



MEMORANDUM

DATE: August 22, 2018

TO: Millennium Challenge Corporation, Acting Vice President, Department of Compact Operations, Kyeh Kim

FROM: Principal Director, Donell Ries /s/

SUBJECT: Financial Audit of MCC Resources Managed by Ministry of Health Under the Agreement with MCA-Indonesia, April 1, 2016, to March 31, 2017 (M-497-18-019-N)

This memorandum transmits the final audit report on MCC Resources Managed by Ministry of Health, a covered provider of MCA-Indonesia, for the period from April 1, 2016, to March 31, 2017. MCA-Indonesia contracted with the independent certified public accounting firm Diaz Murillo Dalupan and Company 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 the Philippines, where the audit firm is located. The audit firm reported they did not believe the effect of this departure was material because the firm is subject to internal peer review by HLB International every three years. The audit firm also acknowledged it did not have a continuing professional education program that fully satisfies the requirements. The audit firm is responsible for the enclosed report and conclusions expressed in it. We do not express an opinion on Ministry of

¹ On July 14, 2017, MCC OIG rescinded its Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities, recognizing the Agency's role to impose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.

Health's fund accountability statement; the effectiveness of its internal control; or its compliance with the agreement, laws and regulations.²

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 Ministry of Health's internal controls; and (3) determine whether Ministry of Health 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 Ministry of Health for the period from April 1, 2016, to March 31, 2017. Costs incurred for this period were \$3,905,177.

The audit firm concluded that except for \$2,902 in total questioned costs (\$2,498 ineligible and \$404 unsupported), the fund accountability statement presented fairly, in all material respects, program revenues, costs incurred and reimbursed, and assets directly procured by MCC for the period audited. The audit firm also reported three material weaknesses and six significant deficiencies in internal control associated with, among other things, lapses in the financial reporting, time and attendance monitoring, travel expense monitoring, check issuance, and discrepancies in accounting records. Additionally, the audit firm reported four instances of material noncompliance with laws, regulations, and agreements associated with, among other things, expense monitoring and liquidation of cash advances. The audit firm issued a management letter that noted four matters involving insufficient supporting documentation, lapses in the authorization process, and inaccurate refund date recording.

We are not making recommendations specific to the findings reported as material weaknesses, significant deficiencies, or material noncompliances because the compact is closed. However, to address the questioned costs identified in the report, we recommend that MCC:

Recommendation I. Determine the allowability of \$2,902 in questioned costs (\$2,498 ineligible and \$404 unsupported), on page 31 of the audit report, and recover any amount that is unallowable.

We ask that you provide your written notification of action 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").

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.