



MEMORANDUM

DATE: September 7, 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 MCA-Indonesia Under the Compact Agreement, April 1, 2017, to September 30, 2017 (M-497-18-023-N)

This memorandum transmits the final audit report on MCC Resources Managed by MCA-Indonesia for the period from April 1, 2017, to September 30, 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 it did not believe that the effect of this departure was material because the firm is subject to reviews by HLB International and the Philippine Securities and Exchange Commission's Oversight Assurance Review Inspection Program every three years. The audit firm also acknowledged it did not have a continuing professional education program that fully satisfies the requirements, and believed the effect of this departure was not material. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on MCA-Indonesia's fund accountability statement; the effectiveness of its internal control; or its compliance with the agreement, laws,

¹ On July 14, 2017, MCC OIG rescinded its Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities, recognizing the Agency's role to impose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

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 MCA-Indonesia's internal controls; (3) determine whether MCA-Indonesia complied with agreement terms and applicable laws and regulations; (4) review the cost-sharing schedules of select grantees; and (5) determine if MCA-Indonesia has taken adequate corrective action on prior audit report recommendations. To answer the audit objectives, the audit firm conducted an audit of MCC resources managed by MCA-Indonesia for the period from April 1, 2017, to September 30, 2017. Costs incurred for this period were \$103,423,229.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, program revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by MCC for the period audited, except for \$311,191 in total questioned costs (\$309,013 ineligible and \$2,178 unsupported). The audit firm also reported four material weaknesses and 11 significant deficiencies in internal control associated with, among other things, opening a personal savings account, lapses in the review and approval process, inconsistencies with supporting documents, unsigned recipient acknowledgment receipts, expense monitoring, and insufficient timesheets and activity attendance sheets monitoring. Additionally, the audit firm reported 17 instances of material noncompliance with laws, regulations, and agreements.

Further, the audit firm reported that nothing came to their attention that caused them to believe that the select grantees had not provided and accounted for cost-sharing contributions, in all material respects, in accordance with the terms of the agreements. The audit firm also reported that five recommendations reported in prior audit periods remained open and similar findings were noted during this audit period. The audit firm issued a management letter that noted 13 other matters involving internal control and its operations and certain immaterial instances of noncompliance.

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

Recommendation 1. Determine the allowability of \$311,191 in questioned costs (\$309,013 ineligible, \$2,178 unsupported), on pages 73 to 145 of the audit report, and recover any amount that is unallowable.

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

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.

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").