



**OFFICE OF INSPECTOR GENERAL**  
U.S. Agency for International Development

# Audit of MCC's Fiscal Years 2017 and 2016 Financial Statements

**AUDIT REPORT M-000-18-002-C**  
**NOVEMBER 15, 2017**

1300 Pennsylvania Avenue NW • Washington, DC 20523  
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## MEMORANDUM

DATE: November 15, 2017

TO: MCC, Acting Chief Executive Officer, Jonathan Nash

FROM: Deputy Assistant Inspector General for Audit, Donell Ries /s/

SUBJECT: Audit of MCC's Fiscal Years 2017 and 2016 Financial Statements (M-000-18-002-C)

Enclosed is the final audit report on Millennium Challenge Corporation's (MCC) financial statements as of September 30, 2017, and 2016. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm CliftonLarsonAllen LLP (Clifton) to conduct the audit. The contract required Clifton to perform the audit in accordance with generally accepted government auditing standards and Office of Management and Budget Bulletin No. 17-03, "Audit Requirements for Federal Financial Statements."

In carrying out its oversight responsibilities, OIG reviewed Clifton's report and related audit documentation and inquired of its representatives. Our review, which was different from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on MCC's financial statements. Clifton is responsible for the enclosed auditor's report and the conclusions expressed in it. We found no instances in which Clifton did not comply, in all material respects, with applicable standards.

The audit objectives were to (1) express an opinion on whether MCC's financial statements as of September 30, 2017, and 2016, were presented fairly, in all material respects; (2) obtain sufficient understanding of internal control over financial reporting to plan the audit; and (3) test compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements. The purpose was not to provide an opinion on the effectiveness of the entity's internal control or compliance with provisions of applicable laws, regulations, contracts, and grant agreements.

The audit firm concluded that MCC's financial statements as of fiscal years ending September 30, 2017, and 2016, are presented fairly, in all material respects, in accordance with U.S.

generally accepted accounting principles. The audit firm also found no instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements.

The auditors reported two significant deficiencies in internal control related to:

- Grant accrual estimates and validation (Modified repeat finding)
- Millennium Challenge Accounts' financial reporting and compliance (New finding)

To address the significant deficiencies identified in the report, Clifton made, and OIG agrees with, the following recommendations to MCC's management. We recommend that MCC's management:

**Recommendation 1.** Evaluate whether its grant accrual methodology assumptions and calculations are effective. This evaluation should include an assessment of root causes for variances in estimated and actual accruals and take into consideration experiences from at least the last 5 years.

**Recommendation 2.** Update the "Expense Accruals Financial Management Division Procedure Manual" to:

- Require supporting documentation, including rationale, for deviating from MCC's accrual policy and procedures. This documentation should also include MCC's management approval for any deviations.
- Indicate in the guidance how reinstated, unused spending authority and applicable subsequent disbursements are to be addressed in the grant accrual calculation.

**Recommendation 3.** Correct the accrual data for quarters three and four to reflect the actual spending authority and disbursements.

**Recommendation 4.** Update the "Compact Grant Accrual Validation Data Call Desktop Manual" to include timeframes for validating Millennium Challenge Accounts' grant accrual estimates and MCC's follow-up on significant differences so errors are promptly identified and addressed.

**Recommendation 5.** Provide Millennium Challenge Accounts with additional written instructions and training on evaluating the reasonableness of MCC's grant accrual estimates, and require each Millennium Challenge Account to submit documentation showing why it agrees with MCC's estimate.

**Recommendation 6.** Implement procedures for tracking and monitoring Millennium Challenge Accounts' compliance with grant management policies and procedures, including Millennium Challenge Accounts' grant oversight, procurement eligibility verification, and grant award processes.

**Recommendation 7.** Enforce the requirement for the Millennium Challenge Accounts to submit quarterly financial reports and financial information by the due dates.

**Recommendation 8.** Establish procedures to ensure that Millennium Challenge Accounts are providing accurate, complete, supportable, and valid financial information for data calls for contract retentions.

MCC concurred with all eight recommendations.

We ask that you provide us written notification of actions planned or taken to reach management decisions on recommendations 1 through 8.

We appreciate the assistance extended to our staff and the audit firm's employees during the engagement.

**MILLENNIUM CHALLENGE CORPORATION**

**Independent Auditors' Report of MCC's Financial Statements for the Period Ending  
September 30, 2017**

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## **INDEPENDENT AUDITORS' REPORT**

To the Inspector General  
United States Agency for International Development

To the Board of Directors  
Millennium Challenge Corporation

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Millennium Challenge Corporation (MCC), which comprise the balance sheets as of September 30, 2017, and 2016, and the related statements of net cost, changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements (financial statements).

### ***Management's Responsibility for the Financial Statements***

MCC management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); this includes the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 17-03). Those standards and OMB Bulletin 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit 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 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 MCC'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 MCC's internal control. Accordingly, we express no such opinion. An audit 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.

## INDEPENDENT AUDITORS' REPORT (Continued)

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 Millennium Challenge Corporation as of September 30, 2017, and 2016, 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 the information in MCC's Management Discussion and Analysis (MD&A), and Required Supplementary Information (RSI) sections 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 required supplementary information 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 audits of the financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Message from the Chief Executive Officer, Message from the Vice President, Department of Administration and Finance and Chief Financial Officer, and other information, are presented for purposes of additional analysis and is not a required part of the financial statements or RSI. In addition, management has included references to information on websites or other data outside of the Agency Financial Report. This 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 Report on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

#### ***Internal Control over Financial Reporting***

In planning and performing our audits 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 statement of assurance 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 statement of assurance on internal control included in the MD&A.



## INDEPENDENT AUDITORS' REPORT (Continued)

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify deficiencies in internal control, summarized below and detailed in Exhibit I that we considered as significant deficiencies.

1. Controls over grant accrual estimates and validation need to be strengthened (Modified Repeat Finding)
2. Controls over the Millennium Challenge Accounts' (MCAs) financial reporting and compliance need to be strengthened (New Finding)

### ***Compliance with Laws, Regulations, Contracts, and Grant Agreements***

As part of obtaining reasonable assurance about whether MCC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. 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 that are required to be reported in accordance with *Government Auditing Standards* or OMB Bulletin 17-03.

### ***Management's Responsibility for Internal Control and Compliance***

Management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under Federal Managers Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and (3) complying 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, and (2) testing compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by 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

## INDEPENDENT AUDITORS' REPORT (Continued)

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, regulations, contracts and grant agreements applicable to MCC. We limited our tests to certain provisions of laws, regulations, contracts and grant agreements noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. We caution that noncompliance 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 the findings identified in our report is presented in Exhibit 2. We did not audit MCC's response and, accordingly, we express no opinion on it.

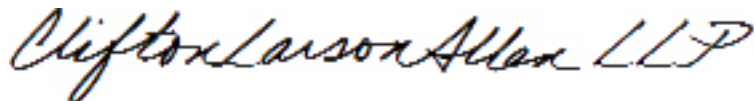
### ***Status of Prior Year's Control Deficiencies***

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 11, 2016. The status of prior year findings is presented in Exhibit 3.

### ***Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance***

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance 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**

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

Arlington, Virginia  
November 13, 2017

## EXHIBIT 1 Significant Deficiencies

### I. Controls over grant accrual estimates and validation need to be strengthened (Modified Repeat Finding)

For every quarter, MCC calculates the grant accrual liability estimate for each MCA. The MCA is responsible for confirming that the grant accrual estimate is accurate, or provide support for the MCA's calculated estimate. The MCAs are also responsible for assisting MCC in validating the estimated liability. MCC reported approximately \$554 million in compact grant related expenses and an accrued grant liability of \$86 million comprising retentions payable and expenses incurred but not yet reported by the MCC Compact Accountable Entities (also known as Millennium Challenge Accounts or MCAs) as of September 30, 2017. The compact grant activities are the core of MCC's financial and program operations.

We audited the grant accruals and validation for reasonableness and compliance with MCC's *Expense Accruals Financial Management Division Procedure Manual* (Manual). During Fiscal Year (FY) 2017, MCC continued to refine its accrual methodology and collect supporting information in its data store<sup>1</sup> to help validate the methodology. However, we found the following conditions during our testing that impacted the quarterly grant accrual estimates. These issues increase the potential for the grant accrual estimate to be misstated and incorrectly reported in MCC's financial statements and we consider these to be significant deficiencies.

Issues with Grant Accrual Estimate - In our review of the quarterly grant accrual, we noted issues that raise concerns about MCC's ability to ensure that its grant accrual methodology is valid and reliable. The actual costs incurred when compared to the estimates were materially not close to actual. For example, the first quarter 2017 accrual vs. actual showed that the accrual was more than the actual payments by approximately \$15.8 million. However, the third quarter accrual versus actual showed that the accrual was less than the actual payments by approximately \$13.5 million. Based on the accrual validation that MCC performed in accordance with their policies and procedures, the third quarter accrual versus actual showed that the accrual was less than the actual payments by only \$4.8 million. However, an additional \$8.7 million related to cost incurred for that same period was not included. MCC explained that their procedures do not capture such costs.

For the first quarter accruals, we noted that one MCA experienced a slower rate of project execution than expected. Another MCA relied on its system records to identify works completed but not yet paid instead of reaching out to respective MCA directors/engineers to confirm that its system records were accurate to support its acceptance of the MCC calculated accrual. The causes for the differences are not fully known, and MCC is investigating the differences noted in the third quarter accruals.

Weak Validation Controls - MCC, as part of its internal control process, performs a validation of its accrual estimates as a key control to assess the reasonableness of the estimated amount recorded in the prior quarter. This validation process should provide MCC an indication of whether the estimation methodology continues to be sound. During our testing we found that MCC did not follow-up on the significant accrual differences in a timely manner. MCC's Compact Grant Accrual Validation Data Call Desktop Manual does not provide deadlines for completing the validation or for MCC to complete its investigation. For example, for the first quarter ending December 31, 2016, the validation was not completed until July 2017. In addition, MCC did not complete its

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<sup>1</sup> A data store is a repository for storing and managing collections of data which include not just repositories like databases, but also simpler store types such as simple files, email, etc.

## EXHIBIT 1 Significant Deficiencies

follow-up on significant differences until late September 2017. Upon further analysis, MCC found one MCA provided an incomplete validation which required an updated validation submission an additional \$1.1 million of incurred cost applicable to the first quarter. Inability to identify these errors in a timely manner might affect MCC's management decision making process.

*Insufficient documentation of deviations from the Grant Accrual Process* – MCC deviated from its grant accrual process by not accounting for the total amount of approved spending authority and the total disbursements for the third and fourth quarters in FY 2017. In addition, MCC excluded the disbursements related to the portion of the spending authority that was not accounted for. MCC's approved spending authority for the third and fourth quarters, did not fully reflect what the MCA spent for those quarters. Although the deviation did not change the outcome of the MCA estimated grant accrual, it captured incorrect data that caused errors in calculating MCC's grant accrual estimate and will impact the calculations for future quarters. MCC did not document its justification for deviating from its grant accrual methodology.

GAO *Standards for Internal Control in the Federal Government*, Section OV3.05 states that when evaluating implementation, management determines if the control exists and if the entity has placed the control into operation. A deficiency in implementation exists when a properly designed control is not implemented correctly in the internal control system. 3.09 states that management develops and maintains documentation of its internal control system. 3.10 states that effective documentation assists in management's design of internal control by establishing and communicating who, what, when, where, and why of internal control execution to personnel. 12.03 states that management documents in policies for each unit its responsibility for an operational process's objectives and related risk, and control activity design, implementation, and operating effectiveness.

Federal Financial Accounting and Auditing Technical Release 12, *Accrual Estimates for Grant Programs*, *Federal Financial Accounting* (August 4, 2010), Paragraph 31, *Training and Monitoring of Grantees* states, "Since preparation of accrual estimates is dependent upon relevant and reliable data, accurate and timely reporting by grant recipients serves as the basis for historical data used in preparing future estimates and provides reliable actual data to which accrual estimates can be compared. Agencies should consider whether grant recipients need training on completing required financial reports." Also, Paragraph 12, *Preparing Accrual Estimates for Grant Programs* states, "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 also facilitate the auditor's testing of the estimates. Documentation should be complete and stand on its own, i.e., a knowledgeable independent person could perform the same steps and replicate the same results. If the documentation were from a source that would normally be destroyed, then copies should be maintained in the file for the purpose of reconstructing the estimates.

We recommend that MCC's Department of Administration and Finance and the Chief Financial Officer:

**Recommendation 1.** Evaluate whether its grant accrual methodology assumptions and calculations are effective. This evaluation should include an assessment of root causes for variances in estimated and actual accruals and take into consideration, experiences from at least the last 5 years.

**Recommendation 2:** Update the "Expense Accruals Financial Management Division Procedure Manual" to:

## EXHIBIT 1 Significant Deficiencies

- a) Require supporting documentation, including rationale for deviating from MCC's accrual policy and procedures. This documentation should also include MCC's management approval for any deviations.
- b) Indicate in the guidance how reinstated unused spending authority and applicable subsequent disbursements are to be addressed in the grant accrual calculation.

**Recommendation 3:** Correct the accrual data for quarters three and four to reflect the actual spending authority and disbursements.

**Recommendation 4:** Update the "*Compact Grant Accrual Validation Data Call Desktop Manual*" to include timeframes for validating Millennium Challenge Accounts' grant accrual estimates and MCC's follow-up on significant differences so errors are promptly identified and addressed.

**Recommendation 5:** Provide Millennium Challenge Accounts with additional written instructions and training on evaluating the reasonableness of MCC's grant accrual estimates, and require each Millennium Challenge Account to submit documentation showing why it agrees with MCC's estimate.

### 2. **Controls over MCAs' financial reporting and compliance need to be strengthened (New Finding)**

The Department of Compact Operations, through collaboration with the Department of Administration and Finance, establishes operational oversight and financial reporting controls and procedures to govern the conduct and administration of the MCC Compact/Threshold portfolio by the MCA entities. The MCAs' financial operations are an essential component to MCC's financial statements as their financial activities are material and significant. During our MCA visits, we evaluated the MCAs' design and effectiveness of internal controls. As a result of procedures performed, we identified the following control deficiencies that collectively we considered a significant deficiency in controls over financial reporting and compliance.

Grant program oversight - MCA-Indonesia's Green Prosperity (GP) Project accounts for approximately \$332.50 million of its \$600 million compact funding. MCA-Indonesia formed an MCA Grant Management Team (GMT) to provide oversight over the GP grants administration. The GMT conducts desk reviews and field observation visits of GP grantees as part of its oversight function. Documented guidelines and field observations are key oversight and monitoring controls of the MCA-Indonesia grantees. An important element of the GMT mission is to detect questionable costs incurred by GP grantees. We found that the GP Project Financial Management Guideline (FMG) did not adequately document GMT's grants administration and oversight procedures. For example, the sampling methodology for the desk reviews and field observation visits were not documented and the basis for the sample size for the desk reviews that GMT performed were not adequately documented. In addition, as of August 2017 MCA-Indonesia had not conduct 36 of the 76 field observations required by December 31, 2017.

Contract retentions reporting errors and improper payment - Every quarter MCC requests the MCAs updated contract retentions data to record retentions payable in MCC's financial statements. In December 2016, the Project Implementation Unit (PIU), which has oversight responsibility over a portion of MCA-Liberia's compact funding, understated one contract by \$433,679 and overstated one contract by \$200. In addition, MCC compact funds were improperly used to pay for

## EXHIBIT 1 Significant Deficiencies

\$1,047,145 in contract retentions withheld from invoices that were paid by a pre-existing donor. The improper payment amount was subsequently returned to MCA-Liberia.

*MCA's Quarterly Financial Reports (QFR) were submitted late* - The QFR provides an overview of the financial developments since the last disbursement period and explains and justifies any proposed cash requests for the next period. The QFR is prepared by the MCA with input from the MCA's Fiscal Agent (FA) for financial reporting. The report is also used to determine MCA's funds control, reallocation of funds in the Multi-year Financial Plan, and spending limits. The QFR contains: (1) the Multi-Year Financial Plan Adjustment Request Form; (2) Summary of Multi-year Financial Plan Adjustments to Date; (3) Actual Expenditure & Commitment Report (current period); (4) Commitment Forecast Report (next period); (5) Forecasted Program Cash Requirements (next period); and (6) Cash Reconciliation and Interest Summary. QFRs must be completed for all 609g, CIF, threshold, and compact funding.

During our testing we noted following late submissions of QFRs:

MCA	Days Late	Quarter 2017	Type of Funding
Honduras	39 days	First quarter	Threshold
Honduras	59 days	Third Quarter	Threshold
Benin II	5 days	Second Quarter	Compact
Liberia	66 days	Second Quarter	Compact
Cabo Verde II	1 day	Second Quarter	Compact

The MCC Compact Financial Management Division Procedure (April 2016), Section I.2.4.2 Spending Authority Request Package [QFR] states that "...The quarterly Disbursement Request (DR) packages are due to MCC no later than the 10th day of the third month of the quarter."

Late submission of QFRs delayed MCC's approval of MCAs' spending authority. With the exception of working capital amounts and exceptional situations detailed in the Common Payment System (CPS) Financial Management Division (FMD) Procedure, no funds will be disbursed against the MCA in a given quarter until spending authority has been established.

*Procurement eligibility verification not completed* - During our review of the MCA-Honduras procurements, we noted that MCA-Honduras' Procurement Unit did not properly verify the eligibility of a vendor. Only five of seven U.S. Government databases—required to determine eligibility—were verified. MCA-Honduras subsequently conducted a full eligibility review after we brought this issue to their attention. Eligibility verification checks are in place to ensure that ineligible vendors are not allowed to participate in the compact program.

*Grant award process not followed* – MCA-Honduras' Threshold Manual Operating Fund of Grants for Social Liability requires MCC's approval of the Committee of Donation's members and documentation of potential projects for grant awards. We noted that one of the Committee's appointed members was replaced without proper authorization. Further, the Committee did not document their approval and rejection of the project proposals. An MCA official stated that MCA will not be issuing any more grants.

We recommend that MCC's Department of Administration and Finance and the Chief Financial Officer:

## **EXHIBIT 1**

### **Significant Deficiencies**

**Recommendation 6.** Implement procedures for tracking and monitoring Millennium Challenge Accounts' compliance with grant management policies and procedures, including Millennium Challenge Accounts' grant oversight, procurement eligibility verification, and grant award processes.

**Recommendation 7.** Enforce the requirement for the Millennium Challenge Accounts to submit quarterly financial reports and financial information by the due dates.

**Recommendation 8.** Establish procedures to ensure that Millennium Challenge Accounts' are providing accurate, complete, supportable, and valid financial information for data calls for contract retentions.

**EXHIBIT 2**  
**Management's Response to Audit Findings**



November 13, 2017

Ms. Mia Leswing  
Principal  
CliftonLarsonAllen, LLP  
450 N. Fairfax Drive, Suite 1020  
Arlington, VA 22203

Thomas E. Yatsco  
Assistant Inspector General for Audit  
Office of Inspector General  
United States Agency for International Development  
1300 Pennsylvania Avenue, NW  
Washington, DC 20005

Dear Ms. Leswing and Mr. Yatsco,

In response to the audit findings and recommendations cited in the *"Audit of MCC's Financial Statements, Internal Controls, and Compliance for the Fiscal Years Ending September 30, 2017, and 2016"* report, MCC provides the following comments:

***Significant Deficiencies: Controls over grant accrual estimates and validation need to be strengthened (Modified Repeat Finding)***

**Recommendation 1:** Evaluate whether its grant accrual methodology assumptions and calculations are effective. This evaluation should include an assessment of root causes for variances in estimated and actual accruals and take into consideration, experiences from at least the last five years.

**Recommendation 2:** Update the "Expense Accruals Financial Management Division Procedure Manual" to:

- a) Require supporting documentation, including rationale for deviating from MCC's accrual policy and procedures. This documentation should also include MCC's management approval for any deviations.
- b) Indicate in the guidance how reinstated unused spending authority and applicable subsequent disbursements are to be addressed in the grant accrual calculation.

**Recommendation 3:** Correct the accrual data for quarters three and four to reflect the actual spending authority and disbursements.



**Recommendation 4:** Update the “Compact Grant Accrual Validation Data Call Desktop Manual” to include timeframes for validating Millennium Challenge Accounts’ grant accrual estimates and MCC’s follow-up on significant differences so errors are promptly identified and addressed.

**Recommendation 5:** Provide Millennium Challenge Accounts with additional written instructions and training on evaluating the reasonableness of MCC’s grant accrual estimates, and require each Millennium Challenge Account to submit documentation showing why it agrees with its estimate.

**MCC Response:** MCC concurs with recommendations 1, 2, 3, 4 and 5. A comprehensive corrective action plan will be developed to address the deficiency noted.

***Significant Deficiencies: Controls over MCAs’ financial reporting and compliance need to be strengthened (New Finding)***

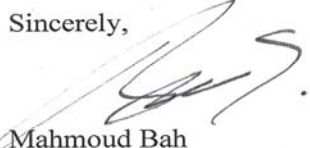
**Recommendation 6:** Implement procedures for tracking and monitoring Millennium Challenge Accounts’ compliance with grant management policies and procedures, including Millennium Challenge Accounts’ grant oversight, procurement eligibility verification, and grant award processes.

**Recommendation 7:** Enforce Millennium Challenge Accounts’ submissions of quarterly financial reports and financial information by the required due dates.

**Recommendation 8:** Establish procedures to ensure that Millennium Challenge Accounts’ are providing accurate, complete, supportable, and valid financial information for data calls for contract retentions.

**MCC Response:** MCC concurs with recommendations 6, 7 and 8. A comprehensive corrective action plan will be developed to address the deficiency noted.

Sincerely,

  
Mahmoud Bah  
Acting Vice President and Chief Financial Officer  
Department of Administration and Finance

**EXHIBIT 3**  
**Status of Prior Year Recommendations**

Our assessment of the current status of the recommendations related to findings identified in the prior year audit is presented below:

<b><i>FY 2016 Recommendations</i></b>	<b><i>Type</i></b>	<b><i>Fiscal Year 2017 Status</i></b>
1. Enhance MCC's <i>Expense Accruals Financial Management Division Procedure Manual</i> .	Significant Deficiency (SD)	Open – Reported as Modified SD - Repeat Finding
2. Conduct a comprehensive review and formalize the Grant Accrual Validation Whitepaper as an official policy and procedures	SD	Closed
3. Establish internal control procedures to properly review the accounting and reporting of funds returned.	SD	Closed
4. Establish internal control process to ensure financial statements are prepared in accordance with current version of OMB A-136.	SD	Closed
5. Conduct quarterly reconciliation between the status of budgetary resources and the OMB SF-132.	SD	Closed
6. Implement management control to properly review and approve unapportioned funds at the fund level before entries are made.	SD	Closed
7. Implement management control to review the impact of funds unapportioned at the fund level before apportionment and recoveries adjustments are recorded.	SD	Closed
8. Continue requiring all compact obligating documents be accompanied by an Enter-Into-Force memo prior to recognizing obligation.	SD	Closed