



MEMORANDUM

DATE: July 19, 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 MCA-Indonesia Under the Compact Agreement, October 1, 2016, to March 31, 2017 (M-497-18-016-N)

This memorandum transmits the final audit report on MCC Resources Managed by MCA-Indonesia for the period from October 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 that it did not have a continuing professional education program that fully satisfies the requirement, and believed the effect of this departure was not material. The audit firm is responsible for the auditor's report and 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¹ On July 14, 2017, MCC OIG rescinded its Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities, recognizing the Agency's role to impose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) determine whether cost-sharing contributions were accounted for in accordance 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, 2016, to March 31, 2017. Costs incurred for this period were \$64,554,104.

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 \$154,896 in total questioned costs (\$151,141 ineligible and \$3,755 unsupported). The audit firm also reported two material weaknesses and nine significant deficiencies in internal control associated with, among other things, cash management, expense monitoring, asset management, petty cash fund management, segregation of duties, and lapses in the review process, and 26 instances of material noncompliance. Further, the audit firm reported that nothing came to their attention that caused them to believe the recipient has not provided and accounted for cost-sharing contributions, in all material respects, in accordance with the terms of the agreement. The audit firm also reported that some recommendations from prior audit periods remained open during this audit period and that similar findings were noted in this audit period.

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

Recommendation 1. Determine the allowability of \$154,896 in questioned costs (\$151,141 ineligible, and \$3,755 unsupported), on pages 70 to 180 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.