



# OFFICE OF INSPECTOR GENERAL

## U.S. Agency for International Development

### MEMORANDUM

**DATE:** September 28, 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 Millennium Challenge Corporation (MCC) Resources Managed by Millennium Challenge Account-Nepal, Under the Compact Agreement Between MCC and the Government of Nepal, for the period of April 1, 2022, to March 31, 2023 (3-MCC-23-029-N)

This memorandum transmits the final audit report on Millennium Challenge Corporation (MCC) resources managed by Millennium Challenge Account-Nepal (MCA-Nepal), under the compact agreement between MCC and the Government of Nepal, for the period April 1, 2022, to March 31, 2023. MCA-Nepal contracted with the independent certified public accounting firm UHY Suvod Associates (UHY) to conduct the audit. UHY stated that it performed its audit in accordance with generally accepted government auditing standards (GAGAS) and “The Guidelines for Financial Audits Contracted by the MCC’s Accountable Entities” (MCC Guidelines). However, UHY did not have an external quality control review and a continuing education program that fully satisfied the GAGAS requirements. UHY 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.<sup>1</sup>

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; (3) determine whether MCA-Nepal complied with the awards’ terms and applicable laws and regulations; (4) review cost-sharing contributions to determine whether cost-sharing contributions were provided and accounted for by the MCA-Nepal in accordance with the terms of the agreement; and (5) determine if MCA-Nepal has taken adequate corrective action on prior audit report. To answer the audit objectives, UHY: (a) reviewed direct and indirect costs billed to and reimbursed by the recipient; (b) reviewed

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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.

general and program accounting records to determine whether costs incurred were properly recorded; (c) checked that funding received from MCC was appropriately recorded in MCA-Nepal's accounting records and those records were periodically reconciled with the information provided by the MCA-Nepal; (d) reviewed procedures for control of funds and reviewed the bank accounts and the controls of those bank accounts; and (e) reviewed procurement procedures to determine they were conducted in a manner consistent with the MCC Program Procurement Guidelines to ensure the use of sound commercial practices including competition and price reasonableness, as well as, ensuring that adequate controls were in place over the qualities and quantities received and reviewed travel and transportation charges to determine whether they were adequately supported and approved. UHY examined MCC costs of \$5,380,620 for the audited period.

UHY concluded that except for the effects of questioned costs amounting to \$151,268 (\$62,146 ineligible and \$89,122 unsupported questioned costs), 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. UHY identified eight significant deficiencies in internal control, one material instance in internal control that is also an instance of material noncompliance. UHY's tests disclosed twelve instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. UHY reported that they are not aware of any material modifications that should be made to the accompanying Cost-Sharing Schedule for it to be in conformity with the basis of accounting used to prepare the Cost-Sharing Schedule. In addition, although we are not making a recommendation for significant deficiencies noted in the report, we suggest that MCC's Chief Risk Office determine if MCA-Nepal addressed the issues noted. UHY determined that MCA-Nepal implemented five of the six recommendations for the prior period audit recommendations while one was still open. In addition, a management letter was provided to the MCA-Nepal's management reporting certain immaterial instances of noncompliance.

To address the problems identified in the report, we recommend that MCC's Chief Risk Officer:

**Recommendation 1:** Determine the allowability of the \$151,268 (\$62,146 ineligible and \$89,122 unsupported questioned costs) detailed on pages 58, 62, 78, and 116 of the audit report and recover any amount that is unallowable.

**Recommendation 2:** Verify that MCA-Nepal corrects the material instance in internal control that is also an instance of material noncompliance detailed on page 116 of the audit report.

**Recommendation 3:** Verify that MCA-Nepal corrects the twelve instances of material noncompliance detailed on pages 58 to 64, 78, 81, 85 to 95, 103, 105, and 112 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”). 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.<sup>2</sup>

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<sup>2</sup> 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@usaid.gov](mailto:oignotice_ndaa5274@usaid.gov).