



MEMORANDUM

DATE: June 26, 2018

TO: Millennium Challenge Corporation, Acting Vice President, Department of Policy and Evaluation, Thomas Kelly

FROM: Principal Director, Donell Ries /s/

SUBJECT: Financial Audit of MCC Resources Managed by MCA-Honduras Under the Threshold Program Grant Agreement, January 1, 2016, to December 31, 2016 (M-522-18-015-N)

This memorandum transmits the final audit report on MCC Resources Managed by MCA-Honduras for the period from January 1, 2016, to December 31, 2016. MCA-Honduras contracted with the independent certified public accounting firm Coca Luque y Asociados to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards and OIG's Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities.¹

The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards except that the audit firm did not have an external peer review because no such program is offered by professional organizations in Honduras. The audit firm reported they did not believe the effect of this departure was material because the firm participates in the DFK International worldwide internal quality review program every five years. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on MCA-Honduras' fund accountability statement; the effectiveness of its internal control; or its compliance with the agreement, laws, and regulations.²

¹ On July 14, 2017, MCC OIG rescinded its Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities, recognizing the Agency's role to impose requirements on its implementing partners and contractors as a management function. This contracted audit, however, was initiated before that date and follows the Guidelines.

² We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

The audit objectives were to (1) express an opinion on whether the fund accountability statement for the period audited, was presented fairly, in all material respects; (2) evaluate MCA-Honduras' internal controls; and (3) determine whether MCA-Honduras complied with agreement terms and applicable laws and regulations. To answer the audit objectives, the audit firm conducted an audit of MCC resources managed by MCA-Honduras for the period from January 1, 2016, to December 31, 2016. Costs incurred for this period were \$1,905,796.32.

The audit firm concluded the fund accountability statement presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and assets and technical assistance directly procured by MCC for the period audited except for \$5,854.36 in total questioned costs (\$5,854.36 ineligible). The audit firm identified one material weakness in internal control which was associated with the ineligible questioned costs in the fund accountability statement for payment of sales tax. The audit firm did not identify any significant deficiencies in internal control. The audit firm found no material instances of noncompliance with laws, regulations, and agreements. The audit firm issued a management letter that noted other matters involving internal control and its operations.

To address the problem identified in the report, we recommend that MCC:

Recommendation 1. Determine the allowability of \$5,854.36 in questioned costs (\$5,854.36 ineligible), on pages 16, 27, and 28 of the audit report, and recover any amount that is unallowable.

Recommendation 2. Verify that MCA-Honduras corrects the material weakness in internal control detailed on pages 27 and 28 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach management decision. We appreciate the assistance extended during the engagement.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) ("commercial or financial information obtained from a person that is privileged or confidential").