



OFFICE OF INSPECTOR GENERAL

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S FINANCIAL STATEMENTS, INTERNAL CONTROLS, AND COMPLIANCE FOR THE PERIOD ENDING SEPTEMBER 30, 2013 AND 2012

AUDIT REPORT NO. M-000-14-001-C
December 13, 2013

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 Inspector General

December 13, 2013

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, 2013 and 2012 (Report No. M-000-14-001-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, 2013. 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 14-02, Audit Requirements for Federal Financial Statements, and the GAO/PCIE Financial Audit Manual.

The Independent Auditors expressed an unqualified opinion on MCC's FY 2013 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, 2013, 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.

In its audit of MCC's fiscal year 2013 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.

U.S. Agency for International Development
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Material Weakness

- Ineffective and Inefficient Integration of Data, Processes, and Controls within the Financial Management Systems (Modified Repeat Finding)

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 (Modified repeat Finding)
- Monitoring of MCAs Audits Needs to be Strengthened (Modified Repeat Finding)
- 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 December 11, 2013, 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 11 recommendations to MCC's management:

Material Weakness

Ineffective and Inefficient Integration of Data, Processes, and Controls within the Financial Management Systems (Modified Repeat Finding)

Recommendations

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

1. Perform a comprehensive review and determine whether the SSP's financial management system is meeting MCC financial management and reporting needs. As part of this review, management should continue to evaluate whether:
 - a. a separate grants management system that focuses on program and financial administrations that interfaces with the core financial system is needed, or

- b. to establish alternatives to recording numerous data lines in the Oracle AP module which is manual intensive and prone to errors.
2. Investigate and correct the underlying causes for the system errors and limitations that prevent or delay the recording, processing, and summarizing of accounting transactions. Key issues that remain unresolved should be escalated immediately rather than back-log the problem. MCC should ensure that errors and open tickets are resolved appropriately and timely by the SSP and that routine MCA accounting activities (such as the NA/NA fund transactions) are recorded in Oracle within the specified timeline. Moreover, manual adjusting journal entries should be used for limited transactions like unusual one-time entries or correcting entries.
3. In collaboration with the SSP, formalize in writing the system's issues and resolution process. This will include developing a standardized remedy ticket listing with relevant and historical information.
4. Continue to streamline the Monthly Commitments and Disbursements Report (MCDR) recording and adjustment process. With regards to supervisory reviews, we recommend that MCC:
5. Implement an effective management review of its accounting and financial reporting processes using the comprehensive review process to ensure that all transactions for the accounting period are accurately and completely reflected in the financial statements, beginning balances agreed to ending balances, and reconciling items are recorded timely. Such management reviews should be performed monthly or quarterly and at year-end timely.
6. Further review SSP data entries relating to MCA payment processing and related adjustments. Perform reconciliation of AP on a monthly basis and proactively resolve all differences.

Significant Deficiencies

Validation Control over Grant Accrual Estimates Needs to be Strengthened (Modified Repeat Finding)

Recommendations:

We recommend that MCC:

7. Develop and implement a logical and supportable look back validation process to assess the reasonableness of the grant accrual estimate, and then 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 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.

8. 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; and
 - d. the sources of information, the logic flow, and the mechanics of the model, including the formulas and other mathematical functions.
9. Develop audit procedures for the MCA audit to compare spending authority amount granted against actual MCA expenses, and investigate and document significant variances. MCC should maintain a library of historical MCA financial data. This information may be used by MCC to validate or enhance its current methodology.
10. Continue to enhance the accrual methodology by:
 - a. stratifying the MCAs based on variances in their spending rates and/or stages in the compact's life cycle;
 - b. developing and implementing a process to ensure that compacts that are partially managed by MCC are fully addressed within the grant accrual process.
 - c. addressing situations where the MCA exceeds its quarterly spending authority;
 - d. addressing situations where the compact has expired and there is no spending authority and disbursements are still occurring;
 - e. obtaining detailed document level breakdown of expenses to be used to compare against the accrual estimates;
 - f. reviewing the disbursement patterns by compact to identify those with large fluctuations to determine the cause so that adjustments can be made in developing the spending plan or in how the grant accrual is calculated to improve the accuracy of the grant accrual estimate; and
 - g. other factors as deemed necessary to achieve an acceptable precision of the accrual estimate.

Monitoring of MCA's Audits Needs to be Strengthened (Modified Repeat Finding)

Recommendation:

11. Continue the collaboration between the USAID OIG and the MCC management to improve timeliness of the MCA audits; adequacy of the MCA audit procedures; monitoring and reviewing the quality and performance of the MCA audits; and tracking and conducting follow-up of corrective action plans with the MCAs timely.

Information Systems Controls Need Improvement (Modified Repeat Finding)

Recommendation:

We are not repeating our recommendations which are included in the USAID OIG Report titled "Audit of Millennium Challenge Corporation's Fiscal Year 2013 Compliance with Federal Information Security Management Act of 2002," Audit Report M-000-13-005-P, dated September 20, 2013.

The OIG acknowledges MCC's management decisions for all 11 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/

Robert L. Fry
Acting Deputy Assistant Inspector General
for Audit
Millennium Challenge Corporation

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MILLENNIUM CHALLENGE CORPORATION

September 30, 2013

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INDEPENDENT AUDITORS' REPORT

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

To the Board of Directors
Millennium Challenge Corporation

In our audits of the fiscal years (FY) 2013 and 2012 financial statements of the Millennium Challenge Corporation (MCC), we found:

- The financial statements are presented fairly, in all material respects, in accordance 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
- No instance of reportable noncompliance with certain provisions of laws, regulations, contracts, and grant agreements tested.

The following sections and Exhibits discuss in more detail: (1) these conclusions, (2) Management's Discussion and Analysis (MD&A), other required supplementary information (RSI), and other information included with the financial statements, (3) management's responsibility, (4) our responsibilities, (5) management's response to findings, and (6) the current status of prior year findings.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of MCC, which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of net cost and changes in net position, and the combined statements of budgetary resources, for the years then ended, and the related notes to the financial statements. The objective of our audits was to express an opinion on the fairness of these financial statements.

Management's Responsibility for the Financial Statements

MCC management is responsible for the (1) preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the U.S., (2) preparation, measurement, and presentation of the RSI in accordance with accounting principles generally accepted in the U.S., (3) preparation and presentation of other information in documents containing the audited financial statements and auditors' report, and consistency of that information with the audited financial statements and the RSI; (4) design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S. and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We also conducted our audits in accordance with Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, (OMB Bulletin 14-02).

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the auditors' assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the U.S. require that MCC's MD&A and other Required Supplementary Information (RSI) 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 (FASAB), 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 and other RSI 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

All other information exclusive of the financial statements, MD&A and other RSI as listed in the table of contents contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or RSI. The information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered MCC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control described below that we consider to be a material weakness and significant deficiencies.

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 MCC's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies summarized below and described in Exhibit 1 to be a material weakness.

Ineffective and Inefficient Integration of Data, Processes and Controls within the Financial Management Systems

A *significant deficiency* is a 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. We consider the deficiencies summarized below and described in Exhibit 2 to be significant deficiencies.

Validation Control over Grant Accrual Estimates Needs to be Strengthened

Monitoring of MCAs Audits Needs to be Strengthened

Information Systems Controls Need Improvement

Also, as required by OMB Bulletin 14-02, we compared the material weakness identified during the audit with the material weakness included in the MCC's Federal Managers Financial Integrity Act (FMFIA) report that relate to financial reporting. We noted no exception.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether MCC's financial statements are free from material misstatement, we performed tests of MCC's compliance with certain provisions of laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States or OMB Bulletin 14-02.

Management's Responsibility for Internal Control and Compliance

MCC management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the FMFIA, (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and (3) ensuring compliance with other applicable laws, regulations, contracts, and grant agreements.

Auditors' Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing compliance with certain provisions of laws and regulations that have a direct and material effect on the determination of material amounts and disclosures in the financial statements and applicable laws for which OMB Bulletin 14-02 requires testing, and (3) applying certain limited procedures with respect to the RSI included with the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. 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 effect on the determination of material amounts and disclosures in the financial statements and those required by OMB Bulletin 14-02 that we deemed applicable to MCC's financial statements for the fiscal year ended September 30, 2013. 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.

MANAGEMENT'S RESPONSE TO AUDIT FINDINGS

Management's response to audit findings identified in our report is presented in Exhibit 4. We did not audit MCC's response and, accordingly, we express no opinion on it.

STATUS OF PRIOR YEAR'S CONTROL DEFICIENCIES AND NONCOMPLIANCE ISSUES

We have reviewed the status of MCC's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 12, 2012. The status of prior year findings and recommendations is presented in Exhibit 3.

PURPOSE OF THE REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND THE REPORT ON COMPLIANCE AND OTHER MATTERS

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of MCC's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MCC's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

CLIFTONLARSONALLEN LLP

Arlington, Virginia
December 11, 2013

EXHIBIT 1

MATERIAL WEAKNESS

1. Ineffective and Inefficient Integration of Data, Processes, and Controls within the Financial Management Systems (Modified Repeat Finding)

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 continued to design and implement internal control to improve its accounting and financial reporting processes. For example, in FY 2013, MCC required the Millennium Challenge Account entities (MCAs) to perform and submit monthly reconciliation of compact disbursements report (MCDR) with those recorded in MCC's financial systems and resolve the identified variances with the MCC's shared service provider (SSP) timely. In addition, MCC established some accounting transaction models to be followed when performing routine manual accounting entries to ensure that they are done correctly. Moreover, MCC has successfully exported its core system's trial balance (TB) into a spreadsheet used to prepare the financial statements and eliminated significant manual cutting and pasting of the systems' TB into the FS spreadsheets. However, MCC continues to face a huge challenge in its accounting and reporting processes primarily due to its financial management systems' limitations, and the sheer volume of financial activities that are complex and require manual attentions and reviews to compensate for the systems' limitations. As a result, the accounting and financial reporting processes, as a whole, is inefficient, and the risks that internal controls are not effective to prevent, detect, and correct errors timely is high, increasing the reasonable possibility of a material misstatement in the financial statements.

We presented all our findings to MCC management in written notices of findings and recommendations (NFRs) and obtained their written responses to our NFRs. We have summarized and grouped those findings into systemic issues below:

- a. MCC uses a SSP to process its accounting transactions. The SSP's core financial system current configurations prevent MCC from recording significant transactions in a systematic and correct manner. Issues with Oracle posting model and related version upgrades continue to exist. Our review of the September 30, 2013 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 journal vouchers and system's 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 module interface errors, and e) others. This system deficiency, combined with MCC and/or SSP's inadequate and untimely reviews and corrective actions, negatively impact MCC's ability to record transactions timely, properly, and accurately. Although MCC applied 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 results in inefficiencies and negatively impacts MCC's limited staff resources.

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 needs to be done. MCC's accounting and financial statements preparation process continue to be susceptible to errors even though a number of functionalities have been automated. MCC uses the Oracle federal financial management system (Oracle) to generate its financial statements. Manual journal voucher (JV) entries are posted directly into Oracle to correct errors and/or post adjustments. Oracle then automatically generates the financial statements from these data inputs. Our audit identified instances where MCC missed posting manual journal entries, or posted correcting journal entries that resulted in further errors in Oracle at June 30, 2013 and September 30, 2013. Some of these missing manual journal entries or erroneous correcting journal entries are described in c below.
- c. In reviewing the financial statements and performing our internal control testing, we identified errors and control deficiencies that led us to question the effectiveness and timeliness of supervisory reviews. For example,
 - o Advances balance at June 30, 2013 was overstated by \$119 million which was the first quarter accrual that was not reversed in the subsequent two quarters. MCC uses manual journal entry to reverse the accrual. MCC detected and corrected the error in September 2013.

- Compact related expenses of approximately \$2.4 million from several MCAs were erroneously reported as Accounts Payable due to SSP recording errors within Oracle.
- Undelivered order (UDO) amount disclosed in the notes to the financial statements was erroneously recorded in the “Compact” portion of UDO overstating the amount disclosed by \$50 million.
- Incorrect cost classification as “with the public” and negative program cost of approximately \$1.4 million were presented in the note disclosure due to the absence of a trading partner code being entered in oracle at the time of entry.
- The SSP initiated JVs were not always tracked in the MCC consolidated JV log and did not have approval from authorized MCC personnel.
- MCC does not always validate the propriety of the SSP’s open ticket resolution. The remedy ticket listing maintained to keep track of open ticket system’s issues is overly broad and difficult to know the exact status of any issue without extensive follow-up. Furthermore, issues resolved are removed from the listing without any history tracking; that is, what was the original issue; how was the issue resolved; how extensive was the issue; and whether the resolution corrected the issue.
- JVs have inaccurate or inadequate explanation and/or supporting documentation.
- MCC and the SSP, separately and unknowingly, made correcting entries in an effort to correct same transactions incorrectly posted in Oracle. This resulted in further errors in the accounts that required an extensive effort from both the SSP and MCC to resolve.

Recommendations

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

1. Perform a comprehensive review and determine whether the SSP’s financial management system is meeting MCC financial management and reporting needs. As part of this review, management should continue to evaluate whether:
 - a. a separate grants management system that focuses on program and financial administrations that interfaces with the core financial system is needed, or
 - b. to establish alternatives to recording numerous data lines in the Oracle AP module which is manual intensive and prone to errors.
2. Investigate and correct the underlying causes for the system errors and limitations that prevent or delay the recording, processing, and summarizing of accounting transactions. Key issues that remain unresolved should be escalated immediately rather than back-log the problem. MCC should ensure that errors and open tickets are resolved appropriately and timely by the SSP and that routine MCA accounting activities (such as the NA/NA fund transactions) are recorded in Oracle within the specified timeline. Moreover, manual adjusting journal entries should be used for limited transactions like unusual one-time entries or correcting entries.
3. In collaboration with the SSP, formalize in writing the system’s issues and resolution process. This will include developing a standardized remedy ticket listing with relevant and historical information.
4. Continue to streamline the Monthly Commitments and Disbursements Report (MCDR) recording and adjustment process.

With regards to supervisory reviews, we recommend that MCC:

5. Implement an effective management review of its accounting and financial reporting processes using the comprehensive review process to ensure that all transactions for the accounting period are accurately and completely reflected in the financial statements, beginning balances agreed to ending balances, and reconciling items are recorded timely. Such management reviews should be performed monthly or quarterly and at year-end timely.
6. Further review SSP data entries relating to MCA payment processing and related adjustments. Perform reconciliation of AP on a monthly basis and proactively resolve all differences.

EXHIBIT 2

SIGNIFICANT DEFICIENCIES

1. Validation Control over Grant Accrual Estimates Needs to be Strengthened (Modified Repeat Finding)

MCC reported approximately \$1.5 billion in compact grant related expenditures and an accrued grant liability of \$209 million for expenditures incurred by the Millennium Challenge Accounts (MCAs) but not yet paid by MCC at September 30, 2013. MCC applied its new grant accrual methodology for the first time at September 30, 2012.

MCC's new accrual methodology is calculated based on an MCA's unused spending authority. MCC uses the MCA's "in-house invoices" as the floor and the spending authority request as the ceiling in calculating the accrued liability. MCA's in-house invoices are actual invoices held by the MCA waiting to be submitted to the SSP for processing. The spending authority request by MCAs includes expenses that were incurred but not yet reported. MCC approves the quarterly spending authority request 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 FY 2013, MCC continues to refine its accrual methodology and started to accumulate data store to validate its methodology. For example, MCC separately evaluated the accruals for compact agreements that were expiring in FY 2013. Moreover, MCC performed follow-up inquiries with MCAs whose accrual estimates were not within their expectations. Through these reviews, MCC notified an MCA and the MCC Department of Compact Operations in writing, of spending authority request that seemed to be way overstated when compared to the actual results. However, MCC still has not validated some significant assumptions in its accrual methodology and still needs to continue to develop its historical data store to support its assumptions and validation.

Some of MCC's bases for validating the reasonableness of the grant accrual was inadequate and could not be supported. For example, MCC is relying on an assumption that in-house invoices and accrued expenses are being paid within the next 30 days in its grant accrual methodology. Given the exceptions we noted in our tests, MCC needs to perform additional validation to ensure that this assumption is still correct; otherwise, the analysis of the accrual to actual may be off and could impact MCC's decisions to adjust the accrual when such an adjustment may not be warranted. We found evidence that a significant portion of those costs would not be paid until the following months.

In addition, although MCC's current methodology does not require further analysis on a quarter when the difference (in total) between the disbursements and the accrual calculation is less than 10%, our tests showed, when we compared quarterly accruals to the subsequent month's disbursements, that the quarterly fluctuations on a number of the MCAs individually were over +/- 50% and as high as +/- 350%.

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.” “Preparing reliable and timely accrual estimates for grant programs must be a joint effort between the budget, financial, and program offices at each agency.” “Agencies should document and maintain support for the data and assumptions used to develop grant accrual estimates. The documentation will facilitate the agency’s review of the assumptions, a key internal control, and will facilitate the auditor’s testing of the estimates.”

In addition, MCC Expense Accrual Policy and Procedures, dated March 2011, do not reflect the current grant accrual methodology implemented in September 2012. In developing its policy and procedures, MCC should include various practical scenarios in its grant accrual calculation, such as how the spending accrual ceiling will be determined when compacts are partially managed by MCC; addressing situations where the compact has expired and there is no spending authority and disbursements are still occurring; advances being included in the spending authority requests and subsequent disbursements as expenses; and others.

TR 12 also states that: “Documented procedures are important to communicate relevant information on the grant accrual estimation to employees and management as well as other interested parties, such as auditors. As an agency experiences employee turnover, these documented procedures can provide vital information for new employees on how to complete reliable, well supported grant accrual estimates. Such documentation may be used to establish consistent procedures for developing grant accrual estimates across grant programs with similar characteristics.”

Recommendations

We recommend that MCC:

7. Develop and implement a logical and supportable look back validation process to assess the reasonableness of the grant accrual estimate, and then 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 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.
8. 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; and

- d. the sources of information, the logic flow, and the mechanics of the model, including the formulas and other mathematical functions.
9. Develop audit procedures for the MCA audit to compare spending authority amount granted against actual MCA expenses, and investigate and document significant variances. MCC should maintain a library of historical MCA financial data. This information may be used by MCC to validate or enhance its current methodology.
 10. Continue to enhance the accrual methodology by:
 - a. stratifying the MCAs based on variances in their spending rates and/or stages in the compact's life cycle;
 - b. developing and implementing a process to ensure that compacts that are partially managed by MCC are fully addressed within the grant accrual process.
 - c. addressing situations where the MCA exceeds its quarterly spending authority;
 - d. addressing situations where the compact has expired and there is no spending authority and disbursements are still occurring;
 - e. obtaining detailed document level breakdown of expenses to be used to compare against the accrual estimates;
 - f. reviewing the disbursement patterns by compact to identify those with large fluctuations to determine the cause so that adjustments can be made in developing the spending plan or in how the grant accrual is calculated to improve the accuracy of the grant accrual estimate; and
 - g. other factors as deemed necessary to achieve an acceptable precision of the accrual estimate.

2. Monitoring of MCAs Audits Needs to be Strengthened (Modified Repeat Finding)

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).

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 MCA audits.

MCA's 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 most recent audits for 15 MCA's, which accounted for a total of 15 MCA audit reports. Similar to last year's finding, 9 out of 15 (or 60 percent) audit reports were not received timely or were already due but not yet received as of November 15, 2013, our test date. There were 7 audit reports that were submitted late, ranging from 1 month to 4 months late, and 2 audit reports due but not yet received that were over seven 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. 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.

Recommendation

11. Continue the collaboration between the USAID OIG and the MCC management to improve timeliness of the MCA audits; adequacy of the MCA audit procedures; monitoring and reviewing the quality and performance of the MCA audits; and tracking and conducting follow-up of corrective action plans with the MCA's timely.

3. Information Systems Controls Need Improvement (Modified Repeat Finding)

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

- MCC did not properly assess system risks for the fiscal year. For example:
 - MCC did not have an Authorization to Operate (ATO) for the MCC MIS system, even though the system is currently in the production environment.
 - MCC had not maintained a current ATO for the MIDAS application. The ATO expired on March 5, 2013, but the system was still in the production environment.
 - MCC had not performed an annual risk assessment for the MIDAS or MCC MIS systems.
- 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.

Contingency Planning

- MCC needs to update the disaster recovery plan to reflect lessons learned. The MCC Disaster Recovery Plan had not been updated to reflect lessons learned from the disaster recovery tests that occurred in December 2012.

Access Controls

- MCC needs to periodically review network accounts. MCC did not perform quarterly reviews of MCCNet group memberships as required by the MCC Access Control Procedures. In addition, MCC did not review service accounts that had never logged into system.
- MCC needs to strengthen audit and accountability controls. MCC was not reviewing or analyzing domain and server audit records for indications of inappropriate or unusual activity.

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. MCC's asset management is largely a manual process. The manual nature of the asset inventory allowed multiple, incorrect or delayed entries in the asset inventory.
- MCC's change management procedures did not describe types of changes and levels of testing applied to the changes prior to approval by the Configuration Control Board.

These findings highlight 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.

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 2013 Compliance with Federal Information Security Management Act of 2002,” Audit Report M-000-13-005-P, dated September 20, 2013.

EXHIBIT 3

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

As required by *Government Auditing Standards* and OMB Bulletin 14-02, 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 2012. The following analysis provides our assessment of the progress MCC has made through September 30, 2013 in correcting the noted deficiencies.

FY 2012 Findings	FY 2012 Summary of Recommendations	FY 2013 Status
I. Material Weakness: Ineffective and Inefficient Interrelationship among Software, Personnel, Procedures, Controls and Data within MCC's Financial Management Systems	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.	Open
	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.	Open
	3. Review USSGL transactions posting models so that all routine accounting transactions are included in the normal accounting processes.	Closed
	4. Hard code key cells in the excel spreadsheets used in preparing and generating the financial statements to prevent unintentional or inadvertent changes.	Closed
	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.	Closed
	6. Create a log to document changes to the workbook, the date of change, the person making the change, and the changes made.	Closed

	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.	Closed
	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.	Closed
	9. Implement an effective management review using the comprehensive review process developed in recommendation 8.	Open
	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.	Open but will be reported as management letter comment in FY 2013.
2. Significant Deficiency: Validation Control over Grant Accrual Estimates Needs to be Strengthened	11. Perform a grant accrual look back analysis on a quarterly basis for a sufficient period of time to develop a pattern or trend.	Open
	12. Update the Expense Accruals Policy and Procedures.	Open
	13. Continue to enhance the accrual methodology.	Open
	14. Develop audit procedures for the MCA audit to compare authority request amount against actual expenses.	Open
3. Significant Deficiency: Monitoring Control over Funds Provided to MCAs Needs	15. MCC management collaborates with USAID to clarify and document management roles, responsibilities, and performance standards and the USAID OIG oversight roles with regards to MCA audits.	Closed

Improvement <i>A. Audit Reports</i>		
	16. Evaluate 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.	Closed
<i>B. Final Quarterly Financial Report (QFR)</i>	17. Utilize the QFRs and monthly reconciliations as monitoring tools over the MCA's financial reporting process and MCC's validation of its financial records.	Closed
	18. Ensure the MCA reconciliations are provided to MCC and reviewed to investigate material variances and make corrections, if any.	Closed
	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 the accuracy of the balances and reconciliation.	Open but will be reported as management letter comment in FY 2013.
	20. Develop and implement reconciliation procedures to complete the reconciliation between the MCA's final QFR and MCC's records.	Closed
	21. Timely assess the MCA's need for the remaining compact funds so that could be de-obligated within the timeline in the policy and procedures after the contract expires.	Closed
	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 lay out the expected timing for de-obligation.	Closed
4. Significant Deficiency: Information Systems Controls Need Improvement	23. We did not include recommendations in our audit report. Our recommendations were included in a separate USAID OIG Report titled "Audit of Millennium Challenge Corporation's Fiscal Year 2012 Compliance with Federal Information Security	Status of the findings and recommendations were reported separately in USAID OIG Report titled "Audit of Millennium Challenge Corporation's

	Management Act of 20012," Audit Report M-000-13-001-P, dated November 6, 2012.	Fiscal Year 2013 Compliance with Federal Information Security Management Act of 2002," Audit Report M- 000-13-005-P, dated September 20, 2013.
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MANAGEMENT'S RESPONSE TO FINDINGS

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

December 11, 2013

Mia Leswing, CAP, CISA, CGFM, Partner
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Arlington, VA 22203

Robert Fry
Acting Deputy Assistant Inspector General/Audit
Millennium Challenge Corporation
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Dear Ms. Leswing and Mr. Fry:

In response to the audit findings and recommendations provided in your financial statement audit report MCC has the following comments:

Material Weakness: Ineffective and Inefficient Integration of Data, Processes, and Controls within the Financial Management Systems (Modified Repeat Finding)

Recommendations from the auditors regarding the core financial system:

1. Perform a comprehensive review and determine whether the SSP's financial management system is meeting MCC financial management and reporting needs. As part of this review, management should continue to evaluate whether:
2. Investigate and correct the underlying causes for the system errors and limitations that prevent or delay the recording, processing, and summarizing of accounting transactions. Key issues that remain unresolved should be escalated immediately rather than back-log the problem. MCC should ensure that errors and open tickets are resolved appropriately and timely by the SSP and that routine MCA accounting activities (such as the NA/NA fund transactions) are recorded in Oracle within the specified timeline. Moreover, manual adjusting journal entries should be used for limited transactions like unusual one-time entries or correcting entries. (Modified repeat recommendation)
 - a. a separate grants management system that focuses on program and financial administrations that interfaces with the core financial system is needed, or
 - b. to establish alternatives to recording numerous data lines in the Oracle AP module which is manual intensive and prone to errors. (Modified repeat recommendation)

3. In collaboration with the SSP, formalize in writing the system's issues and resolution process. This will include developing a standardized remedy ticket listing with relevant and historical information. (New recommendation)
4. Continue to streamline the Monthly Commitments and Disbursements Report recording and adjustment process.

Recommendations from the auditors regarding supervisory reviews:

5. Implement an effective management review of its accounting and financial reporting processes using the comprehensive review process to ensure that all transactions for the accounting period are accurately and completely reflected in the financial statements, beginning balances agreed to ending balances, and reconciling items are recorded timely. Such management reviews should be performed monthly or quarterly and at year-end timely. (Modified repeat recommendation)
6. Further review SSP data entries relating to MCA payment processing and related adjustments. Perform reconciliation of AP on a monthly basis and proactively resolve all differences. (New recommendation)

Response from MCC:

MCC concurs with recommendation 1 - 6.

Significant Deficiency: Validation Control over Grant Accrual Estimates Needs to be Strengthened (Modified Repeat Finding)

Recommendations from the auditors:

7. Develop and implement a logical and supportable look back validation process to assess the reasonableness of the grant accrual estimate, and then 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 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. (Modified repeat recommendation)
8. 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: (Modified repeat recommendation)

- 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; and
 - d. the sources of information, the logic flow, and the mechanics of the model, including the formulas and other mathematical functions.
9. Develop audit procedures for the MCA audit to compare spending authority amount granted against actual MCA expenses, and investigate and document significant variances. MCC should maintain a library of historical MCA financial data. This information may be by MCC to validate or enhance its current methodology.
10. Continue to enhance the accrual methodology by:
- a. stratifying the MCAs based on variances in their spending rates and/or stages in the compact's life cycle;
 - b. developing and implementing a process to ensure that compacts that are partially managed by MCC are fully addressed within the grant accrual process.
 - c. addressing situations where the MCA exceeds its quarterly spending authority;
 - d. addressing situations where the compact has expired and there is no spending authority and disbursements are still occurring;
 - e. obtaining detailed document level breakdown of expenses to be used to compare against the accrual estimates;
 - f. reviewing the disbursement patterns by compact to identify those with large fluctuations to determine the cause so that adjustments can be made in developing the spending plan or in how the grant accrual is calculated to improve the accuracy of the grant accrual estimate.; and
 - g. other factors as deemed necessary to achieve an acceptable precision of the accrual estimate.

Response from MCC:

MCC concurs with recommendation 7 - 10.

Significant Deficiency: Monitoring of MCAs Audits Needs to be Strengthened (Modified Repeat Finding)

Recommendation from the auditors:

11. Continue the collaboration between the USAID OIG and the MCC management to improve timeliness of the MCA audits; adequacy of the MCA audit procedures; monitoring and reviewing the quality and performance of the MCA audits; and tracking and conducting follow-up of corrective action plans with the MCAs timely.

Response from MCC:

MCC concurs with recommendation 11.

Significant Deficiency: Information Systems Controls Need Improvement (Modified Repeat Finding)

Recommendation from the auditors:

12. Repeat recommendations from the FISMA Report.

Response from MCC:

MCC concurs with recommendations from the FISMA Report.

Sincerely,

/s/

~~Chantale Yokmin~~ Wong
Vice President, Administration and Finance and
Chief Financial Officer

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