



MEMORANDUM

DATE: April 27, 2021

TO: Millennium Challenge Corporation, Chief Risk Officer, Lori Giblin

FROM: Director of External Financial Audits Division (IG/A/EFA), David A. McNeil /s/

SUBJECT: Financial Audit of MCC Resources Managed by Millennium Challenge Account Morocco, Under the Compact Agreement Between MCC and the Government of Morocco, for the period May 5, 2015 to September 30, 2019 (3-MCC-21-007-N)

This memorandum transmits the final audit report on Millennium Challenge Corporation (MCC) resources managed by Millennium Challenge Account-Morocco (MCA-Morocco), Under the compact agreement between MCC and the Government of Morocco, for the period May 5, 2015 to September 30, 2019. MCA-Morocco contracted with the independent certified public accounting firm BDO LLP to conduct the audit. The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards and the “Guidelines for Financial Audits Contracted by MCC’s Accountable Entities” (the Guidelines)¹. However, the audit firm did not have a continuing professional education program or an external peer review, in accordance with generally accepted government auditing standards. The audit firm reported it did not believe that the effect of the departure was material because the audit firm is subject to internal quality control reviews by their national network in the United Kingdom (UK) and to an annual peer review carried out on the audit firm by a non-UK BDO International member firm. Furthermore, the audit firm stated it is also subject to external reviews by the Audit Quality Review team of the Financial Reporting Council of the UK. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on MCA-Morocco’s fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.²

¹ On June 30, 2017, USAID OIG rescinded its “Guidelines for Financial Audits Contracted by Foreign Recipients,” recognizing the Agency’s role to impose requirements on its implementing partners and contractors as a management function. This contracted audit, however, follows the OIG 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-Morocco's internal controls related to the MCC funded programs, assess control risk, and identify reportable conditions, including significant deficiencies or material weaknesses, (3) determine whether MCA-Morocco complied, in all material respects, with agreement terms and applicable laws and regulations, and (4) assess whether cost sharing contributions were provided and accounted for by the recipient in accordance with the terms of the agreement. To answer the audit objectives, the audit firm conducted an audit of MCA-Morocco's Fund Accountability Statement, conducted a review of internal controls for the period from May 5, 2015 to September 30, 2019, and conducted a review of the cost sharing schedule of the Millennium Challenge Account Morocco for the period from May 5, 2015 to September 30, 2019. Cost incurred for this period were \$ 33,078,570.65.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred and reimbursed, for the period May 5, 2015 to September 30, 2019 in accordance with terms of the agreements, except for \$ 987,010.06 in total questioned costs (\$ 987,010.06 ineligible); two material weaknesses in internal control related to deficiencies in contract management and award procedures and a lengthy validation process that resulted in contracts expiring; five significant deficiencies related to low execution of the budget, proof of deliverables, regular test counts not performed, lack of dated proof of key paper documents and employment contracts with no effective dates. The audit firm also noted one instance of non-material non-compliance. Additionally, nothing came to the audit firm's attention that caused it to believe that MCA-Morocco did not fairly present the cost-sharing schedule, in all material respects, in accordance with the basis of accounting used to prepare the cost-sharing schedule. Although we are not making a recommendation for the significant deficiencies noted in the report, we suggest that Millennium Challenge Corporation determine if MCA-Morocco addressed the significant deficiencies on page 27 of the audit report.

During our desk review, we noted an issue which the audit firm will need to address in future audit reports. We presented this issue in a letter to Lori Giblin, dated April 27, 2021.

To address the issued identified in the report, we recommend that Millennium Challenge Corporation:

Recommendation 1. Determine the allowability of \$ 987,010.06 in questioned costs (\$ 987,010.06 ineligible), on page 7 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that MCA-Morocco corrects the two material weaknesses in internal control detailed on page 27 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach management decision.

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”).