



OFFICE OF INSPECTOR GENERAL

Audit of the Millennium Challenge Corporation's
Financial Statements, Internal Controls, and
Compliance for the Fiscal Years Ending
September 30, 2016, and 2015

AUDIT REPORT NO. M-000-17-001-C
NOVEMBER 15, 2016

WASHINGTON, DC



Office of Inspector General

November 15, 2016

Ms. Dana J. Hyde
Chief Executive Officer
Millennium Challenge Corporation
1099 14th Street NW
Washington, DC 20005-2221

Subject: Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Fiscal Years Ending September 30, 2016, and 2015 (Audit Report No. M-000-17-001-C)

Dear Ms. Hyde:

This letter transmits the final report on the subject audit by CliftonLarsonAllen, LLP. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm to audit the financial statements of the Millennium Challenge Corporation (MCC) for the fiscal years (FYs) ending September 30, 2016, and 2015. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards; Office of Management and Budget Bulletin 15-02, Audit Requirements for Federal Financial Statements; and the Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual.

The independent auditor expressed an unmodified opinion and reported that MCC's financial statements as of and for the fiscal years ended September 30, 2016, and 2015, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States. In addition, CliftonLarsonAllen reported no instances of noncompliance with certain provisions of laws and regulations that could have a direct and material effect on the determination of the amounts in the financial statements.

The auditor reported three significant deficiencies involving MCC's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The significant deficiencies are listed below and detailed in the auditor's report.

- Control over grant accrual estimates and validation (modified repeat finding).
- Uncorrected misstatements in the Statement of Budgetary Resources (new finding).
- Inadequate funds control system (new finding).

In carrying out its oversight responsibilities, OIG reviewed the audit report and audit documentation provided by CliftonLarsonAllen. This review is different from an audit done in accordance with U.S. generally accepted government auditing standards and was not intended to enable OIG to express, and we do not express, opinions on MCC's financial statements, internal controls, or compliance with laws, regulations, contracts, or grant agreements. CliftonLarsonAllen is responsible for the attached auditor's report, dated November 11, 2016, and the conclusions expressed in it. However, our review disclosed no instances in which CliftonLarsonAllen did not comply, in all material respects, with applicable standards.

To address the three significant deficiencies in internal controls reported by CliftonLarsonAllen, we are providing eight recommendations to MCC's management.

Recommendation 1. We recommend that MCC's Department of Administration and Finance and the chief financial officer update its Expense Accruals Financial Management Procedure Manual to

- a) Require justification and analysis to be documented, supported, and approved by MCC's management when deviating from its accrual policy and procedures. This should include MCC verification of information provided by the Millennium Challenge Account to support the accrual.*
- b) Include the guidance provided to the Millennium Challenge Accounts on how and what each Millennium Challenge Account will provide as support in addressing the reasonableness of their accrual.*

Recommendation 2. We recommend that MCC's Department of Administration and Finance and the chief financial officer conduct a comprehensive review and formalize the Grant Accrual Validation Whitepaper as an official policy and procedures document that includes

- a) Establishing a documented supervisory review of the grant accrual validation to ensure that the validation is performed correctly and is in accordance with MCC's validation methodology.*
- b) Establishing procedures that clearly state how the accrual validation will be carried out when a Millennium Challenge Account is closed out and no longer exists.*

Recommendation 3. We recommend that MCC's Department of Administration and Finance and the chief financial officer establish internal control procedures to properly review the accounting and reporting of funds returned by the Millennium Challenge Accounts and foreign governments, and other transactions that are not routinely prepared in its financial operations to ensure that these transactions are recorded correctly and in accordance with United States Standard General Ledger.

Recommendation 4. We recommend that MCC's Department of Administration and Finance and the chief financial officer establish an internal control process to ensure that financial statements are prepared in accordance with the most current version of Office of Management and Budget A-136.

Recommendation 5. We recommend that MCC's Department of Administration and Finance and the chief financial officer conduct a quarterly reconciliation between the status of budgetary resources and the Office of Management and Budget SF-132, Apportionment and Reapportionment Schedule.

Recommendation 6. We recommend that MCC's Department of Administration and Finance and the chief financial officer implement a management control to properly review and approve unapportioned funds by programs/projects at the fund level before entries are made.

Recommendation 7. We recommend that MCC's Department of Administration and Finance and the chief financial officer implement a management control to review the impact of funds unapportioned at the fund level before apportionment and recoveries adjustments are recorded.

Recommendation 8. We recommend that MCC's Department of Administration and Finance and the chief financial officer continue requiring all compact obligating documents be accompanied by an entry-into-force memo prior to recognizing obligation.

OIG acknowledges MCC's management decisions for all eight recommendations. Please inform us when final action has been achieved.

We appreciate the cooperation and courtesies extended to our staff and to the staff of CliftonLarsonAllen during the audit. Please contact Fred Jones at 202-216-6963 if you have any questions concerning this report.

Sincerely,

/s/

Thomas E. Yatsco
Assistant Inspector General for Audit
Office of Inspector General
U.S. Agency for International Development

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MILLENNIUM CHALLENGE CORPORATION

September 30, 2016

Table of Contents

| <u>Description</u> | <u>Page</u> |
|--|-------------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| Exhibit 1 – Significant Deficiencies..... | 1-1 |
| Exhibit 2 – Management's Response to Audit Findings..... | 2-1 |
| Exhibit 3 – Status of Prior Year Recommendations..... | 3-1 |

INDEPENDENT AUDITORS' REPORT

To the Inspector General
United States Agency for International Development

To the Board of Directors
Millennium Challenge Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Millennium Challenge Corporation (MCC), which comprise the balance sheets as of September 30, 2016 and 2015, and the related statements of net cost, changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements (financial statements).

Management's Responsibility for the Financial Statements

MCC management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 15-02). Those standards and OMB Bulletin 15-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the MCC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MCC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITORS' REPORT (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Millennium Challenge Corporation as of September 30, 2016 and 2015, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the U.S. require that the information in MCC's Management Discussion and Analysis (MD&A), and Required Supplementary Information (RSI) sections be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Message from the Chief Executive Officer, Message from the Vice President, Department of Administration and Finance and Chief Financial Officer, and other information, are presented for purposes of additional analysis and is not a required part of the financial statements or RSI. In addition, management has included references to information on websites or other data outside of the Agency Financial Report. This information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Report on Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered MCC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MCC's internal control or on management's statement of assurance on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of MCC's internal control or on management's statement of assurance on internal control included in the MD&A.

INDEPENDENT AUDITORS' REPORT (Continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of MCC's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify deficiencies in internal control, summarized below and detailed in Exhibit 1 that we consider as significant deficiencies.

1. Control over grant accrual estimates and validation (Modified Repeat Finding)
2. Uncorrected misstatements in the Statement of Budgetary Resources (New Finding)
3. Inadequate funds control system (New Finding)

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

As part of obtaining reasonable assurance about whether MCC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported in accordance with *Government Auditing Standards* or OMB Bulletin 15-02.

Management's Responsibility for Internal Control and Compliance

Management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under Federal Managers Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and (3) complying with other applicable laws, regulations, contracts, and grant agreements.

Auditors' Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, and (2) testing compliance with certain provisions of laws, regulations, contracts, and grant agreements.

INDEPENDENT AUDITORS' REPORT (Continued)

We did not evaluate all internal controls relevant to operating objectives as broadly established by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws, regulations, contracts and grant agreements applicable to MCC. We limited our tests to certain provisions of laws, regulations, contracts and grant agreements noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Management's Response to Audit Findings

Management's response to the findings identified in our report is presented in Exhibit 2. We did not audit MCC's response and, accordingly, we express no opinion on it.

Status of Prior Year's Control Deficiencies

We have reviewed the status of MCC's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 13, 2015. The status of prior year findings is presented in Exhibit 3.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of MCC's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MCC's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

CliftonLarsonAllen LLP

Arlington, Virginia
November 11, 2016

EXHIBIT 1 Significant Deficiencies

1. Control over Grant Accrual Estimates and Validation Continues to be Weak (Modified Repeat Finding)

MCC reported approximately \$428 million in compact grant related expenses and an accrued grant liability of \$57 million for expenses incurred but not yet paid by the MCC Compact Accountable Entities (also known as Millennium Challenge Accounts or MCAs) as of September 30, 2016. The compact grant activities are the core of MCC's financial and program operations.

We audited the grant accruals and validation for reasonableness and for compliance with MCC's *Expense Accruals Financial Management Division Procedure Manual* (Manual). During Fiscal Year (FY) 2016, MCC continued to refine its accrual methodology and accumulate the data store¹ to validate its methodology. However, we found the following conditions during our testing that impacted the quarterly grant accrual indicating the need for MCC to continue strengthening its internal control over grant accrual and validation.

- a. MCC did not apply its methodology consistently in estimating the amounts to be accrued for one MCA. MCC explained that the MCA's activities were unique from other MCAs, therefore required using in-house invoices instead of the MCC calculated accrual that was higher and using the MCA's estimate that exceeded the unused spending authority for the quarter as a six month spending authority was already approved. While an adjustment from the typical accrual methodology may have been necessary, the methods applied by MCC without some form of verification of the MCA estimated accrual amount raised concerns regarding reliance on the MCA information. Moreover, there was no justification documented for this deviation that was approved by MCC management.
- b. MCC's *Grant Accrual Validation Whitepaper* (dated March 22, 2016) provides a methodology for validating grant accrual estimates. However, we found that MCC did not consistently follow its validation methodology for several MCAs. For example, MCC did not test four (4) out of 16 disbursement sample items selected for the month of April during FY 2016 first quarter validation for one MCA. The four sample items not tested totaled \$1,299,985 and accounted for 22 percent of the total amount to be tested. Also, MCC incorrectly summarized the validation results for several MCAs. As a result, the reliability of the validation analysis was in questioned.
- c. MCC's grant accrual validation methodology was not comprehensive. MCC did not properly consider the subsequent disbursements for expenses and the return of permitted funds in evaluating the applicable costs incurred in validating a prior quarter of a closed compact where the MCA no longer remain. As a result, costs and funds returned were not taken into consideration in the validation analysis.

GAO Standards for Internal Control in the Federal Government, Section OV3.05 states that when evaluating implementation, management determines if the control exists and if the entity has placed the control into operation. A deficiency in implementation exists when a

¹ A data store is a repository for storing and managing collections of data which include not just repositories like databases, but also simpler store types such as simple files, email, etc.

EXHIBIT 1 Significant Deficiencies

properly designed control is not implemented correctly in the internal control system. 3.09 states that management develops and maintains documentation of its internal control system. 3.10 states that effective documentation assists in management's design of internal control by establishing and communicating who, what, when, where, and why of internal control execution to personnel. 12.03 states that management documents in policies for each unit its responsibility for an operational process's objectives and related risk, and control activity design, implementation, and operating effectiveness.

Recommendation 1. We recommend that MCC's Department of Administration and Finance and the chief financial officer update its *Expense Accruals Financial Management Procedure Manual* to:

- a) Require justification and analysis to be documented, supported, and approved by MCC management when deviating from its accrual policy and procedures. This should include MCC verification of information provided by the MCA to support the accrual.
- b) Include the guidance provided to the MCA's on how and what each MCA will provide as support in addressing the reasonableness of their accrual.

Recommendation 2. We recommend that MCC's Department of Administration and Finance and the chief financial officer conduct a comprehensive review and formalize the *Grant Accrual Validation Whitepaper* as an official policy and procedures document that includes:

- a) Establishing a documented supervisory review of the grant accrual validation to ensure that the validation is performed correctly and is in accordance with MCC's validation methodology.
- b) Establishing procedures that clearly state how the accrual validation will be carried out when the Millennium Challenge Account is closed-out and no longer remain.

2. Uncorrected Misstatements in the Statement of Budgetary Resources (New Finding)

An MCA operates for a five-year period from the date a compact agreement entered into force, and closes 120 days after the compact end date. After an MCA is closed, there are instances where funds unused by the MCA or owed by the foreign government and vendors are returned to the U.S. Treasury. The U.S. Treasury reports these "returns" as "offsetting collections."

MCC's Statement of Budgetary Resources (SBR) contained classification errors in different lines such as recoveries of unpaid prior year obligations; apportioned, unexpired account; unapportioned, unexpired accounts; and outlays, gross resulting from incorrect accounting entries and incorrect reporting of funds returned by MCAs. In addition, MCC's SBR was not prepared in accordance with OMB Circular No. A-136, *Financial Reporting Requirements* (OMB A-136), where the Unobligated balance, end of year (SBR line 2490) was not broken out by its components. The uncorrected misstatements and incorrect presentation were due to MCC's ineffective review of the accounting and reporting requirements. MCC did not record these refunds in accordance with OMB Circular A-11, *Preparation, Submission, and*

EXHIBIT 1 Significant Deficiencies

Execution of the Budget (OMB A-11), and United States Standard General Ledger (USSGL). These errors were brought to MCC's attention during our audit.

OMB A-136 is considered level D of the Federal Generally Accepted Accounting Principles (GAAP) hierarchy because they constitute "practices that are widely recognized and prevalent in the Federal Government." OMB A-136, section II.4.6.1 states that the recognition and measurement of budgetary information reported on this statement should be based on the budget terminology, definitions and guidance in Circular No. A-11.

The USSGL provides a uniform chart of account and technical guidance for standardizing federal agency accounting.

GAO Standards for Internal Control for the Federal Government Section OV2.03 states in "Accurate and timely recording of transactions." Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

Recommendation 3. We recommend that MCC's Department of Administration and Finance and the chief financial officer establish internal control procedures to properly review the accounting and reporting of funds returned by the Millennium Challenge Accounts and foreign governments, and other transactions that are not routinely prepared in its financial operations to ensure that these transactions are recorded correctly and in accordance with United States Standard General Ledger..

Recommendation 4. We recommend that MCC's Department of Administration and Finance and the chief financial officer establish an internal control process to ensure that financial statements are prepared in accordance with the most current version of Office of Management and Budget A-136.

3. Inadequate Funds Control System (New Finding)

In our review of unapportioned authority by program as of June 30, 2016 and September 30, 2016, we found abnormal and incorrect balances at the program level. We presented the errors as of September 30, 2016 in the table in the next page for illustration purposes:

EXHIBIT 1
Significant Deficiencies

| SF-132 Line No | Category B Description (Fund Level) | Per MCC Trial Balance SGL 445000: Unapportioned Authority [Dr./ (Cr.)] | Should Be Balance SGL 445000: Unapportioned Authority [Dr./ (Cr.)] | Differences |
|----------------|-------------------------------------|--|--|-------------------------------|
| 6011 | Compact Fund | (\$18,936,428) | (\$33,244,345) | \$14,319,252 |
| 6013 | 609g Compact Development Funding | (\$3,000,231) | \$0 | \$3,000,231 |
| 6014 | Threshold Fund | \$2,400,000 (see further explanation below) | \$0 | \$2,400,000 |
| N/A | Future Fund | (\$9,507,929) (see further explanation below) | See further explanation below | See further explanation below |

- Compact Fund – This fund is reflecting a classification error of \$14,319,252.
- 609g Compact Development Funding – This fund is reflecting a classification error of \$ 3,000,231.
- Threshold Fund – This fund is reflecting an abnormal debit balance. The normal balance for unapportioned authority (USSGL 445000) is a credit balance.
- Future Fund - MCC utilized the Future Fund to record activities related to annualized level of appropriation provided under the terms of the continuing resolution (CR). MCC was under CR in the early months of FY 2016 until the signing of the 2016 Consolidated Appropriations Act (P.L. 114-113) on December 18, 2015, and a related FY 2016 apportionment was approved by OMB. MCC did not reclassify the account balance to the appropriate funds after the CR ended.

Although the overall impact of these individual errors above may not be reflected on the SBR because the unapportioned authority, which is a component of unobligated balance, is presented on a total basis on the SBR; the classification errors at the fund/program level indicate a funds control system deficiency. OMB A-11, Appendix H, *Checklist for Funds Control Regulations*, states that "...the agency accounting system must fully support agency funds control systems. The accounting systems should provide for preparing and reconciling financial reports that display cumulative obligations, and the remaining unobligated balance by appropriation and allotment, and cumulative obligations by budget activity and object class."

We also noted that funding in the amount of \$257 million for a compact agreement signed on October 2, 2015, was obligated on December 3, 2015. However, the compact agreement did not entry-into-force (EIF) until January 20, 2016. MCC's accounting policy for recognition of an obligation is upon a compact agreement entering into force, not upon its signing. MCC DAF made an incorrect assumption that the signing date and the EIF date were the same. MCC recognized this error in January 2016, and took corrective actions.

EXHIBIT 1

Significant Deficiencies

Recommendation 5. We recommend that MCC's Department of Administration and Finance and the chief financial officer conduct a quarterly reconciliation between the status of budgetary resources and the Office of Management and Budget SF-132, *Apportionment and Reapportionment Schedule*.

Recommendation 6. We recommend that MCC's Department of Administration and Finance and the chief financial officer implement a management control to properly review and approve unapportioned funds by programs at the fund level before entries are made.

Recommendation 7. We recommend that MCC's Department of Administration and Finance and the chief financial officer implement a management control to review the impact of funds unapportioned at the fund level before apportionment and recoveries adjustments are recorded.

Recommendation 8. We recommend that MCC's Department of Administration and Finance and the chief financial officer continue requiring all compact obligating documents be accompanied by an entry-into-force memo prior to recognizing obligation.

EXHIBIT 2 Management's Response to Audit Findings



November 15, 2016

Ms. Mia Leswing
Principal
CliftonLarsonAllen, LLP
4250 N. Fairfax Drive, Suite 1020
Arlington, VA 22203

Thomas E. Yatsco
Assistant Inspector General for Audit
Office of Inspector General
U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20005

Dear Ms. Leswing and Mr. Yatsco:

I am pleased to accept your audit report on the Consolidated Financial Statements for Fiscal Year (FY) 2015 and 2016 of the Millennium Challenge Corporation (MCC). MCC has received an unmodified opinion on its financial statements with no material weaknesses for the second consecutive year. In response to the audit findings and recommendations provided in your financial statement audit report, MCC has the following comments:

Significant Deficiency: Control over Grant Accrual Estimates and Validation Continues to be Weak (Modified Repeat Finding)

Recommendation 1:

We recommend that MCC's Department of Administration and Finance and the Chief Financial Officer update its *Expense Accruals Financial Management Procedure Manual* to:

- a) Require justification and analysis to be documented, supported, and approved by MCC management when deviating from its accrual policy and procedures. This should include MCC verification of information provided by the MCA to support the accrual.
- b) Include the guidance provided to the MCA's on how and what each MCA will provide as support in addressing the reasonableness of their accrual.

EXHIBIT 2

Management's Response to Audit Findings

Recommendation 2:

We recommend that MCC's Department of Administration and Finance and the Chief Financial Officer conduct a comprehensive review and formalize the *Grant Accrual Validation Whitepaper* as an official policy and procedures document that includes:

- a) Establishing a documented supervisory review of the grant accrual validation to ensure that the validation is performed correctly and is in accordance with MCC's validation methodology.
- b) Establishing procedures that clearly state how the accrual validation will be carried out when the MCA is closed-out and no longer exist.

MCC Response:

MCC concurs with recommendations 1 and 2. A comprehensive corrective action plan will be developed to address the deficiency noted.

Significant Deficiency: Uncorrected Misstatements in the Statement of Budgetary Resources (New Finding)

Recommendation 3:

We recommend that MCC's Department of Administration and Finance and the Chief Financial Officer establish internal control procedures to properly review the accounting and reporting of funds returned by the MCAs and foreign governments, and other transactions that are not routinely prepared in its financial operations to ensure that these transactions are recorded correctly and in accordance with USSGL.

Recommendation 4:

We recommend that MCC's Department of Administration and Finance and the Chief Financial Officer establish internal control process to ensure that financial statements are prepared in accordance with the most current version of OMB A-136.

MCC Response:

MCC concurs with recommendations 3 and 4. A comprehensive corrective action plan will be developed to address the deficiency noted.

EXHIBIT 2 Management's Response to Audit Findings

Significant Deficiency: Inadequate Funds Control System (New Finding)

Recommendation 5:

We recommend that MCC's Department of Administration and Finance and the Chief Financial Officer conduct a quarterly reconciliation of the status of budgetary resources to the OMB SF-132, Apportionment and Reapportionment Schedule.

Recommendation 6:

We recommend that MCC's Department of Administration and Finance and the Chief Financial Officer implement a management control to properly review and approve unapportioned funds by programs to the fund level before entries are made.

Recommendation 7:

We recommend that MCC's Department of Administration and Finance and the Chief Financial Officer implement a management control to review the impact of funds unapportioned at the fund level before apportionment and recoveries adjustments are recorded.

Recommendation 8:

We recommend that MCC's Department of Administration and Finance and the Chief Financial Officer continue requiring all compact obligating documents be accompanied by an EIF memo prior to recognizing obligation.

MCC Response:

MCC concurs with recommendations 5, 6, 7, and 8. A comprehensive corrective action plan will be developed to address the deficiency noted.

Sincerely,

/s/

Maḥmoud Bāh
Acting Vice President and Chief Financial Officer
Department of Administration and Finance

EXHIBIT 3
Status of Prior Year Recommendations

Our assessment of the current status of the recommendations related to findings identified in the prior year audit is presented below:

| <i>FY 2015 Recommendations</i> | <i>Type</i> | <i>Fiscal Year 2016 Status</i> |
|---|-----------------------------|---|
| 1. Perform a more comprehensive review of advances by comparing MCA advances reported to MCC to the source data maintained by the fiscal agent. | Significant Deficiency (SD) | Closed |
| 2. Employ substantive fluctuation and trend analysis of the advances account and promptly investigate fluctuation and trends. | SD | Closed |
| 3. Enhance MCC's <i>Expense Accruals Financial Management Division Procedure Manual</i> . | SD | In-Process – Reported as a Modified Repeat Finding – SD |
| 4. Investigate and correct the root causes for the system limitations or problems that prevent or delay the recording and summarizing of accounting transactions. | SD | Open – Reported as management letter comment |

**U.S. Agency for International Development
Office of Inspector General**

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Task No. MM100716