



MEMORANDUM

DATE: September 13, 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 Institut Pertanian Bogor and its Consortium Members, Under the Agreement with MCA-Indonesia, April 1, 2016, to March 31, 2017 (M-497-18-026-N)

This memorandum transmits the final audit report on MCC Resources Managed by Institut Pertanian Bogor and its Consortium Members (Petuah Consortium), a covered provider of MCA-Indonesia, for the period for the period 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 states 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 Petuah Consortium's fund accountability

¹ On July 14, 2017, MCC OIG rescinded its Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities, recognizing the Agency's role to impose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

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 Petuah Consortium's internal controls; (3) determine whether Petuah Consortium's complied with agreement terms and applicable laws and regulations; and (4) determine whether the cost-sharing contributions were accounted for in accordance with the terms of the agreement. To answer the audit objectives, the audit firm conducted an audit of MCC resources managed by Petuah Consortium for the period from April 1, 2016, to March 31, 2017. Costs incurred for this period were \$736,169.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, revenues received, costs incurred, and assets directly procured by MCC for the period audited, except for \$37,664 in total questioned costs (\$2,662 ineligible and \$35,002 unsupported) and an unaccounted discrepancy between cash and fund balance of \$763. The audit firm also noted one material weakness in internal control associated with lapses in the review process, and two significant deficiencies in internal control associated with improperly prepared and unsigned vouchers and delayed completion of quarterly financial reports. Additionally, the audit firm noted nine material instances of noncompliance associated with laws, regulations, and agreements. The audit firm issued a management letter that noted five matters involving controls and its operations and certain immaterial instances of noncompliance. The audit firm reported that the cost-sharing schedule was not fairly presented in accordance with the basis of accounting used to prepare the schedule.

We are not making recommendations specific to the findings reported as a material weakness, significant deficiency, or material noncompliance, or to the cost-sharing schedule finding, 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 \$37,664 in questioned costs (\$2,662 ineligible, \$35,002 unsupported), on pages 24 to 63 of the audit report, and recover any amount that is unallowable.

We ask that you provide your written notification 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").

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.