



MEMORANDUM

DATE: May 28, 2019

TO: Millennium Challenge Corporation, Chief Risk Officer, Alice McNutt Miller

FROM: Acting Director of External Financial Audit Division, Steve Shea /s/

SUBJECT: Financial Audit of MCC Resources Managed by Millennium Challenge Account-Indonesia Under the Compact Agreement, October 1, 2017, to July 31, 2018 (3-MCC-19-005-N)

This memorandum transmits the final audit report on MCC Resources Managed by Millennium Challenge Account Indonesia (MCA-Indonesia), for the period from October 1, 2017, to July 31, 2018. 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 of generally accepted government auditing standards, but 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, 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¹ On July 14, 2017, MCC OIG rescinded its Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities, recognizing the Agency's role to impose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-Indonesia's internal controls; (3) determine whether MCA-Indonesia complied with agreement terms and applicable laws and regulations; (4) review the cost-sharing schedules for compliance with the terms of the agreement; 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 October 1, 2017, to July 31, 2018. Costs incurred for this period were \$143,551,156.

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 under the agreement for the period audited except for \$8,240 in total questioned costs (\$8,240 ineligible). The audit firm also reported 12 material weaknesses and 19 significant deficiencies in internal control associated with, among other things, fund balance included unaccounted amount, payment for salary to MCA-Indonesia staff was not in accordance with the salary rate per contract, supporting documentation for reimbursements made to a consultant were not on file or not signed by some participants, and lapses in the review process. Additionally, the audit firm reported 33 instances of material noncompliance. Further, the audit firm reported that nothing came to their attention that caused them to believe that the select grantees did not fairly present the cost-sharing schedule, in all material respects, in accordance with the basis of accounting used to prepare the schedule. The audit firm also reported that 12 prior audit recommendations remained open and similar findings were noted during this audit period.

Since the questioned costs did not meet OIG's established threshold of \$25,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that the MCC determine the allowability of the \$8,240 in questioned costs and recover any amount determined to be unallowable. In addition, we are not making recommendations specific to the findings reported as material weaknesses, significant deficiencies or instances of material noncompliance, because the compact is closed. However, we suggest that MCC determine if the recipient addressed the issues noted

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").