OTAs are posted into the workbook each time the financial statements are prepared (quarterly). Our audit identified instances where MCC missed posting beginning balances OTAs and manual journal entries into the workbook at June 30, 2012 and September 30, 2012.
- c. The workbook utilized in the preparation of the financial statements did not have data edit lock and data change control. The workbook is accessible to many personnel including temporary financial personnel outside of key MCC financial staff, each having the ability to make changes to the workbook. In addition, due to the complexity of the spreadsheets in the workbook with various unprotected formulas and linkages, the risks of data manipulation and/or unintended data changes can introduce errors that would be difficult to detect and may be left undetected. Moreover, due to lack of documented supervisory review of the workbook, we could not verify that supervisory reviews were performed.
- d. In reviewing the June 30, 2012 financial statements, we identified errors that led us to question the effectiveness of supervisory reviews, or the implementation of these reviews due to lack of documented evidence of reviews.

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INDEPENDENT AUDITOR'S REPORT EXHIBIT 1
September 30, 2012**

- e. Internal control is effected by people. It is not merely about policy manuals, systems, and forms, but about people at every level of an organization that impact internal control. Good human capital policies and practices are critical internal control environmental factors. We understand that MCC has limited staff and has to use temporary year-end financial staff who may not be familiar with the inner working of MCC operations. In addition, MCC relies heavily on contract staff in the preparation and generation of the financial statements. The contract staff holds immense institutional knowledge in the inner workings of MCC's business transactions and various "fixes or adjustments" required for financial reporting and financial statement preparation. MCC runs the risk of not being able to produce fairly presented financial statements timely without these key contract staff.

Recommendations

With regards to the core financial system, we recommend that MCC:

1. Perform a comprehensive review and determine whether the service provider's financial management system is substantially in compliance with the federal financial management system's requirements and meeting MCC financial management and reporting needs. As part of this review, management should determine if a separate grants management system that focuses on program administrations that interfaces with the core financial system is needed.
2. Investigate and correct the causes for the underlying system errors and limitations that prevent or delay the recording, processing, and summarizing of accounting transactions.
3. Review USSGL transaction posting models so that all routine accounting transactions are included in the normal accounting processes. Manual adjusting journal entries should be used for limited transactions like unusual one-time entries. All valid recurring entries that are currently entered manually should have standard transaction codes set-up to prevent posting errors.

With regards to the workbook, we recommend that MCC:

4. Hard code key cells in the excel spreadsheets used in preparing and generating the financial statements to prevent unintentional or inadvertent changes.
5. Limit access and ability to make changes to the workbook to a few personnel. Assign a staff and a designate as primarily responsible and accountable for the workbook.
6. Create a log to document changes to the workbook, the date of change, the person making the change, and the changes made.
7. Investigate the use of alternative approaches such as the use of a financial statement generation software tool or other financial management system that can interface with the trial balance or the core financial system and automatically generate the financial statements.

**MILLENNIUM CHALLENGE CORPORATION
INDEPENDENT AUDITOR'S REPORT EXHIBIT 1
September 30, 2012**

With regards to supervisory reviews, we recommend that MCC:

8. Develop a comprehensive financial statements review process that detail specific review steps performed, results of such reviews, steps taken to resolve discrepancies noted, and related management resolution.
9. Implement an effective management review using the comprehensive review process developed in recommendation 8 to ensure that all transactions for the accounting period are accurately and completely reflected in the financial statements, current year beginning balances agreed to prior year audited balances, and reconciling items are recorded timely. Such management reviews should be performed quarterly and at year-end timely with evidence of management sign-off signifying levels of reviews performed.

With regards to financial staff resource management, we recommend that MCC:

10. Cross-train MCC financial staff on the financial statements preparation process to ensure that there is more than one person knowledgeable and can prepare the financial statements.

**MILLENNIUM CHALLENGE CORPORATION
INDEPENDENT AUDITOR'S REPORT EXHIBIT 2
September 30, 2012**

SIGNIFICANT DEFICIENCIES

2. Validation Control over Grant Accrual Estimates Needs to be Strengthened

MCC reported approximately \$1.1 billion in compact grant related expenditures and an accrued grant liability of \$106 million for expenditures incurred by the Millennium Challenge Accounts (MCAs) but not yet paid by MCC at September 30, 2012. MCC applied its new grant accrual methodology for the first time at September 30, 2012. The first three quarters' financial statements accruals were based on data calls. MCC revised its methodology in an effort to improve and streamline the accrual process employed in prior year. MCC recognized that prior year grant accrual process, which involved data calls from the MCAs, was based on the best information available at the time. However, this manual process was cumbersome, time consuming, labor intensive, time sensitive, and inconsistent, thus contributing to a high risk for errors. To help MCC reassess this process, MCC hired an audit and consulting firm to provide a detailed analysis and make recommendations on the appropriate methodology for the grant accrual estimate.

MCC new accrual methodology is calculated based on an MCA's unused spending authority. MCC approves a quarterly spending authority in advance for each MCA. The unused spending authority at the end of the quarter is used in the accrual calculation for each MCA. MCC uses the MCA disbursement rate against the spending authority along with the disbursement rates for the last three quarters to determine an average rate. The average rate is then subtracted against 100 percent to arrive at a rate that is applied to the unused spending authority in calculating the grant accrual estimate for the MCA.

In reviewing the calculation of the accrual estimates and the supporting documentation, we noted many instances of calculation errors, use of incorrect spending authority, incorrect formulas, omitted calculations, and missing documentation. Also, there was no documentation of look back analysis and investigations of unusual fluctuations, if any, to validate the reasonableness of the accrual estimates. An accrual look back analysis involves reviewing past accrual estimates and analyzing whether the past estimates are reasonable when compared to the actual. We understand that this is a new methodology and MCC has not had an opportunity to update its Expense Accrual Policy and Procedures and perform a robust validation process.

FASAB Federal Financial Accounting Technical Release (TR) 12, *Accrual Estimates for Grant Programs*, states that "As part of agencies' internal control procedures to ensure that grant accrual estimates for the basic financial statements were reasonable, agencies should validate grant accrual estimates by comparing the estimates with subsequent grantee reporting."

Recommendations

We recommend that MCC:

11. Perform a grant accrual look back analysis on a quarterly basis for a sufficient period of time to develop a pattern or trend. The look back analysis and the results should provide MCC sufficient information to explain unusual variances between actual and estimates, or support updating the current grant accrual methodology. Such periodic assessment of the adequacy of the grant accrual methodology should be documented and supported by data analysis. Note that the accrued liability amount is subject to the risks that actual

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INDEPENDENT AUDITOR'S REPORT EXHIBIT 2
September 30, 2012**

subsequent disbursement amount may be significantly different from management's estimate. When this occurs, management should further analyze the drivers/factors to ensure the validity and reasonableness of the estimation methodology.

12. Update the Expense Accruals Policy and Procedures to reflect the change in the methodology. At a minimum, the policy and procedures should include the following:
 - a. documentation of the procedures and flow of information used in developing grant accrual estimates;
 - b. a discussion of who (position title) is responsible for each step of the estimate as well as the review and approval process followed;
 - c. the model used, the rationale for selecting the specific methodology, and, for programs with sufficient historical data, the degree of calibration within the projected spending model;
 - d. the sources of information, the logic flow, and the mechanics of the model, including the formulas and other mathematical functions.
13. Develop audit procedures for the MCA audit to compare spending authority request amount against actual expenses, and investigate and document significant variances. The results should be provided to MCC, which can use this information collected from the MCA audits as data store to validate or enhance the current methodology.
14. Continue to enhance the accrual methodology by considering the following:
 - a. stratifying the MCAs based on variances in their spending rates and/or stages in the compact's life cycle;
 - b. addressing situations where the MCA exceeds its quarterly spending authority;
 - c. addressing situations where the compact has expired and there is no spending authority and disbursements are still occurring;
 - d. obtaining detailed document level breakdown of expenses to be used to compare against the accrual estimates;
 - e. other factors as deemed necessary to achieve an acceptable precision of the accrual estimate.

3. Monitoring Control over Funds Provided to MCAs Needs Improvement

OMB Circular A-123, *Management Responsibility for Internal Control*, states that monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations. If an effective continuous monitoring program is in place, it can level the resources needed to maintain effective internal controls throughout the year.

An adequate monitoring system oversees the design, implementation, and effectiveness of controls in mitigating risks. This monitoring system can be structured as an ongoing assessment program (for instance, supervisory reviews of day to day financial operations and reporting) or as a point in time program when a point in time assessment is required (for instance, MCA audits).

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When a country is awarded a grant (compact), it sets up its own local MCA accountable entity to manage and oversee all aspects of implementing the compact. The MCAs, as the grantees of MCC's funds, are responsible for submitting financial, programmatic and compliance documentation to MCC in accordance with their compact agreements with MCC and other administrative requirements. MCC, as the grantor, is responsible for reviewing and monitoring the MCA's compliance with the compact agreement and other administrative requirements. MCC needs to continue to strengthen its monitoring controls over the funds provided to the MCAs.

A. Audit Reports

MCAs are required to obtain an annual (or semi-annual as agreed upon) financial audit of the MCC funds by an independent auditor. We reviewed the audits covering the last two years for 13 MCAs, which accounted for a total of 25 MCA audit reports. Similar to last year's finding, 20 out of 25 (or 80 percent) audit reports were not received timely or were already due but not yet received as of July 20, 2012, our test date. There were 15 audit reports that were submitted late, ranging from 2 months to 9 months late, and 5 audit reports due but not yet received ranging from 1 month to 3 months late as of the test date.

A financial audit of the MCA Fund Accountability Statement conducted by an independent auditor in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, provides an assurance to MCC that the MCA's revenues received, costs incurred, and commodities and technical assistance directly procured by the MCC are not materially misstated, and that tests of MCA's internal control and compliance with compact terms and applicable laws and regulations related to MCC funded programs were performed. The MCA financial audit is a key MCC internal control over monitoring of MCA's control over financial reporting and compliance and its reliance on MCA's financial reports. Accordingly, MCC should ensure that these audits are performed and submitted timely, reviewed timely, and corrective actions, if any, are implemented timely.

A timely audit involves the timely engagement of an audit firm by the MCA, an agreed upon timeline that ensures that the deliverables are provided within the deadlines, quality deliverables from the audit firms, and timely responses from the MCA and the audit firms. MCC has the monitoring responsibility over the audit process, and the USAID OIG has the oversight responsibility over the MCC's monitoring process. The USAID OIG provides oversight by reviewing both the initial and the close-out planning documents received from the MCAs. We understand that both USAID OIG and MCC are working together to minimize the delays in the MCA audits, but more can be done to address the root causes of these delays.

Recommendations

15. Monitoring the timeliness, completeness, effectiveness, and implementation of corrective action plans of the MCA audits is ultimately MCC management responsibility. MCC management should have control over how these audits should be conducted to meet its financial and programmatic accountability, needs and requirements. USAID OIG has the oversight responsibility to ensure that MCC management's monitoring of MCA audits are designed properly and operating effectively. We recommend therefore, that MCC management collaborate with USAID OIG to clarify and document management roles,

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responsibilities, and performance standards and the USAID OIG oversight roles with regards to these MCA audits.

16. MCC needs to evaluate its resources, capability, and ability to monitor and review the quality and performance of the audits and the audit firms to track and conduct follow-up of corrective action plans with the MCAs in a timely manner.

B. Final Quarterly Financial Report (QFR)

MCC requires the MCA to submit a Schedule C (CPS payments only) of the QFR (final QFR) 30 days prior to the program closure date to ensure that the MCA and the MCC books are reconciled prior to the submission of the final financial report. We reviewed two MCAs that closed in fiscal year 2012 by comparing the award amount, disbursement amount, and the remaining balance from the final QFR to what MCC reported. The final QFRs were received from the MCAs in February and May of 2012. Our review disclosed that the total disbursements and compact balance amounts reported by the MCAs in their final QFRs differed between \$1 million and \$3.5 million from the MCC reported amounts. In one of the MCAs we reviewed, MCC indicated that it has not prepared a reconciliation. In another MCA we tested, MCC provided a spreadsheet that included payment information from the core financial system. There was no clear documentation of a comparison made between the MCA and MCC records, differences noted, and the resolution of differences, if any. However, there were comments throughout the spreadsheet that seemed to indicate no support for some payments, some duplicate payments that have not been resolved, some incorrect payment amounts, and payments made to the wrong fund.

MCC requires the MCA to perform a monthly reconciliation of the CPS monthly Summary Report (of disbursements) from the MCC core financial system to the MCA's accounting records. Corrections are processed through the use of a Payment Inquiry Form (PIF) to address discrepancies and resolve them with the SSP. MCC receives copies of the PIF and a monthly certification letter from the MCA stating that reconciliation was performed and that the MCA records agree with the MCC records. The actual reconciliation is not provided to MCC or to the SSP.

MCC is not taking advantage of important tools in monitoring the MCAs' financial reporting process and validating its financial records. It has not established formal procedures for how the MCAs should document and report their monthly reconciliation of the compact award and expenses. Documented reconciliations will help to expedite the compact close out process. MCC also has not established formal procedures for how the reconciliation to the MCA final QFR is to be documented and the timeline for completion.

Recommendations

We recommend that MCC:

17. Utilize the QFRs and the monthly reconciliations as monitoring tools over the MCA's financial reporting process and the MCC's validation of its financial records. To be effective as monitoring tools, the re-designing of the QFR form and the development and documentation of the monthly reconciliation process should ensure that relevant data and information are reported by the MCAs and reported timely.

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18. Ensure that MCA reconciliations are provided to MCC and reviewed to investigate material variances and make corrections, if any.
19. Require the MCA audit firms to test the design and effectiveness of the MCA's internal control over the QFRs and the monthly reconciliation, and to test for the accuracy of the balances and reconciliation.
20. Develop and implement reconciliation procedures to document the complete reconciliation between the MCA's final QFR and MCC's records.

C. Expired Compacts Not Financially Closed-Out

As of June 30, 2012, there were six compacts that expired, but were not financially closed-out. The final audit report is due 120 days after the compact end date. The time that has expired since that due date ranges from 5 months to 17 months with a total unliquidated obligations balance of over \$17 million. Untimely de-obligation of funds results in misstated balances or misclassified funds in the statement of budgetary resources.

Recommendations

We recommend that MCC:

21. Timely assess the MCA's need for the remaining compact funds so that the funds could be de-obligated within the timeline in the policy and procedures after the compact expires.
22. Develop and implement a financial management policy that separates the programmatic close-out process from the financial close-out process. This policy should clearly layout the expected timing for de-obligation.

4. Information Systems Controls Need Improvement

All business processes today are impacted in some respects by information systems applications, policies, and controls. Information system is key to financial information collection, classification, allocations, and reporting.

Information systems controls must be in place to ensure that critical data, transactions and programs are processed in a timely manner. These include controls over MCC's general support system used to gain access to the contractor owned financial applications. Our evaluation of the general and application controls of MCC's key information technology infrastructure identified the following control weaknesses, taken together, constitute a significant deficiency.

Security Management

- MCC needs to strengthen personnel out-processing procedures. MCC personnel exit checklists were not maintained in the Staff Track and Reconciliation System (STARS) as required in the MCC Exit Policy and Clearance Procedures. Additionally, while the new exit process had been announced and the technology implemented, the process had not

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been adopted by the stakeholders involved: Human Resources, Contracts, and Office of Security.

- MCC did not properly assess system risks on the agency's general support system, MCCNet and MIDAS system for the fiscal year. For example:
 - MCC did not maintain a current Authorization to Operate (ATO) for the MCCNet General Support System. The ATO expired on June 8, 2012, without MCC completing a reauthorization of the system.
 - MCC did not perform a security impact assessment prior to moving its data center.
 - MCC did not complete a risk assessment to reflect the new data center. The last revision to the risk assessment was dated June 8, 2009.

In addition, a current risk assessment for the MIDAS system was not completed on an annual basis.

- MCC needs to conduct system security assessments as specified by the National Institute of Standards and Technology (NIST). The fiscal year 2012 security assessment for MCCNet reviewed only two control families from NIST Special Publication 800-53, Revision 3: Access Controls and Media Protection. However, the assessment was not in accordance with the NIST Special Publication 800-37, Revision 1, risk management framework and continuous monitoring.
- MCC needs to ensure all personnel receive security awareness training. MCC did not track users who failed to participate in the daily Tips of the Day. In addition, MCC did not establish a required number of tips a user must view each month or year.
- MCC did not fully implement NIST Special Publication 800-53, Revision 3 into its information system security policies. MCC was in the process of updating the Policy; however, it was not finalized.
- The MCCNet system security plan did not accurately reflect the current information system environment.

Contingency Planning

- MCC did not perform testing of the MCCNet contingency plan for Fiscal Year (FY) 2012. The last test was conducted in February of 2011; however, the test results and lessons learned were not formally documented and reported until November 2011.

Access Controls

- MCC needs to periodically review network accounts. MCC did not perform quarterly reviews of MCCNet group memberships as documented within the MCC Access Control Procedures. In addition, MCC did not review network accounts of users that had never logged into system.

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Configuration Management

- MCC needs to strengthen security controls surrounding patch and configuration management. MCC had procedures in place that use vulnerability scanning software to assist in detecting and reporting security vulnerabilities. However, our evaluation identified critical and high vulnerabilities on MCC hosts that MCC did not identify through its scans.
- MCC did not effectively track and maintain their asset inventory. Asset management personnel did not follow a set of documented procedures for how to manage the asset inventory. In addition, MCC did not conduct periodic wall-to-wall asset inventories.
- MCC did not have documented change management procedures that describe types of changes and levels of testing applied to the changes prior to approval by the Configuration Control Board.

These findings highlight the MCC's lack of compliance with the NIST publications, OMB Circulars, and FISMA requirements as listed below:

OMB Circular A-130, *Management of Federal Information Resources*, Appendix III, states "Agencies shall implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications."

The Federal Information Security Management Act of 2002 (FISMA) requires that each agency develop an agency-wide information security program that includes:

- Periodic assessments of risk, including the magnitude of harm that could result from the unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems that support the operations and assets of the organization;
- Policies and procedures that are based on risk assessments, cost-effectively reduce information security risks to an acceptable level and address information security throughout the life cycle of each organizational information system;
- Plans for providing adequate information security for networks, facilities, information systems, or groups of information systems, as appropriate;
- Security awareness training to inform personnel of the information security risks associated with their activities and their responsibilities in complying with organizational policies and procedures designed to reduce these risks;
- Periodic testing and evaluation of the effectiveness of information security policies, procedures, practices, and security controls to be performed with a frequency depending on risk, but no less than annually;
- A process of planning, implementing, evaluating, and documenting remedial actions to address any deficiencies in the information security policies, procedures, and practices of the organization;
- Procedures for detecting, reporting, and responding to security incidents; and
- Plans and procedures for continuity of operations for information systems that support the operations and assets of the organization.

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By not effectively implementing and enforcing IT policies and procedures, there is an increased risk that financial and sensitive information may be inadvertently or deliberately misused and may result in improper disclosure or theft without detection.

Recommendation

We are not repeating our recommendations which are included in the USAID OIG Report titled "Audit of Millennium Challenge Corporation's Fiscal Year 2012 Compliance with Federal Information Security Management Act of 2002," Audit Report M-000-13-001-P, dated November 6, 2012.

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STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS

As required by *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have reviewed the status of MCC corrective actions with respect to the findings and recommendations included in MCC's Report on Internal Control for FY 2011. The following analysis provides our assessment of the progress MCC has made through September 30, 2012 in correcting the noted deficiencies.

| FY 2011 Findings | FY 2011 Recommendations | FY 2012 Status |
|--|--|---|
| I. MCC's Financial Reporting Needs Improvement – Material Weakness | 1. Develop and document a financial reporting process that reduces the likelihood of errors, inconsistencies, and inaccuracies and results in efficiencies and effectiveness, consistency, and accuracy of financial data. | Partially Closed. Financial Reporting Process still in draft. Some conditions identified in FY 2011 still exist in FY 2012 and are reported as MW. |
| | 2. Enhance the quality control process to detect errors or improper closeout of accounts through additional check totals, training, and involvement of additional A&F staff members. | Partially Closed. Some conditions identified in FY 2011 still exist in FY 2012 and are reported as MW. |
| II. Controls over MCC Accrued Expenses, Retentions, and Advances Need Improvement – Material Weakness (MW) | 3. Develop an appropriate MCC data store of MCA expense information as required by TR 12. | Partially Closed. Some conditions identified in FY 2011 still exist in FY 2012 and are reported as Significant Deficiency (SD). |
| | 4. Perform similar data validation employed at year-end for each quarter going forward. | Closed – New accrual methodology adopted in FY 2012 |
| | 5. Prepare an MCC developed estimate for accrued expenses based upon statistical modeling or alternative that is based on MCC obtained data. | Closed |
| | 6. Record advances in accordance with generally accepted accounting principles. | Closed |
| | 7. Develop and implement a periodic reconciliation process for advances. | Closed |
| | 8. Develop and implement a quarterly certification for advance transactions processed by the MCAs as part of the quarterly data call submission. | Closed |

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| | 9. Modify MCA audit requirements to include testing and reporting of advances transactions. | Partially Closed. MCC proposed changes to MCA Audit Guide to address the testing and reporting of advances transactions. However, the changes have not been finalized and implemented by the MCAs. |
| III. MCA Required Documentation, including Audit Reports, Quarterly Disbursement Requests and Compact Closure Plans are not Submitted, Reviewed, and/or Approved in a Timely Manner – Significant Deficiency (SD) | 10. Collaborate with the OIG and provide the MCA auditors with a document discussing the issues/errors that have led to delays in processing and clearing the audit plans and audit reports in a timely manner. | Closed |
| | 11. Provide comprehensive guidance to MCAs regarding the procurement of firms to perform the FAS audits with a focus on timeliness and completeness of the audit deliverables and potential penalties. | Recommendation Closed. However, certain conditions identified in FY 2011 still exist in FY 2012 and are reported as SD. |
| | 12. Continue to collaborate with the OIG to improve communications regarding audit status and solutions to moving individual audits to completion on a timely basis. | Recommendation Closed. However, certain conditions identified in FY 2011 still exist in FY 2012 and are reported as SD. |
| | 13. Reiterate the program requirements that QDRs are to be accurate and complete and submitted within the required timelines and provide them with information about issues/things that cause delays. | Recommendation Closed. However, certain conditions identified in FY 2011 still exist in FY 2012 and are reported as management letter (ML) |

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| | | |
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| | 14. Review their current guidelines for submission of CCPs to determine if the timelines is reasonable and realistic. In addition, DCO should work closely with MCAs to develop and compile a compact closure plan and resolve any outstanding items in advance of compact closure. | Recommendation Closed. However, certain conditions identified in FY 2011 still exist in FY 2012 and are reported as ML. |
| IV. Reconciling Fund Balance with Treasury – SD | 15. Continue to follow USAID's progress towards elimination of cash balance differences between USAID and Treasury and timely clearing of suspense account items in order to monitor MCC's risks of potential misstatements. | Recommendation Closed. However, the condition still exist in FY 2012 and is reported as ML. |



MILLENNIUM
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UNITED STATES OF AMERICA

Exhibit 4

November 13, 2012

Mia Leswing, CPA, CISA, CGFM, Partner
CliftonLarsonAllen, LLP
4250 N. Fairfax Drive
Suite 1020
Arlington, VA 22203

Richard J. Taylor
Deputy Assistant Inspector General/Audit
Millennium Challenge Corporation
1401 H Street, NW, Suite 770
Washington, DC 20005

Dear Ms. Leswing and Mr. Taylor:

MCC has reviewed the draft audit report received November 9, 2012. In response to audit findings characterized as material weaknesses and significant deficiencies, as well as the associated recommendations, MCC has the following comments:

Material Weakness: Ineffective and Inefficient Interrelationship Among Software, Personnel, Procedures, Controls and Data within MCC's Financial Management Systems

Recommendations from the auditors:

1. Perform a comprehensive review and determine whether the service provider's financial management system is substantially in compliance with the federal financial management systems' requirements and meeting MCC needs. As part of this review determine if a separate grants management system that focuses on program administration that interfaces with the core financial system is needed.
2. Investigate and correct the causes for the underlying systems errors and limitations that prevent or delay the recording, processing, and summarizing of accounting transactions.
3. Review USGGL transaction posting models so that all routine accounting transactions are included in the normal accounting processes. Manual adjusting journal entries should be used for limited transactions like one-time entries. All valid recurring entries that are currently entered manually should have transaction codes set-up to prevent posting errors.
4. Hard code key cells in the excel spreadsheets used in preparing and generating the financial statements to prevent unintentional or inadvertent changes.
5. Limit access and ability to make changes to the workbook to a few personnel. Assign a staff and a designate as primarily responsible and accountable for the workbook.
6. Create a log to document changes to the workbook, the date of change, the person making the change, and the changes made.
7. Investigate the use of alternative approaches such as the use of a financial statement generation software tool or other financial management system that can interface with the trial balance or the core financial system and automatically generate the financial statements.

8. Develop a comprehensive financial statements review process that details specific steps performed, results of such reviews, steps taken to resolve discrepancies noted, and related management resolution.
9. Implement an effective management review using the comprehensive review process developed in recommendation 8 to ensure that all transactions for the accounting period are accurately and completely reflected in the financial statements, current year beginning balances agreed to prior year audited balances, reconciling items are recorded timely and others. Such management reviews should be performed quarterly and at year-end timely with evidence of management sing-off signifying levels of reviews performed.
10. Cross-train MCC financial staff on the financial statements preparation process to ensure that there is more than one person knowledgeable and can prepare the financial statements.

Response from MCC:

MCC concurs with recommendations 1 through 10.

Significant Deficiency: Validation Control over Grant Accrual Estimates Needs to be Strengthened

Recommendations from the auditors:

11. Perform the grant accrual look back analysis on a quarterly basis. The look back analysis methodology and results should provide MCC sufficient information to explain unusual variances between actual and estimates, or support updating the current grant accrual methodology. Such periodic assessment of the adequacy of the grant accrual methodology should be documented and supported by data analysis. The liability amount is subject to risk that actual subsequent disbursement account may be significantly different from management's estimate. When this occurs, management should further analyze the drivers/factors to ensure the validity and reasonableness of the estimation methodology.
12. Update the Expense Accruals Policy and Procedures to reflect the change in the methodology.
13. Consider developing audit procedures for the MCA audit to compare spending authority request amount against actual expenses, and investigate and document significant variances. The results should be provided to MCC and used this information collected from the MCA audits as data store to validate or enhance the current methodology.
14. Continue to enhance the accrual methodology.

Response from MCC:

MCC concurs with recommendations 11 through 14.

Significant Deficiency: Monitoring Control over Funds Provided to Millennium Challenge Accounts (MCAs) Needs Improvement

Recommendations from the auditors:

15. MCC management should have control over how these audits should be conducted to meet its financial and programmatic accountability, needs and requirements. MCC management should collaborate with USAID OIG to clarify and document management roles, responsibilities, and performance standards and the USAID OIG oversight roles with regards to MCA audits.
16. MCC needs to evaluate its resources, capability, and ability to monitor and review the quality and performance of the audits and the audit firms, to track and conduct follow-up of corrective action plans with the MCAs.
17. Utilize the QFRs and the monthly reconciliations as monitoring tools over the MCA's financial reporting process and validating MCC's financial records. To be effective

monitoring tools, the re-designing of the QFR form and the development and documentation of the monthly reconciliation process should ensure that relevant data and information are reported by the MCAs and reported timely.

18. Ensure that MCA reconciliations are provided to MCC and reviewed to investigate material variances and make corrections, if any.
19. Require the MCA audit firms to test the design and effectiveness of the MCA's internal control over the QFRs and the monthly reconciliation and to test for the accuracy of the balances and reconciliation.
20. Develop and implement reconciliation procedures to document the complete reconciliation between the MCA's final QFR and MCC's records.
21. Timely assess the MCA's needs for the remaining compact funds so that the funds could be de-obligated within the timeline in the policy and procedures after the compact expires.
22. Develop and implement a financial management policy that separates the programmatic close-out process from the financial close-out process. This policy should clearly layout the expected timing for de-obligation.

Response from MCC:

MCC concurs with recommendations 15 through 22.

Significant Deficiency: Information Systems Controls Need Improvement

Recommendations from the auditors:

23. Repeat recommendations from the FISMA Report.

Response from MCC:

MCC concurs with recommendations in the FISMA Report

MCC will be addressing each recommendation as part of a comprehensive corrective action plan beginning in the first quarter of FY 2013 with the intent to develop and implement necessary changes as soon as possible.

Sincerely,

MILLENNIUM CHALLENGE CORPORATION

By:

Chantale Wong /s/

Vice President, Administration and Finance, and

Chief Financial Officer

Millennium Challenge Corporation

**U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Ave, NW
Washington, DC 20523
Tel: (202) 712-1150
Fax: (202) 216-3047
www.usaid.gov/oig**