MEMORANDUM

DATE: November 24, 2026

TO: Lori Giblin
Chief Risk Officer
Millennium Challenge Corporation

FROM: David A. McNeil /s/
Director
External Financial Audits Division

SUBJECT: Financial Audit of the MCC Resources Managed by Millennium Challenge Account – Nepal Under the Compact Agreement Between MCC and the Government of Nepal, April 1, 2025, to March 31, 2026 (3-MCC-27-006-N)

This memorandum transmits the Financial Audit of the Millennium Challenge Corporation (MCC) resources managed by Millennium Challenge Account – Nepal (MCA-Nepal) under the Compact Agreement between MCC and the Government of Nepal, April 1, 2025, to March 31, 2026. MCA-Nepal contracted with the independent certified public accounting firm S.A.R. Associates Chartered Accountants (S.A.R. Associates) to conduct the audit. S.A.R. Associates stated that it performed its audit in accordance with U.S. Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. S.A.R. Associates stated that it does not have a continuing education program fully satisfying the requirement set forth in GAGAS, and it did not have an external quality control review by an unaffiliated audit organization as required by GAGAS. S.A.R. Associates is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on MCA-Nepal'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 MCA-Nepal's internal controls related to the MCC funded programs; (3) determine whether MCA-Nepal complied, in all material respects, with the Compact Development Funding Agreement, supplemental agreements, and applicable laws and regulations related to MCC-

[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 reviews of the audit report itself and excludes reviews of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

funded grants; (4) determine whether MCA-Nepal has taken adequate corrective action on prior audit report recommendations; and (5) review the cost-sharing schedule to determine if the schedule is fairly presented in accordance with the basis of accounting used by MCA-Nepal to prepare the schedule. To answer the audit objectives, S.A.R. Associates: (1) reviewed direct and indirect costs billed to and reimbursed with MCC funds, general and program ledgers to determine whether costs incurred were properly recorded, and the procedures used to control the funds; (2) reviewed MCA-Nepal's internal control structure to evaluate the adequacy of the accounting systems, control policies and procedures, and whether those policies and procedures have been placed in operation; (3) determined compliance with agreement terms and applicable laws and regulations related to related to MCC activities; and (4) determine whether cost-sharing contributions were provided and accounted for by the Government in accordance with the terms of the agreement. S.A.R. Associates examined costs of $35,679,001 for the period audited.

S.A.R. Associates concluded that the fund accountability statement presents fairly, in all material respects, program revenues, costs incurred and reimbursed, assets and MCC's procurement technical assistance for the period then ended in accordance with the terms of the agreements. S.A.R. Associates did not identify any material weaknesses in internal control or instances of material noncompliance with applicable laws, regulations, and agreement terms. However, S.A.R. Associates did identify two significant deficiencies in internal control and one instance of noncompliance. Although we are not making a recommendation for the significant deficiencies noted in the report or the instance of noncompliance, we suggest that MCC's Chief Risk Officer, determines if MCA-Nepal addressed the issues noted. S.A.R. Associates reported that three previous audit recommendations have improved, one is in progress, and two have not improved. S.A.R. Associates was not aware of any material modifications that should be made to the accompanying Cost-Sharing Schedule in order for it to be in conformity with the basis of accounting used to prepare the Cost-Sharing Schedule. S.A.R. Associates issued a management letter.

During our desk review, we identified one issue S.A.R. Associates will need to address in future audit reports. We presented the issue in a memo to MCC, dated November 24, 2026.

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"). In addition, USAID OIG has determined that this transmittal memo and the enclosed report are not subject to notification and reporting requirements under Section 5274 of the National Defense Authorization Act.[2]

[2] The James M. Inhofe National Defense Authorization Act for Fiscal Year 2023 Pub. L. No. 117-263, § 5274. Please direct related inquiries to oignotice_ndaa5274@oig.usaid.gov.