



*Office of Inspector General
for the Millennium Challenge Corporation*

September 30, 2010

Mr. Dennis Nolan
Deputy Chief Financial Officer
Millennium Challenge Corporation
875 Fifteenth Street, N.W.
Washington, DC 20005

Subject: Limited Scope Review of the Millennium Challenge Corporation (MCC)
Resources Managed by Millennium Challenge Account-Mali (MCA-Mali), Under
the Compact Agreement between the MCC and the Government of Mali
(Report No. M-000-10-004-S)

Dear Mr. Nolan:

This letter transmits our report pertaining to our limited scope review of MCA-Mali. The Office of Inspector General performed this review, in part, to obtain reasonable assurance that (1) MCA-Mali's representations in its fund accountability statements complied with MCC's "Cost Principles for Government Affiliates Involved in MCC Compact Implementation," its fiscal accountability plan, the compact, and other applicable laws, regulations, and guidance; and (2) MCA-Mali had complied with MCC's "Policies and Procedures for the Common Payment System."

This report includes 13 audit recommendations regarding instances in which MCA-Mali's expenditures and internal controls did not fully comply with applicable rules, regulations, and guidance. Specifically, recommendation No. 1 addresses an issue that may potentially impact the completion of the compact; recommendation No. 2 addresses funds put to better use; recommendation Nos. 3 through 8 addresses internal control deficiencies, and recommendations Nos. 9 through 13 address question costs identified during our review. Based on the responses provided by MCA-Mali officials, we consider final action taken on recommendations No. 1, 2, and 4, and management decision reached on recommendations No. 3, 5, 6, 7, and 8. However, no management decisions were reached for recommendations No. 9, 10, 11, 12, and 13, which related to the questioned costs of \$407,767 at MCA-Mali. Therefore, we are redirecting recommendation No. 13 to MCC's management in a separate letter. The Findings section of this report discusses the findings and recommendations in detail.

I appreciate the cooperation and courtesy extended to my staff during this review. This report is being transmitted to you for your action. Feel free to contact me Alvin Brown at (202) 216-6962. Please advise the USAID Assistant Inspector General for the Millennium Challenge Corporation within 30 days of this letter.

Sincerely,

/s/

Alvin A. Brown
Assistant Inspector General
Millennium Challenge Corporation

cc: William Gallagher, MCC, Senior Director of Compact Implementation
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BACKGROUND

On November 13, 2006, the Millennium Challenge Corporation (MCC) and the Government of the Republic of Mali signed a 5-year, approximately \$461 million compact. The compact aims to support policy reform and the development of key infrastructure by addressing Mali's constraints to growth and capitalizing on two of the country's major assets: the Bamako-Sénou International Airport as a gateway for regional and international trade and the Niger River Delta for irrigated agriculture. These investments will create a platform for increased production and productivity of agriculture and small and medium-sized enterprises, as well as expand Mali's access to markets and trade.

OBJECTIVES

The Assistant Inspector General/Millennium Challenge Corporation performed this review of Millennium Challenge Account-Mali (MCA-Mali) to answer the following questions:

- Are MCA-Mali's expenditures allowable, allocable, and reasonable per MCC's "Chapter 37: Cost Principles for Government Affiliates Involved in MCC Compact Implementation"?
- Is MCA-Mali complying with MCC's "Policies and Procedures for Common Payment System" and its own fiscal accountability plan (FAP)?

DISCUSSION

This letter provides the results of the fieldwork performed to address the objectives mentioned above, as well as other issues that came to our attention.

Are MCA-Mali's expenditures allowable, allocable, and reasonable per MCC's "Chapter 37: Cost Principles for Government Affiliates Involved in MCC Compact Implementation"?

Our review identified numerous instances in which MCA-Mali's expenditures were not allowable, allocable, or reasonable per MCC's "Chapter 37: Cost Principles for Government Affiliates Involved in MCC Compact Implementation." Questioned costs totaling \$407,767 were identified at MCA-Mali.

Is MCA-Mali complying with MCC's "Policies and Procedures for Common Payment System" and its own fiscal accountability plan (FAP)?

No instances of non compliance with MCC's "Policies and Procedures for Common Payment System" or MCA-Mali's Fiscal Accountability Plan came to our attention during this review.

FINDINGS

MCA-Mali Should Plan Measures to Ensure Timely Project Completion

USAID AIG/MCC Finding

According to project and airport officials, customs clearing is one area that has the potential to delay the completion of the project if it is not addressed early in the process. With only 30 months remaining in the project, MCA-Mali needs to develop a plan to prevent further delays to compact activities in order to complete the \$461 million compact on time and within budget. The adequacy of time and budget are now the most important considerations driving project activities. The actual construction work has not yet begun on the Bamako Airport Expansion project, and it is estimated to take a minimum of 24 months to complete. The two large projects (Alatona Irrigation and Airport Expansion) must be completed within very tight deadlines, or funding could be lost and some activities may not be accomplished.

Recommendation No. 1: We recommend that, to avoid potential delays, MCA-Mali initiate planning to arrange for clearance or approval from customs that will expedite the movement of project materials and supplies through customs.

MCA-Mali Management Response

MCA-Mali has sent a letter to the Government of Mali on July 15th 2010, in order to intervene on his behalf with the Customs and Tariffs authorities to expedite the receipt of a tax exemption status for our vendors/consultants. A copy of this letter is joining in annexes to our response.

USAID AIG/MCC Evaluation of MCA-Mali Comments

We consider that a management decision has been reached on this recommendation and final action taken.

Planned Procurements Are No Longer Needed

USAID AIG/MCC Finding

Our review identified a two planned procurements that may no longer be needed. Specifically, MCA-Mali planned to renovate its office space; however, the Director General has agreed that this previously planned expenditure is no longer essential, thereby saving about \$300,000 to further project activities.

Recommendation No. 2: We recommend that MCA-Mali review the status of all planned expenditures and cancel any significant operational expenditures, such as the planned building renovation, that are not directly related to project activities.

MCA-Mali Management Response

MCA Mali has already cancelled the renovation works of its office building. This is documented in the latest DFP submitted for approval at MCC on June 14, 2010. These expenses were included as necessary renovations to the space to meet MCA's business needs when selecting the office space for MCA-Mali headquarters. Given delays in procurement and the reality that MCA-Mali is in the third year of implementation, we agree that MCA-Mali can do with the space as is, and agree to cancel this work. Please note that the decision to cancel the renovations works was taken before OIG's visit.

Subsequent to this recommendation, MCA has reviewed all administrative-related expenditures planned and already affected to assure efficient and effective use of resources to achieve compact goals. This review did not reveal additional questionable expenditures aside from the renovation.

USAID AIG/MCC Evaluation of MCA-Mali Comments

We consider that a management decision has been reached on this recommendation and final action taken.

MCA-Mali Procurement Operations Manual Needs to Be Revised

USAID AIG/MCC Finding

The MCA-Mali Procurement Operations Manual (POM), dated August 2009, is not clear and consistent with the MCC Program Procurement Guidelines (PPG) dated October 2009. The POM has not been updated to reflect the recent revisions in the PPG.

There is some procedural overlap with respect to the various procurement methods used by MCA-Mali. For example, the POM does not specify the threshold amount for limited bidding (short-lists) contracts to be forwarded to MCC for approval. MCA-Mali officials stated that the amount is \$200,000; however, MCC's PPG specifies a lower threshold limit of \$100,000. This discrepancy indicates the importance of a current and clear POM for MCA-Mali.

Shopping is a procurement method based solely on comparing three quotations and incorporating the selected offer into a purchase order or brief contract without the involvement of the procurement agent. Shopping is intended to facilitate smaller procurements, but it is vulnerable because it lacks higher-level approval requirements. According to MCC's PPG, shopping may be used when a contract has an estimated value of \$200,000 or less (\$300,000 for vehicles). MCA-Mali uses a limit of \$50,000 before requiring MCC approval for "shopping" procurements. However, the PPG has raised this limit to \$100,000 (as mentioned on PPG, page 64). This change increases the need for clear, documented instructions on using the "shopping" method.

Recommendation No. 3: We recommend that MCA-Mali revise its Procurement Operations Manual to be consistent with the Millennium Challenge Corporation Program Procurement Guidelines, and include the correct thresholds for all procurement methods.

MCA-Mali Management Response

We accept the above recommendation No. 3. Further, a review of the POM is in progress at the PA level and all inconsistencies with the PPG will be corrected NLT 31 10.

USAID AIG/MCC Evaluation of MCA-Mali Comments

We consider that a management decision has been reached for this recommendation. Please provide a copy of the updated POM. Final action cannot be reached until we have received a copy of the updated POM. We will also make a recommendation to MCC regarding the approval of this procurement.

MCA-Mali Needs to Ensure Numerical Order for Purchase Requisition Notes

USAID AIG/MCC Finding

MCA-Mali recently changed its system for assigning numbers to purchase requisition notes, and there was some brief uncertainty about the numbering process. However, sequential numbering is an essential element of procurement control. Also, it was mentioned that on occasion in the past, some purchase requisitions did not include cost estimates.

Recommendation No. 4: We recommend that MCA-Mali revise its Procurement Operations Manual to describe the numbering process to be used for purchase requisition notes and to require that purchase requisition notes include estimated costs.

MCA-Mali Management Response

Since April 2010, a new template for Purchase Requisition Note is being used at MCA-Mali. The new template indicates the estimated cost. A sequential numbering system of the Purchase Requisition Note is implemented and performed by the secretary office of the Procurement Department. Attached is a copy of the new template of the Purchase Requisition Note.

USAID AIG/MCC Evaluation of MCA-Mali Comments

We consider that a management decision has been reached and final action taken for this recommendation.

Vehicle Use Policy Needs Revision

USAID AIG/MCC Finding

MCA-Mali does not have an effective vehicle control policy. The MCA-Mali Manual of Administrative Procedures does incorporate a vehicle policy requiring that vehicles be used "exclusively for the needs of the program." However, the policy lacks the necessary internal control procedures to ensure effective controls that prevent personal

use of MCA-Mali vehicles, such as requiring signatures for users and recording trip mileage. Furthermore, some vehicles are assigned directly to department heads, and internal controls should be instituted to ensure that vehicle use is restricted to the needs of the program.

Recommendation No. 5: We recommend that MCA-Mali revise its vehicle policy to establish proper control and accountability over vehicle use that includes (a) destination signatures by users and (b) accounting for mileage and fuel usage.

MCA-Mali Management Response

Currently, MCA-Mali maintains a mileage log for the proper usage of its vehicles. MCA-Mali will now ensure that each driver records the mileage on departure, each destination, and after each refueling and return trip. The MCA will require a signature of the log by each passenger. MCA-Mali will undertake the training of drivers in the proper completion of these logs. The analysis of fuel consumption will be made by the Service Agent at the end of each month as usual and an approval by the DAF [Deputy for Administration and Finance] of such analysis will be documented and retained. This procedure started in current month of July 2010. Vehicles on board sheets are attached in annexes of this response. The next revision of the FAP foreseen in October 2010 will include these changes.

USAID AIG/MCC Evaluation of MCA-Mali Comments

We consider that a management decision has been reached for this recommendation. Please provide a copy of the updated FAP. Final action can be taken only once the revised FAP is provided to us for our review.

Human Resources

USAID AIG/MCC Finding

A review of personnel files identified six MCA-Mali employees who were working under expired contracts. Additionally, some personnel files lacked personnel evaluations, applications, and the basis for significant personnel actions. MCA-Mali indicated that it was in the process of hiring a new Deputy for Administration and Finance (DAF) who will have the responsibility to ensure that personnel files are current and complete.

Recommendation No. 6: We recommend that MCA-Mali establish valid employment contracts for all employees.

MCA-Mali Management Response

MCA Mali was awaiting the recruitment of the new DAF to complement the existing team and help to improve personnel management. The DAF is finally on board since June 7, 2010, and the contracts of six (6) concerned by your comment has been updated (see attached copy). Now all our employees have valid contracts with MCA.

USAID AIG/MCC Evaluation of MCA-Mali Comments

We consider that a management decision has been reached. Please provide a copy of the updated contracts. We will consider final action taken once a copy of the employee contracts is provided to us for our review.

Recommendation No. 7: We recommend that MCA-Mali develop and implement a plan to fully implement its Manual of Administrative Procedures to ensure that all personnel files are complete, including personnel evaluations, applications, memos of negotiation, and reasons for significant personnel actions.

MCA-Mali Management Response

MCA Mali has a set of procedures for the recruitment, assessment and management of personnel. It lacks, however, an administrative procedure manual. The DAF is already analyzing the various procedures in place in order to develop and implement the administrative procedure manual by the end of October 2010 which includes all questions above

USAID AIG/MCC Evaluation of MCA-Mali Comments

We consider that a management decision has been reached on this recommendation. Please provide a copy of the updated set of procedures, which includes the administrative procedure manual. We will consider final action taken once a copy of the updated procedures is provided for our review.

Reasonableness of Independent Consultants' Compensation Rates

USAID AIG/MCC Finding

MCC in Washington, DC, advised the Resident Country Director for Mali that the consultants' rates for the MCA-Mali technical evaluation panels "must be supported by the consultant's salary history and MCA-Mali's price reasonableness analysis." However, in an e-mail sent to MCA-Mali, the Resident Country Director for Mali stated, "I suggest that a memo to the file be prepared saying that 230,000 [CFA] per day is the going rate for this work in Bamako [Mali] and is reasonable. (Alternatively you could ask the FA [Fiscal Agent] to verify.)" The audit team selected two transactions involving payments made to consultants serving on MCA-Mali technical evaluation panels. However, the procurement files related to these transactions could not be located, and there was no evidence that MCA-Mali performed either a review of the consultants' salary histories or a price reasonableness analysis.

Recommendation No. 8: We recommend that MCC require that all accountable entities have their proposed independent consultants prepare a "Contractor Employee Biographical Data Sheet" and certify that the historical consultant rates presented on such forms are accurate and true, in order to ensure that independent consultants' proposed rates are reasonable and comparable to historical compensation rates.

MCA-Mali Management Response

The specific cases that are the subject of this recommendation relate to difficult situations where high-level national consultants were involved. Their fees have served as a basis of negotiation which explains the significance of the rates which unfortunately had not been sufficiently documented. MCA Mali now committed to document the reasonableness of the proposed rate of the independent consultants. Expected time of completion 06/06/2010.

USAID AIG/MCC Evaluation of MCA-Mali Comments

We consider that a management decision has been reached for this recommendation. Please provide a copy of the documented rates once completed. This will enable us determine that final action has been taken.

Are MCA-Mali's expenditures allowable, allocable, and reasonable per MCC's "Chapter 37: Cost Principles for Government Affiliates Involved in MCC Compact Implementation"?

The audit team identified questioned costs of \$407,767 for the following items:

Summary of Findings and Questioned Costs by Category

Category	Questioned Costs	Notes
Vehicles	\$ 376,008	2
Employee Compensation	14,006	3
Travel – Premium Class Airfare	12,200	4
Travel – Per Diem	5,553	5
	<u>\$ 407,767</u>	

Notes

1. Computers

USAID AIG/MCC Finding

MCA-Mali purchased excess computers. MCA-Mali has 54 computers for 35 employees.¹ At MCA-Mali's offices in Bamako, Mali, the audit team observed that several employees had both laptop and desktop computers sitting on the same desk. It was explained that the laptops are needed for field visits. However, some of the

¹ Three of the employees are drivers.

employees with two computers serve administrative, non-program-related functions and by the nature of their job duties have little or no need for field visits.

Recommendation No. 9: We recommend that MCA-Mali provide written justification for needing 54 computers for a staff of 35 and explain how the computers are currently being used.

MCA-Mali Management Response

Of the 54 computers, purchased by MCA-Mali, 17 (seventeen) had been purchased in 2007 on the CIF funds. They are no longer compatible with commonly used software (AutoCAD, MS-Project, Symfact) and are in most cases useless. Of the remaining 37(thirty seven) computers, there are also six (6) laptops that are defective. Employees at MCA-Mali with two computers (a desktop and a laptop) have issues with one or the other computers in general. MCA-Mali has not yet decided on how to keep out of the system the defective/broken computers. Therefore, there is a difference between the number of computers available (whatever the state is) and the number of employees.

Regarding the use of laptops, it should be understood that apart from the travel to the field by many employees of MCA-Mali, their workload also requires access to a laptop outside the offices and beyond office hours. Such access would be impossible without a laptop.

USAID AIG/MCC Evaluation of MCA-Mali Comments

During our observations, no employees possessing two computers stated that their computers were defective. We reiterate our position that many of the employees with two computers serve administrative, non-program-related functions and by the nature of their job duties have little or no need for field visits. Finally, if employees' workload requires access to a laptop outside the office, then only laptop computers should be purchased.

No management decision has been reached for this recommendation. We will make a recommendation to MCC regarding these questioned costs.

2. Vehicles

USAID AIG/MCC Finding

MCA-Mali has too many vehicles. Presently, MCA-Mali has 11 vehicles, 6 assigned to administration and 5 assigned to direct project activities. Generally, one would expect more vehicles assigned to direct project activities than to administration. MCA-Mali officials stated that the six vehicles assigned to administration are used by employees for field visits. However, no evidence exists to support this statement. In fact, many of the MCA-Mali employees who work in Bamako, Mali, serve administrative, non-program-related functions, which by the nature of their job duties do not generally require field visits. Additionally, the main project under the compact is 6 hours from MCA-Mali's offices in Bamako, Mali. This being the case, one would not expect many employees to visit the field on a regular basis, thereby lessening the need for six vehicles to be assigned to administration.

Further, the procurement files for the vehicles, purchased in two separate transactions, could not be located. Consequently, the audit team questioned the following \$376,008 of vehicle costs in accordance with the Cost Principles:

Questioned Vehicles	
Type of Vehicle	Cost
Toyota Land Cruiser	\$ 51,928
Toyota Land Cruiser	64,816
	<u>\$ 376,008</u>

MCC's Cost Principles 2.1, General states,

d. Costs, to be allowable, must meet all of the following criteria:

1. Be allocable (see Section 2.2);
2. Be reasonable (see Section 2.3);
3. Be accounted for in a manner that is consistent with accepted international accounting practices or the policies and procedures of the Recipient Country;
4. Be incurred within the Grant period, except as may be otherwise provided, in accordance with the conditions of the Supplemental Agreement;
5. Be documented; and
6. Not be excluded as an unallowable cost under Section 4.

Because of the absent procurement files, the audit team could not determine whether the vehicles were purchased in an open and transparent matter or whether the maximum value of compact funds was achieved by purchasing the vehicles through a competitive process.

Recommendation No. 10: We recommend that MCC develop and implement policies and procedures to ensure that its accountable entities purchase only the minimum type, quality, and quantity of vehicles necessary to accomplish the compact's objectives.

MCA-Mali Management Response

MCA-Mali is a vast development program with two major projects: Airport (PAA) and Alatona (PIA). The PIA whose area of coverage is over 400 km from Bamako covers a radius of approximately 200 km. It includes six components, each with a Hydro agricultural and community infrastructure can be considered a project single project on its own partly because of the magnitude of these operations.

The documentation of the «passation de Marché» will let you know about the value of the vehicle. Only CFAO Motors Accepted to reduce his prices according to our budget. The supporting document of this negotiation will be attached to the response.

There are three vehicles assigned to 5 agents based in Diabaly (Alatona Project). The five (5) agents are in charge of close monitoring of service providers and managers based in Bamako who in turn is in charge of the coordination and supervision missions. Four (4) of the six (6) vehicles in Bamako that were supposed to be assigned to the Finance and Administration department are instead used for coordination and supervision missions for the implementation of the PIA. Only two (2) Peugeot sedans are permanently used by the administration. Two (2) other vehicles are assigned to Airport activities.

During major events in the field, it is often the case for MCA-Mali to rent vehicles to meet its transportation needs. Regarding the purchasing of vehicles, we have documentation currently in our archives to support these purchases. Please see a copy attached for your reference.

Based on the above, it is our opinion that the amount of \$376,008 spent to purchase the six (6) Toyota Land Cruisers are allocable, reasonable, accounted for, incurred within the grant period, documented and not excluded as unallowable under section 4.

USAID AIG/MCC Evaluation of MCA-Mali Comments

No management decision has been reached for this recommendation. We will make a recommendation to MCC regarding these questioned costs.

3. Employee Compensation

USAID AIG/MCC Finding

The audit team questioned \$14,006 of salary and employee benefits as not being allocable to the compact in accordance with the “Cost Principles for Government Affiliates Involved in MCC Compact Implementation.”

MCA-Mali notified an employee that his last day of employment would be June 30, 2009. However, the employee’s employment contract extended through October 31, 2009. To comply with the terms of the employee’s contract, MCA-Mali compensated the employee for the 4 remaining contract months as well as for unused vacation time. MCC’s Cost Principles 2.2, Allocability, states,

To be allocable, costs must meet one of the following criteria:

- a. Be incurred for work related to the Grant, or
- b. Benefit both the Grant and other work, distributed to them in reasonable proportion to the benefits received, or
- c. Be necessary to the overall operation of the Government Affiliate, although a direct relationship to any particular cost element cannot be shown. In such cases, there must be at least an indirect showing of benefit to the Grant.

From a legal standpoint, it was necessary to pay the employee for the months remaining under the employment contract. However, the cost associated with paying an employee for work not performed (1) was not incurred for work related to the compact, (2) did not benefit the compact, and (3) was not necessary to the overall operation of MCA-Mali.

In addition, it appears that such payments are not allowable under Chapter 37: Cost Principles for Government Affiliates Involved in MCC Compact Implementation, Section 4.2(z)(aa):

"Retainer Fees not supported by evidence that specific bona fide services were furnished are not allowable."

Although the payment to the employee was not called a "retainer fee," it appears to be indistinguishable in practice. This Cost Principle rule is designed to protect the government from paying for services it does not receive, and that is exactly the problem with the payments in this situation.

MCA-Mali Management Response

For the specific case of termination before the end of the contract with compensation of months remaining, MCA applied the law in force in Mali. Any other approach would have affected the reputation of the compact and thus jeopardize the achievement of its objectives. The MCA-Mali has only followed the Labor Code in force in Mali. From our point of view we just follow the Malian law in the matter.

USAID AIG/MCC Evaluation of MCA-Mali Comments

We recognize that the compensation was required to comply with Malian labor laws. However, that fact does not make the compensation allocable to the compact.

No management decision has been reached for this recommendation. We will make a recommendation to MCC regarding these questioned costs.

4. Travel – Premium Class Airfare

USAID AIG/MCC Finding

The audit team questioned the following \$12,200 of premium class airfare associated with travel to Washington, DC:

<u>Travel Date</u>	<u>Premium Class Travelers</u>	<u>Actual Cost</u> (Premium Class) ²	<u>Reasonable Cost</u> (Economy Class) ³	<u>Questioned Cost</u>
June 2009	1	\$ 5,461	\$ 1,593	\$ 3,868
December 2009	2	15,953	7,620	8,333
		<u>\$ 21,413</u>	<u>\$ 9,213</u>	<u>\$ 12,200</u>

Appendix V, Business Travel Guidelines to MCA-Mali's FAP, Section Air Travel, states, in part,

All MCA-Mali travelers are expected to travel using commercial airlines at the cost of "lowest logical airfare" in the FCFA region unless business circumstances cannot accommodate such scheduling or the medical condition of the individual requires other arrangements be made.

- In such cases, the employee must travel using the lowest-price coach class airfare available to achieve more appropriate scheduling. Flights to international destinations exceeding 14 hours cumulated traveling time can be business class at the discretion of the MCA-Mali management. Any business class travel, even for trips greater than 14 hours, must be supported by a written justification, approved by the MCA-Mali DG [Director General]. Possible justifications include:
 - Medical condition of individual traveling
 - Mission efficiency does not permit a stopover en route to destination
 - Cost of an en route stopover exceeds business class airfare for the most efficient route.
- If business class travel cannot be properly justified, travelers using economy class on extended journey flights (those exceeding 14 hours) may be authorized (at the discretion of the DG) an en route stopover. The stopover

² The premium class airfare reflected in this column is the actual cost of the premium class airfare incurred by MCA-Mali.

³ The economy class airfare is the actual cost of economy class airfare incurred by MCA-Mali. Multiple MCA-Mali employees traveled on the trips shown in the table above, some in premium class and some in economy class.

may not be in a destination outside of the most efficient routing. This travel configuration means that the traveler is entitled to bill expenses for at least the following:

- a. An extra night in a hotel,
 - b. Additional transfer costs, and
 - c. Additional per-diem for the location involved.
- Original airline passenger receipt (Boarding Pass) must be submitted with the Travel Expense Report.

MCC's Cost Principles 4.2dd1. Travel and Transportation Costs, states,

"Travel costs are the expenses for transportation, lodging, subsistence and related items incurred by the Board of the Accountable Entity or employees of any Government Affiliate who are in travel status on office business related to the Grant. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and results in charges not exceeding those which would be paid in accordance with MCC's policies."

MCC's travel policies and procedures, with limited exceptions, do not allow employees to fly business class. Specifically, MCC's "Policies and Procedures for Temporary Duty Travel" Section 6.17.4, Airline Accommodations, states, "Except as set forth below, MCC travelers on official business must fly in coach seats." Section 6.17.4 lists the following exceptions to the requirement that MCC employees must fly in coach seats:

- Disability or special need (employee provides a current [less than one year old] statement from their treating physician attesting to the health reasons requiring business class);
- Security purposes or exceptional circumstances as determined by MCC make the use of business-class accommodations essential to the successful performance of the MCC's mission;
- Coach accommodations on an authorized/approved foreign air carrier do not provide adequate sanitation or health standards;
- Flying in non-coach status would involve significant cost savings to MCC;
- Travel is paid by a non-Federal source; or
- Urgent travel where an OCONUS [outside of the continental United States] trip is in excess of 14 hours, and scheduling constraints preclude an en-route rest stop and require that the traveler report for scheduled work within less than 24 hours of scheduled arrival at the destination.

There was no written justification to support the necessity of premium class travel to Washington, DC, as an alternative to utilizing an en-route stopover. Likewise, the original airline passenger receipts (boarding passes) were not available for review. In summary, the premium class travel to Washington, DC, resulted in charges exceeding those that would be paid in accordance with MCC's travel policies and procedures. Consequently, the cost of premium class airfare that exceeds the cost of economy class airfare is unallowable.

Recommendation No. 11: We recommend that MCC (a) clearly communicate to the management of all accountable entities that premium class travel should only be used under unusual circumstances, such as for urgent travel where a trip is in excess of 14 hours and scheduling constraints preclude an en route rest stop, and (b) ensure that all accountable entities do not have travel policies and procedures that would result in charges exceeding those which would be paid in accordance with MCC’s travel policies.

MCA-Mali Management Response:

Regarding the two cases for which the Chairman of the Supervisory Board and the CEO of MCA Mali flew business class, the length of the trip took longer than 14 heures travel. Incidentally, the CEO of MCA Mali had written a memorandum for the record as stated in the FAP.

USAID AIG/MCC Evaluation of MCA-Mali Comments:

No management decision has been reached for this recommendation. We will make a recommendation to MCC regarding these questioned costs.

5. Travel – Lodging

USAID AIG/MCC Finding:

The audit team questioned the following \$5,553 of per diem costs related to MCA-Mali employee travel to Washington, DC, because the per diem amounts exceeded the rates authorized by the General Services Administration for travelers staying in Washington, DC:

<u>Travel Dates</u>	<u>Days</u>	<u>Lodging</u>		<u>Questioned Cost</u>
		<u>Actual Daily Rate⁴</u>	<u>Allowable Daily Rate⁵</u>	
May 2009	59	\$ 279	\$ 209	\$ 4,130
May 2009	12	269	209	720
				703 ⁶
				<u>\$ 5,553</u>

MCC booked the hotel rooms on behalf of MCA-Mali, even though the daily lodging rate at the hotel substantially exceeded the allowable daily rate established by the General Services Administration.

⁴ These are the actual hotel rates that MCC Washington booked for the MCA-Mali travelers.

⁵ The allowable per diem rates were taken from the General Services Administration’s “FY 2009 Per Diem Rates” for the Washington, DC, area.

⁶ This is the cost of the occupancy taxes that were unnecessarily paid because MCC booked hotel rooms at daily rates above the allowable daily rates. The applicable tax rate is 14.5 percent.

Recommendation No. 12: We recommend that MCC book hotel rooms for accountable entities' staff at rates within the allowable daily lodging rates established by the General Services Administration.

MCA-Mali Management Response

For both cases, it is our MCC partner who made the hotel reservations for the Malian delegation to facilitate travel to Washington. The MCA had no involvement in this process. We will share this recommendation with our MCC colleagues in charge of travel.

USAID AIG/MCC Evaluation of MCA-Mali Comments

No management decision has been reached for this recommendation. We will make a recommendation to MCC regarding these questioned costs.

Recommendation No. 13: We recommend that MCA determine the allowability of the \$407,767 in questioned costs and recover the amounts determined to be unallowable.

MCA-Mali Management Response

MCA Mali believes that the details and explanation along with supporting documentation given above demonstrate compliance with the cost principle used in the interests of transparency and regularity. All funds are strictly used for the goals of the compact.

USAID AIG/MCC Evaluation of MCA-Mali Comments

No management decision has been reached for this recommendation. We will make a recommendation to MCC regarding these questioned costs.

Is MCA-Mali complying with MCC's "Policies and Procedures for Common Payment System" and its own fiscal accountability plan (FAP)?

The audit team selected expenditures from MCA-Mali's general ledger for the period from compact inception through December 31, 2009, using a judgmental sampling methodology. The selected transactions formed the basis for the expenditures review (see discussion above). If the selected expenditures involved payment via the Common Payment System, the audit team also tested the transaction for compliance with various criteria presented in MCC's "Policies and Procedures for Common Payment System" and MCA-Mali's FAP. The results of the review verified that MCA-Mali complied with both MCC's "Policies and Procedures for Common Payment System" and its FAP.

MANAGEMENT COMMENTS

MCA MALI COMMENTS ON OIG DRAFT REPORT'S FINDINGS

Recommendation No. 1: We recommend that, to avoid potential delays, MCA-Mali initiate planning to arrange for clearance or approval from customs that will expedite the movement of project materials and supplies through customs.

MCA Mali has sent a letter to the Government of Mali on July 15th 2010, in order to intervene on his behalf with the Customs and Tariffs authorities to expedite the receipt of a tax exemption status for our vendors/consultants. A copy of this letter is joining in annexes to our response.

Recommendation No. 2: We recommend that MCA-Mali review the status of all planned expenditures and cancel any significant operational expenditures, such as the planned building renovation, that are not directly related to project activities.

MCA-Mali has already cancelled the renovation works of its office building. This is documented in the latest DFP submitted for approval at MCC on June 14, 2010. These expenses were included as necessary renovations to the space to meet MCA's business needs when selecting the office space for MCA-Mali headquarters. Given delays in procurement and the reality that MCA-Mali is in the third year of implementation, we agree that MCA-Mali can do with the space as is, and agree to cancel this work. Please note that the decision to cancel the renovations works was taken before OIG's visit.

Subsequent to this recommendation, MCA has reviewed all administrative related expenditures planned and already affected to assure efficient and effective use of resources to achieve compact goals. This review did not reveal additional questionable expenditures aside from the renovation.

Recommendation No. 3: We recommend that MCA-Mali revise its Procurement Operations Manual to be consistent with the Millennium Challenge Corporation Program Procurement Guidelines, and include the correct thresholds for all procurement methods.

We accept the above recommendation No. 3. Further, a review of the POM is in progress at the PA level and all inconsistencies with the PPG will be corrected
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Recommendation No. 4: We recommend that MCA-Mali revise its Procurement Operations Manual to describe the numbering process to be used for purchase requisition notes and to require that purchase requisition notes include estimated costs.

Since April 2010, a new template for Purchase Requisition Note is being used at MCA Mali. The new template indicates the estimated cost. A sequential numbering system of the Purchase Requisition Note is implemented and performed by the secretary office of the Procurement Department. Attached is a copy of the new template of the Purchase Requisition Note.

Recommendation No. 5: We recommend that MCA-Mali revise its vehicle policy to establish proper control and accountability over vehicle use that includes (a) destination signatures by users and (b) accounting for mileage and fuel usage.

Currently, MCA-Mali maintains a mileage log for the proper usage of its vehicles. MCA-Mali will now ensure that each driver records the mileage on departure, each destination, and after each refueling and return trip. The MCA will require a signature of the log by each passenger. MCA-Mali will undertake the training of drivers in the proper completion of these logs. The analysis of fuel consumption will be made by the Service Agent at the end of each month as usual and an approval by the DAF of such analysis will be documented and retained. [This procedure started in current month of July 2010.] Vehicles on board sheets are attached in annexes of this response. The next revision of the FAP foreseen in October 2010 will include these changes.

Recommendation No. 6: We recommend that MCA-Mali establish valid employment contracts for all employees.

MCA Mali was awaiting the recruitment of the new DAF to complement the existing team and help to improve personnel management. The DAF is finally on board since June 7, 2010 and the contracts of six (6) concerned by your comment has been updated (see attached copy). Now all our employees have valid contracts with MCA.

Recommendation No. 7: We recommend that MCA-Mali develop and implement a plan to fully implement its Manual of Administrative Procedures to ensure that all personnel files are complete, including personnel evaluations, applications, memos of negotiation, and reasons for significant personnel actions.

MCA Mali has a set of procedures for the recruitment, assessment and management of personnel. It lacks, however, an administrative procedure manual. The DAF is already analyzing the various procedures in place in order to develop and implement the administrative procedure manual by the end of October 2010 which includes all questions above

Recommendation No. 8: We recommend that MCC require that all accountable entities have their proposed independent consultants prepare a “Contractor Employee Biographical Data Sheet” and certify that the historical consultant rates presented on such forms are accurate and true, in order to ensure that independent consultants’ proposed rates are reasonable and comparable to historical compensation rates.

The specific cases that are the subject of this recommendation relate to difficult situations where high level national consultants were involved. Their fees have served as a basis of negotiation which explains the significance of the rates which unfortunately had not been sufficiently documented. MCA-Mali now committed to document the reasonableness of the proposed rate of the independent consultants. Expected time of completion 06/06/2010.

Recommendation No. 9: We recommend that MCA-Mali provide written justification for needing 54 computers for a staff of 35 and explain how the computers are currently being used.

Of the 54 computers, purchased by MCA Mali, 17 (seventeen) had been purchased in 2007 on the CIF funds. They are no longer compatible with commonly used software (AutoCAD, MS-Project, Symfact) and are in most cases useless. Of the remaining 37(thirty seven) computers, there are also six (6) laptops that are defective. Employees at MCA Mali with two computers (a desktop and a laptop) have issues with one or the other computers in general. MCA Mali has not yet decided on how to keep out of the system) the defective/broken computers. Therefore, there is a difference between the number of computers available (whatever the state is) and the number of employees.

Regarding the use of laptops, it should be understood that apart from the travel to the field by many employees of MCA Mali, their workload also requires access to a laptop outside the offices and beyond office hours. Such access would be impossible without a laptop.

Recommendation No. 10: We recommend that MCC develop and implement policies and procedures to ensure that its accountable entities only purchase the minimum type, quality, and quantity of vehicles necessary to accomplish the compact’s objectives.

2. Véhicules - \$376,008.00 Unallowable

The MCA-Mali is a vast development program with two major projects: Airport (PAA) and Alatona (PIA). The PIA whose area of coverage is over 400 km from Bamako covers a radius of approximately 200 km. It includes six components, each with a Hydro agricultural and community infrastructure can be considered a

project single project on its own partly because of the magnitude of these operations.

The documentation of the « passation de Marché » will let you know about the value of the vehicle. Only CFAO Motors Accepted to reduce his prices according to our budget. The supporting document of this negotiation will be attached to the response.

There are three vehicles assigned to 5 agents based in Diabaly (Alatona Project). The five (5) agents are in charge of close monitoring of service providers and managers based in Bamako who in turn are in charge of the coordination and supervision missions. Four (4) of the six (6) vehicles in Bamako that were supposed to be assigned to the Finance and Administration department are instead used for coordination and supervision missions for the implementation of the PIA. Only two (2) Peugeot sedans are permanently used by the administration. Two (2) other vehicles are assigned to Airport activities.

During major events in the field, it is often the case for MCA Mali to rent vehicles to meet its transportation needs. Regarding the purchasing of vehicles, we have documentation currently in our archives to support these purchases. Please see a copy attached for your reference,

Based on the above, it is our opinion that the amount of \$376,008 spent to purchase the six (6) Toyota Land Cruisers are allocable, reasonable, accounted for, incurred within the grant period, documented and not excluded as unallowable under section 4.

3. Employee Compensation - \$14,006 Unallowable Cost

For the specific case of termination before the end of the contract with compensation of months remaining MCA applied the law in force in Mali. Any other approach would have affected the reputation of the compact and thus jeopardize the achievement of its objectives. MCA-Mali has only followed the Labor Code in force in Mali. From our point of view we just follow the Malian law in the matter.

Recommendation No. 11: We recommend that MCC (a) clearly communicate to the management of all accountable entities that premium-class travel should only be used under unusual circumstances, such as for urgent travel where a trip is in excess of 14 hours and scheduling constraints preclude an en route rest stop, and (b) ensure that all accountable entities do not have travel policies and procedures that would result in charges exceeding those which would be paid in accordance with MCC's travel policies.

3. Travel: Premium Class Airfare - \$12,200 Unallowable Cost

Regarding the two cases for which the Chairman of the Supervisory Board and the CEO of MCA Mali flew business class, the length of the trip took longer than 14 hours travel. Incidentally, the CEO of MCA Mali had written a memorandum for the record as stated in the FAP.

Recommendation No. 12: We recommend that MCC book hotel rooms for accountable entities' staff at rates within the allowable daily lodging rates established by the General Services Administration.

5. Travel: Lodging - \$5,553 Unallowable Cost

For both cases, it is our MCC partner who made the hotel reservations for the Malian delegation to facilitate travel to Washington. The MCA had no involvement in this process. We will share this recommendation with our MCC colleagues in charge of travel.

Recommendation No. 13: We recommend that MCC determine the allowability of the \$407,767 in questioned costs and recover the amounts determined to be unallowable.

MCA Mali believes that the details and explanation along with supporting documentation given above demonstrate compliance with the cost principle used in the interests of transparency and regularity. All funds are strictly used for the goals of the compact.