



MEMORANDUM

DATE: August 14, 2018

TO: Millennium Challenge Corporation, Vice President, Department of Compact Operations, Robert I. Blau

FROM: Principal Director, Donell Ries /s/

SUBJECT: Financial Audit of MCC Resources Managed by PT KM Utama Indonesia Under the Agreement with MCA-Indonesia, September 18, 2015, to March 31, 2017 (M-497-18-018-N)

This memorandum transmits the final audit report on MCC Resources Managed by PT KM Utama Indonesia, a covered provider of MCA-Indonesia, for the period from September 18, 2015, to March 31, 2017. MCA-Indonesia contracted with the independent certified public accounting firm Grant Thornton to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards and 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. The audit firm reported it did not believe the effect of this departure was material because the firm participates in the Grant Thornton International Ltd internal quality control review program, which requires their office to be subjected to an extensive quality control review from affiliated offices 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 the conclusions expressed in it. We do not express an opinion on PT KM Utama Indonesia's fund accountability statement; the effectiveness of its

¹ On July 14, 2017, MCC OIG rescinded its Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities, recognizing the Agency's role to impose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

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 PT KM Utama Indonesia's internal controls; (3) determine whether PT KM Utama Indonesia complied with agreement terms and applicable laws and regulations; and (4) review the cost-sharing schedule. To answer the audit objectives, the audit firm conducted an audit of MCC Resources managed by PT KM Utama Indonesia for the period from September 18, 2015, to March 31, 2017. Costs incurred for this period were \$1,312,219.

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 \$503 in total questioned costs (\$503 ineligible). The audit firm also reported five significant deficiencies in internal control associated with, among other things, unsupported amounts and lapses in the financial report review process, in expense monitoring, and in time and attendance monitoring. Additionally, the audit firm reported five instances of material noncompliance with laws, regulations, and agreements associated with, among other things, possible conflict of interest, liquidation of cash advances, expense monitoring, and lapses in the authorization process. Further, the audit firm reported that nothing came to their attention that caused them to believe that PT KM Utama Indonesia did not fairly present the cost-sharing contributions schedule, in all material respects, in accordance with the basis of accounting used to prepare the cost-sharing contributions schedule. The audit firm issued a management letter that noted one matter involving account classification.

We are not making recommendations specific to the findings reported as 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 \$503 in questioned costs (\$503 ineligible), on pages 25 and 26 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 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.