January 8, 2010

Michael Casella
Acting Vice President
Administration and Finance
Millennium Challenge Corporation
875 15th Street, N.W.
Washington, DC 20005-2203

Report No. M-000-10-001-C

Dear Mr. Casella,

We are pleased to transmit the attached Management Letter in connection with the audit of the Millennium Challenge Corporation’s fiscal year 2009 financial statements. Under the contract monitored by the Office of Inspector General, Cotton and Company LLP, an independent certified public accounting firm, performed an audit of the financial statements of MCC as of September 30, 2009 and prepared this management letter.

Internal control deficiencies which are considered significant or material were reported, as required, in Cotton and Company’s Independent Auditors’ Report, dated November 13, 2009, which were included in the FY 2009 MCC Annual Financial Report.

The Management Letter has been attached for your comments. Please advise the USAID Assistant Inspector General for the Millennium Challenge Corporation within 15 days of this letter of the action planned or taken to implement the recommendations.

We will continue to monitor these issues during future annual financial statement audits. The OIG appreciates the cooperation and courtesies extended to our staff and to the staff of Cotton.
& Company, LLP during the audit. Please contact me or Richard J. Taylor, Director, Financial Audits Division, at (202) 216-6963, if you have any questions concerning this report.

Sincerely,

Alvin A. Brown
Assistant Inspector General
Millennium Challenge Corporation

Attachment:
Although not considered to be material weaknesses, auditors noted certain internal control and operational matters. We are enumerating them below for your consideration:

- Comprehensive Yearend Disclosures
  - Yearend Disclosures Pertaining to MCC’s Threshold Program
  - Controls over the Reporting of Leases
- Posting to the General Ledger (GL)
- Disbursement Requests and Quarterly Financial Reports (QFR)
- Adherence to First In, First Out (FIFO) Method When Liquidating Advances
- MCA Vendor Payment Processes
- Prompt Pay
- Submission of Travel Vouchers
- Controls Over Sensitive Payments
- Adequate Internal Control to Support Recorded Transactions
- Support for Funds Control
- Subsidiary Ledgers
- Completion of Planned Action Items
- Controls Over Third-Party Financial Systems

These matters, all of which have been reviewed and discussed with the appropriate members of MCC management, are intended to improve the Corporation’s internal controls or result in other operating efficiencies. To address these internal controls and other operational matters reported by Cotton & Company, LLP we make the following recommendations to MCC’s management:

1. **COMPREHENSIVE YEAREND DISCLOSURES**

1.1 Yearend Disclosures Pertaining to MCC’s Threshold Program

**Recommendation:** We recommend that the MCC Division of Finance establish procedures to inquire of administering agencies of MCC programs, and obtain supporting documentation for any disclosures required in OMB guidance for the financial statements.

1.2 Controls over the Reporting of Leases

**Recommendation:** We recommend that the MCC Division of Finance establish a process to determine what leases are active, the amounts of future lease payments, and other required information that should be disclosed in its yearend financial statements. This process should include inquiring of USAID regarding leases that have been entered into with MCC Threshold funds.

2. **POSTING TO THE GENERAL LEDGER (GL)**

**Recommendations:** We recommend that the MCC Division of Finance, in coordination with the Department of Compact Implementation:

- Establish a process to determine if LHI invoices are anticipated and expected to be included in the amortization schedule. This process should ensure that invoices for capital property are forwarded to the Senior Accountant for inclusion into MCC’s capital property worksheet.
• Develop training for MCC's Fiscal Agents to ensure proper submission of PRFs is made to NBC for reporting expenses and advances.

• Coordinate with NBC to establish procedures to ensure amounts presented for payment on vendor invoices are adequately reviewed to ensure proper posting to the GL.

3. DISBURSEMENT REQUESTS AND QUARTERLY FINANCIAL REPORTS (QFR)

Recommendations: We recommend that the MCC Department of Compact Implementation:

• Adhere to documented policies and procedures to ensure that disbursement requests are properly prepared and contain the appropriate signatures from the FA and other MCA officials.

• Develop periodic or annual training to MCC Compact Implementation personnel, FA, and other approval/certifying officials to ensure disbursement requests are properly prepared, reviewed, and contain the required approvals before submitting requests to MCC for consideration.

• Implement a monitoring program for MCC country personnel to work with FAs and MCA personnel to ensure QFRs and disbursement requests are timely prepared and submitted.

• Ensure that all clearance matrices are maintained for all submitted quarterly requests and are available for inspection upon request.

4. ADHERENCE TO FIRST IN, FIRST OUT (FIFO) METHOD WHEN LIQUIDATING ADVANCES

Recommendation: We recommend that the MCC Department of Compact Implementation and Division of Finance continue to monitor advanced disbursements and re-disbursements to ensure that re-disbursements posted to the GL are made in accordance with the FIFO method.

5. MCA VENDOR PAYMENT PROCESSES

Recommendations: We recommend that MCC Division of Finance:

• Coordinate with the Department of Compact Implementation to ensure that Fiscal Accountability and other applicable MCC personnel are properly monitoring funds paid to and received by MCA permitted accounts. This will ensure that vendor invoices are paid promptly once funds are received and that requested funds are needed.

• Review and monitor MCA audit reports to ensure that invoices are properly submitted and paid in accordance with prescribed policies and procedures. Also ensure that audit procedures are performed to test such occurrences.
6. **PROMPT PAY**

**Recommendations:** We recommend that MCC Division of Finance:

- Reiterate the requirement to comply with the Prompt Pay Act, to include clarification as to dates of invoice receipt.

- Inquire of and implement USAID's procedures to resolve the issues of vendors not being paid interest for payments that are made late.

7. **SUBMISSION OF TRAVEL VOUCHERS**

**Recommendations:** We recommend that MCC management:

- Review current policies and procedures to ensure that documented controls over travel are reasonable.

- Implement a periodic refresher training program for all employees that travel to review current policies and procedures pertaining to travel requests, authorizations, and vouchers.

- Coordinate with the MCC Travel Coordinators to implement a follow-up procedure to ensure travelers are submitting their travel vouchers within the required 5-day timeframe.

8. **CONTROLS OVER SENSITIVE PAYMENTS**

**Recommendations:** We recommend that MCC management:

- Continue to review policies, procedures, and forms related to representational funds, to ensure that procedures, approvals, and documentation provide a clear audit trail of all amounts requested, expended, and reimbursed.

- Ensure the tracking log used by the Ethics Administrator is promptly completed after receipt of the employee's financial disclosure forms to ensure initial reviews of submitted financial disclosures are promptly documented.

- Finalize its draft policy over compensation for performance by senior executive employees to ensure that controls over approvals and authorizations are properly documented and followed by all responsible parties.

9. **ADEQUATE INTERNAL CONTROL TO SUPPORT RECORDED TRANSACTIONS**

**Recommendations:** We recommend that MCC management, in coordination with the Division of Finance:

- Coordinate with NBC to ensure that proper documentation is maintained for all transactions that are received and subsequently recorded in the GL, and establish monitoring procedures effective for ensuring that all documentation is clearly marked, accurately recorded, and adequately supported.
• Provide training for FAs and other MCA personnel, emphasizing the need for proper
documentation to be maintained in the MCA files and that documentation are readily
available for inspection.

10. SUPPORT FOR FUNDS CONTROL

Recommendation: We recommend that the MCC Division of Finance inquire of USAID’s
procedures to address and resolve issues related to improper funds control that pertain to funds
advanced to grantees with regular reporting of related liquidations or regular obligation and
expenditures for its programs.

11. SUBSIDIARY LEDGERS

Recommendations: We recommend that the MCC Division of Finance develop and adhere to
policies and procedures to ensure that:

• A subsidiary ledger of all outstanding advances, AP, and UDO balances ties to the trial
balance at quarter and yearend. In addition, balances should be reconciled quarterly and
at yearend, and all abnormal balances are investigated, explained, and/or resolved.

• Accurate and consistent invoice and journal voucher (JV) numbers and vendor names
are used when posting obligations, liabilities, and payments.

12. COMPLETION OF PLANNED ACTION ITEMS

Recommendation: We recommend that the MCC Department of Administration and Finance
ensure that the FMPPs are finalized in a timely fashion during FY 2010.

13. CONTROLS OVER THIRD-PARTY FINANCIAL SYSTEMS

Recommendations: We recommend that MCC management:

• Identify, document, and implement controls over third-party systems for which MCC
is responsible, such as those listed in the MCC-NBC IAA and the client control
considerations in the SAS 70 (if applicable).

• Develop, document, and implement policies and procedures for reviewing controls
over third-party financial systems. Policies and procedures should identify is the
person responsible for reviewing independent assessments of third-party systems
and identify when management should follow-up with third-party entities on
weaknesses identified.

• Assign responsibility to appropriate personnel to review the results of the third-party
control assessments and follow-up with the third-party service provider on identified
exceptions.