



## OFFICE OF INSPECTOR GENERAL U.S. Agency for International Development

### MEMORANDUM

**DATE:** May 24, 2023

**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 the MCC resources managed by the Millennium Challenge Account – Mongolia (MCA-Mongolia) under the Compact Agreement between the MCC and the Government of Mongolia for the period of April 1, 2021 to March 31, 2022 (3-MCC-23-013-N)

This memorandum transmits the Financial Audit of the Millennium Challenge Corporation (MCC) resources managed by the Millennium Challenge Account – Mongolia (MCA-Mongolia) under the Compact Agreement between the MCC and the Government of Mongolia for the period of April 1, 2021 to March 31, 2022. MCA-Mongolia contracted with audit firm Baker Tilly Dalaivan Audit LLC (Baker) to conduct the audit. Baker stated that it performed its audit in accordance with generally accepted government auditing standards (GAGAS) and The Accountable Entities Guidelines for Contracted Financial Audits issued by Millennium Challenge Corporation (MCC). However, it did not fully satisfy the continuing professional education requirement in generally accepted government auditing standards. In addition, Baker reported it did not have an external peer review because no such program is offered by the Mongolian Institute of Certified Public Accountants. Baker is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on the MCA-Mongolia's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>1</sup>

The audit objectives were to (1) express an opinion on whether the Fund Accountability Statement for the MCC-funded programs presents fairly, in all material respects, revenues received, costs incurred, assets and technical assistance directly procured by MCC and the Government (including by MCA-Mongolia and its Covered Providers) for the audit period; (2) evaluate and obtain a sufficient understanding of the MCA-Mongolia's internal controls related

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<sup>1</sup> We reviewed the audit 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 audit firm's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

to the MCC-funded programs, assess control risk, and identify significant deficiencies or material weaknesses in the design and effectiveness of these internal controls; (3) determine whether MCA-Mongolia complied, in all material respects, with the Compact Development Funding Agreement, Compact (including those MCC rules and regulations regarding Government Contributions), supplemental agreements, and applicable laws and regulations related to MCC-funded grants, contracts, and implementing agreements.; and (4) whether MCA-Mongolia has taken adequate corrective action on prior audit recommendations. To answer the audit objectives, Baker: (a) examined the separate Fund Accountability Statements of MCA-Mongolia for activities funded with MCC resources; (b) reviewed MCA-Mongolia's internal control structure related to program activities to understand the design of relevant control policies and procedures and whether those policies and procedures have been placed in operation and in compliance with the Fiscal Accountability Plan; and (c) determined compliance with agreement terms and applicable laws and regulations related to donor activities. Baker examined MCA-Mongolia's costs of \$29,953,526, for the audited period.

Baker concluded that the fund accountability statement presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and assets and technical assistance directly procured by MCA-Mongolia. Baker did not identify any questioned costs. However, Baker identified seven significant deficiencies in internal control over financial reporting and ten material instances of noncompliance or other matters that are required to be reported under Government Audit Standards. Although we are not making a recommendation for the significant deficiencies noted in the report, we suggest that MCC's Chief Risk Officer, determine if MCA-Mongolia addressed the significant deficiencies on pages 33 to 39 of the audit report. Baker reported that three of six previous recommendations were closed. Baker issued a management letter.

To address the material instances of noncompliance identified in the report, we recommend that MCC's Chief Risk Officer:

**Recommendation I:** Verify that the MCA-Mongolia corrects the ten instances of material noncompliance detailed on pages 40 to 49 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach a management decision.

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").