



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

MEMORANDUM

DATE: April 18, 2022

TO: Millennium Challenge Corporation, Chief Risk Officer, Lori Giblin

FROM: Director of External Financial Audits Division (IG/A/EFA), David A. McNeil /s/

SUBJECT: Financial Audit of MCC Resources Managed by Millennium Challenge Account- Nepal, Under the Compact Agreement Between MCC and the Government of Nepal, May 24, 2015 to March 31, 2021 (3-MCC-22-012-N)

This memorandum transmits the final audit report on Millennium Challenge Corporation (MCC) resources managed by Millennium Challenge Account-Nepal (MCA-Nepal) Under the compact agreement between MCC and the Government of Nepal for the period from May 24, 2015, to March 31, 2021. MCA-Nepal contracted with the independent certified public accounting firm UHY Suvod Associates Chartered Accountants to conduct the audit of all MCC resources. The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards and the Guidelines for Financial Audits Contracted by MCC's Accountable Entities. However, it did not fully satisfy the continuing professional education requirement set forth in generally accepted government auditing standards. In addition, the audit firm reported it did not have an external Quality Control Review by an unaffiliated audit organization in Nepal. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on MCA-Nepal's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.¹

The audit objectives were to (1) express an opinion on whether the fund accountability statement for the period audited, was presented fairly, in all material respects; (2) evaluate MCA-Nepal's internal controls related to the MCC funded programs, assess control risk, and identify reportable conditions, including material internal control weaknesses; and (3) determine whether MCA-Nepal complied with agreement terms and applicable laws and regulations. To answer the audit objectives, the audit firm conducted an audit of MCA-Nepal's Fund Accountability Statement and review of internal controls for the period from May 24, 2015, to March 31, 2021. Cost incurred for this period were \$17,171,488.

¹ We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk The reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

The audit firm concluded that in their opinion, the fund accountability statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and assets and technical assistance directly procured by MCC for the base period ended in accordance with the terms of the agreements and in conformity with the cash basis of accounting. The audit firm questioned \$140 (\$140 unsupported). The audit firm identified three significant deficiencies in internal controls and six instances of noncompliance or other matters. Since the questioned costs did not meet OIG's established threshold of \$25,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that the Millennium Challenge Corporation, Chief Risk Officer, determine the allowability of the \$140 in questioned costs and recover any amount determined to be unallowable. In addition, although we are not making a recommendation for the significant deficiencies noted in the report, we suggest that MCC's Chief Risk Officer, determine if MCA-Nepal addressed the significant deficiencies on pages 43 and 44, and 54 through 56 of the audit report. The audit firm stated that nothing came to its attention that caused it to believe that MCA-Nepal did not fairly present the cost sharing schedule, in all material respects, in accordance with the basis of accounting used to prepare the cost-sharing schedule. The audit firm issued a management letter.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) ("commercial or financial information obtained from a person that is privileged or confidential").