



# OFFICE OF INSPECTOR GENERAL

## U.S. Agency for International Development

### MEMORANDUM

**DATE:** June 9, 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:** Audit of MCC Resources Managed Municipality of Tétouan, Under the Grant and Implementation Agreement and the Millennium Challenge Compact Between MCC and the Government of Morocco, for the period April 1, 2021 to March 31, 2022 (3-MCC-23-020-N)

This memorandum transmits the final audit report on Millennium Challenge Corporation (MCC) resources managed by Millennium Challenge Account-Morocco (MCA-Morocco), Municipality of Tétouan under the grant and implementation agreement and the millennium challenge compact between the Government of Morocco and MCC for the period from April 1, 2021 to March 31, 2022. Municipality of Tétouan contracted with the audit firm Fizazi & Associates (Fizazi) to conduct the audit. Fizazi 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 MCC. However, Fizazi did not have external quality control review and a continuing education program that fully satisfied the GAGAS requirements. Fizazi is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on the Municipality of Tétouan'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, and assets directly procured with MCC funds for the period audited (2) evaluate and obtain a sufficient understanding of the Municipality of Tétouan internal controls related to the MCC-funded programs (3) perform tests to determine whether the Municipality of Tétouan complied, in all material respects, with the compact agreement and related ancillary agreements, and applicable laws and regulations related to MCC-funded

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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.

programs; and (4) determine if Municipality of Tétouan has taken adequate corrective action on prior audit report recommendations. To answer the audit objectives, Fizazi: (a) reviewed costs billed to and reimbursed with MCC funds, as well as costs incurred but pending reimbursement by the recipient, to identify, and quantify any questioned costs; (b) reviewed the procedures for control of funds and reviewing the bank accounts and the controls on those bank accounts; and (c) reviewed procurement procedures to determine whether they were conducted in a manner consistent with the MCC Program Procurement Guidelines. Fizazi examined MCC costs of \$369,022 for the audited period.

Fizazi concluded that the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred and reimbursed, and assets and technical assistance directly procured by the MCC for the period then ended in accordance with the terms of the agreements and in conformity with cash basis of accounting. Fizazi did not identify any questioned costs. However, Fizazi identified one significant deficiency in internal control. Also, the results of Fizazi's tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards. Although we are not making a recommendation for the significant deficiency noted in the report, we suggest that MCC's Chief Risk Officer, determine if the Municipality of Tétouan addressed the significant deficiency on pages 26 and 27 of the audit report. There were two previous recommendations, one was implemented in June 2022, after the end of the current audit period and the second recommendation has not been implemented.

To address the problem identified in the report, we recommend that MCCs Chief Risk Officer:

**Recommendation 1:** Verify that the Municipality of Tétouan corrects the instance of material noncompliance detailed on pages 28 and 29 of the audit report.

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

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