



OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

MEMORANDUM

DATE: September 23, 2022

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- Mongolia, Under the Compact Agreement Between MCC and the Government of Mongolia, May 3, 2017 to March 31, 2021 (3-MCC-22-016-N)

This memorandum transmits the final audit report on Millennium Challenge Corporation (MCC) resources managed by Millennium Challenge Account-Mongolia (MCA-Mongolia), under the compact agreement between MCC and the Government of Mongolia for the period from May 3, 2017 to March 31, 2021. MCA-Mongolia contracted with the independent certified public accounting firm of Baker Tilly Dalaivan Audit LLC to conduct the audit of all MCC resources. The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards and MCC's Accountable Entities Guidelines for Contracted Financial Audits. However, it did not fully satisfy the continuing professional education requirement set forth in generally accepted government auditing standards. In addition, the audit firm reported it did not have an external peer review because no such program is offered by professional organizations in Mongolia. The audit firm reported it did not believe that the effect of the departure was significant because the audit firm participates in the Baker Tilly International worldwide internal quality control review program which requires their office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on MCA-Mongolia's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.¹

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

¹ 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.

MCA-Mongolia's internal controls related to the MCC funded programs, assess control risk, and identify reportable conditions, including material internal control weaknesses; (3) determine whether MCA-Mongolia complied with in all material respects, agreement terms and applicable laws and regulations; and (4) determine whether MCA-Mongolia has taken adequate corrective action on prior audit report recommendations. To answer the audit objectives, the audit firm conducted an audit of MCA-Mongolia's Fund Accountability Statement; reviewed all payment ledgers via the Common Payment System (CPS) and payment detail reports to determine if payments were made in accordance with policies and procedures for the CPS and reviewed MCA-Mongolia's internal controls for the period from May 3, 2017 to March 31, 2021. Cost incurred for this period were \$ 25,414,393.26.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, program revenues, costs incurred and reimbursed, and assets and technical assistance directly procured by MCC under the agreement for the period audited. The audit firm noted three significant deficiencies in internal control as follows: failure of some component principles, lack of disclosure with related parties and related party transactions, and disaster recovery plan had no tests done. The audit firm found no instances of material noncompliance that are required to be reported under generally accepted government auditing standards. The audit firm did however note three immaterial instances of noncompliance that has been reported to MCA-Mongolia in a separate letter. The audit firm did not question any costs. Although we are not making a recommendation for the significant deficiencies noted in the report, we suggest that MCC determine if the recipient addressed the issues noted. The audit firm issued a management letter.

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").