

# OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

## MCC Compact Procurements: MCC Did Not Consistently Utilize or Document Its Use of Key Pre- and Post-Award Oversight Tools

Audit Report 9-MCC-24-005-P  
July 29, 2024

Audit



Office of Audits, Inspections, and Evaluations



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

**DATE:** July 29, 2024

**TO:** Cameron Alford, Vice President, Department of Compact Operations,  
Millennium Challenge Corporation

**FROM:** Gabriele Tonsil /s/, Deputy Assistant Inspector General for Audit, USAID OIG

**SUBJECT:** MCC Compact Procurements: MCC Did Not Consistently Utilize or Document  
Its Use of Key Pre- and Post-Award Oversight Tools

This memorandum transmits our final audit report. Our audit objectives were to (1) determine the extent to which the Millennium Challenge Corporation (MCC) conducted oversight of Millennium Challenge Accounts' (MCA) pre-award procurement process for select compacts and (2) examine MCC's actions, and their effects, to address risks identified through the post-award oversight of select MCC-funded compact procurements. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in Appendix C.

The report contains two recommendations to improve MCC's pre- and post-award oversight of compact procurements. After reviewing the information that you provided in response to the draft report, we consider both recommendations open and resolved pending completion of planned activities. For both recommendations, please provide evidence of final action to [OIGAuditTracking@usaid.gov](mailto:OIGAuditTracking@usaid.gov).

We appreciate the assistance you and your staff provided to us during this audit.

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## Report in Brief

### Why We Did This Audit

Since 2004, the Millenium Challenge Corporation (MCC) has awarded approximately \$17 billion in grants to over 46 countries for development programs targeted at reducing poverty and stimulating economic growth. The Agency provides funding to eligible countries through compacts, which are 5-year grant agreements between MCC and the countries to fund specific projects.

MCC is committed to country ownership, which is when partner countries take the lead in all aspects of compact development, implementation, and closeout. Partner country accountable entities—also known as Millennium Challenge Accounts (MCAs)—solicit, award, and administer program contracts. MCC oversees the compacts' procurement processes with the goal of ensuring that contracts are open, transparent, free of corruption, implemented as intended, and provide the best value to American taxpayers. Prior oversight work has identified internal control weaknesses in MCC's procurement and project oversight, including a lack of guidance and process documentation.

Given these weaknesses, OIG initiated this audit to (1) determine the extent to which MCC conducted oversight of MCAs' pre-award procurement process for select compacts and (2) examine MCC's actions, and their effects, to address risks identified through the post-award oversight of select MCC-funded compact procurements.

### What We Recommend

We made two recommendations to improve the Agency's pre- and post-award oversight of compact procurements. MCC disagreed with both recommendations.

### What We Found

**MCC did not consistently conduct or document oversight of MCAs' pre-award procurement processes for select compacts. In addition, the Agency's oversight varied in focus and did not include independent verification of source documents.** While MCC procurement directors reviewed MCA procurement files for compliance with MCC's *Program Procurement Guidelines*, the Agency did not require these reviews or provide guidance on how or when to review procurement files. Further, MCC procurement directors generally certified their reviews of the completeness and accuracy of procurement performance reports. However, the focus of their reviews varied by director. In addition, when reviewing the MCAs' contractor eligibility verifications, MCC procurement directors did not independently verify source documentation because the Agency did not require them to do so.

**MCC did not consistently use post-award oversight tools to document and retain site visit reports and address risks to select compacts.** MCC staff regularly visited the select compact countries to provide post-award project oversight. However, the Agency did not require staff to document these visits. Further, when MCC staff did document site visits, they did not have a repository for storing the site visit reports. In addition, MCC did not follow its internal guidance on the use of risk registers—which are used to document, monitor, and track certain risks that require the Agency's close attention—or assign response deadlines for addressing identified risks.

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## Introduction

Since its creation by Congress in January 2004, MCC has awarded approximately \$17 billion in grants to over 46 countries for development programs in sectors such as roads and transportation infrastructure, energy, and water and sanitation.<sup>1</sup> Partner countries receive funding through compacts, which are 5-year grant agreements between MCC and partner countries to fund specific projects targeted at reducing poverty and stimulating economic growth. The countries must be committed to good governance, economic freedom, and investment in their citizens.

MCC is committed to country ownership, which is when partner countries take the lead in all aspects of compact development, implementation, and closeout. This approach is intended to promote greater effectiveness and sustainability over the long term. Partner country accountable entities—also known as Millennium Challenge Accounts, or MCAs—solicit, award, and administer program contracts. MCC oversees the compacts' procurement processes with the goal of ensuring that contracts are open, transparent, free of corruption, implemented as intended, and provide the best value to American taxpayers.

The Millennium Challenge Act of 2003 requires that a compact agreement contain “a requirement that open, fair, and competitive procedures are used in a transparent manner in . . . the procurement of goods and services for the accomplishment of objectives under the Compact.”

Prior USAID OIG and U.S. Government Accountability Office (GAO) work identified internal control weaknesses in MCC's procurement and project oversight. Specifically, for pre-award oversight, a 2015 OIG report found that 10 MCAs failed to award 75 procurements for a variety of reasons, but primarily because contract elements lacked clarity and focus.<sup>2</sup> The same 2015 review found that MCC did not require MCAs to have a planned, recorded approach for conducting market outreach, nor did MCC require documentation to track MCAs' outreach efforts. In addition, a 2008 OIG audit found that none of the three MCAs reviewed had developed procurement operation manuals, which were required for day-to-day procurement operations.<sup>3</sup> Similarly, for post-award oversight, a 2021 OIG audit determined that although MCC collected data from partner countries to ensure the timely completion of projects in a manner consistent with its standards, the Agency did not use the data to assess progress in achieving the overall objectives of the program.<sup>4</sup>

Given these weaknesses, we initiated this audit to (1) determine the extent to which MCC conducted oversight of MCAs' pre-award procurement process for select compacts and

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<sup>1</sup> MCC, [Where We Work](#).

<sup>2</sup> USAID OIG, [Review of the Millennium Challenge Corporation's Procurement Process for Selected Country Programs](#) (M-000-15-006-S), August 12, 2015.

<sup>3</sup> USAID OIG, [Audit of Compliance with Procurement Requirements by the Millennium Challenge Corporation and Its Compact Countries](#) (M-000-008-02-P), March 2008.

<sup>4</sup> USAID OIG, [MCC Should Do More to Assess the Threshold Program's Progress in Achieving Its Overall Objectives](#) (M-000-21-001-P), September 2, 2021.

(2) examine MCC’s actions, and their effects, to address risks identified through the post-award oversight of select MCC-funded compact procurements.<sup>5</sup>

We selected three out of seven compacts that were under implementation as of January 1, 2022—Benin II, Cote d’Ivoire, and Morocco II—to answer both audit objectives.<sup>6</sup> We selected these compacts based on the time since compact implementation started, value of compacts, and known performance challenges. We also included some compacts that focused on infrastructure projects because 70 percent of MCC compact funds at the time went to large-scale infrastructure projects. We conducted site visits to Rabat, Morocco; Abidjan, Cote d’Ivoire; and Cotonou, Benin. We interviewed MCC and MCA staff and their partners and reviewed the supporting documentation they provided. In addition, we met with officials from four multilateral development banks—the World Bank, Inter-American Development Bank, Asian Development Bank, and African Development Bank—and an independent nonprofit to identify best practices for procurement oversight in organizations similar to MCC and reviewed their procurement policies and procedures.

To answer the first objective, we identified three controls that MCC used to conduct oversight of MCAs’ pre-award procurement process: procurement file reviews, procurement performance reports, and contractor eligibility verifications. To evaluate the performance reports and eligibility verifications, we selected 36 of over 262 procurements (12 from each selected compact) to determine the completeness and accuracy of the data provided. To understand how MCC conducted file reviews, we examined five file reviews that MCC staff conducted on the selected compacts between January 1, 2021, and August 31, 2022.

For the second objective, we assessed the tools that MCC used to identify programmatic risks, which included Risk Assessment Framework and Tools (or risk registers), meetings between MCC and MCA staff, contractor assessments and reports, project site visits, documentation reviews, and quarterly performance reviews. We judgmentally selected a sample of 34 out of 77 project site visits that MCC staff performed for the selected compacts to determine whether the Agency documented key elements of the visits and to understand how MCC used the reports to oversee projects.

In addition, we judgmentally selected 6 out of 17 risk registers for the selected compacts and examined them to better understand how MCC tracked and resolved risks that its staff raised. We selected the risk registers based on the nature of the risks identified, the date that staff initially reported the risks, and their proposed resolution date. We conducted our work in accordance with generally accepted government auditing standards. Appendix A provides more detail on our scope and methodology.

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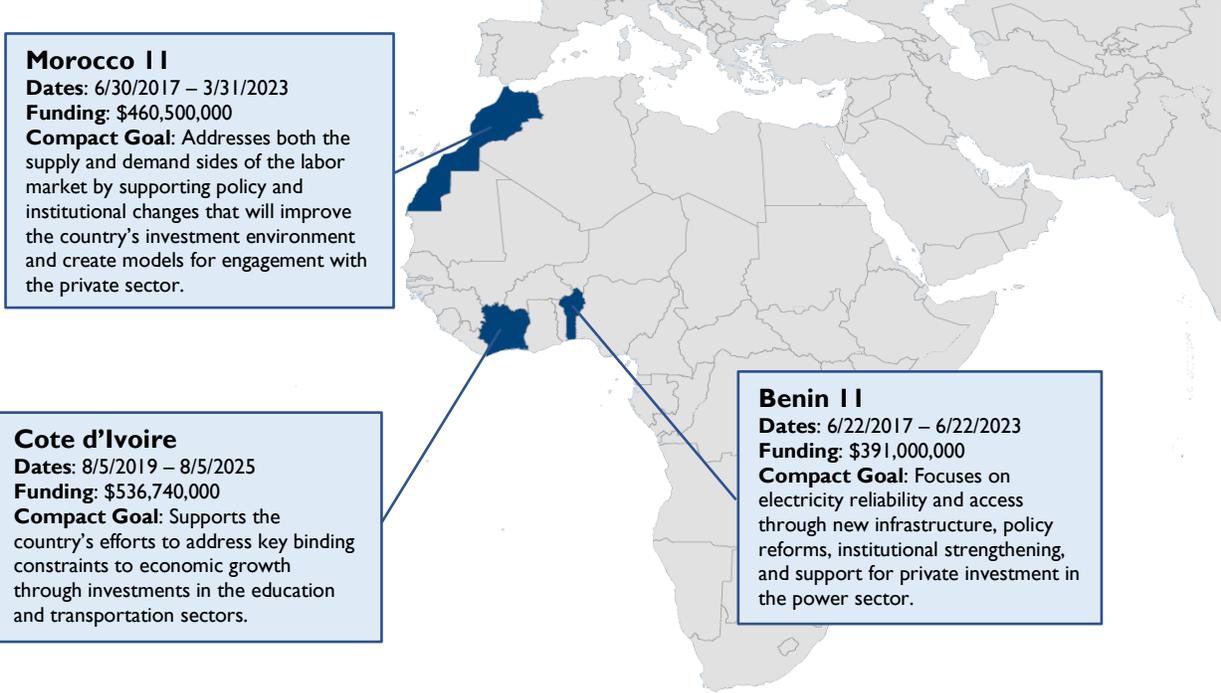
<sup>5</sup> For this audit, we considered the “procurement process” to be all procurement activities until contract closure including implementation and management. “Pre-award” refers to the timeframe and activities before the MCA and contracted entity sign a contract. “Post-award” refers to the timeframe after they sign a contract.

<sup>6</sup> Benin II and Morocco II are the second compacts to take place in their respective countries. We include “II” to distinguish them from their predecessors.

# Background

MCC oversees the procurement process for its compacts. We reviewed these processes for three selected compacts: Benin II, Cote d'Ivoire, and Morocco II.<sup>7</sup> Figure I highlights these compacts along with their respective goals.

**Figure I. Selected MCC Compacts and Their Goals**



Source: OIG analysis of MCC documentation of location, dates, funding, and goals of selected compacts.

Because MCC emphasizes country ownership, countries with signed compacts set up MCAs to manage all aspects of the compacts, including procurements, project implementation, and compact closeout. MCAs receive funding from MCC through the partner country governments and then commit the funds to contractors through compact procurements in accordance with MCC's *Program Procurement Guidelines* (PPG). Through their procurement agents, MCAs solicit, award, and administer procurements for goods, works, and services for the projects in their compacts with oversight and assistance from MCC procurement directors based in Washington, DC.

GAO's *Standards for Internal Control in the Federal Government* states that management is responsible for designing policies and procedures to fit an entity's circumstances and building

<sup>7</sup> Compacts are typically 5-year grants, but due to the COVID-19 pandemic, MCC extended and amended all compacts in the sample to include additional funds.

them in as an integral part of the entity's operations.<sup>8</sup> The entity uses the policies and procedures to fulfill its mission, goals, and objectives.<sup>9</sup>

We determined that MCC's development focus, organizational structure, and procurement methodologies are similar to four large multilateral development banks (the World Bank, Inter-American Development Bank, Asian Development Bank, and African Development Bank) that we reviewed. These banks' procurement oversight practices may serve as best practices for MCC.<sup>10</sup> For example, these banks had overarching procurement policies containing elements such as vision, principles, and roles and responsibilities. They also had corresponding comprehensive procedures and enforcement mechanisms for both borrowers and multilateral development bank staff to ensure consistent application of requirements. Furthermore, although MCC has modified its PPG since initially adopting the guidelines in 2007, the Agency originally based them on the World Bank's procurement regulations for borrowers. The documents still have the same core principles, further reinforcing our use of the multilateral development banks' best practices for procurement policies and procedures.

## Pre-Award Oversight Guidance and Process

MCC's PPG defines the principles and procedures that MCAs should use to procure goods, works, and services for compacts during the pre-award stage. For example, the PPG specifies that a person or entity that is sanctioned by the World Bank or prohibited from participation in U.S. government procurements is ineligible to receive an MCC-funded contract. MCA procurement staff perform contractor eligibility verifications prior to contract award by inputting an individual's or entity's name into a series of online databases and reviewing the results for matches to ineligible contractors.<sup>11</sup> MCAs perform the verifications as part of their process of completing a series of technical and financial reports to evaluate a bid. After an MCA performs the eligibility verification for the prospective awardee, the MCA documents the results in an eligibility verification worksheet, includes it in the evaluation reports, and attaches original supporting documents. The MCA then submits the evaluation reports and supporting documents to MCC for review. MCC must provide a "no objection" on the reports for the MCA to proceed with the award.<sup>12</sup>

MCC's PPG includes an Approval Matrix that outlines decision points in the order they occur in the procurement process and identifies decision points that MCC must review for "no objection." The matrix is organized by procurement method (e.g., competitive bidding and

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<sup>8</sup> U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G), Section 2, "Establishing an Effective Internal Control System," Subsection OV2.02.

<sup>9</sup> GAO, *Standards for Internal Control in the Federal Government*, Section 1, "Fundamental Concepts of Internal Control," Subsection OVI.03.

<sup>10</sup> The World Bank, Inter-American Development Bank, Asian Development Bank, and African Development Bank also provide financial and technical support to developing countries to help them strengthen their economic management and reduce poverty.

<sup>11</sup> The online databases include the System for Award Management Excluded Parties List, World Bank Debarred List, Specially Designated Nationals List, and Denied Persons List.

<sup>12</sup> MCC's "no objection" provides assurance to the MCA and the partner country that the Agency will allow its funds to be used for the proposed action.

shopping), type (i.e., goods, works, and services), and value (i.e., setting monetary thresholds).<sup>13</sup> Not all procurement methods, types, and values require MCAs to submit technical and financial evaluation reports to MCC for “no objection.” Generally, MCAs submit only the highest value procurements of particular methods and types to MCC for review. Appendix B provides an example of the Approval Matrix.

Procurement agents are third parties that provide procurement services on behalf of MCAs and ensure compliance with the PPG and other guidance. For example, the Procurement Handbook is a collection of guidance notes from MCC intended to provide procurement-related advice and current best practices to MCAs’ procurement staff and procurement agent staff working to ensure uniformity of procurement practices among them. The PPG requires MCAs to retain procurement records, or files.<sup>14</sup> The General File Index included in the PPG contains the essential elements of a procurement file, such as original signed contracts, analysis of proposals, and records of MCC approvals.

The procurement performance report is a reporting tool that MCAs use to provide MCC with a summary of procurement status. The performance report is intended to be used for procurement implementation oversight and to ensure MCA compliance with the PPG. During our audit fieldwork, MCAs typically included these performance reports in Quarterly Disbursement Request Packages.<sup>15</sup> MCAs use these submissions to request compact funds from MCC. The packages include information related to program progress, compliance with applicable requirements, and projected future disbursements. MCC’s *Guidance on Processing, Reviewing and Approving Quarterly Disbursement Request Packages* outlines MCC’s specific roles and responsibilities regarding the process, including which team members are responsible for reviewing each component of the packages and what they should look for regarding each component.

## Post-Award Oversight Process

MCC’s Department of Compact Operations manages the day-to-day relationship with countries implementing compacts; establishes policies, procedures, and guidelines that support compact implementation; and oversees compacts in implementation to ensure adherence to MCC policies and standards.

Once MCAs award contracts and implementation starts, MCAs establish project management functions to ensure the appropriate managing and monitoring of contracts. The MCC technical teams notify MCA technical and project team members when procurements do not meet contract deadlines, timelines, or disbursement requirements. MCAs and procurement agents

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<sup>13</sup> “Shopping” is a procurement method based on comparing price quotations from several suppliers or contractors. It is an appropriate method for procuring readily available goods or works and services of lower value.

<sup>14</sup> This is another procurement service that procurement agents typically provide for the MCAs.

<sup>15</sup> In May 2023, after we completed our fieldwork, MCC updated its *Guidance to Accountable Entities on the Processing, Reviewing and Approving Quarterly Disbursement Request Packages* to no longer include the procurement performance report as a separate report. According to MCC, data previously included in the procurement performance report and Quarterly Disbursement Request Packages is now submitted to MCC through a different management information system.

rely on contract administration manuals, which MCAs prepare and MCC approves, to properly administer and monitor contracts.

According to MCC, oversight is typically based on projects and not specific contracts. MCC staff provide oversight of projects through a risk-based approach. This approach mainly focuses on issues with the potential to impact overall compact results and quality, like noncompliance with MCC policies, poor contractor performance, significant cost escalations, poor quality deliverables, and implementation delays. MCC staff use several tools to identify and monitor programmatic risks to projects, including the following:

- Risk Assessment Framework and Tools (or risk registers).<sup>16</sup>
- Regular meetings between MCC and MCA sector staff.
- Meetings with MCC leadership.
- Assessments and reports from MCC consultants.
- Visits to project sites.
- Documentation reviews (e.g., activity workplans, contractor reports, and consultant reports).
- Quarterly performance reviews.

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## **MCC Oversight of MCAs' Pre-Award Procurement Processes for Select Compacts Was Not Consistently Conducted or Documented, Varied in Focus, and Did Not Include Independent Verification of Source Documents**

While MCC procurement directors reviewed MCA procurement files for compliance with the PPG, the Agency did not require these reviews or provide guidance on how or when to review procurement files. Further, MCC procurement directors generally certified their reviews of the completeness and accuracy of procurement performance reports. However, the focus of their reviews varied by director. In addition, when reviewing the MCAs' contractor eligibility verifications, MCC procurement directors did not independently verify source documentation because the Agency did not require them to do so.

### **MCC Did Not Consistently Conduct or Document Procurement File Reviews**

Across the three selected compacts, we found that MCC procurement directors conducted reviews of MCA procurement files for compliance with the PPG. However, MCC did not

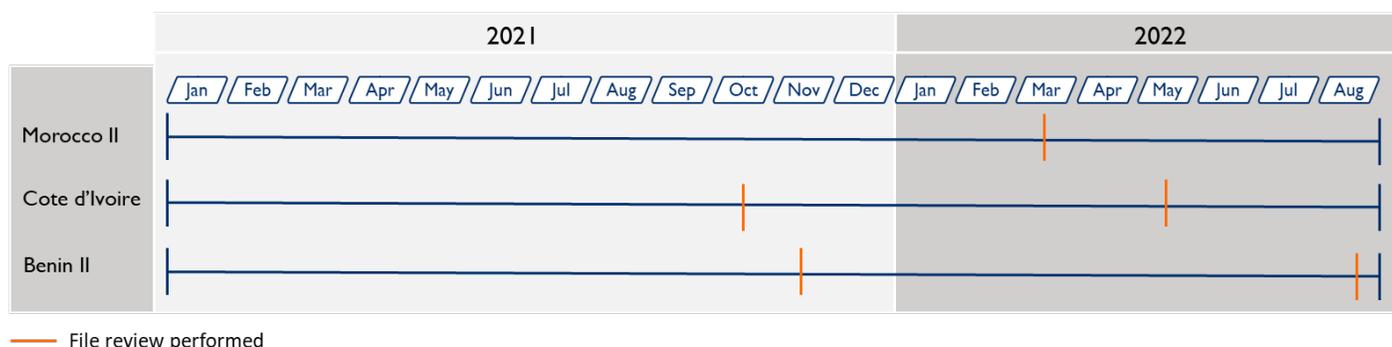
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<sup>16</sup> A "risk register" is an Excel spreadsheet used to identify and assess risks that may arise during the development and implementation of MCC compacts and threshold programs.

require procurement directors to perform procurement file reviews as an oversight activity or provide guidance on how or when they should conduct the reviews. The PPG applies only to MCA staff and not MCC staff. In contrast, the multilateral development banks we reviewed provided their oversight staff with procedures and mechanisms to enforce compliance as part of their review of borrowers' procurement files. For example, bank procedures included clear sampling considerations and parameters for selecting procurements to review based on their risk.

MCC procurement directors conducted a limited number of file reviews for the three selected compacts. According to the two directors, they used the General File Index as their checklist to assess the contents of MCAs' procurement files and determine whether they contained the required elements. Both directors said that they relied on their professional judgment and that the extent of their reviews was constrained by the amount of time available for them to do the reviews. Between January 1, 2021, and August 31, 2022, MCC procurement directors conducted five file reviews. Figure 2 depicts the dates that the directors performed those reviews across the three compacts.

**Figure 2. Timeline of Procurement File Reviews Performed Across Three Selected MCC Compacts from January 2021–August 2022**



Source: OIG analysis of MCC documentation of dates procurement file reviews were performed.

MCC procurement directors conducted most of the procurement file reviews in the scope of our review virtually. The directors stated that they preferred to conduct file reviews in person because of the increased efficiency, such as quick and easy communication with MCA procurement staff. The frequency of file reviews largely depended on a procurement director's ability to travel to compact countries from Washington, DC. According to the directors, COVID-19 travel restrictions inhibited their ability to travel and conduct file reviews. As a result, one director conducted three out of the five file reviews virtually.

MCC did not have a documented approach for selecting procurement files to review. According to the MCC procurement directors, finding the time to conduct file reviews was a challenge, as a large file review could take up to a full day to complete. Therefore, the directors reviewed a sample of procurement files; however, they did not define or document their selection methodology. The sample sizes for the 5 file reviews during the selected period ranged from 2 files to 10 files, with an average of 5.6 files. Although the directors told us that they did not have a documented methodology for selecting files for review, they reported

considering contract importance, recency, size, and complexity. Specific factors included the following:

- Procurement methodology (e.g., sole source, shopping, and limited bidding).
- Number of contract amendments.
- Approval threshold requirements.
- Length until closeout.

In addition, we found that MCC procurement directors did not always document their file reviews or use the General File Index as intended. Instead, one director told us that they used the General File Index only to assess MCA compliance with the PPG and then verbally communicated the results of these file reviews during weekly meetings to the MCA. In contrast, another MCC procurement director used the General File Index as designed to identify and document deficiencies, such as missing documentation, and their resolution by signing off on the document.

In the absence of policies and procedures that define key elements of file review and how to conduct them (i.e., whether reviews should be in person or virtual, sampling methods, and expected use of the General File Index), MCC's procurement directors might continue to conduct and document file reviews according to their professional judgment and resource constraints. Their reviews may not align with procurement risks or maximize the efficiency of directors' efforts. Inconsistent procurement file reviews limit MCC's ability to provide reasonable assurance that the PPG is functioning as intended to uphold its program procurement principals.

## **MCC's Procurement Performance Report Reviews Varied in Focus and Did Not Identify Some Errors**

Although MCC procurement directors completed reviews of selected performance reports, the focus of those reviews varied by director. We found that MCC procurement directors generally certified their review of the completeness and accuracy of procurement performance reports as part of their review of Quarterly Disbursement Request Packages for the selected compacts in accordance with internal guidance.<sup>17</sup> However, the focus of their reviews differed. One procurement director said that they primarily reviewed values of contracts, names of contractors, and the number of contractors bidding on a contract for accuracy and completeness, while another said that they ensured that the Agency accurately recorded terminated contracts.

The performance reports that MCC approved for some procurements contained erroneous dates and contact award values. We reviewed original source documentation for 36 procurements—12 procurements selected from each of the three compacts' March 31, 2022 performance reports—to assess the completeness and accuracy of the data. While the number of errors was generally low, we identified inaccurate dates for procurement milestones, such as “Effective Date of Contract” and “Date of Notice of Award,” as well as

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<sup>17</sup> MCC, *MCC Guidance on Processing, Reviewing and Approving Quarterly Disbursement Request Packages*, August 2021.

errors in the total value of the awarded contract in performance reports that MCC procurement directors approved. For example, of the 237 date fields we tested across the 3 compacts, the Agency accurately recorded 179 date fields and inaccurately recorded 58 date fields. Of the 36 “Original Contract Amount” fields that we tested, MCC accurately recorded 27 and inaccurately recorded 9.<sup>18</sup> Because performance reports are intended to summarize the status of procurements, errors in dates prevent MCC from having accurate information to oversee procurement planning and implementation. In addition, procurement directors had differing perspectives on the number of errors identified when reviewing performance reports.<sup>19</sup> One procurement director said that errors were rare, while another said that they regularly observed errors, which they resolved via email with MCA staff.

MCC provided some guidance to MCAs on completing performance reports, but MCA staff said that unclear definitions and inconsistent application of the guidance resulted in errors. For example, for the “Effective Date of Contract” field, MCAs frequently entered the date of contract signature even though contracts typically entered into force later. MCC reported that the intended definition of the “Effective Date of Contract” field was the date that the contract entered into force, but the Agency did not document this guidance. MCA staff also said that data entry errors and the use of websites that provided MCAs with inconsistent currency conversion rates caused contract amount discrepancies. Furthermore, the three selected MCAs performed contract value currency conversions differently. Despite MCC’s guidance on the appropriate method for this conversion, MCA procurement staff could not provide documentation supporting the rationale for their currency conversion mechanism.

MCC guidance on the review and use of performance reports for oversight lacked details. Performance reports contained key procurement data about ongoing procurements and finalized contracts, which MCC procurement directors should have used for oversight, including monitoring project implementation and ensuring MCA compliance with the PPG. Despite the intended use of these reports, guidance to MCC procurement directors on the extent of their review was limited to ensuring general completeness and accuracy and did not provide further information on how to use these reports for oversight. Furthermore, MCC staff said that they used performance reports to report information to Congress upon request, such as contractor nationality, rather than for oversight as intended.<sup>20</sup>

Without detailed guidance for reviewing and using procurement performance reports as an oversight tool, the reports did not operate as intended for MCC to conduct pre-award oversight of procurements and ensure compliance with the PPG. We did not identify any negative impacts of the errors in the approved performance reports. However, by not using the reports as an oversight tool, MCC may have missed opportunities not only to identify and correct the errors in the reports but also to use the information to better understand and evaluate the status of procurements.

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<sup>18</sup> Errors in the “Original Contract Amount” field ranged from \$0.30 to over \$1.5 million.

<sup>19</sup> Errors consist of incomplete or inaccurate data fields.

<sup>20</sup> We observed that contractor nationality may also be imprecise given that the MCAs could not record multiple nationalities.

## MCC Did Not Independently Verify Source Documentation for Contractor Eligibility Verifications

MCC procurement directors did not independently verify source documentation when reviewing the MCAs' contractor eligibility verifications. During our review, we found that MCC procurement directors reviewed the MCAs' contractor eligibility verification documentation when deciding whether to provide "no objection" on the technical and financial evaluation reports for some procurements, as indicated in the Approval Matrix in the PPG. While the directors reported checking whether MCA staff completed the worksheet, they did not independently verify the results of the underlying source documents attached to the worksheet because MCC did not require them to do so. MCC's PPG and other internal guidance did not outline the scope of the directors' reviews of contractor eligibility verifications, though the directors we interviewed reported taking similar approaches. MCC provided "no objection" for 23 out of 24 selected procurements, and none of the reviews indicated any eligibility-related comments requiring action or resolution.<sup>21</sup> In addition, we found the data MCAs entered into eligibility verification worksheets followed relevant guidance in the Procurement Handbook and generally complied with metrics we developed for testing this control, which included the following:

- The MCA listed all parties for the procurement in the eligibility verification worksheet.
- The MCA reviewed all parties included in the eligibility verification worksheet in all databases.
- Results in source documents supported the eligibility determination on the eligibility verification worksheet.
- The MCA date stamped Consolidated Screening List source documents (i.e., printed webpages).
- Dates on source documents supported the "Date of Eligibility Verification" on the eligibility verification worksheet.
- The MCA confirmed full eligibility of all parties prior to contract award.

We found instances where MCA staff determined that database results for some potential contractors were false positives.<sup>22</sup> If an MCA found a positive record, MCC requires the MCA to conduct additional research to determine whether the finding was a false positive. However, the guidance did not describe how MCAs should communicate that information, and there was no opportunity on the worksheet to do so. If a positive record was deemed to be a false positive, the MCA could clear the person or entity for award and was responsible for notifying MCC. In the cases we identified, MCAs did not communicate the false positive determination to MCC on the eligibility verification worksheets, which MCC procurement directors eventually cleared.

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<sup>21</sup> Not all procurements require MCC's review for "no objection." Only 24 of the 36 selected procurements required this review.

<sup>22</sup> A "false positive" is when a person or entity appears as prohibited in any of the searched databases but is actually eligible for an award.

One MCC procurement director emphasized that verifying contractor eligibility is something MCC took seriously and ensured that the Agency always completed this task. However, MCC could not identify a mechanism to evaluate the accuracy of the original eligibility verification MCA staff performed. In lieu of an internal policy with requirements for MCC procurement directors' reviews of contractor eligibility verifications, MCC staff used their professional judgment and typically relied on the work MCA staff performed without verifying the underlying source documents. This oversight approach fell short of best practices and did not include sufficient opportunities for MCAs to communicate the details of original database searches (i.e., false positives). Three of the four multilateral development banks we reviewed instructed their staff to verify contractor eligibility from time to time by directly searching databases, as opposed to relying solely on information provided by the borrower.

Though we did not identify a specific misuse of funds resulting from MCC's approach, the Agency may not be able to ensure that MCAs do not award contracts funded with U.S. taxpayer dollars to prohibited persons or entities, including those accused of misconduct and terrorism.

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## **MCC Did Not Consistently Use Post-Award Oversight Tools to Document and Retain Site Visits and Address Risks to Select Compacts**

MCC's use of site visits and risk registers for oversight of the three selected compacts was inconsistent and often undocumented. Although MCC staff conducted visits to project sites, they did not consistently document or retain the results of the visits. In addition, MCC did not always update risk registers as required or assign response deadlines for risks identified in the registers.

### **MCC Did Not Consistently Document and Retain the Results of Site Visits**

MCC staff visited the selected compact countries to provide post-award oversight. During these site visits, staff inspected MCAs' progress toward compact goals, examined important contract deliverables, and identified lessons learned from project implementation. However, MCC staff did not consistently document or retain the results of these site visits because there was no requirement for them to do so, and MCC did not have a central repository for site visit reports. Federal internal control standards state that documentation is a necessary part of an effective internal control system to ensure its effective design, implementation, and operation.<sup>23</sup>

We selected a judgmental sample of 34 out of 77 site visits that occurred in 2021 and 2022 to determine whether MCC documented them and to understand how MCC used the reports to oversee its projects. We noted the following deficiencies:

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<sup>23</sup> GAO, *Standards for Internal Control in the Federal Government*, Section 4, "Additional Considerations," Subsection OV4.08, "Documentation Requirements," September 2014.

- MCC was unable to locate five reports because the Agency either did not document the site visits or the reports were lost, according to MCC staff.
- MCC mischaracterized three trips as site visits when they were not for oversight purposes. Specifically, MCC characterized a staff member’s trip to a conference in Abidjan as an oversight trip even though the individual was not involved in oversight of the compact, and two trips were for meetings that were unrelated to MCC’s post-award oversight.
- Twenty site visit reports were undated, making it difficult to determine when MCC completed the reports following the visits or when items requiring follow-up needed to be addressed.<sup>24</sup>

MCC had difficulty retrieving site visit reports for the selected compacts because they did not have a mechanism such as a central repository that allowed staff to efficiently retain site visit reports. As a result, it took MCC over 5 weeks to locate the site visit reports we requested because documentation remained with staff who were unavailable at the time of our request. According to MCC, staff had to search their archives, including email inboxes, to locate site visit reports. MCC attributed this delay to staff being on leave or busy with more pressing work when we made our request.

MCC’s site visit reports lacked dates because MCC did not establish guidance for staff on when or how to document site visits. Federal internal control standards state that management must promptly obtain relevant data from reliable sources so that it can be used for effective monitoring.<sup>25</sup> MCC officials stated that staff could still use the undated reports and reference the email dates of the reports. However, by not including the date on site visit reports, MCC staff may have to take extra steps to determine when site visits were conducted, affecting the Agency’s ability to address items requiring prompt action.

Inconsistent documentation and retention of site visit results puts MCC at risk of losing valuable historical information needed to oversee compact projects and impedes MCC staff’s ability to learn and adapt.

## **MCC Did Not Consistently Use Risk Registers**

MCC did not consistently update risk registers or assign deadlines to respond to identified risks. Once MCAs and their contractors sign contracts and project implementation begins, MCC uses the risk register to document, monitor, and track certain risks that require the Agency’s close attention.<sup>26</sup> However, we found that MCC did not follow its internal guidance for the use of risk registers for the selected compacts.

According to MCC’s guidance, risk registers are spreadsheets used to identify and describe risks, determine whether risks are new or recurring, and analyze risks based on

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<sup>24</sup> Information on six site visits was combined with other reports.

<sup>25</sup> GAO, *Standards for Internal Control in the Federal Government*, “Information and Communication,” Principle 13, “Use of Quality Information” and “Monitoring,” Principle 17, “Evaluate Issues and Remediate Deficiencies,” September 2014.

<sup>26</sup> MCC defined “risks” as potential events that could occur and affect the achievement of objectives.

their probability of occurrence and impact on projects.<sup>27</sup> The guidance requires MCC teams to update risk registers every quarter to assess risks that could affect compact results and quality. Furthermore, although some risks may stay in place through the duration of the contract, the guidance states that assigning risk response deadlines allows for an appropriate period within which MCC can determine whether the response has the intended effect. The guidance also states that deadlines can help drive actions and maintain accountability.

### ***MCC Did Not Update Risk Registers as Required***

MCC did not always update its risk registers quarterly as required. We requested risk registers from July 2020 to October 2022 for each of the three selected compacts. This should have resulted in nine risk registers for each compact if MCC updated them quarterly. However, MCC completed only five registers for Morocco II, five for Benin II, and seven for Cote d'Ivoire during this timeframe. There were extended periods when MCC did not update its risk registers with new risks or its progress resolving existing risks. For example, MCC did not update the risk register for Morocco II between November 2020 and May 2021 (6 months); for Benin II between June 2021 and December 2021 (6 months); and for Cote d'Ivoire between July 2021 and November 2021 (4 months).

MCC officials identified several reasons for not updating risk registers quarterly, including the absence of MCC staff from the office, high-level visits by MCC senior officials to MCAs creating competing priorities for MCC staff, and the COVID-19 pandemic bringing project implementation and oversight to a standstill. Some MCC officials questioned the utility of risk registers in managing projects and the requirement to update them quarterly. For example, an MCC official in charge of developing the risk register for a selected compact questioned the benefit of cataloging as many as 200 risks in a single register when the MCC team discusses only a few of these risks during their hour-long internal quarterly performance review meetings. By not updating risk registers as required, MCC may overlook potential risks that could impact the successful completion its compacts and the status of actions to address identified risks.

### ***MCC Did Not Consistently Assign Risk Response Deadlines***

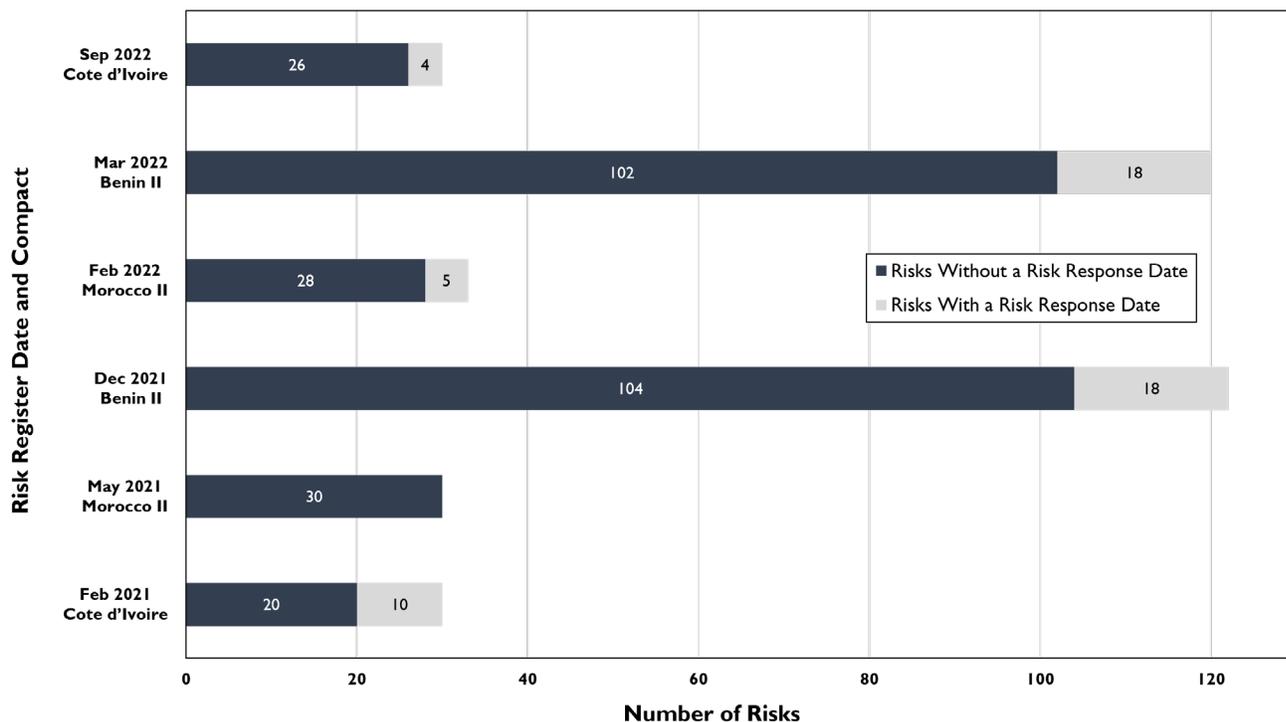
According to MCC's risk register guidance, deadlines help drive actions and accountability. The guidance recommends that MCC staff assign risk response deadlines to each risk to ensure that the Agency can determine whether the actions taken to resolve risks are appropriate and timely. If the intended effect of these actions does not occur by the end of the response period, the team can revise the response accordingly.

We analyzed a judgmental sample of 6 out of 17 risk registers—2 from each selected compact—and found that 310 of the 365 documented risks did not have a response deadline. Figure 3 illustrates the number of risks documented in the registers with and without response dates.

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<sup>27</sup> MCC, *Guidance for Assessing Program Risk in Compacts and Threshold Programs using the Risk Assessment Framework and Tool (RAFT)*, updated April 21, 2020.

**Figure 3. Number of Risks With and Without a Deadline for Response**



Source: OIG analysis of MCC data.

There were numerous risks documented in the risk registers that MCC did not assign response dates to that impacted the timely completion of projects and effective use of funds. Examples of these risks include the following:

- Poor contract management led to lapsed contracts and late contractor payments, which could lead to work and operations delays as well as legal risks.
- A construction project had a completion risk despite compact extension.
- Contractor mismanagement and inadequate control and coordination of work resulted in delays, inefficiencies, rework, defects, and cost overruns in construction projects.
- An MCA failed to follow its contract administration manual processes and did not take timely action on key contract milestones.

MCC did not consistently assign risk response deadlines because staff did not discuss most documented risks during their performance review meetings, and some risks persisted for the full length of certain projects. The MCC teams in charge of reviewing the risk registers discussed only a few of the risks during their internal quarterly performance review meetings. As a result, these teams overlooked most risks documented in the registers. In addition, an MCC official stated that certain risks could remain throughout a project, which could explain why the Agency did not assign deadlines to some risks. However, the official added that MCC could be more systematic about assigning deadlines to ensure that the Agency appropriately assigns deadlines to all risks.

Without deadlines assigned to risks, MCC was unable to determine whether a risk had been mitigated or overlooked because subsequent risk registers continued to list the risk unmodified and without a deadline for response. An MCC official who used risk registers to manage projects stated that they were concerned that MCC staff did not assign resolution dates to risks and that resolution dates needed to be more precise to avoid confusion. The MCC official added that risk registers were supposed to provide clear status updates on risks that show up repeatedly, including any new or different actions that have been taken to address the risks. The registers did not provide that information. By not assigning response dates to risks identified in the risk registers, MCC may not be addressing potential issues promptly, thereby affecting the successful completion of its compacts.

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## Conclusion

With partner countries taking the lead in all aspects of compact development, implementation, and closeout, it is important for MCC to properly oversee compact procurement processes to ensure openness, transparency, lack of corruption, and value to American taxpayers. Given the lack of policies and procedures for conducting file reviews and using performance reports as an oversight tool, MCC runs the risk of missing opportunities to identify and correct errors while also limiting the Agency's ability to ensure that established guidance functions as intended. In addition, inconsistent documentation of procurement file reviews and site visit results, updates to risk registers, and establishment of risk response deadlines may lead to MCC losing information that is necessary to properly oversee compact projects.

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## Recommendations

We recommend that the Millennium Challenge Corporation's Department of Compact Operations take the following actions:

1. Develop and implement policies and detailed procedures that identify and describe the Millennium Challenge Corporation's required pre-award oversight activities, such as procurement file reviews, procurement performance reports, and contractor eligibility verifications, including the purpose, manner, and frequency for completing these activities.
2. Develop and implement a post-award oversight policy that includes requirements to document site visits and develop a central repository for site visit reports, and controls to ensure these requirements, and existing requirements to update risk registers and assign risk response dates, are met.

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## OIG Response to Agency Comments

We provided our draft report to MCC on May 9, 2024. On June 8, 2024, we received the Agency's response, which is included as Appendix C of this report.

The report included two recommendations. MCC did not concur with either recommendation. We acknowledge management decisions on both recommendations and consider them resolved but open pending completion of planned activities.

For Recommendation 1, MCC stated that it already revised the PPG to remove the reference to the procurement performance reports as an oversight tool and does not intend to complete contractor eligibility verifications itself. However, MCC acknowledged that it would be helpful to outline standard expectations for procurement staff, and the Agency plans to develop and implement procurement oversight guidance by January 10, 2025. This guidance may establish the frequency of file reviews and an expectation of written sign-offs on the reviews. We note that the recommendation does not focus solely on the procurement performance reports as a method for pre-award oversight, but on pre-award oversight more broadly. Furthermore, we do not suggest that MCC should do contractor eligibility verifications itself. Rather, as we note in the finding, MCC does not independently verify the source documentation when reviewing the MCA's eligibility verifications. It is incumbent on the Agency to perform some verification of the source documentation to ensure that U.S. government funds do not go to prohibited persons or entities. MCC's plan to develop and implement guidance for procurement staff may be responsive to the recommendation. As a result, we consider the recommendation open and resolved pending the completion of the guidance and our review to determine whether it meets the intent of the recommendation.

For Recommendation 2, MCC acknowledged that some trip reports were not completed as expected and that trip reports have not been filed consistently in an accessible location. The Agency noted that it has a trip report template for mission travel that specifies that trip reports must be prepared within in 5 days of trip completion. MCC also stated that it developed a standard file structure for all country team sites that includes a dedicated folder for travel-related documentation and rolled out the structure to all new compact country teams through 2024. The Agency added that it expects team members to store mission-related documentation in the travel folder and have a team member confirm that trip reports are completed and stored in the appropriate location. Although MCC stated that it has a trip report template and requires staff to complete reports in a certain timeframe, our analysis indicates that staff did not consistently document their site visits, making this control ineffective. Furthermore, although the development and rollout of the dedicated travel folder is a positive development that may improve retention and accessibility of trip reports, we note that this new structure only applies to new compact country teams. Although MCC stated that it does not intend to take any additional action regarding site visit documentation, expanding the use of the country team sites, including the travel folder, to preexisting compact countries would help ensure that reports for all compacts are readily accessible. Regarding the risk registers, MCC acknowledged that they may not be achieving their intended purpose, and the Agency has begun a review and update of the risk register guidance and associated templates. MCC plans to complete this review and update the process by September 30, 2025. This planned action may be responsive to the recommendation. As a result, we consider the recommendation open and resolved pending the completion of these actions and our review to determine whether it meets the intent of the recommendation.

In addition, MCC generally stated that it disagrees with the report's conclusions due to what the Agency views as inaccurate information and/or incorrect assumptions about MCC's operational model and a failure to acknowledge that the time period audited, during the COVID-19 pandemic, was not a period of normal operations. We disagree with these assertions. Like all of OIG's work, this report adheres to the relevant oversight standards—in this case, generally accepted government auditing standards—along with our own stringent

internal policies and procedures. These include requirements that we obtain sufficient and appropriate evidence to support our findings, which we have done. We also acknowledge the impact the COVID-19 pandemic had on MCC's operations in our findings. While we understand the substantial impact that the pandemic had, it did not absolve the Agency of its responsibility to oversee U.S. government funds. MCC also stated that the observations, conclusions, and recommendations associated with our first objective are based on two Agency staff members. In the report, we clearly state the scope of our work, including our sampling methods and limitations. Although we obtained information from two procurement directors, these directors were responsible for the three compacts we selected for our sample. Furthermore, the three compacts represent almost half of the compacts that were under implementation during our audit scope.

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## Appendix A. Scope and Methodology

We conducted our work from April 2022 through May 2024 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted this audit to (1) determine the extent to which MCC conducted oversight of MCAs' pre-award procurement process for select compacts and (2) examine MCC's actions, and their effects, to address risks identified through the post-award oversight of select MCC-funded compact procurements.

In planning and performing the audit, we gained an understanding and assessed internal controls that were significant to the audit objectives. Specifically, we designed and conducted procedures related to four of the five components of internal control as defined by GAO: Risk Assessment, Control Activities, Information and Communication, and Monitoring.<sup>28</sup>

We selected three out of seven compacts that were under implementation as of January 1, 2022—Benin II, Cote d'Ivoire, and Morocco II—to answer both audit objectives. We selected these compacts to maximize the time elapsed since compact implementation started and ensure that the compacts' end dates did not occur during our planned fieldwork. We considered the value of compacts and known performance challenges. In addition, we included some compacts that focused on infrastructure projects because 70 percent of MCC compact funds at the time went to large-scale infrastructure projects. These factors allowed for sufficient time for the MCAs implementing the compacts to plan and award procurements and increased the responsiveness and availability of knowledgeable officials.

During this audit, we reviewed supporting documentation and conducted 52 interviews of MCC staff and their partners. We also met with procurement officials from four multilateral development banks—the World Bank, Inter-American Development Bank, Asian Development Bank, and African Development Bank—and an independent nonprofit that focuses on enhancing public sector contracting to identify best practices for procurement oversight in organizations similar to MCC. Bank officials provided us with the procurement policies and procedures issued to their staff and implementers. Furthermore, we conducted site visits to Rabat, Morocco; Cotonou, Benin; and Abidjan, Cote d'Ivoire, to review physical documentation, observe infrastructure projects, and interview MCC and MCA officials in person.

For the first objective, we reviewed MCC policies and procedures, including its PPG, and interviewed MCC procurement officials about their pre-award oversight practices to determine the breadth of MCC's controls. To determine the extent to which MCC implemented oversight controls for the three selected compacts, we first selected two controls widely used across compacts—procurement performance reports and procurement file reviews—that we

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<sup>28</sup> GAO, *Standards for Internal Control in the Federal Government*, September 2014.

identified through our review of the PPG and interviews with Agency officials and one control that was the subject of prior audit findings—contractor eligibility verifications.<sup>29</sup>

- *Procurement performance reports.* A performance report is a management reporting tool that MCAs use to provide MCC with the status of procurements and is typically included in Quarterly Disbursement Request Packages.<sup>30</sup> MCAs use these packages to request compact procurement funds from MCC and include information related to program progress, compliance with applicable requirements, and projected future disbursements.
- *Procurement file reviews.* MCC procurement directors conduct file reviews to verify that MCAs and their procurement agents maintain contract files in accordance with the PPG.
- *Contractor eligibility verifications.* MCAs use the eligibility verification process to verify that proposed contractors and key personnel have not been statutorily or administratively debarred from receiving Federal funds.

We then compared MCC’s policies and procedures to those of the four multilateral development banks. The banks provided us with their internal procedures on how they evaluate whether borrowers complied with procurement policies and procedures following their award. The banks also provided internal guidance on how they verify that borrowers awarded contracts only to eligible firms and individuals, mainly as part of their post-award procurement review processes.

To evaluate the extent to which MCC implemented performance reports and eligibility verifications, we selected 36 procurements listed in performance reports for the quarter ending March 31, 2022, for testing. Our target universe for each compact consisted of procurements that (1) MCC required to be listed in the performance reports according to the PPG (i.e., those greater than \$25,000), (2) resulted in signed and funded contracts, and (3) directly contributed to compact goals (i.e., nonadministrative or monitoring). This resulted in target universes of 44 procurements for Benin II, 50 for Cote d’Ivoire, and 168 for Morocco II. From each, we randomly selected 12 procurements: 8 that required prior MCC approval according to the PPG and 4 that did not require this approval. Because we also sought to evaluate procurements unique from one another, we asked MCA staff to identify procurements in our samples that shared identical pre-award procurement actions. As a result, we replaced two procurements we initially selected in Cote d’Ivoire with two new procurements.

For each compact’s performance report and eligibility verifications, we examined the underlying hardcopy and electronic documentation included in contract files to verify the accuracy of information reported to MCC. We also interviewed cognizant MCC and MCA officials to understand the process by which performance report information is reported and used. Our sample is nongeneralizable, and our findings cannot be used to make inferences about awards issued by other MCC compacts. However, we determined that our method for selecting these

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<sup>29</sup> USAID OIG, *Audit of Compliance with Procurement Requirements by the Millennium Challenge Corporation* (M-000-008-02-P), March 3, 2008.

<sup>30</sup> The objectives of the Quarterly Disbursement Request Packages are for (1) MCC to obtain and assess information related to program progress, compliance with program requirements, and projected commitment and disbursement needs and (2) the MCA to obtain disbursement authority to access funds from MCC.

procurements was appropriate for our audit objectives and that the selection would generate valid, reliable evidence to support our findings and conclusions.

In addition, we examined all five of the procurement file reviews that MCC procurement directors conducted, both in person and virtually, in the 20-month period between January 1, 2021, and August 31, 2022. We selected these dates to include potential impacts and opportunities caused by the COVID-19 pandemic and to coincide with the start of our audit fieldwork phase. We obtained documentation of the reviews and supplemented it with testimonial evidence from MCC and MCA staff and in-person reviews of contract files. We used this information to identify salient themes from MCC's file reviews and compared those themes against best practices to identify potential areas for improvement.

For the second objective, we interviewed MCC staff to determine the methods and tools MCC used to identify and track risks identified through its oversight, including the following:

- Risk Assessment Framework and Tools (or risk registers).
- Regular meetings between MCC and MCA sector staff.
- Meetings with MCC leadership.
- Assessments and reports from MCC consultants.
- Frequent visits to project implementation sites.
- Documentation reviews (e.g., activity workplans, contractor reports, and consultant reports).
- Quarterly performance reviews.

We judgmentally selected two controls for testing—project site visits and risk registers—because they were used across all three compacts, making them evaluable across all three. We requested a list of all site visits that occurred between 2021 and 2022 and judgmentally selected a sample of 34 out of 77 different trips performed by technical staff across the three selected compacts to determine how MCC documented this oversight activity.

Furthermore, we requested all risk registers completed between July 2020 and October 2022 for the three selected compacts, which resulted in 17 risk registers. We judgmentally selected six registers based on when they were completed to better understand how MCC tracks and resolves risks that staff raised. We also interviewed MCC technical staff for certain projects and country directors of each compact to understand MCC's oversight process, including how MCC identified, tracked, and resolved risks.

We used computer-processed data during this audit. For the first objective, we used computer-processed data in the procurement performance reports to select our sample and concluded that the data was sufficiently reliable for that purpose. To test the reliability of the data, we traced selected data to source documentation, performed logic tests, and interviewed Agency officials. We did not use computer-processed data to answer the second objective.

## Appendix B. Approval Matrix Excerpt from MCC Program Procurement Guidelines

### Goods, Works, and Non-consulting Services (including Information Systems)

Decision	Millennium Challenge Account Entity Director of Procurement	Governing Body of Millennium Challenge Account Entity	Millennium Challenge Corporation
Bidding documents	All	None	Goods: Above \$1 million Non-consulting Services: Above \$200,000 Works: Above \$5 million
Bid Review Panel membership	All	None	None
Bid technical evaluation report (for Quality and Cost-Based Selection Procurement only)	All	None	Goods: Above \$1 million Non-consulting Services: Above \$200,000 Works: Above \$5 million
Bid Review Report with proposed award	All	None	Goods: Above \$1 million Non-consulting Services: Above \$200,000 Works: Above \$5 million
Cancellation or Rejection of all bids	All	None	All
Government-Owned Enterprise determination of proposed winner	All	None	All
Proposed Contract	All	None  Exceptions:  (i) The value of the Proposed Contract is estimated at more than \$250,000 and 10 percent higher than the estimated budget in the approved Procurement Plan	None  Exception:  The contract has a substantial change in the legal clauses or technical requirements from the terms or requirements stated in the bidding documents

Decision	Millennium Challenge Account Entity Director of Procurement	Governing Body of Millennium Challenge Account Entity	Millennium Challenge Corporation
		(ii) The value of the Proposed Contract is \$250,000 or less than \$25,000 higher than the estimated budget in the approved Procurement Plan, or  (iii) The contract has a substantial change in the legal clauses or technical requirements from the terms or requirements stated in the bidding documents	
<b>Record of Bid Challenges</b>	All	All	All

Note: This table is for Competitive Bidding, Quality and Cost-Based Selection Procurement, and Limited Bidding procedures and applies to all decisions in the table. The Approval Matrix is organized first by the procurement method used. The matrix then specifies certain procurement decisions and at what threshold they must be reviewed. Different procurement types may have different thresholds. Reviews are progressive starting with the MCA Entity Director of Procurement and concluding with MCC.

Source: Adapted excerpt from the Approval Matrix included in MCC's *Program Procurement Guidelines* (2021).

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## Appendix C. Agency Comments



DATE: June 7, 2024

TO: Gabriele Tonsil  
Deputy Assistant Inspector General for Audit  
Office of Inspector General  
United States Agency for International Development

FROM: Cameron S. Alford  
Vice President  
Department of Compact Operations  
Millennium Challenge Corporation

SUBJECT: Management Response to the Draft Audit Report, “MCC Compact Procurements: MCC Did Not Consistently Utilize or Document Its Use of Key Pre- and Post-Award Oversight Tools,” dated May 9, 2024

The Millennium Challenge Corporation (MCC) appreciates the opportunity to review and comment on the draft audit report by the Office of Inspector General (OIG), “MCC Compact Procurements: MCC Did Not Consistently Utilize or Document Its Use of Key Pre- and Post-Award Oversight Tools,” dated May 9, 2024. Overall, MCC believes that the report bases its conclusions on inaccurate information and/or incorrect assumptions about MCC’s operational model. Further, the report fails to clearly acknowledge that the time period audited, during COVID, was not a period of normal operations and that program implementation activities, and MCC’s typical associated travel and oversight processes, were limited as a result of the pandemic. Finally, MCC notes that all observations, conclusions and recommendations associated with Objective 1 were based on the OIG’s assessment of activities undertaken by two MCC staff members<sup>31</sup>.

In summary, MCC disagrees with the report’s conclusions and recommendations, as set forth below and in the detailed comments provided to the OIG on May 29, 2024.

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<sup>31</sup> For the avoidance of doubt, MCC maintains that these staff members performed as expected and did not do anything in contravention to MCC policies or procedures. The key point is that the observations, conclusions and recommendations were based on the activities of only two people within the overall agency.

- **Unsupported recommendations.** The report fails to demonstrate any actual impact of the noted deficiencies and comes to conclusions based on subjective ideas of what *could* happen, without any evidentiary basis that any of these situations are *actually* taking place. While the OIG report includes numerous inflammatory statements or references, including its title, the assessment did not identify any policy or procedural control issues or gaps. The report explicitly acknowledges this in multiple places:
  - Page 10: “We did not identify any negative impacts of the errors in the approved performance reports.”
  - Page 12: “we did not identify a specific misuse of funds resulting from MCC’s approach.”
  - Page 14: “MCC provided “no objection” for 23 out of 24 selected procurements, and none of the reviews indicated any eligibility-related comments requiring action or resolution. In addition, we found the data MCAs entered into eligibility verification worksheets followed relevant guidance in the Procurement Handbook and generally complied with metrics we developed for testing this control.”

The few issues identified are minor (e.g., missing dates on trip reports) or reflect an inappropriate focus on one aspect of a network of oversight actions, without fully considering MCC’s full oversight system.

For example, on page 9 the OIG report states the following: “While the number of errors [in the procurement performance report (PPR)] was generally low, we identified inaccurate dates for procurement milestones, such as “Effective Date of Contract” and “Date of Notice of Award,” as well as errors in the total value of the awarded contract in performance reports that MCC procurement directors approved.” While MCC acknowledges that there may be errors in the performance reports, these errors did not have any actual impact on MCC operations or programs.

Similarly, on page 12 the report alleges that MCC procurement directors not independently verifying source documentation when reviewing the MCAs’ contractor eligibility verifications means that “the Agency may not be able to ensure that MCAs do not award contracts funded with U.S. taxpayer dollars to prohibited persons or entities, including those accused of misconduct and terrorism.” However, this conclusion ignores the myriad of additional checks that MCC has in place to safeguard against such an outcome. The Procurement Agents (PAs) play a key role as third parties contracted by the MCAs to provide procurement oversight in accordance with MCC’s policies and requirements. The Fiscal Agents (FAs) support the MCAs in conducting periodic eligibility verification on a regular basis for active vendors receiving payment, as required by MCC guidelines. In addition, these eligibility checks are audited annually by third-party MCA auditors. So, in the unlikely event an ineligible firm or individual were awarded a contract, there are these additional measures for flagging it before payments are made, and for auditing the compliance with this requirement.

- **Factual Inaccuracies.** MCC notes that there are a multitude of factual inaccuracies included in the report. A few of these instances are highlighted here, noting that this only reflects a small subset of the errors:
  - The OIG states on page 1 that “MCC staff regularly visited the select compact countries to provide post-award project oversight. However, the Agency did not require staff to document these visits.” The report further states, on page 16, that “MCC’s site visit reports lacked dates because MCC did not establish guidance for staff on when or how to document site visits.” This is not accurate. MCC has a trip report template for mission travel. This template, as well as the agency’s travel page, clearly state that staff are expected to complete trip reports within five days of return to their duty station. The trip report template, as well as a screenshot of the requirement on MCC’s travel intranet page, were both shared with the OIG team, but they declined to correct this and other associated statements within the report.
  - In several places, the report refers to procurement directors certifying their reviews of the completeness and accuracy of PPRs, or otherwise approving the reports:
    - Page 1: “MCC procurement directors generally certified their reviews of the completeness and accuracy of procurement performance reports.”
    - Page 9: “The performance reports that MCC approved...”
    - Page 10: “...in performance reports that MCC procurement directors approved.”

This is not accurate. Historically, MCAs submitted the PPR as part of the quarterly disbursement request package (QDRP). The QDRPs are the mechanism through which MCAs obtain disbursement authority from MCC. These packages contain a multitude of reports and other documentation, of which the PPR is only one component. MCC staff clear on or object to the QDRP as a whole; they do not certify or approve individual components. Noting that rejecting a QDRP can lead to an inability for the MCA to continue implementing its program, paying contractors/consultants, etc., the accuracy (or lack thereof) of a few dates in the PPR would normally not lead MCC staff to reject the full QDRP.

- On page 14, the OIG states that “The [Risk Assessment Framework and Tool (RAFT)] guidance requires MCC teams to update risk registers every quarter to assess risks that could affect compact results and quality.” The report further states that “MCC did not always update its risk registers quarterly as required. We requested risk registers from July 2020 to October 2022 for each of the three selected compacts. This should have resulted in nine risk registers for each compact if MCC updated them quarterly. However, MCC completed only five registers for Morocco II, five for Benin II, and seven for Cote d’Ivoire during this timeframe.” While it is correct that there would have been nine risk registers in this period if they were updated quarterly, the claim that MCC guidance requires

these to be updated quarterly is incorrect. Risk registers are part of the documentation prepared for MCC's quarterly portfolio reviews (QPRs), and MCC requires that teams update the RAFT for QPRs. MCC's internal "Guidance for Assessing Program Risk in Compacts and Threshold Programs using the Risk Assessment Framework and Tool (RAFT)" includes the following section:

3. How often should teams undertake a risk assessment using the RAFT?

*Teams will use the RAFT to assist in assessing the risks of all compacts and threshold programs in:*

- 1) Investment Memos prepared for the Investment Management Committee meetings; and*
- 2) Quarterly Portfolio Reviews (for compacts), and other periodic reporting (for threshold programs).*

MCC appropriately followed its guidance. While QPRs are *typically* held on a quarterly basis, they are not *always* held quarterly. So, while the RAFT should be updated when there is a QPR, this is not necessarily quarterly. This provides one example of the aforementioned failure of the report to acknowledge the impacts of COVID. Noting that the period under review was at the height of the pandemic, operations were not proceeding normally at this time.

- **Failure to acknowledge updated policies and procedures.** When the audit began, MCC informed the OIG that it was in the process of reviewing and updating its approach to procurement. This included completely overhauling the Program Procurement Guidelines (PPG) and reviewing all associated handbooks, guidance notes, templates, etc. In addition, MCC was in the midst of revamping the platform through which the MCAs submit procurement and grants plans for MCC review and approval. The new "procurement and grants plan package" (PGPP) was launched in May 2023, and the revised PPG, together with the revised associated documents, was released to pilot countries effective November 1, 2023, and across the full portfolio as of January 1, 2024. This has several implications for this audit, particularly as it relates to the findings around the PPR.

While the prior version of the PPG did state that the information in the PPR was used as an implementation oversight tool, the revised version of the PPG removes reference to the PPR as an oversight tool and simply notes that the MCA must include performance information as part of the PGPP. Further, with the introduction of the PGPP, the PPR was dropped as a QDRP component. Thus, MCAs no longer submit a separate PPR. Therefore, any recommendations or findings associated with the PPR are no longer relevant.

- **Incorrect understanding of MCC's model and oversight approach.** A common thread throughout the report was a lack of understanding of how MCC operates. For example:

- In its methodology, the OIG team selected a few controls and independently evaluated them. However, this approach fails to recognize the interconnected nature of MCC's oversight approach. This includes, among other things, the no-objection process, MCA independent audits, the PAs and FAs, MCC's own sectoral oversight of MCAs, etc., all of which work together as a multifaceted network of tools to ensure that MCC is appropriately overseeing MCA procurements. The independent focus on only a subset of MCC's activities thus paints an incomplete and misleading picture of MCC's oversight.
- A core part of MCC's procurement oversight model is the engagement of PAs, which are responsible for supporting and overseeing compact procurements. To support the MCA in following MCC policies and procedures, the procurements run by the MCA are managed by one or more PAs serving the MCA, which in turn are guided by MCC's Procurement Acquisition and Assistance (PAA) staff. The PA contracts have an explicit contractual obligation to ensure that the MCA's procurement process complies with the PPG. Part of the PA's responsibility is to maintain procurement records according to MCC's archiving requirements. The PAs are also responsible for checking the eligibility of all bidders prior to starting the evaluation process and noting the results in the relevant evaluation reports. The PAs certify quarterly that all procurements are in compliance with the PPG, and MCC reviews these quarterly certificates as part of the QDRP submissions.
- On page 13, the report states that "by not including the date on site visit reports, MCC staff may have to take extra steps to determine when site visits were conducted, affecting the Agency's ability to address items requiring prompt action." However, this is an inaccurate conclusion given how MCC operations work. MCC supports travel to program countries as a mechanism for general oversight of the compact and its MCA. Trip reports are typically sent and acted upon soon after a trip, so having a date on the report is not necessary for acting on risks or outcomes highlighted from a trip. Additionally, these risks would typically be shared with the MCA and other relevant MCC colleagues before a trip report is prepared, so action can be taken even before the report is drafted.

This conclusion further assumes that staff and managers are using the trip reports to monitor risks, without considering that relevant action items may instead be included in separate tools that staff/management may be using. For instance, many of the risks identified in the risk registers stem from mission travel. Finally, MCC notes that the auditors did not find any actual evidence establishing that MCC was not able to address issues/risks in a timely manner due to MCC's inability to gather trip reports. Noting again that this report does not identify any actual impacts of the alleged deficiencies, it is unclear how the findings and recommendations are substantiated.

The audit report sets forth two recommendations. MCC provides its response to each recommendation below.

### **OIG's Recommendation #1**

*Develop and implement policies and detailed procedures that identify and describe the Millennium Challenge Corporation's required pre-award oversight activities, such as procurement file reviews, procurement performance reports, and contractor eligibility verifications, including the purpose, manner, and frequency for completing these activities.*

#### MCC's Response

MCC does not concur with this recommendation. The revised PPG already removes reference to the PPR as an oversight tool, and MCC does not intend to complete contractor eligibility verifications itself. Nonetheless, MCC recognizes that it could be helpful to outline standard expectations for PAA staff, and will develop and implement high level procurement oversight guidance by January 10, 2025. This may establish frequency of file reviews and an expectation of written sign offs on the files the PAA staff review; however, it will not include guidance on how, when and what files to review. It will also not require MCC staff to use the PPR as an oversight tool or to complete contractor eligibility verifications.

#### **OIG's Recommendation #2**

*Develop and implement a post-award oversight policy that includes requirements to document site visits and develop a central repository for site visit reports, and controls to ensure these requirements, and existing requirements to update risk registers and assign risk response dates, are met.*

#### MCC's Response

MCC does not concur with this recommendation as written. The recommendation covers two different topics which are unrelated. MCC discusses each separately below and why the agency disagrees. In particular, MCC does not agree to establish any new policy requirements for either topic.

*Site visit documentation and central repository for the site visit reports:*

MCC acknowledges that some trip reports may not have been completed as expected, and that trip reports have not consistently been filed in an accessible location. However, MCC does not agree that development of a policy will address these issues. MCC already has a trip report template for mission travel, which is available on the travel page on the MCC intranet. This template, as well as other language on the MCC travel site, specifies that trip reports must be prepared within five days of return to the traveler's duty station.

In July 2022, MCC developed a standard file structure for all new country team sites. This filing structure includes a dedicated folder for travel-related documentation. From 2022 through 2024, new country team sites, including the standard filing structure, were rolled out for all new compact country teams. Moving forward, it is expected that all country team members will store their mission-related documentation in the travel folders on these sites, and that a role within the

country team will confirm that trip reports have been completed and stored in the appropriate location. MCC does not intend to take any additional action on this point.

*Risk Registers*

As noted above, the existing requirement is for risk registers to be updated for each QPR; this is already being done. Further, some identified risks cannot ever be fully mitigated, so in many cases, assigning a response date does not make sense, and may actually be misleading.

MCC does, however, acknowledge that the RAFT, in its current form, may not be achieving its intended purpose. MCC recently began an exercise to review and update the RAFT guidance and associated template and intends to complete this review and update process by September 30, 2025.

MCC appreciates the OIG's commitment to improving MCC's programs. MCC looks forward to working closely with OIG auditors on future engagements to achieve timely audits that enhance MCC's ability to deliver on its mission.

If you have any questions, please contact Stacy Alboher at [albohersa@mcc.gov](mailto:albohersa@mcc.gov) or 202-521-4097.

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## Appendix D. Major Contributors to This Report

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