



OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

MEMORANDUM

DATE: December 10, 2024

TO: Fouad Saad, Vice President and Chief Financial Officer, Millennium Challenge Corporation/Department of Administration and Finance

FROM: Paul K. Martin, Inspector General *PKMA*

SUBJECT: Transmittal of the Management Letter for MCC's Fiscal Years 2024 and 2023 Financial Statements Audit Report (0-MCC-25-002-C)

On November 14, 2024, we transmitted the financial statement audit report performed by the independent certified public accounting firm of RMA Associates LLC (RMA). The auditors issued an unmodified opinion on MCC's fiscal years (FYs) 2024 and 2023 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 FYs 2024 and 2023 management letter dated December 3, 2024, which reports on such matters.

This letter does not affect the auditors' unmodified opinion on the financial statements. RMA 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.

MCC Management
Millennium Challenge Corporation
Washington, D.C.

Management Letter

We have audited the consolidated financial statements of the Millennium Challenge Corporation (MCC), which comprise the balance sheets as of September 30, 2024 and 2023, and the related consolidated statements of net cost, consolidated changes in net position, and consolidated budgetary resources for the years then ended, and the related notes to the consolidated financial statements (collectively referred to hereinafter as ‘consolidated financial statements’) and issued our report thereon dated November 13, 2024. Professional standards require that we advise you of the following matters relating to our audit.

In planning and performing our audit of the consolidated financial statements of the MCC as of and for the years ended September 30, 2024, and 2023, we considered the 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MCC’s internal control. Accordingly, we do not express an opinion on the effectiveness of the MCC’s internal control.

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 MCC’s consolidated financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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.

During our audit, we identified one deficiency in internal control that we determined did not rise to the level of material weakness or significant deficiency. While the nature and magnitude of this deficiency in internal control is not considered important enough to merit the attention of those charged with governance, it is of sufficient importance to bring to management’s attention. Refer to [Appendix I](#) below for more information.

This Management Letter is intended solely for the information and use of MCC management and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciated the opportunity to work with your team. We are thankful for your cooperation throughout our audit.

RMA Associates

RMA Associates

Arlington, VA
December 3, 2024

Appendix I: Management Letter Comment

MLC 24-01 Policies and Procedures

MCC policies and procedures need to be updated to reflect current processes or reviewed to determine that the policies are still accurate. We are considering anything last updated before 2021 in need of an update. RMA identified the following policies and procedures that are non-current:

#	Title	Date
1	AF-2007-2.1 Individually Billed Account Travel Card Policy	August 2017
2	AF-2007-63.2 Commitments and Obligations	September 2010
3	AF-2007-65.4 Program Funded-Advances	April 2019
4	Accounts Payable and Payments FMD Policy Manual	July 2017
5	Accounts Payable and Payments FMD Procedure Manual	June 2019
6	AF-2007-70.3 Nonexpenditure Transfers Policy Manual	June 2018
7	AF-2007-64.4 Expense Accruals Policy	April 2020
8	AF-2007-74.3 Shared Services Providers Policy	April 2017
9	AF-2007-77.3P Compact FMD Policy	July 2019
10	Intragovernmental Business Activities Policy	March 2020
11	AF-2007-61.3 Budget Formulation Policy	June 2018
12	AF-2008-82.6P Common Payment System Policy	July 2020
13	Budget Management Process Narrative	July 2019
14	Intragovernmental Advances Management Process Narrative	July 2020
15	Payables and Disbursements Process Narrative	July 2019

For example, some policies (Accounts Payable and Payments FMD Policy) have not been renewed since 2017 or earlier. These documents may contain descriptions of processes that are no longer accurate, or references which are no longer relevant. For example, on page 10 of the Accounts Payable and Payments FMD Policy, Intragovernmental Payments are discussed. However, the document being from 2017, does not discuss the G-Invoicing procedures that are now in use.

GAO-14-704G *Standards for Internal Control in the Federal Government (The Green Book)*, Principle 9.01, requires that “Management should identify, analyze, and respond to significant changes that could impact the internal control system.” For example, as part of risk assessment or a similar process, management analyzes and responds to identified changes and related risks in order to maintain an effective internal control system. Changes in conditions affecting the entity and its environment often require changes to the entity’s internal control system, as existing controls may not be effective for meeting objectives or addressing risks under changed conditions. Further, changing conditions often prompt new risks or changes to existing risks that need to be assessed.”

The Green Book, Principle 12.05 also requires that “Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity’s objectives or addressing related risks. If there is a significant change in an entity’s process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately. Changes may occur in personnel, operational processes, or information technology. Regulators; legislators; and in the federal environment, the Office of Management and Budget and the Department of the Treasury may also change either an entity’s objectives or how an entity is to achieve an objective. Management considers these changes in its periodic review.”

The policies have not been updated due to competing priorities and a lack of formal approach which prevented MCC from making its desired progress in updating all of the policies and process narratives. MCC is actively working on making updates to these policies and procedures, but did not complete all updates by the end of fiscal year 2024.

Outdated policies, procedures, and process narratives lead to an inaccurate understanding of key processes and the related control activities, increasing control risk. Additionally, if there are new practices in place that are undocumented, there are risks of incomplete delegation of responsibilities to control owners.

Management Response (October 18, 2024):

Management recognizes the importance of maintaining all policies and procedures. To this end, MCC undertook an agency-side Policy Process Improvement Project that included updating MCC’s policy on creating and maintaining policies. This update involved revising the policy template to distinguish “procedural elements” from policies, reflecting the different approval levels required. Additionally, a system was implemented to centralize and support the policy lifecycle, and new procedures were developed for the review and approval workflow. An internal process has also been established to ensure ongoing compliance with established review cycles.

Regarding financial policies, an evaluation was conducted, including internal control assessments, resulting in initial updates that included the consolidation of policies to reduce confusion, maintain consistency, and enhance communication across MCC. While these efforts have required additional time and broader reviews, a new union formed by MCC employees now necessitates a labor relations assessment for policies. If deemed appropriate, discussions with union representatives are required before a policy reaches its final review. Accordingly, we recently streamlined the financial policy review process which has facilitated in the final approvals of four financial policies in the fourth quarter.

Looking ahead, management will continue to prioritize policy reviews and updates, aiming for final approval to ensure that MCC’s policies remain current.

Specific to the conditions outlined, it’s worth noting the following:

- The Accounts Payable and Payments FMD Procedure Manual was updated effective October 1, 2022, and will be revised as October 1, 2024.
- The AF-2008-82.6P Common Payment System Policy has been retired as the procedural elements have been incorporated into an update of the Common Payment System Procedures recently approved and effective September 2024 and the remaining elements do not warrant a policy.