



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL
for the Millennium Challenge Corporation

**AUDIT OF THE MILLENNIUM
CHALLENGE CORPORATION'S
MANAGEMENT OF ITS
INTERAGENCY AGREEMENTS**

AUDIT REPORT NO. M-000-08-005-P
September 30, 2008

WASHINGTON, DC



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*Office of Inspector General
for the
Millennium Challenge Corporation*

September 30, 2008

Ambassador John Danilovich
Chief Executive Officer
Millennium Challenge Corporation
875 Fifteenth Street, N.W.
Washington, DC 20005

Dear Ambassador Danilovich:

This letter transmits the Office of Inspector General's final report on *Audit of the Millennium Challenge Corporation's Management of its Interagency Agreements* for your review and comments. In finalizing our report we noted that there were no recommendations for your action, you notified us that you had no written comments. Therefore, we have not included an Appendix II, which normally would have reflected management comments in their entirety.

I appreciate the cooperation and courtesy extended to my staff during this audit.

Sincerely,

Alvin Brown /s/
Assistant Inspector General/MCC

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SUMMARY OF RESULTS

The Millennium Challenge Corporation (MCC) has entered into several interagency agreements to execute various program and administrative aspects of its operations. Under section 632(b) of the Foreign Assistance Act of 1961, as amended, MCC may use the services and facilities of, or procure commodities from, any U.S. Government agency. Further, under section 619(b) of the Millennium Challenge Act of 2003, MCC is also permitted to allocate funds for the costs of implementing its Threshold Program activities, awarded to countries whose plans demonstrate a meaningful commitment to reform and a high likelihood of improving their low score on one of MCC's 17 policy indicators. USAID, working with MCC, is currently the primary agency overseeing the implementation of the Threshold Program. Other U.S. Government agencies may also be providing assistance for the Threshold Program. See page 2 for details.

The Government Accountability Office and some inspectors general found cases in which interagency contracting had not been managed properly to ensure that the Government was receiving the best value for its investment (see page 2). Therefore, the Office of Inspector General conducted this audit to determine whether MCC has established effective internal controls, provided clear definitions of roles and responsibilities, and provided training to help ensure the proper use of its interagency agreements (see page 3). The audit also determined whether MCC had established policies to ensure compliance with Governmentwide standards related to the management of interagency contracting (see page 3).

The audit found that MCC had policies and procedures in place to provide a reasonable assurance that interagency agreements were being managed to ensure that the Government was receiving the best value for its investment (see page 4). Further, MCC had policies and procedures that delineated the responsibilities of the contracting officer's technical representative assigned to oversee each interagency agreement and to direct the work of the servicing agency (see page 7). Activities associated with the interagency agreements were billed through the Intragovernmental Payment and Collection system, using accounting classification information provided in the agreements (see page 8). For the most part, all deliverables required by the agreements were completed as required (see page 8).

BACKGROUND

In recent years, U.S. Government agencies have been making greater use of interagency agreements, whereby agencies can procure many goods and services by using another agency's services or existing contracts awarded by other agencies. An agency can enter into an interagency agreement with a servicing agency and transfer funds to the servicing agency. The servicing agency will then conduct acquisitions or order directly from its existing contract. Interagency contracts are designed to leverage the Government's aggregate buying power and simplify procurement of commonly used goods and services. Interagency agreements offer improved efficiency and timeliness in the procurement process.

Although interagency agreements can provide the advantages of timeliness and efficiency, use of these vehicles can also pose risks if they are not properly managed. According to the Government Accountability Office (GAO), a number of factors make interagency agreements high-risk activities, including their rapid growth in popularity and their use by some agencies that have limited expertise with this contracting method. Ultimately, they create a much more complex procurement environment in which accountability has not always been clearly established. Because of these and other issues, the GAO and some inspectors general have found cases in which interagency contracting has not been managed properly to ensure that the Government was receiving the best value for its investment.

The Millennium Challenge Corporation (MCC), as a part of the process of concluding compacts with eligible countries and awarding grants, performs due diligence activities to assess the viability of proposed assistance projects. These activities include assessing the advisability of certain projects and the adequacy of certain policies and procedures associated with investing in a country's proposal prior to the entering into a compact. MCC has entered into several interagency agreements to execute various program and administrative aspects of its operations. MCC intends to turn to other agencies, such as the U.S. Army Corps of Engineers, that have expertise in a given field to assess infrastructure elements of an eligible country's proposal and to assist in these oversight activities.

MCC's Threshold Program agreements are awarded to countries whose plans demonstrate a meaningful commitment to reform and a high likelihood of improving their low score on one of MCC's 17 policy indicators.¹ USAID, working with MCC, currently is the primary agency overseeing the implementation of the Threshold Program. Other U.S. Government agencies may also be providing assistance to the Threshold Program.

¹ See the list of MCC policy indicators at <http://www.mcc.gov/selection/indicators/index.php>.

AUDIT OBJECTIVES

The Office of the Assistant Inspector General for the Millennium Challenge Corporation conducted this audit as part of its fiscal year 2008 audit plan. The objectives of this audit were to answer the following questions:

- Did the Millennium Challenge Corporation establish effective management controls for deciding on the use of section 614(d) of the Millennium Challenge Act of 2003 and sections 632(a) and (b) of the Foreign Assistance Act of 1961, as amended?
- Did the Millennium Challenge Corporation properly monitor and manage its interagency agreements and memorandums of agreement to verify that they achieved their intended results?

Appendix I contains a discussion of the audit's scope and methodology.

AUDIT FINDINGS

Did the Millennium Challenge Corporation establish effective management controls for deciding on the use of section 614(d) of the Millennium Challenge Act of 2003 and sections 632(a) and (b) of the Foreign Assistance Act of 1961 as amended?

The Millennium Challenge Corporation (MCC) had policies and procedures in place to provide a reasonable assurance that interagency agreements were being managed to ensure that the Government was receiving the best value for its investment. MCC did establish effective management controls to ensure that the process for deciding on the use of sections 614(d) [*Powers of the Corporation: Related Provisions- Other Authorities*] and 616 [*Assistance to Certain Candidate Countries*] of the Millennium Challenge Corporation Act of 2003 and sections 632(a) and (b) of the Foreign Assistance Act (FAA) of 1961, as amended, were effective. MCC established policies and procedures for the use of interagency agreements² in Chapter 17 of the Contracts Operating Manual (COM) under the following authorities: section 632(b) of the FAA and section 619(b) of the Millennium Challenge Act. These criteria provided guidance on selecting interagency agreements and evaluating a servicing agency's performance. Under section 616 of the Millennium Challenge Act, MCC established a policy, called the Threshold Program, which authorized assistance to prepare a candidate country to become eligible for compact funding. These areas are discussed below.

MCC Followed Sections 614(d), 616, and 619 of the Millennium Challenge Act of 2003

Under section 614(d) of the Millennium Challenge Act of 2003 (P.L. 108-199, Division D, Title VI), MCC is authorized to enter into interagency agreements using the administrative authorities found in the FAA of 1961, as amended. MCC usually decides to use interagency agreements because other U.S. agencies can be acquired quickly to supply specialized services not available in-house. Section 616, of the Millennium Challenge Act, authorizes MCC to assist a candidate country to become eligible for a Millennium Challenge Compact. MCC created the Threshold Program to help assist candidate countries that demonstrate a significant commitment to meeting the eligibility criteria but fall short on several indicators. USAID, working with MCC through a Memorandum of Agreement (MOA), is currently the primary agency overseeing the implementation of the Threshold Program. MCC transfers funds to USAID as authorized under section 616 of the Millennium Challenge Act. Other U.S. agencies may also be providing assistance for the Threshold Program. Under section 619 of the Millennium Challenge Act, MCC may allocate or transfer funds to any U.S. agency in order to acquire the services requested in an interagency agreement.

² Interagency Agreement or Acquisition (IA) is the term used to describe the procedure by which an agency needing supplies or services obtains them by using another agency's contract, the acquisition assistance of another agency, or both. The IA establishes the general terms and conditions that govern the relationship between the requesting agency and servicing agency. In addition, the IA provides information that is required to demonstrate a bona fide need and authorize the transfer and obligation of funds.

Sections 614(d) and 616 – As part of a review to determine whether MCC had established management controls for sections 614(d) and 616 of the Millennium Challenge Act, the audit team selected three countries under MCC's Threshold Program for review. The Threshold Program is administrated by USAID through a MOA that transfers funds to USAID as authorized under section 616 of the Act. According to the MOA between the Millennium Challenge Corporation and the United States Agency for International Development, Parts F and G under the agreement's terms and conditions describe various reports that USAID is required to provide MCC.

MCC was receiving quarterly reports on time from USAID for the three Threshold Program countries selected for review (Indonesia, Paraguay, and Ukraine). MCC had also provided adequate oversight for the three countries to include ensuring most activities were completed, and most targets were either met or exceeded. For example, in Indonesia, only nine of forty-four activities (20 percent) from the first through fourth quarters of 2007 needed to be reviewed to determine whether actions were completed. Various e-mails and other notes indicated that the program managers for the three countries were effectively monitoring program activities.

The Office of General Counsel for the MCC (OGC) reviewed all interagency agreements and MOAs used in support of the Threshold Program, as required by Chapter 17 of the Contracts Operating Manual COM, to determine if they are consistent with MCC legal authorities. The OGC, which developed the interagency agreement template, reviewed all interagency agreements to assess the agreements' ethics and to verify whether the agreements included complete descriptions of the services needed. The OGC also reviewed the statement of work (SOW) and how the budget items fit within funds obligated.

Section 619 – MCC complied with section 619 by allocating funds to other U.S. agencies for services it had acquired under an interagency agreement. For example, MCC initiated an interagency agreement with the Office of Personnel Management (OPM) to provide expert contractor support to address specific training, learning, knowledge capture, knowledge management, and strategic human resource management requirements. Under the interagency agreement, MCC issued to OPM a task order requiring that a management plan be developed for a Human Capital and Enterprise Training course. OPM hired Colleague Consulting, a contractor, to develop the management plan. When the contractor completed the plan, it sent an invoice to the National Business Center (NBC) through the Intergovernmental Payment and Collection (IPAC) system. NBC forwarded an administrative approval form, the invoice, and supporting documents to the contracting officer's technical representative (COTR) for approval. The COTR returned the approval form to the NBC verifying that the services had been received and the contractor should be paid. The COTR also tracked expenditures made on the interagency agreement to ensure that funds were not exceeded and were used for authorized purposes.

MCC had established policies and procedures for the use of interagency agreements in Chapter 17 of the COM and also used section 17.5 of the Federal Acquisition Regulation under as guidance for interagency agreements. These criteria provided guidance on selecting agreements and evaluating a servicing agency's performance. In addition, the criteria specify that the COTRs would be issued designation letters that outlined their responsibilities for the designated interagency agreement or contract. Briefly, the COTR

is to monitor and evaluate the contractor's performance, document material deficiencies, and recommend in writing any changes needed in the scope of the contract. The designation letter also noted that the COTR administers financial management responsibilities by reviewing the contractor's vouchers or invoices, by providing or denying approval, and by monitoring the financial status of the contract to ensure that the level of funding is the minimum necessary.

Chapter 17 of the Contracts Operating Manual – MCC established policy for the use of interagency agreements in Chapter 17 of the COM, which outlined the procedures for processing interagency agreements under the Economy Act, 31 U.S.C. 1535; section 632(b) of the FAA of 1961, as amended; and section 619(b) of the Millennium Challenge Act of 2003, which is modeled on FAA section 632(a) agreements. The OGC reviewed all interagency agreements and MOAs used in support of the Threshold Program, as required by Chapter 17 of the COM. Appropriate authorizing officials (contracting officers) were involved in the interagency agreement process and had also signed the agreements. Each interagency agreement and MOA had been assigned to a COTR for oversight and monitoring. All the COTRs for the interagency agreements reviewed had received their designation letters.

According to Chapter 17, section 17.3, of the COM, as a Government corporation, MCC is expressly excluded from the scope of Office of Management and Budget (OMB) Circular A-76. Consequently, MCC contracting officers are not required to do an analysis under that circular to determine whether MCC should compete the activity or enter into an interagency agreement. However, as of October 1, 2008, OMB will require agencies to ensure that decisions to use interagency acquisitions are supported by best interest determinations. The managing director, Contracts and Grants Management Division, told the audit team that he planned to incorporate this new policy into Chapter 17 and also planned to use the model agreement contained in appendix 3 of OMB Circular A-76.

MCC Followed Section 632(b) of the Foreign Assistance Act of 1961

MCC may obtain services of another agency under section 632(b) of the FAA, which is available to MCC under section 614(d) of the Millennium Challenge Act. MCC usually decides to use interagency acquisition agreements because other U.S. agencies can quickly supply specialized services not available in-house. For example, through an interagency agreement, the U.S. Department of Agriculture (USDA) will provide expertise on disaster mitigation and integrated pest management.

Pursuant to FAA section 632(b), the program office should prepare the background, statement of work, budget, and report sections of an interagency agreement. Because FAA section 632(b) does not itself prescribe agreement formats, it is acceptable to use another agency's agreement format. MCC's OGC initially developed the interagency agreement template, which encompassed the requirements set forth in FAA section 632(b). MCC used the template to create eight of the nine interagency agreements reviewed (89 percent) and used a management plan for the ninth. The management plan for interagency agreement no. 07-0174-CON-42 detailed background, tasks, project summary, time schedules, and total costs. Therefore, the management plan covered the provisions under FAA section 632(b).

Funds are considered obligated only after both parties have signed the interagency agreement. Both parties signed seven of the eight interagency agreements reviewed (87.5 percent) either on the same day or within 9 days. For the eighth interagency agreement, the servicing agency signed the interagency agreement 2 months after MCC's signature. MCC stated that it sometimes had difficulty obtaining signatures from servicing agencies. In MCC's experience, the servicing agency's program or budget personnel who were managing the eighth interagency agreement did not understand the importance of signing the agreement on time or at all.

Because MCC had established policies and procedures to provide effective management controls over the use of section 614(d) of the Millennium Challenge Act and sections 632(a) and (b) of the FAA of 1961, as amended, this audit does not make any recommendations.

Did the Millennium Challenge Corporation properly monitor and manage its interagency agreements to verify that they achieved their intended results?

MCC did properly monitor and manage its interagency agreements and MOAs to verify that they achieved their intended results. The Contracting Office (CO) created a recording system to track all interagency agreements. A spreadsheet was developed that included the servicing agency, service to be provided, contract/interagency agreement number, amount, time period, and COTR. The audit team based its review on the 94 interagency agreements, valued at \$63,759,658, which MCC had issued from February 2004 through February 20, 2008. MCC had assigned a COTR to oversee each section 632(b) Reimbursement Agreement and to direct the work of the servicing agency. The COTRs ensured that the funds were being spent on the requested scope of work and that the servicing agency was providing the required deliverables and financial reports.

MCC Properly Monitored and Managed Its Interagency Agreements

The CO worked with the servicing agency to develop the interagency agreement. The CO reviewed and edited the SOW, draft agreement, or final agreement. The CO signed the *Order for Supplies and Services* (Optional Form 347), which is attached to the interagency agreement when the agreement is completed. The CO also assisted the servicing agency with editing and finalizing the interagency agreement. The MCC COTRs requested, in writing, that servicing agencies perform specific tasks under the interagency agreements. MCC and the servicing agencies signed eleven of thirteen task orders (85 percent) within 2 days of each other's signatures. MCC also issued eight SOWs within three interagency agreements. If changes were made to a SOW or task order, MCC issued a modification that both the servicing agency and MCC signed. The SOWs or task orders described the services to be performed, deliverables, performance periods, and cost data. The MCC COTRs ensured that contractors' work as described in the SOWs was completed in accordance with the agreement, based on reviewing the

required quarterly reports.

The interagency agreements identified the deliverables the servicing agencies were required to submit to MCC. For example, deliverables could be a trip report from a site visit or final reports produced after each task order. After comparing deliverables to the SOW or task order, the audit team found that desired results were achieved for the agreements that were reviewed. The MCC COTRs maintained regular contact with the servicing agency. For example, the COTR contacted the U.S. Geological Survey's (USGS) point of contact at least monthly by e-mail to discuss such topics as the monitoring plan for water resources, proposed USGS activities in Cape Verde, and the shift in the Cape Verde geographic information system coverage. Further, one COTR stated that she communicated at least once a week with the USDA. In addition, the COTR conducted a site visit to Namibia in October 2006. The COTR worked with the MCA Namibia Agriculture Team to understand the rationale behind MCC's investment in livestock, irrigated agriculture, and natural products industries. She also met with USDA personnel during the trip.

The audit team's review of invoices for several interagency agreements demonstrated that the servicing agency submitted invoices for approval directly to the NBC for payment through the IPAC system. The NBC would send the COTR an approval form that included supporting documents, such as the invoice and task order or SOW. The COTR had 3 days to approve the payment before penalties would be incurred. The COTRs also maintained invoices from the NBC in their files. For example, for the interagency agreement with the U.S. Forest Service, the COTR received the IPAC payment package from the NBC. However, the COTR did not approve the invoice because he did not have sufficient supporting documents to make the determination. The COTR finally approved the invoice after obtaining the necessary documents from the NBC.

Because MCC properly monitored and managed its interagency agreements to verify that the agreements achieved the intended results, this audit is not making any recommendations.

EVALUATION OF MANAGEMENT COMMENTS

Management agreed with the audit findings and chose not to provide written comments.

SCOPE AND METHODOLOGY

Scope

The assistant inspector general for the Millennium Challenge Corporation (MCC) conducted this audit of MCC's management of its interagency agreements and memorandums of agreement (MOAs) to verify compliance and/or conformity with section 614(d) of the Millennium Challenge Act of 2003 (the Millennium Challenge Act) and sections 632(a) and (b) of the Foreign Assistance Act (FAA) of 1961, as amended. We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In conducting this audit, we assessed MCC adherence to provisions of section 632(b) of the FAA of 1961 versus sections 614(d) and 619(b) of the Millennium Challenge Act for interagency agreements and MOAs awarded by MCC during calendar years 2005 to 2007. The audit fieldwork was conducted from February 13 through July 24, 2008, at MCC headquarters in Washington, DC.

Methodology

In planning and performing the audit work, we interviewed MCC officials in the departments of Administration and Finance, Policy and International Relations, and Compact Implementation, and the Office of General Counsel. These interviews were conducted to obtain information on, for example, use of section 632(b) of the FAA of 1961 versus sections 614(d) and 619(b) of the Millennium Challenge Act ; and extent of monitoring conducted by MCC staff of interagency agreements under section 632(b) and MOAs issued for the Threshold Program under sections 614(d) and 619(b) of the Millennium Challenge Act .

In addition, we performed the following steps:

- Judgmentally selected 11 interagency agreements (valued at \$40,648,675) out of 94 agreements (valued at \$63.76 million), along with 8 task orders (valued at \$5.5 million) out of 15 task orders (valued at \$7.6 million) under a master interagency agreement with the U.S. Army Corps of Engineers, covering the period February 2004 through February 20, 2008. From these documents provided by MCC officials, we determined whether MCC complied with sections 632(a) and (b) of the FAA of 1961, as amended, and sections 614(d) and 619(b) of the Millennium Challenge Act.
- Reviewed 3 (valued at \$135.65 million) out of 22 MOAs (valued at \$419.18 million) with USAID and the departments of Treasury and Justice for the Threshold Program.
- Reviewed the files of contracting officer's technical representatives (COTRs) to identify the oversight and monitoring performed by the COTRs.

- Reviewed interagency agreements and the MOAs to identify deliverables based on the statement of work described in the agreement and to determine whether deliverables had been received and whether the COTR had been actively monitoring the agreements.

MANAGEMENT COMMENTS

Management agreed with the audit findings and chose not to provide written comments.

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