



MEMORANDUM

DATE: December 21, 2020

TO: Millennium Challenge Corporation, Vice President, Department of Administration and Finance, Chief Financial Officer, Ken Jackson

FROM: Deputy Assistant Inspector General for Audit, Alvin A. Brown /s/

SUBJECT: Transmittal of the Management Letter for Millennium Challenge Corporation's Fiscal Year 2020-2019 Financial Statement Audit Report (0-MCC-21-002-C)

On November 14, 2020, we transmitted the financial statement audit report performed by the independent public accounting firm of CliftonLarsonAllen LLP (CLA). The auditors issued an unmodified opinion on Millennium Challenge Corporation's fiscal year (FY) 2020-2019 financial statements.

When performing an audit of an agency's financial statements, auditors may identify certain matters involving internal controls that do not rise to a level of significance to be reported in the independent auditors' opinion report; instead these matters are communicated in a management letter. This memorandum transmits a copy of the FY 2020-2019 management letter dated December 14, 2020, which reports on such matters.

This letter does not affect the auditors' unmodified opinion on the financial statements. CLA is responsible for the enclosed letter and the conclusions expressed in it.

We appreciate the assistance provided to our staff and the audit firm's employees during the engagement.



FISCAL YEAR 2020 MANAGEMENT LETTER

December 14, 2020

To the Inspector General
United States Agency for International Development

To the Board of Directors and Vice President, Department of Administration and Finance
Millennium Challenge Corporation

In planning and performing our audit of the financial statements of the Millennium Challenge Corporation (MCC) as of and for the years ended September 30, 2020 and 2019, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statement audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No.19-03, Audit Requirements for Federal Financial Statements (OMB Bulletin 19-03), we considered MCC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MCC's internal control. Accordingly, we do not express an opinion on the effectiveness of MCC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented,

Communication with Management

or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our Independent Auditors' Report, dated November 13, 2020, described one significant deficiency identified during our audit. However, during our audit we also became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and other matters that represent opportunities for strengthening internal control and operating efficiency. While the nature and magnitude of these other deficiencies in internal control were not considered important enough to merit the attention of those charged with governance, they are considered of sufficient importance to merit management's attention. Our comments regarding those matters are summarized in Appendix I (Management Letter Comments). This communication does not affect our Independent Auditors' Report, dated November 13, 2020, which contains our written communication of one significant deficiency that came to our attention in performing our audit.

We have already discussed these comments with MCC management, and the comments are intended to improve the internal control over financial reporting or other operational efficiencies.

MCC has decided not to issue an official response to this Management Letter Comment.

This communication is intended for the information and the use of MCC management, those charged with governance, the USAID Office of Inspector General and is made available to the public.

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I. Millennium Challenge Account (MCA) Virtual Site Visit #1 – Late Submission And Approval Of Program Closure Plan.

One MCA's second compact with MCC has a compact end date (CED) of September 9, 2020. The MCA is required to develop a detailed Program Closure Plan (PCP) describing the schedule and steps it will take to close each key project and activity of the compact to ensure an orderly, efficient, and effective closure of the compact programs. The MCA is required to submit its draft PCP to MCC no later than 15 months prior to the CED. MCC is required to approve the PCP no later than 12 months prior to the CED.

During our virtual site visit, we reviewed the PCP and the related transmittal record (from MCA to MCC and approval of the PCP by MCC to MCA) and identified the following noncompliance with the MCA Program Closure Guidelines:

1. The MCA's initial submission of the draft PCP was due to MCC by June 9, 2019. The MCA did not submit its draft PCP to MCC until August 12, 2019. The draft PCP submission was 64 days late.
2. MCC's approval of the MCA PCP was due by September 9, 2019. MCC provided a 45-day extension, which was for the MCA's final PCP submission and MCC's approval of the PCP. This changed the due date for the MCC's approval to October 24, 2019. MCC did not provide its approval of the MCA PCP until November 20, 2019. The MCC approval of the PCP was 27 days late.

2. MCA Virtual Site Visit #1 – Program Procurement Was Not Included In The Approved Procurement Plan.

The MCA's Procurement Operations Manual (POM) requires the MCA to prepare a Procurement Plan (PP) for a minimum period of six months and update accordingly as a key document for planning and implementing program procurements. Any acquisition included and approved in the PP but not started, must be included in the subsequent period PP, with an identification note (date and original plan) documenting when the acquisition was approved.

During our virtual site visit, we judgmentally selected 15 procurement samples totaling \$4,212,214 for the first two quarters of fiscal year (FY) 2020 to perform testing surrounding the MCA's internal controls and related processes. In our review of the MCA's approved PP covering the period in which the procurement action took place, we found that one procurement transaction (sample #5) in the amount of \$199,193 for procuring employee life and medical insurance was not included in the approved PP.

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The MCA provided for our review a PP indicating that employee life and medical insurance was to be purchased during the period of July – December of 2017. However, MCC determined that it was not necessary because the insurance company agreed to renew the existing contract, so the MCA dropped it from the PP. When the MCA evaluated renewal of the contract for 2020, it determined that the conditions have changed (i.e., more employees, modifications in the benefits, and the term was less than one year due to the compact closing in September 2020), therefore, the MCA decided to conduct a new competitive quotation process. The MCA indicated that it went forward with the purchase based on the prior approval, which it believed was still valid from the 2017 PP.

We disagree with MCA’s assertion that a 2020 procurement is valid base on an outdated 2017 PP that did not properly take into account the existing funding needs required to carry out the purchase. The MCA went forward with a purchase that was not present and authorized within the approved PP covering the period in which the procurement action took place.

3. MCA Virtual Site Visit #2 – Lack Of Procurement Advertisement, Support To Evidence Approval Of Technical Evaluation Panel, And Procurement Requisition Note Approval

During our virtual site visit, we judgmentally selected and tested 15 MCA procurement transactions and identified three internal control deficiencies in the MCA’s procurement processes/transactions. These deficiencies pertain to: (1) advertisement of procurements, (2) approval of technical evaluation panel (TEP), and (3) approval of procurement requisition note (PRN) and are detailed below.

- I. For procurement samples #1, 3, 4, 12, and 13, the MCA did not initiate invitations to bid through advertisement of Specific Procurement Notice (SPN) on the required platform including dgMarket website and/or UNDB Online.

Procurement Sample #	Estimated Procurement Value (USD)
1	\$2,828,701
3	\$7,416,211
4	\$1,000,000
12	\$6,620,644
13	\$5,560,949

Advertisement is required for contracts of goods and non-consulting services with an estimated value at or more than United States Dollars (USD) \$200,000 and contracts for works valued at or more than USD \$1,000,000.

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2. For procurement sample #4, the procurement bid review of the TEP members was not approved by the appropriate MCA management.
3. For procurement samples #10 and 12, the PRN was lacking approval signatures by the appropriate MCA management certifying the procurement activities to proceed.

4. MCA Virtual Site Visit #3 – Contract Advances Reporting Errors.

MCA had no advance activity in FY 2020 quarter (QTR) one and two Advances activities in QTR two. During our virtual site visit, we selected and tested the two advances samples totaling \$1,012,309 from the FY 2020 QTR two MCA advances data call submitted to MCC for recording. We reviewed documentation in support of those advance transactions, submission, and found that the MCA had understated the advances reporting in QTR two by \$3,228 as follow:

Sample #	Amount Understated
1	\$2,349
2	\$879
Total	\$3,228

5. MCC Grant Accrual – Grant Accrual Reporting and Validation Errors.

Based on the MCA and MCC performed validation for quarter four of FY 2019 through quarters one to three of FY 2020, we identified errors in grant accrual validation as follow:

Payment Validation Errors

Period	MCC Reported Accrual Estimate	Payment Validated Relevant to Cost Incurred for Accrual Quarter¹	CLA Identified Payment Validation Error (Over) / Under
	A	B	C
FY20 Qtr 3	\$55,282,290	\$42,833,279	\$326,535
FY20 Qtr 2	\$59,591,349	\$43,083,968	\$16,890
FY20 Qtr 1	\$44,609,187	\$29,319,016	\$840,746
FY19 Qtr 4	\$39,711,686	\$30,173,197	\$79,514

¹ This includes MCA testing samples and MCC validations.

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Accrual Carryover Error

Period	Accrual Carried Over Confirmed by MCAs	CLA Identified Accrual Carry Over Error (Over) / Under
	D	E
FY20 Qtr 3	\$11,582,044	\$ -
FY20 Qtr 2	\$12,585,037	\$ -
FY20 Qtr 1	\$10,741,319	\$(205,438)
FY19 Qtr 4	\$7,298,782	\$ -

Accrual Reporting Errors

Period	MCC Self- Identified Under Accrual	MCC Self- Identified (Over) Accrual	CLA Identified Accrual Error (Over) / Under	Net Accrual Error Under/(Over) Stated
	F	G	H	F+G+H
FY20 Qtr 3	\$3,080,620	\$(148,145)	\$326,535	\$3,259,010
FY20 Qtr 2	\$2,566,636	\$(1,852,680)	\$(1,214,897)	\$500,941
FY20 Qtr 1	\$719,728	\$(876,639)	\$922,427	\$765,516
FY19 Qtr 4	\$1,504,848	\$(51,271)	\$150,811	\$1,604,388

The net accrual error variances were found to be within MCC's materiality threshold of \$4.05 million for all four quarters. In reviewing the breakout of the overall accrual errors listed above, we identified the following MCAs driving the overall net accrual errors:

Period	MCA	Total Under Accrual Errors	Total (Over) Accrual Errors	Net Accrual Under/(Over) Stated	Percentage of MCC's Accrual Materiality Threshold
FY20 Qtr 3	3	\$1,743,713	\$ -	\$1,743,713	43%
	1	\$653,987	\$ -	\$653,987	16%
	2	\$646,881	\$ -	\$646,881	16%
Totals		\$3,044,581	\$ -	\$3,044,581	75%
FY20 Qtr 2	4	\$2,081,818	\$(299,260)	\$1,782,558	44%
	2	\$184,405	\$(2,162,478)	\$(1,978,073)	49%
	3	\$74,893	\$(881,327)	\$(806,434)	20%
Totals		\$2,341,116	\$(3,343,065)	\$(1,001,949)	25%
FY19 Qtr 4	1	\$734,859	\$ -	\$734,859	18%

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MCC did identify a majority of these accrual errors shown above. However, it shows that one or more of the MCAs can affect the reasonableness and reliability of MCC's grant accrual if they are not providing reliable grant accrual estimate. This is an indication additional training for specific MCAs is needed to ensure that such errors do not reoccur going forward.

Unvalidated Accrual Amount Exceeded MCC Validation Variance Threshold for FY 2020 Quarter One

Period	MCC Performed Total Validation Against the Accrual	Accrual Estimate Recalculated Per CLA Analysis	Remaining Accrual Not Validated Against Recalculated Accrual Estimate
	I = B + C + D + E	J = A + F + G + H	J - I
FY20 Qtr 3	\$54,741,858	\$58,541,291	\$3,799,433
FY20 Qtr 2	\$55,685,895	\$59,090,408	\$3,404,513
FY20 Qtr 1	\$40,695,643	\$45,374,703	\$4,679,060
FY19 Qtr 4	\$37,551,493	\$41,316,074	\$3,764,581

Note: The table also accounted for over accrual conditions identified in MCA #1, MCA #2, and MCA #3.

The overall unvalidated grant accrual exceeded MCC's materiality threshold of \$4.05 million for quarter I of FY 2020. This means that, even after considering the grant accrual errors identified by MCC, the remaining unvalidated grant accrual exceeded MCC's materiality threshold in ensuring reasonableness and reliability of the grant accrual estimate reported.

MCC indicated that there is a balance between the level of effort versus the benefit derived and that the overall validation approach was to validate 90 percent of the grant accrual, which it did. However, the unvalidated accrual amount remaining for FY 2020 Quarter one still exceeded MCC validation variance threshold (tolerance/materiality limit) determined by FMD Management. In addition, MCC's Grant Accrual: FMD Desktop Guidance does not discuss the materiality threshold for the grant accrual, or how MCC considers it when conducting the grant accrual validation.

MCC did not complete its validation of the grant accrual in accordance with own policies and procedures. Given that the remaining accrual that was not validated for quarter one exceeded MCC's materiality threshold, there is an increased risk that the grant accrual estimate reported is not reliable or reasonable.

Although we are seeing continued improvements in the grant accrual process, we continue to identify deficiency in MCC's internal control over the grant accrual process, specifically, weakness in the compact grant accrual validation process. Of the identified accrual validation

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for quarter one that exceeded MCC’s validation variance threshold noted above, MCA #3 accounted for approximately \$2.4 million of the total unvalidated accrual or 51 percent. The following is a breakout of MCA #3:

Period	Validated Payment of Accrued Costs in Prior Quarter	CLA Identified Validation Payment Errors	Confirmed Valid Accruals Carried Over	Total Validation Against the Accrual
	A	B	C	D = A + B + C
FY20 Qtr 2	\$4,309,997	\$390,833	\$2,305,043	\$7,005,873

Period	Accrual Estimate Booked	CLA Identified Under Accrual Error	Accrual Estimate Recalculated Per CLA Analysis	Remaining Accrual Not Validated to the Adjusted Accrual
	E	F	G = E + F	G - D
FY20 Qtr 2	\$9,299,371	\$114,698	\$9,414,069	\$2,408,196

MCC stated that for MCA #3, the comparison of the subsequent payments to the accrual was challenging with the MCA using acronyms on the grant accrual estimate data call spreadsheets. MCC was also trying to ensure the data call description attributed to the accrual aligns with the description on the MCA provided Payment Request Form that serve as support for the subsequent payment.

MCC did not complete its validation of the grant accrual for MCA #3. MCC only validated 74 percent of the grant accrual. As a result, it is highly likely that there are additional validation costs that MCC and the MCA have not identified.

6. Interior Business Center (IBC) Virtual Site Visit – Internal Control Deficiencies On MCC’s Financial Transactions Recording And Reporting.

We tested MCC’s financial transactions recording and reporting processes performed by IBC and identified three internal control deficiencies. These deficiencies pertain to: (1) recording errors of the compact project/activity code (specific to IBC), (2) late invoice payment, (specific to MCC), and (3) untimely resolution of unreconciled charge card transactions (specific to MCC).

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IBC-Specific Issue

The Monthly Commitment and Disbursement Report (MCDR) is a monthly report prepared by the MCAs showing all actual Compact disbursements for the prior month. In addition, an MCDR includes a reconciliation comparing the CPS disbursements in Oracle against the MCA's reported disbursements. The MCAs review and submit a Payment Inquiry Form (PIF) to IBC explaining differences or errors identified in the reconciliation and request IBC to make correcting entries, if necessary.

We tested 36 MCDRs for four MCAs prepared from October 2019 to June 2020. During our virtual site visit to IBC, we tested the compact project/activity codes and dollar amounts to verify the accuracy of information in the MCDRs.

We identified two instances of compact project/activity code posting errors. Both instances were caused by manual IBC data entry input errors related to one MCA. Although incorrect posting to activity/project level does not impact the financial statements, it impacts program monitoring and relevant program performance reports used by program managers to evaluate each activity/project cost and performance.

MCC Specific Issues

During our IBC virtual site visit, we tested 19 Invoices on Hold and four Prompt Pay Reports for the period October 2019 to June 2020 and noted the following deficiencies:

1. The Prompt Pay Reports showed a total of \$3,555 in interest penalties paid to vendors.
2. The Oracle Invoice on Hold reports indicated that 2 invoices totaling \$900 were not processed for over 60 days.

In addition, IBC prepares monthly charge card transaction aging report for all unresolved (i.e. lacking PO number, transaction description, unreconciled purchase/travel card transaction, etc.) transactions for MCC's review. During our IBC site visit we found that:

For the period ending June 30, 2020, 16 transactions totaling approximately \$16,225 remained unresolved for over 60 days. As of September 15, 2020, 1 of 16 transactions totaling \$742 remained unresolved for over 270 days.

The interest penalties paid were primarily due to late invoice approval by MCC Contracting Officer Representatives. However, there has been an improvement in payment timeliness given the decrease in interest penalty payments in FY 2020 in comparison to the prior year.