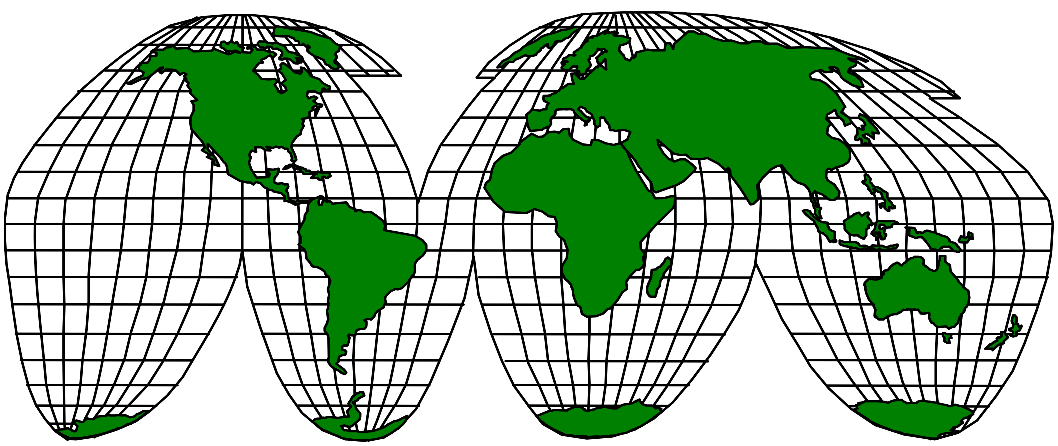
OFFICE OF INSPECTOR GENERAL
for the Millennium Challenge Corporation

GUIDELINES FOR FINANCIAL AUDITS CONTRACTED BY THE MILLENNIUM CHALLENGE CORPORATION'S ACCOUNTABLE ENTITIES



Revision dated August 3, 2007

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Background

1.1
On January 23, 2004, the Millennium Challenge Corporation (MCC) was established by the Millennium Challenge Act of 2003 (Act) to administer the Millennium Challenge Account. Millennium Challenge Account will be devoted to projects in nations that govern justly, invest in their people and encourage economic freedom. The MCC is a government corporation designed to support innovative strategies and to ensure accountability for measurable results. The Corporation is designed to make maximum use of flexible authorities to optimize efficiency in contracting, program implementation, and personnel. It is supervised by a Board of Directors composed of the Secretaries of State and Treasury, the U.S. Trade Representative, the Administrator of the United States Agency for International Development (USAID) the Chief Executive Officer of the Corporation, and four private sector members appointed by the President with the advice and consent of the Senate. The Secretary of State is the Chairman of the Board.

1.2 MCC consists of a central headquarters staff in Washington, D.C. and limited staff in countries where its programs are operational. It may provide assistance to both non-U.S. nongovernmental and non-U.S. governmental organizations through programs managed by the recipient governments.

1.3 The *Guidelines for Financial Audits Contracted by The Millennium Challenge Corporation's Accountable Entities* (*Guidelines*) are to be used by independent auditors in performing recipient-contracted audits required by MCC agreements with non-U.S. recipient organizations. (Note: US non-profit organizations are audited in accordance with the OMB Circular A-133.) These organizations are referred to in this guide as recipients, which include both "accountable entities"[1] and certain "covered providers"[2] throughout these *Guidelines*. "Agreements" or "awards" are defined as MCC-funded grants, contracts, implementing agreements, and loans. The *Guidelines* also provide guidance to the recipients in selecting independent auditors to perform the audits.

The Accountable Entity will perform all the needed contracting actions necessary to engage an independent audit firm to perform the required audits of both the MCA program and any Covered Providers. Funding for audits of the MCA program in a recipient country will be funded from Compact funds.

The cost of an audit of a covered provider, subject to audits, may by incurred by the covered provider and reported as any normal expense incurred during the project. If a covered provider is subject to audit, this requirement should be included in bidding documents and any contracts or agreements.

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[1] The Accountable Entity is an entity established by the recipient government. The recipient government delegates responsibilities to an Accountable Entity.

[2] A covered provider is a recipient that expends greater than $300,000 in MCC funds in its fiscal year as part of an implementing entity agreement**.**

In the event that more than one recipient country Accountable Entity provide funds to a covered provider, the recipient country Accountable Entity that provides the greatest amount of funds will act as the designated lead among recipient countries in assuring appropriate audits are conducted of the covered provider, unless otherwise directed by MCC.

1.4 MCC compacts or agreements with the recipient country Accountable Entity require the Accountable Entity to contract with independent auditors acceptable to the MCC and Office of Inspector General (OIG) to perform financial audits of the funds provided under the agreements annually, unless otherwise specified in the compact. Any Implementing Agreements between an Accountable Entity and other recipients also require application of these guidelines and may result in the requirement for the implementing entity to contract independent auditors acceptable to the MCC and Office of Inspector General to perform financial audits of the funds provided under the agreements. Such audits are in accordance with the Inspector General Act of 1978, as amended. The OIG reserves the right to conduct audits using its own staff, notwithstanding acceptable audits performed by other auditors in cases where special accountability needs are identified.

Applicability

1.5 MCC standard audit provisions require that the Accountable Entity (hereafter referred to as MCA[3]) ensures that an audit is contracted by MCA for itself at least annually in accordance with these *Guidelines.* The MCC may require more frequent audits than annually. At the discretion of MCC, if the MCA expends less than $300,000 during a reporting period, the audit may be delayed until the subsequent period. The cumulative costs will be audited during the subsequent reporting period.

1.6 MCC compacts also require that an audit is contracted for by the MCA be performed at least annually in accordance with these *Guidelines* when a Covered Provider expends $300,000 or more in MCC funds in its fiscal year as part of an implementing entity agreement. The determination of when an award is expended must be based on when the activity related to the award occurs. Even when a recipient-contracted audit is not required, if the MCC or the MCA determines that an audit must be performed, the contract, scope of the audit, and the draft audit report must be submitted to the OIG for review and issuance.

Incurred cost audits must be performed at least annually of all foreign for-profit organizations performing under direct awards or cost reimbursement recipient country contracts and subcontracts. This excludes fixed price contracts.

1.7 In addition, agreements for cash transfers and sector assistance may include recipient-contracted audit requirements. Such audits must be performed in accordance with these *Guidelines* to the extent that the *Guidelines* do not conflict with the agreement provisions. Endowment or trust funds created out of MCC awards, fixed-price contracts, and fixed-obligation grants do not require audits under these *Guidelines*, but may be undertaken at the request of the MCA or MCC.

3.MCA stands for the Millennium Challenge Account

Authorities and Responsibilities

Authorities and Responsibilities of MCC

1.8 MCC responsibilities are to: 1) monitor and ensure that the required contracted audits of the MCA and all non-US governmental and nongovernmental covered providers expending more than $300 thousand in their fiscal year are performed in a timely manner; 2) ensure the audits are performed by auditors on the list of approved auditors; and 3) make sure proper action is taken to correct deficiencies identified by the auditors**.** MCC will also monitor and maintain a complete inventory of all MCA awarded contracts, grants, and agreements**,** identifying those that may require a contracted audit. (awarded for amounts greater than $300 thousand for periods on one year or less.)

The MCC is also responsible for ensuring that audit contract agreements between MCA and Covered Providers, subject to audit, and their independent auditors contain a standard statement of work that includes all the requirements of these Guidelines. MCC will be responsible for distributing audit reports to the appropriate MCA offices and resolving a covered provider's organization-wide internal control and compliance deficiencies. Accordingly, the MCA must send all prospective audit contracts to the MCC for approval prior to finalization.

Authorities and Responsibilities of the OIG

1.9 The OIG will establish and maintain an approved list of auditors, oversee the quality of required financial audits of the MCA and the Covered Providers subject to audit, and transmit final audit reports to the appropriate MCC officials**.** The OIG will conduct Quality Control Reviews (QCRs) of the working papers for a selected sample of the audits. These reviews will determine whether audit work was performed in accordance with these *Guidelines*. The OIG will notify MCC, the MCA, the covered providers, and the independent auditors of the results of these reviews.

1.10 Unless otherwise noted, recipient-contracted audits must be conducted in accordance with Chapters 3, 4, and 5 of *U.S. Government Auditing Standards* ("Yellow Book"; hereafter referred to as *U.S. Government Auditing Standards*) issued by the Comptroller General of the United States and generally accepted auditing standards adopted by the American Institute of Certified Public Accountants (AICPA), which have been incorporated into *U.S. Government Auditing Standards* by reference. If recipient-contracted auditors desire technical assistance related to these audits, they should contact the appropriate OIG office or the MCA.

Authorities and Responsibilities of Recipient Government

1.11 The Recipient Government signatory to a Compact is responsible for assigning or delegating responsibilities to an Accountable Entity (MCA). The government has primary responsibility for oversight and management of the implementation of the Program (1) in accordance with terms and conditions specified in the Compact and relevant Supplemental Agreements (2) in accordance with all applicable country laws, and (3) in at least a timely and cost effective manner and in conformity with sound technical, financial and management practices. However, the OIG's report will be issued to the appropriate MCC office which will also be responsible for acting upon audit findings and recommendations and providing responses to the OIG.

Authorities and Responsibilities of Accountable Entity (MCA)

1.12 The Accountable Entity (MCA) may consist of a Governing Council, MCA Committee**,** Steering Committee, the Prime Minister's Office, Government Cabinet Office, or some combination thereof. The Project Manager(s) reports to the Accountable Entity. The Accountable Entity is responsible for exercising government responsibilities under the compact, contracts with the Project Managers, Fiscal and Procurement Agents and Auditors. This office allocates the budgets, approves certain contract actions processed by the Fiscal and Procurement Agents.

The Fiscal Agent may be a Finance Ministry, a donor, accounting firm, or a project manager and has responsibility for funds control, disbursements, cash management, and compliance with relevant provisions of the Compact.

1.13 The Accountable Entity (MCA) will maintain an inventory of all MCA awarded contracts, grants, and agreements**,** identifying those that may require a contracted audit. Generally, those awarded for amounts greater than $300 thousand for periods on one year or less for something other than the provision of goods or services on other than a fixed price basis will require a contracted audit. This inventory will be provided to the MCC and the OIG annually. MCA ensures that the required audits are performed for their programs and that all audit agreements for audits of the MCA and the covered providers and their independent auditors include the standard statement of work that is contained in these Guidelines. Accordingly, prior to finalization, the MCA must send all prospective audit contracts to the MCC for approval prior to finalization for itself and each of its covered providers subject to audit, expending $300 thousand or more in its fiscal year. One annual audit must cover all MCA funding to a covered provider subject to audit.

Covered Providers that have contracts or agreements with more than one recipient country must send their audit contracts for approval to the designated lead MCA office (as noted in section 1.3) with which they have an agreement. The MCA office that provides the greatest amount of funds will act as the designated lead, unless otherwise directed by MCC. This MCA Office will perform all the needed contracting actions necessary to engage an independent audit firm to perform the required audits of the Covered Providers, subject to audit.

1.14 The designated lead MCA Office will coordinate the audit efforts with any other MCA office**s** that have agreements with the covered provider. The MCA offices will provide the independent auditors with any information required in the conduct of the audit.

1.15 All required audits must be completed and the reports issued in accordance with the compact (no later than 90 days after the end of the audited period) or such other periods as Parties may agree in writing. Extensions must be requested by the MCA and the Covered Provider in advance of the audit due date. The approval of the extension will be coordinated and approved by the Office of Inspector General on a case by case basis.

Audit Costs and Sanctions

1.16 Accountable Entities and Covered Providers subject to audit may use MCC funds for performing the specific audit of their MCC-funded programs. The costs to be charged to the MCC agreements for auditing the recipient's general purpose financial statements will be a matter for negotiation between MCC and the recipient (see paragraph 3.5 of these *Guidelines*). As no audit costs may be charged to a MCC agreement if audits are not performed in accordance with these *Guidelines*, it is incumbent upon the auditor to produce a final product that meets this requirement.

1.17 MCC will consider appropriate sanctions against a recipient in the event of continued inability or unwillingness to have an audit performed in accordance with these *Guidelines*. Sanctions could include suspension of disbursements to the recipient until a satisfactory audit is performed. The OIG will refer independent auditors to appropriate regulators, professional authorities, and U.S.-affiliated firms for significant inadequacies or repeated instances of substandard performance. Auditors submitting unacceptable work may be removed from the list of firms approved for performing audits under the recipient-contracted audit program (see paragraph 2.8 of these *Guidelines*). In addition, OIG may remove audit firms that do not provide timely responses to questions raised by the MCC, MCA, or the OIG from the list of approved audit firms.

Compliance With Auditing Standards

1.18 The OIG and the MCC are aware that some independent auditors contracted by foreign recipients initially may not fully comply with these *Guidelines* because of a lack of technical knowledge and experience in using *U.S. Government Auditing Standards*. The OIG will assess and consider this lack of institutional capability when accepting or rejecting reports based on QCRs. The OIG may allow exceptions to compliance with *U.S. Government Auditing Standards* and these *Guidelines* provided that: (a) audit reports are determined to be reliable, and (b) any deviations from *U.S. Government Auditing Standards*, such as noncompliance with internal and external quality control review programs and continuing education requirements, are clearly stated in the report as scope limitations (see paragraph 5.1.b.1 and Chapter 7 of these *Guidelines*).

1.20 Independent auditors are responsible for upgrading their audit capabilities. Nevertheless, MCC and the OIG will consider providing technical assistance to independent auditors when requested. The OIG may remove from the list of approved firms any independent auditors that do not make adequate progress in upgrading their audit capabilities to comply with *U.S. Government Auditing Standards*.

Multiple Agreements and Subrecipients

1.21 A non-U.S. organization that is *only* a subrecipient of a U.S. recipient organization is covered by the audit requirements of the Compact, and is subject to monitoring by the prime U.S. recipient, which must comply with U.S. Office of Management and Budget Circular A-133 requirements.

When a foreign recipient of direct MCC assistance is a subrecipient of a U.S. recipient organization, in addition to receiving funds directly from MCC as a recipient organization, the annual audit performed in accordance with these *Guidelines* must include the funding passed through by the U.S. recipient organization. If the foreign recipient also receives assistance from other donors, consideration should be given to including the other donors' assistance in the MCC audit, provided an agreement and cost-sharing arrangement can be negotiated with the other donors.

1.22 A U.S. subrecipient that expends $500,000 or more in U.S. Government awards in its fiscal year is subject to U.S. Office of Management and Budget Circular A-133 audit requirements and will not require a recipient-contracted audit in accordance with these *Guidelines*.

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Chapter 2: Selection of Independent Auditors

2.1 This chapter provides guidance to recipients in selecting independent auditors acceptable to OIG/MCC. MCC agreements with foreign recipients require that independent auditors, acceptable to the OIG, audit MCC funds provided under the agreements at least annually.

2.2 Audits of MCC funds provided to

a. Nongovernmental recipients (nonprofit organizations) are to be performed by independent audit firms in accordance with *U.S. Government Auditing Standards*.

b. Governmental recipients are to be performed either by independent audit firms in accordance with *U.S. Government Auditing Standards* or by the government's Supreme Audit Institution (SAI) in accordance with *U.S. Government Auditing Standards.* (The SAI must undergo OIG review and approval to conduct audits of MCC funds.)

2.3 Recipients must ensure that all records are available to the independent auditors, all accounting entries and adjustments are made, and all other necessary steps are taken to enable the auditors to complete their work. The OIG must receive the audit report in accordance with the Compact, no later than 90 days after the first anniversary of the Entry into Force and no later than 90 days after the end of the audited period thereafter, or such other periods as the Parties may otherwise agree. To this end, interim audit work is likely to be needed except in the case of recipients with few transactions.

2.4 Audits should begin before the close of a fiscal year, since initiating audits after the close of a fiscal year could hinder timely audit reporting and may unduly restrict the scope of certain audit procedures. The OIG recommends that independent audits be contracted well in advance of the fiscal year close so that necessary interim audit work can be performed during the year. This practice could also result in reduced audit costs. Chapter 8 of these *Guidelines* presents an outline of an illustrative statement of work to be included in recipient-contracted audit agreements.

Audit Firms

2.5 Audits should be conducted by: (1) a non-U.S. audit firm that is on the OIG's list of approved audit firms; or (2) a U.S. audit firm, if the firm is licensed by the U.S. State Board of Accountancy in the state in which the firm is licensed to operate and holds the required business licenses from the state government in which it operates. The preferred procedure is for the MCA to obtain proposals and select an audit firm from the list of firms determined to be eligible by the OIG. Audit cost cannot be a controlling factor in the selection. MCC will verify that the firm selected is on the list of firms eligible to perform audits of MCC funds and that the statement of work contained in the contract complies with these *Guidelines*. The MCC has the authority to establish a limit on the maximum number of years that a recipient can be audited by the same audit firm.

2.6 In determining acceptability of proposed audit firms, the OIG will give first priority to firms that have partnership agreements with firms located in the United States. Audit firms who have authority to use the letterhead and sign audit reports in the name of a U.S. audit firm are required to do so. The OIG will give second priority to affiliates or representatives of firms located in the United States that are subject to standard audit quality control procedures and reviews. Local firms that are not affiliated with firms located in the United States may be accepted when there is a high degree of assurance of professional quality based upon prior experience with an international organization or other acceptable client assurance. Usually, and at the discretion of the OIG, the OIG will perform a Quality Control Review (QCR) before the firm is included in the list of approved firms. If the firm changes its partnership agreement or affiliation, such an approval must be reevaluated.

2.7 All selected audit firms should meet or make satisfactory efforts toward meeting the continuing education requirements (CPE) and internal and external peer review requirements in accordance with *U.S. Government Auditing Standards*. OIG may remove firms that fail to meet this objective from the list of auditors eligible to perform audits of MCC agreements. OIG may periodically remove firms on any of the approved lists that have not performed any audits under these *Guidelines* for a period of four years. Inactive firms need to be removed from the list of approved firms periodically because audit staff, procedures, training programs, and affiliations change over time.

2.8 It is the responsibility of recipient-contracted audit firms to perform audits pursuant to these *Guidelines* and to present audit reports in a timely manner. If the OIG rejects the work of an audit firm due to noncompliance with these *Guidelines*, the audit costs may not be charged to the MCC agreements until such time as the OIG finds the report to be acceptable. Should the audit firm fail to make its report acceptable, either a different recipient-contracted audit firm or the OIG must perform another audit. In such case, the audit firm will not be considered acceptable to perform future audits until the OIG determines that it has undergone an external quality control review, implemented the resultant recommendations, and is capable of substantially improved performance. In addition, at the OIG’s discretion, the OIG might send a letter to the audit regulatory body in the country where the audit was performed.

Government Supreme Audit Institutions

2.9 The recipient country's principal government audit agency, often referred to as its "Supreme Audit Institution" (SAI), may audit governmental recipients under these *Guidelines*. However, SAIs will only be accepted to audit MCC funds if the OIG determines that the SAI:

a. Is in fact and appearance independent of the government recipient organizations to be audited and the executive branch of the government, and substantially meets the independence requirements set forth in *U.S. Government Auditing Standards*.

b. Does not participate in any way in pre-control, contract or transaction approval, check signing, or other activity that is incompatible with the audit function.

c. Maintains a professionally prepared and competent staff of duly qualified and licensed certified public accountants, or equivalent, experienced in the performance of financial audits and appropriately supervised by more experienced auditors.

d. Complies with *U.S. Government Auditing Standards,* auditing standards promulgated by the International Organization of Supreme Audit Institutions (INTOSAI), or auditing guidelines of the International Auditing Practices Committee of the International Federation of Accountants (IFAC).

e. Maintains a continuing program of staff training and professional development for its audit staff.

2.10 The OIG encourages SAIs to develop their own auditing manuals and audit quality control systems and to participate in an external quality control review program. The OIG will consider assisting SAIs if they manifest a desire to perform professional quality audits of MCC-financed activities and the recipient government places a high priority upon this function.

2.11 SAIs that do not fully meet the criteria—described in 2.5, 2.6, 2.7, and 2.9 above—may be accepted by the OIG if they agree to use acceptable auditing standards and to be closely supervised by the OIG, until the OIG believes such supervision is no longer needed. SAIs that are accepted by the MCC and the OIG must:

a. Perform audits pursuant to these *Guidelines*.

b. Present their audit reports in a timely manner.

c. Sign a comprehensive agreement with the MCC and the OIG to perform multiple annual audits of governmental recipients in accordance with these *Guidelines*. Alternatively, the parties may sign separate agreements for each annual audit.

2.12 A model audit agreement is presented in Chapter 9 of these *Guidelines*. This agreement takes the place of a contract that would be signed between an independent audit firm and a recipient. The agreement must include a statement of work that will require the SAI to use specific acceptable auditing standards and to provide the reports required by these *Guidelines*, including the report on the fund accountability statement for the MCC funds, the report on internal control related to the MCC-funded programs, and the report on compliance with agreement terms and applicable laws and regulations related to the MCC-funded programs.

2.13 In the event that an SAI demonstrates continued inability or unwillingness to perform audit work in compliance with these *Guidelines*, MCC will not accept its work until the OIG determines that the SAI has undergone an external quality control review, implemented the resultant recommendations, and is capable of substantially improving its performance. If an SAI's audit work is rejected, MCC may require an independent audit by a professional independent audit firm or, at its discretion, make arrangements for its own audit on behalf of the governmental recipient in accordance with the standard audit provisions in the MCC agreements.

2.14 MCC considers accountability over foreign government-owned local currencies generated by or resulting from MCC programs to be the primary responsibility of the government that owns such funds. This is true notwithstanding any agreed-upon conditions for separate deposit, usage, etc. Therefore, MCC expects the SAI (where the work of the SAI is acceptable) of the country to determine, based upon professionally executed audits, whether government-owned local currencies have been deposited, disbursed, recorded, and accounted for in accordance with the agreed upon conditions, and to report this to the MCC. The MCA is responsible for ensuring the frequency of audits of government-owned local currencies. The OIG will periodically review the quality of such audits**.**

Chapter 3: Audit Objectives

3.1 The financial audit must include a specific audit of all the recipient's MCC-funded programs. The fund accountability statement is the basic financial statement to be audited that presents the recipient's revenues, costs incurred, cash balance of funds provided to the recipient by MCC, and commodities and technical assistance directly procured by MCC for the recipient's use. The fund accountability statement should be reconciled to the MCC funds included in the general purpose financial statements by a note to the financial statements or the fund accountability statement. All currency amounts in the fund accountability statement, cost-sharing schedule, and the report findings, if any, must be stated in U.S. dollars. The auditors should indicate the exchange rate(s) used in the notes to the fund accountability statement. Example 6.1 of these *Guidelines* illustrates a typical fund accountability statement.

In the event that a recipient has been authorized to charge indirect costs, the financial audit should also include an audit of a recipient's general purpose financial statements on an organization-wide basis (balance sheet, income statement, and cash flow statement) if the recipient has been authorized to charge indirect costs. Where indirect costs are authorized, an audit of the general purpose financial statements is needed to ensure that all costs have been correctly included and the indirect cost rate calculation. Additionally, the MCA may specifically request such an audit.

Audit of MCC Funds

3.2 A financial audit of the funds provided by MCC must be performed in accordance with *U.S. Government Auditing Standards*, or other approved standards where applicable (see paragraph 2.9.d of these *Guidelines*), and accordingly includes such tests of the accounting records as deemed necessary under the circumstances. The specific objectives of the audit of the MCC funds are to

a. Express an opinion on whether the fund accountability statement for the MCC-funded programs presents fairly, in all material respects, revenues received, costs incurred, and commodities and technical assistance directly procured by MCC for the period audited in conformity with the terms of the agreements and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).

b. Evaluate and obtain a sufficient understanding of the recipient's internal control related to the MCC-funded programs, assess control risk, and identify significant deficiencies, including material internal control weaknesses. This evaluation should include the internal control related to required cost-sharing contributions.

c. Perform tests to determine whether the recipient complied, in all material respects, with agreement terms (including cost sharing, if applicable) and applicable laws and regulations related to MCC-funded programs. Specifically, tests should be conducted on compliance with the Procurement Agreement and Procurement Guidelines as well as the Fiscal Accountability Plan. All material instances of noncompliance and all illegal acts that have occurred or are likely to have occurred should be identified. Such tests should include the compliance requirements related to required cost-sharing contributions, if applicable.

d. Perform an audit of the indirect cost rate(s) if the recipient has been authorized to charge indirect costs to MCC using provisional rates and MCC has not yet negotiated final rates with the recipient.

e. Determine if the recipient has taken adequate corrective action on prior audit report recommendations.

3.3 Auditors must design audit steps and procedures in accordance with *U.S. Government Auditing Standards*, Chapter 4, to provide reasonable assurance of detecting situations or transactions in which fraud or illegal acts have occurred or are likely to have occurred. If such evidence exists, the auditors must contact the appropriate OIG office and should exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations or legal proceedings.

Review of Cost-Sharing Schedule

3.4 The audit should determine whether cost-sharing contributions were provided and accounted for by the recipient in accordance with the terms of the agreements, if applicable. The audit firm should clearly state whether or not cost-sharing/counterpart contributions were required by the agreement. The auditors will review the cost-sharing schedule to determine if the schedule is fairly presented in accordance with the basis of accounting used by the recipient to prepare the schedule. The auditors should question all cost-sharing contributions that are either ineligible or unsupported costs. In addition, for audits of agreements that present a cost-sharing budget on an annual basis and for close-out audits of awards that present cost-sharing budgets on a life-of-project basis, the auditors will review the cost-sharing schedule to determine if cost-sharing contributions were provided by the recipient in accordance with the terms of the agreement.

Audit of General Purpose Financial Statements

3.5 A financial audit of the recipient's general purpose financial statements on an organization-wide basis must be submitted to MCC together with the audit of MCC funds if the recipient has been authorized to charge indirect costs, or if the MCA specifically requests such an audit. The audit must be performed in accordance with generally accepted auditing standards of the American Institute of Certified Public Accountants (AICPA), auditing standards that have been prescribed by the laws of the country or adopted by an association of public accountants in the country, or auditing standards promulgated by the International Organization of Supreme Audit Institutions or International Auditing Practices Committee of the International Federation of Accountants. The objective of this audit is to express an opinion on whether those statements present fairly, in all material respects, the recipient's financial position at year-end, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

Chapter 4: Audit Scope

4.1 The auditors should use the following steps as the basis for preparing their audit programs and their review. They are not considered all-inclusive or restrictive in nature and do not relieve the auditor from exercising due professional care and judgment. The steps should be modified to fit local conditions and specific program design, implementation procedures, and agreement provisions, which may vary from program to program. Any limitations in the scope of work must be communicated as soon as possible to the appropriate OIG office.

Pre-Audit Steps

4.2 Following is a list of documents applicable to different MCC programs. The auditors should review the applicable documents considered necessary to perform the audit:

a. The agreements between MCC and the recipient.

b. The sub-agreements or implementing entity agreements between the recipient and other implementing entities, as applicable.

c. Contracts and subcontracts with third parties, if any.

d. The budgets, implementation letters, and written procedures approved by MCC.

e. MCC Cost Principles

f. Applicable Procurement Laws and Regulations (these laws and regulations will be identified in the compact and supplemental agreements).

g. All program financial and progress reports; charts of accounts; organizational charts; accounting systems descriptions; procurement policies and procedures; and receipt, warehousing and distribution procedures for materials, as necessary, to successfully complete the required work.

Fund Accountability Statement

4.3 The auditors must examine the fund accountability statement[4] for MCC funded programs including the budgeted amounts by category and major items; the revenues received from MCC for the period covered by the audit; the costs reported by the recipient as incurred during that period; and the commodities and technical assistance directly procured by MCC or MCA for the recipient's use. The fund accountability statement must include all MCC assistance funds identified by each specific program or agreement. The revenues received from MCC less the costs incurred, after considering any reconciling items, must reconcile with the balance of cash-on-hand or in bank accounts. The fund accountability statement should not include cost-sharing contributions provided from the recipient's own funds or in-kind. However, a separate cost-sharing schedule must be included and reviewed as stated in paragraph 4.8 of these *Guidelines*.

4.4 The auditors may prepare or assist the recipient in preparing the fund accountability statement from the books and records maintained by the recipient, but the recipient must accept responsibility for the statement's accuracy before the audit commences.

4.5 The opinion on the fund accountability statement must comply with Statement on Auditing Standard (SAS) No. 62 (AU623). The fund accountability statement must separately identify those revenues and costs applicable to each specific MCC agreement. The audit must evaluate program implementation actions and accomplishments to determine whether specific costs incurred are allowable, allocable, and reasonable under the agreement terms, and to identify areas where fraud and illegal acts have occurred or are likely to have occurred as a result of inadequate internal control. At a minimum, the auditors must:

a. Review direct and indirect costs billed to and reimbursed with MCC funds and costs incurred but pending reimbursement by MCC or MCA, identifying and quantifying any questioned costs. All costs that are not supported with adequate documentation or are not in accordance with the agreement terms must be reported as questioned. Questioned costs that are pending reimbursement with MCC funds must be identified in the notes to the fund accountability statement as not yet reimbursed by MCC or MCA.

a.1 Questioned costs must be presented in the fund accountability statement in two separate categories: (a) ineligible costs that are explicitly questioned because they are unreasonable;

Perform tests to determine whether the recipient complied, in all material respects, with agreement terms (including cost sharing, if applicable) and applicable laws and regulations related to MCC-funded programs. Specifically, tests should be conducted on compliance with the Procurement Agreement and Procurement Guidelines as well as the Fiscal Accountability Plan. All material instances of noncompliance and all illegal acts that have occurred or are likely to have occurred should be identified. Such tests should include the compliance requirements related to required cost-sharing contributions, if applicable.

[4] A “fund accountability statement” is a financial statement that presents a MCC recipient’s revenues, costs incurred, cash balance of funds (after considering reconciling items), and commodities and technical assistance directly procured by MCC that were provided by MCC agreements.

prohibited by the agreements or applicable laws and regulations; or not program related; and (b) unsupported costs that are not supported with adequate documentation or did not have required prior approvals or authorizations. All material questioned costs resulting from instances of noncompliance with agreement terms and applicable laws and regulations must be included as findings in the report on compliance. Also, the notes to the fund accountability statement must briefly describe both material and immaterial questioned costs and must be cross-referenced to any corresponding findings in the report on compliance.

b. Review general and program ledgers to determine whether costs incurred were properly recorded. Reconcile direct costs billed to, and reimbursed with MCC funds to the program and general ledgers.

c. Review the procedures used to control the funds, including their channeling to contracted financial institutions or other implementing entities. Review the bank accounts and the controls on those bank accounts. Perform positive confirmation of balances, as necessary.

d. Determine whether advances of funds were justified with documentation, including reconciliations of funds advanced, disbursed, and available. The auditors must ensure that all funding received by the recipient from MCC or MCA was appropriately recorded in the recipient's accounting records and that those records were periodically reconciled with information provided by MCC or MCA.

e. Determine whether program income was added to funds used to further eligible project or program objectives, to finance the non-federal share of the project or program, or deducted from program costs, in accordance with MCC and MCA regulations, other implementing guidance, or the terms and conditions of the award.

f. Review procurement procedures to determine whether they were in conformance with the Procurement Agreement and Procurement Guidelines. All procedures should be based on sound commercial practices including competition, reasonable prices were obtained, and adequate controls were in place over the qualities and quantities received.

g. Review direct salary charges to determine whether salary rates were reasonable for that position, in accordance with those approved by MCC and MCA when such approval is required, and supported by appropriate payroll records. Determine if overtime was charged to the program and whether it was allowable under the terms of the agreements. Determine whether allowances and fringe benefits received by employees were in accordance with the agreements and applicable laws and regulations. The auditors should question unallowable salary charges in the fund accountability statement.

h. Review travel and transportation charges to determine whether they were adequately supported and approved. Travel charges that are not supported with adequate documentation or not in accordance with agreements and regulations must be questioned in the fund accountability statement.

i. Review commodities (such as supplies, materials, vehicles, equipment, food products, tools, etc.), whether procured by the recipient or directly procured by MCC or MCA for the recipient's use. The auditors should determine whether commodities exist or were used for their intended purposes in accordance with the terms of the agreements, and whether control procedures exist and have been placed in operation to adequately safeguard the commodities. As part of the procedures to determine if commodities were used for intended purposes, the auditors should perform end-use reviews for an appropriate sample of all commodities based on the control risk assessment (see paragraph 4.16.b of these *Guidelines*). End-use reviews may include site visits to verify that commodities exist or were used for their intended purposes in accordance with the terms of the agreements. The cost of all commodities whose existence or proper use in accordance with the agreements cannot be verified must be questioned in the fund accountability statement.

j. Review technical assistance and services, whether procured by the recipient or directly procured by MCC or MCA for the recipient's use. The auditors should determine whether technical assistance and services were used for their intended purposes in accordance with the terms of the agreements. The cost of technical assistance and services not properly used in accordance with terms of the agreements must be questioned in the fund accountability statement.

j.1 In addition to the above audit procedures, if technical assistance and services were contracted by the recipient from a non-U.S. contractor, the auditors should perform additional audit steps on the technical assistance and services, unless the recipient has separately contracted for an audit of these costs. When testing for compliance with agreement terms and applicable laws and regulations, the auditors should not only consider agreements between the recipient and MCC, but also agreements between the recipient and the non-U.S. contractors providing technical assistance and services. The agreements between the recipient and non-U.S. contractors should be audited using the same audit steps described in the other paragraphs of this section, including all tests necessary to specifically determine that costs incurred are allowable, allocable, reasonable, and supported under agreement terms.

j.2 If the technical assistance and services were not contracted by the recipient from a non-U.S. contractor, the auditors are still responsible for determining whether technical assistance and services were used for their intended purposes in accordance with the terms of the agreements. However, the auditors are not responsible for performing additional audit steps for the costs incurred under the technical assistance and services agreements, since either MCC or a cognizant U.S. Government agency is responsible for contracting for audits of these costs.

k. Review the allocation method to determine that the indirect cost pool and distribution base include only allowable items in accordance with agreement terms and regulations when indirect costs were charged to MCC using provisional rates. The auditors should be aware that costs that are unallowable as direct charges to MCC agreements (e.g., fundraising) must be allocated their share of indirect costs if they represent activities that (1) include the salaries of personnel, (2) occupy space, and (3) benefit from the organization’s indirect costs. Indirect cost rates must be calculated after all adjustments have been made to the pool and base.

l. Review unliquidated advances to the recipient and pending reimbursements by MCC or the applicable MCA when performing final closeout audits. Ensure that the recipient returned any excess cash to MCC or the appropriate MCA. Also, ensure that all assets (inventories, fixed assets, commodities, etc.) procured with program funds were disposed of in accordance with the terms of the agreements. The auditors should present, as an annex to the fund accountability statement, the balances and details of final inventories of nonexpendable property acquired under the agreements. These close out audit procedures must be performed for any award that expires during the period audited.

4.6 There may be situations where a recipient organization has more than one MCC or MCA funded agreement, either for multiple projects in one country, or for projects in multiple countries. The fund accountability statement included as Example 6.1 of these *Guidelines* illustrates how to report the results of a single audit that covers more than one MCA agreement. In such cases, the fund accountability statement must separately disclose the financial information (revenues, costs, etc.) for each agreement, and must identify the country program to which each agreement applies. Questioned costs, and internal control and compliance findings of any audits of subrecipients must be reported in the recipient’s financial audit using the same treatment and procedures as the recipient’s own questioned costs and findings. The same reporting principles apply as when only one MCA agreement is covered by the audit.

4.7 The auditors must generally express a single opinion on a fund accountability statement that includes more than one agreement with MCC or MCA. Auditors must <u>not</u> express separate opinions on fund accountability statements of each agreement or program unless specifically requested to do so by the MCC or MCA.

Cost-Sharing Schedule

4.8 MCC agreements may require cost-sharing contributions by the recipient. Most agreements establish a life-of-project budget for such contributions; however, some agreements may establish annual budgets for those contributions. The review of the costs sharing schedule must be approached differently depending on whether the cost-sharing budget is a life-of project budget or an annual budget. In either case, the review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data supporting the cost-sharing schedule.

4.9 The auditors may prepare or assist the recipient in preparing the cost-sharing schedule from the books and records maintained by the recipient. The recipient must, however, accept responsibility for the schedule's accuracy before the review commences.

Agreement with Life-of-Project Cost-Sharing Budget

4.10 For an agreement with a life-of-project budget for cost-sharing contributions, it is not possible to determine whether the contributions have been made as required until the agreement ends.

Nonetheless, MCC and the recipient need reliable information to monitor actual cost-sharing contributions throughout the life of the agreement.

4.11 Thus, for agreements with a life-of-project budget for cost-sharing contributions, for each year that an audit is performed in accordance with these *Guidelines*, the auditors will review the cost-sharing schedule to determine if the schedule is fairly presented in accordance with the basis of accounting used by the recipient to prepare the schedule. The auditors must question all cost-sharing contributions that are either ineligible or unsupported costs. An ineligible cost is a cost that is unreasonable, prohibited by the agreements or applicable laws and regulations, or is not program related. An unsupported cost lacks adequate documentation or does not have required prior approvals or authorizations. All questioned costs must be briefly described in the notes to the cost-sharing schedule. In addition, material questioned costs must be included as findings in the report on compliance. Notes to the cost-sharing schedule must be cross-referenced to the corresponding findings in the report on compliance. Also, reportable internal control weaknesses related to cost-sharing contributions must be set forth as findings in the report on internal control. (See sample cost-sharing schedule at Example 6.2.A, and sample reports at Examples 7.6.A and 7.6.B of these *Guidelines.*)

4.12 In addition, for closeout audits of agreements with a life-of-project budget for cost-sharing contributions, the auditors will review the cost-sharing schedule to determine if the recipients provided such contributions in accordance with the terms of the agreement. If actual contributions were less than budgeted contributions, the shortfall will be identified in the appropriate column of the cost-sharing schedule. (See sample cost-sharing schedule at Example 6.2.B, and sample reports at Examples 7.6.C and 7.6.D of these *Guidelines.*)

Agreement with Annual Cost-Sharing Budget

4.13 For agreements with an annual budget for cost-sharing contributions, for each year that an audit is performed in accordance with these *Guidelines*, the auditors will review the cost-sharing schedule to determine whether (1) the schedule is fairly presented in accordance with the basis of accounting used by the recipient to prepare the cost-sharing schedule and (2) contributions were provided by the recipient in accordance with the terms of the agreement. The auditors must question all cost-sharing contributions that are either ineligible or unsupported costs. An ineligible cost is unreasonable, prohibited by the agreements or applicable laws and regulations, or not program related. An unsupported cost lacks adequate documentation or does not have required prior approvals or authorizations. All questioned costs must be briefly described in the notes to the cost-sharing schedule. In addition, material questioned costs must be included as findings in the report on compliance. Notes to the cost-sharing schedule must be cross-referenced to the corresponding findings in the report on compliance. Also, reportable internal control weaknesses related to cost-sharing contributions must be set forth as findings in the report on internal control. If actual cost-sharing contributions were less than budgeted contributions, the shortfall will be identified in the appropriate column of the cost-sharing schedule. (See sample cost-sharing schedule at Example 6.2.B, and sample reports at Examples 7.6.C and 7.6.D of these *Guidelines.*)

Internal Control

4.14 The auditors must review and evaluate the recipient's internal control related to MCC programs to obtain a sufficient understanding of the design of relevant control policies and procedures and whether those policies and procedures have been placed in operation. The U.S. General Accounting Office's *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1; 1999) may prove helpful in assessing recipient internal control. The internal control must be documented in the working papers.

4.15 Auditors must then prepare the report required by these *Guidelines*, identifying control deficiencies in the design or operation of internal control, and the significant deficiencies considered to be material weaknesses. A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Significant deficiencies, including material weaknesses, must be set forth in the report as "findings" (see paragraph 5.1.d of these *Guidelines*). Other matters related to internal control should be included in a separate management letter to the recipient and referred to in the report on internal control.

4.16 The major internal control components to be studied and evaluated include, but are not limited to, the controls related to each revenue and expense account on the fund accountability statement. The auditors must:

a. Obtain a sufficient understanding of internal control to plan the audit and to determine the nature, timing and extent of tests to be performed.

b. Assess inherent risk and control risk, and determine the combined risk. Inherent risk is the susceptibility of an assertion, such as an account balance, to a material misstatement assuming there are no related internal control policies or procedures. Control risk is the risk that a material misstatement that could occur in an assertion will not be prevented or detected in a timely manner by the entity's internal control policies or procedures. Combined risk (sometimes referred to as detection risk) is the risk that the auditor will not detect a material misstatement that exists in an assertion. Combined risk is based upon the effectiveness of an auditing procedure and the auditor's application of that procedure.

c. Summarize the risk assessments for each assertion in a working paper. The risk assessments should consider the following broad categories under which each assertion should be classified: (a) existence or occurrence; (b) completeness; (c) Rights and obligations; (d) valuation or allocation; and (e) presentation and disclosure. At a minimum, the working papers should identify the name of the account or assertion, the account balance or the amount represented by the assertion, the assessed level of inherent risk (high, moderate, or low), the assessed level of control risk (high, moderate, or low), the combined risk (high, moderate, or low), and a description of the nature, timing and extent of the tests performed based on the combined risk. These summary working papers should be cross-indexed to the supporting working papers that contain the detailed analysis of the fieldwork. If control risk is evaluated at less than the maximum level (high), then the basis for the auditor's conclusion must be documented in the working papers.

c.1 If the auditors assess control risk at the maximum level for assertions related to material account balances, transaction classes, and disclosure components of financial statements when such assertions are significantly dependent upon computerized information systems, the auditors must document in the working papers the basis for such conclusions by addressing (i) the ineffectiveness of the design and/or operation of controls, or (ii) the reasons why it would be inefficient to test the controls.

d. Evaluate the control environment, the adequacy of the accounting systems, and control procedures. Emphasize the policies and procedures that pertain to the recipient's ability to record, process, summarize, and report financial data consistent with the assertions embodied in each account of the fund accountability statement. This should include, but not be limited to, the control systems for:

d.1 Ensuring that charges to the program are proper and supported.

d.2 Managing cash on hand and in bank accounts.

d.3 Procuring goods and services.

d.4 Managing inventory and receiving functions.

d.5 Managing personnel functions such as timekeeping, salaries and benefits.

d.6 Managing and disposing of commodities (such as supplies, materials, vehicles, equipment, food products, tools, etc.) purchased either by the recipient or directly by MCC or the MCA.

d.7 Ensuring compliance with agreement terms and applicable laws and regulations that collectively have a material impact on the fund accountability statement. Specifically, evaluate compliance with the Procurement Agreement and Procurement Guidelines as well as the Fiscal Accountability Plan. The results of this evaluation should be contained in the working paper section described in paragraphs 4.18 thorough 4.20.k of these *Guidelines* and presented in the compliance report.

e. Evaluate internal control established to ensure compliance with cost-sharing requirements, if applicable, including both provision and management of the contributions.

f. Include in the study and evaluation other policies and procedures that may be relevant if they pertain to data the auditors use in applying auditing procedures. This may include, for example, policies and procedures that pertain to non-financial data that the auditors use in analytical procedures.

4.17 In fulfilling the audit requirement relating to an understanding of internal control and assessing the level of control risk, the auditor must follow, at a minimum, the guidance contained in AICPA SAS Nos. 55, 78, and 112 (AU110, AU319, AU324 and AU325), respectively entitled *Consideration of Internal Control in a Financial Statement Audit, Consideration of Internal Control in a Financial Statement Audit: An Amendment to Statement on Auditing Standards No. 55,* as well as SAS No. 74 (AU801) entitled *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance* and *Communicating Internal Control Related Matters Identified in an Audit.*

Compliance with Agreement Terms and Applicable Laws and Regulations

4.18 In fulfilling the audit requirement to determine compliance with agreement terms and applicable laws and regulations related to MCC programs, the auditors must, at a minimum, follow guidance contained in AICPA SAS No. 74 (AU801) entitled *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*. The compliance review must also determine—on audits of awards that present cost-sharing budgets on an annual basis and on close-out audits of awards that present cost-sharing budgets on a life-of-project basis—if cost-sharing contributions were provided and accounted for in accordance with the terms of the agreements. The auditor's report on compliance must set forth as findings all material instances of noncompliance, defined as instances that could have a direct and material effect on the fund accountability statement. Nonmaterial instances of noncompliance should be included in a separate management letter to the recipient and referred to in the report on compliance.

4.19 The auditor’s report should include all conclusions that a fraud or illegal act either has occurred or is likely to have occurred. In reporting material fraud, illegal acts, or other noncompliance, the auditors should place their findings in proper perspective. To give the reader a basis for judging the prevalence and consequences of these conditions, the instances identified should be related to the universe or the number of cases examined and is quantified in terms of U.S. dollars, if appropriate. In presenting material fraud, illegal acts, or other noncompliance, auditors must follow the reporting standards contained in Chapter 5 of *U.S. Government Auditing Standards*. Auditors may provide less extensive disclosure of fraud and illegal acts that are not material in either a quantitative or qualitative sense. Chapter 4 of *U.S. Government Auditing Standards* discusses factors that may influence auditors’ materiality judgments. If the auditors conclude that sufficient evidence of fraud or illegal acts exists, they must contact the OIG office and exercise due professional care in pursuing indications of possible fraud and illegal acts to avoid interfering with potential future investigations or legal proceedings.

4.20 In planning and conducting the tests of compliance the auditors must:

a. Identify the agreement terms and pertinent laws and regulations and determine which of those, if not observed, could have a direct and material effect on the fund accountability statement. Special attention should be given to the Procurement Agreement and Procurement Guidelines as well as the Fiscal Accountability Plan. The auditors must:

> **a.1** List all standard and program-specific provisions contained in the agreements that cumulatively, if not observed, could have a direct and material effect on the fund accountability statement.
>
> **a.2** Assess the inherent and control risk that material noncompliance could occur for each of the compliance requirements listed in paragraph a.1 above.
>
> **a.3** Determine the nature, timing and extent of audit steps and procedures to test for errors, fraud, and illegal acts that provide reasonable assurance of detecting both intentional and unintentional instances of noncompliance with agreement terms and applicable laws and regulations that could have a material effect on the fund accountability statement. This should be based on the risk assessment described in paragraph a.2 above.
>
> **a.4** Prepare a summary working paper that identifies each of the specific compliance requirements included in the review, the results of the inherent, control and combined (detection) risk assessments for each compliance requirement, the audit steps used to test for compliance with each of the requirements based on the risk assessment, and the results of the compliance testing for each requirement. The summary working paper should be cross-indexed to detailed working papers that support the facts and conclusions contained in the summary working paper.

b. Determine if payments have been made in accordance with agreement terms and applicable laws and regulations.

c. Determine if funds have been expended for purposes not authorized or not in accordance with applicable agreement terms. If so, the auditors must question these costs in the fund accountability statement.

d. Identify any costs not considered appropriate, classifying and explaining why these costs are questioned.

e. Determine whether commodities, whether procured by the recipient or directly procured by MCC or MCA for the recipient's use, exist or were used for their intended purposes in accordance with the terms of the agreements. If not, the cost of such commodities must be questioned.

f. Determine whether any technical assistance and services, whether procured by the recipient or directly procured by MCC for the recipient's use, were used for their intended purposes in accordance with the agreements. If not, the cost of such technical assistance and services should be questioned.

g. Determine if the amount of cost-sharing funds was calculated and accounted for as required by the agreements or applicable cost principles.

h. Determine if the cost-sharing funds[5] were provided according to the terms of the agreements and quantify any shortfalls.

i. Determine whether those who received services and benefits were eligible to receive them.

j. Determine whether the recipient's financial reports (including those on the status of cost-sharing contributions) and claims for advances and reimbursement contain information that is supported by the books and records.

k. Determine whether the recipient held advances of MCC or MCA funds in interest-bearing accounts, and whether the recipient remitted to MCC or MCA any interest earned on those advances.

Follow-Up on Prior Audit Recommendations

4.21 The auditors must review the status of actions taken on findings and recommendations reported in prior audits of MCC-funded programs. Chapter 4 of *U.S. Government Auditing Standards,* under the section entitled *Audit Follow-up,* states: "Auditors must follow up on known material findings and recommendations from previous audits that could affect the financial statement audit. They do this to determine whether the auditee has taken timely and appropriate corrective actions. Auditors must report the status of uncorrected material findings and recommendations from prior audits that affect the financial statement audit."

4.22 The auditors must review and report on the status of actions taken on prior findings and recommendations in the summary section of the audit report. The auditors should refer to the most recent audit report for the same award (for a follow-up audit) or other MCC or MCA awards (for an initial audit). When corrective action has not been taken and the deficiency remains unresolved for the current audit period and is reported again in the current report, the auditors need to briefly describe the prior finding and status and show the page reference to where it is included in the current report. If there were no prior findings and recommendations, the auditors must include a note to that effect in this section of the audit report.

General Purpose Financial Statements

4.23 Auditors should examine the recipient's general purpose financial statements on an organization-wide basis if an indirect cost rate needs to be audited,[6] or if the MCC or the MCA specifically requests that the general purpose financial statements be audited. The audit must be

[5] On audits of awards that present cost-sharing budgets on an annual basis and for closeout audits of awards that present cost-sharing budgets on a life-of-project basis, as explained in paragraphs 4.12 and 4.13 of these *Guidelines*.
[6] Where indirect costs are authorized, an audit of the general purpose financial statements is needed to ensure that all costs have been correctly included in the indirect cost rate calculation.

performed in accordance with generally accepted auditing standards of the American Institute of Certified Public Accountants (AICPA).

4.24 The objective of this audit is to express an opinion on whether those statements present fairly, in all material respects, the recipient's financial position at year-end, and the results of its operations and cash flow for the year then ended, in conformity with generally accepted accounting principles.

Indirect Cost Rates

4.25 Auditors should determine the actual indirect cost rates for the year if the recipient has used provisional rates to charge indirect costs to MCC or MCA. The audit of the indirect cost rates should include tests to determine whether the:

a. Distribution or allocation base includes all costs that benefited from indirect activities.

b. Distribution or allocation base is in compliance with the governing MCC or MCA Negotiated Indirect Cost Rate Agreement, if applicable.

c. Indirect cost pool includes only costs authorized by the MCC or MCA agreements and applicable cost principles.

d. Indirect cost rates obtained by dividing the indirect cost pool by the base are accurately calculated.

e. Costs included in this calculation reconcile with the total expenses shown in the recipient's audited general purpose financial statements.

4.26 The results of the audit of the indirect cost rate should be presented in a schedule of computation of indirect cost rate (see Example 6.3 of these *Guidelines*). This schedule should contain: (1) a listing of costs included in each indirect cost pool, (2) the distribution base, and (3) the resultant indirect cost rate calculation. The costs in the schedule should reconcile with the total expenses shown in the recipient's general purpose financial statements. U.S. Office of Management and Budget (OMB) Circular A-122 provides additional guidance on allocation of indirect costs and determination of indirect cost rates.

Other Audit Responsibilities

4.27 The auditors must perform the following steps:

a. Hold entrance and exit conferences with the recipient. The OIG and the cognizant MCA should be notified of these conferences in order that MCC representatives may attend, if deemed necessary.

b. During the planning stages of an audit, communicate information to the auditee regarding the nature and extent of planned testing and reporting on compliance with laws and regulations and internal control over financial reporting. Such communication should state that the auditors do not plan to provide opinions on compliance with laws and regulations and internal control over financial reporting.[7] Written communication is preferred. Auditors should document the communication in the working papers.

c. Institute quality control procedures to ensure that sufficient competent evidence is obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit. While auditors may use their standard procedures for ensuring quality control, those procedures must, at a minimum, ensure that:

c.1 Audit reports and supporting working papers are reviewed by an auditor, preferably at the partner level, who was not involved in the audit. This review must be documented.

c.2 All quantities and monetary amounts involving calculations are footed and cross-footed.

c.3 All factual statements, numbers, conclusions and monetary amounts are cross-indexed to supporting working papers.

d. Ascertain whether the recipient ensured that audits of its subrecipients were performed to ensure accountability for MCC funds passed through to subrecipients. If subrecipient audit requirements were not met, the auditors should disclose this in the fund accountability statement and consider qualifying their opinion.

e. Obtain a management representation letter in accordance with AICPA SAS No. 85 (AU333) signed by the recipient's management. See Example 4.1 for an illustrative management representation letter.

Reference Materials

4.28 *U.S. Government Auditing Standards* may be obtained through the Internet at http://www.gao.gov/govaud/ybook.pdf or from the U.S. Government Printing Office, at http://bookstore.gpo.gov, by mail from Information Dissemination (Superintendent of

[7] The auditors only express an opinion on the fund accountability statement, and the indirect cost rate and general purpose financial statements, if applicable, as indicated on Chapter 3 of these *Guidelines*.

Documents), P.O. Box 371954, Pittsburgh, PA 15250-7954, or by telephone. The order desk telephone number is (202) 512-1800 or (866) 512-1800.

4.29 *Office of Management and Budget (OMB) Circulars.* The following circulars can be obtained through the OMB Internet address. http://www.whitehouse.gov/omb/circulars/

a. OMB Circular A-50 Audit Follow-up

b. Reference MCC Cost Principles

4.30 The following sections of the American Institute of Certified Public Accountants (AICPA) Codification of Statements on Auditing Standards (SASs) may be applicable to audits of MCC funds. The AICPA Codification of SASs may be obtained from the AICPA, 1211 Avenue of the Americas, New York, New York 10036-8775, or at http://www.aicpa.org/index.htm. The order department telephone number is (201) 938-3333. The audit objectives will dictate which SAS numbers apply.

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Example 4.1 - Illustrative Management Representation Letter

(Date)

XYZ & CO. (Independent Auditor)
Address of Independent Auditor

We are providing this letter in connection with your audit(s) of the (identification of financial statements) of (name of entity) as of (dates) and for the (periods) for the purpose of expressing an opinion as to whether the (consolidated) financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of (name of entity) in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the (consolidated) financial statements of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an MCA or misstatement of accounting information that, in the light of surrounding circumstances, makes it possible that the judgment of a reasonable person relying on the information would be changed or influenced by the MCA or misstatement.

We confirm, to the best of our knowledge and belief, (as of date of auditor's report), the following representations made to you during your audit(s).

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you all:
    a. Financial records and related data.
    b. Minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial both individually and in the aggregate, to the financial statements taken as a whole.
6. *We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.*
7. *We have no knowledge of any fraud or suspected fraud affecting the entity involving (a) management, (b) employees who have significant roles in internal controls, or (c)* others where the fraud could have a material effect on the financial statements.
8. *We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.*

Chapter 5: Audit Reports

5.1 The recipient should submit to the cognizant MCC office and the local MCA six copies of the audit report in English and one copy of the report in the recipient country's official language, if considered appropriate. To make it easier for audit firms to comply with these *Guidelines*, the format and content of the audit reports should closely follow the following illustrative reports **i**n Chapter 7 of these *Guidelines*. The audit report must specify the correct award number(s) of each award covered by the audit. The report must contain:

a. A title page,[8] table of contents, transmittal letter, and a summary which includes: (1) a background section with a general description of the MCA programs audited, the period covered, the program objectives, a clear identification of all entities mentioned in the report, a section on the follow-up of prior audit recommendations, and whether the recipient has a MCC-authorized provisional indirect cost rate; (2) the objectives and scope of the financial audit and a clear explanation of the procedures performed and the scope limitations, if any; (3) a brief summary of the audit results on the fund accountability statement, questionable costs, internal control, compliance with the Procurement Agreement and Procurement Guidelinnes, compliance with the Fiscal Accountability Plan, compliance with other agreement terms and applicable laws and regulations, indirect cost rates, status of prior audit recommendations, and, if applicable, the recipient's general purpose financial statements on an organization-wide basis; (4) a brief summary of the results of the review of cost-sharing contributions; and (5) a brief summary of the recipient's management comments regarding its views on the audit and review results and findings.

b. The auditor's report on the fund accountability statement, identifying any material questioned costs not fully supported with adequate records or not eligible under the terms of the agreements. The report must be in conformance with the standards for reporting in Chapter 5 of *U.S. Government Auditing Standards* and must include:

b.1 The auditor's opinion on whether the fund accountability statement presents fairly, in all material respects, program revenues, costs incurred, and commodities and technical assistance directly procured by MCA for the year then ended in accordance with the terms of the agreements and in conformity with generally accepted accounting principles or other basis of accounting. This opinion must clearly state that the audit was performed in accordance with *U.S. Government Auditing Standards.* Any deviations from these standards, such as noncompliance with the requirements for continuing professional education and external quality control reviews, must be disclosed (see Example 7.1.A of these *Guidelines*).

b.2 The fund accountability statement identifying the program revenues, costs incurred, and commodities and technical assistance directly procured by MCA for the fiscal year. The statement must also identify questioned costs not considered eligible for reimbursement and unsupported, if any, including the cost of any commodities and technical assistance directly

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[8] "Closeout" audits must specify they are closeout audits on the title page. A closeout audit is an audit for an award that expired during the period audited.

procured by MCA whose existence or proper use in accordance with the agreements could not be verified. All material questioned costs resulting from instances of noncompliance with agreement terms and applicable laws and regulations must be included as findings in the report on compliance. Also, the notes to the fund accountability statement must briefly describe both material and immaterial questioned costs and must be cross-referenced to any corresponding findings in the report on compliance (see Example 6.1 of these *Guidelines*). All questioned costs in the notes to the fund accountability statement must be stated in U.S. dollars. The U.S. dollar equivalent should be calculated at the exchange rate applicable at the time the local currency was disbursed to the recipient by MCC.

b.3 Notes to the fund accountability statement, including a summary of the significant accounting policies, explanation of the most important items of the statements, the exchange rates during the audit period and foreign currency restrictions, if any.

c. A report on the auditor's review of the schedule of cost-sharing contributions. The report must follow the guidance in the AICPA Statements on Standards for Attestation Engagements, Attestation Standard (AT) for review reports AT100.64. The report must include:

c.1 A review report on the cost-sharing schedule. This review report must state that the review was conducted in accordance with AICPA standards. It should also explain that a review is more limited in scope than an examination performed in accordance with AICPA standards, and state that an opinion on the schedule is not expressed. The report must identify material questioned costs related to the provision of, and accounting for, cost-sharing funds, with a reference to the corresponding finding in the report on compliance if the questioned costs are material. The report must provide negative assurance with regard to the provision of, and accounting for, cost-sharing contributions for items not tested (see Examples 7.6.A through 7.6.D of these *Guidelines*).

c.2 The cost-sharing schedule identifying questioned costs (see Examples 6.2.A and 6.2.B of these *Guidelines*). Cost-sharing contributions that are unreasonable, prohibited by the agreements or applicable laws and regulations, or not program related are ineligible. Cost-sharing contributions that lack adequate documentation or do not have required prior approvals or authorizations are unsupported.

c.3 The cost-sharing schedule identifying the budgeted amounts required by the agreements,[9] the amounts actually provided, and any cost-sharing shortfalls (see Example 6.2.B of these *Guidelines*).

c.4 Notes to the cost-sharing schedule that briefly explain the basis for questioned costs and shortfalls, if applicable. The notes must be cross-referenced to the corresponding findings, if the questioned costs are material, in the report on compliance.

[9] This step is required for audits of agreements that present cost-sharing budgets on an annual basis and for closeout audits of awards that present cost-sharing budgets on a life-of-project basis. See paragraphs 4.12 and 4.13 of these *Guidelines*.

d. The auditor's report on internal control. The auditor's report must include as a minimum: (1) the scope of the auditor's work in obtaining an understanding of internal control and in assessing the control risk, and; (2) the significant deficiencies, including the identification of material weaknesses in the recipient's internal control. ***Significant deficiencies must be described in a separate section (see paragraphs 5.2 through 5.4 of these *Guidelines*). This report must be made in conformance with SAS No. 112 and the standards for reporting in Chapter 5 of *U.S. Government Auditing Standards*. Other matters related to internal control should be communicated to the recipient in a separate management letter that should be referred to in the report on internal control and sent with the audit report (see Examples 7.2.A and 7.2.B of these *Guidelines*).

e. The auditor's report on the recipient's compliance with the Procurement Agreement and Procurement Guidelines, the Fiscal Accountability Plan, and other agreement terms and applicable laws and regulations related to MCC-funded programs. The report must follow the guidance in SAS No. 74. Material instances of noncompliance must be described in a separate section (see paragraphs 5.2 through 5.4 of these *Guidelines*). Nonmaterial instances of noncompliance should be communicated to the recipient in a separate management letter that should be sent with the audit report ***(See Examples 7.3.A and 7.3.B of these *Guidelines*). All material questioned costs resulting from instances of noncompliance must be included as findings in the report on compliance. Also, the notes to the fund accountability statement that describe both material and immaterial questioned costs must be cross-referenced to any corresponding findings in the report on compliance.

e.1 The auditor's report must include all conclusions, based on evidence obtained, that a fraud or illegal act either has occurred or is likely to have occurred. This report must include identification of all questioned costs, if any, as a result of fraud or illegal acts, without regard to whether the conditions giving rise to the questioned costs have been corrected and whether the recipient does or does not agree with the findings and questioned costs.

e.2 In reporting material fraud, illegal acts, or other noncompliance, the auditors must place their findings in proper perspective. To give the reader a basis for judging the prevalence and consequences of these conditions, the instances identified should be related to the universe or the number of cases examined and is quantified in terms of U.S dollar value, if appropriate. In presenting material fraud, illegal acts, or other noncompliance, auditors must follow the reporting standards contained in Chapter 5 of *U.S. Government Auditing Standards*. Auditors may provide less extensive disclosure of fraud and illegal acts that are not material in either a quantitative or qualitative sense. Chapter 4 of *U.S. Government Auditing Standards* provides guidance concerning factors that may influence auditors' materiality judgments. If the auditors conclude that sufficient evidence of fraud or illegal acts exist, they must contact the OIG office and exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations or legal proceedings.

f. The schedule of computation of indirect cost rate (see Example 6.3 of these *Guidelines*) and the auditor's report on the schedule of computation of indirect cost rate. This should be a separate report prepared in accordance with guidance set forth in SAS 29 (AU551). (See Example 7.4 in the *Guidelines.*)

g. The recipient's general purpose financial statements on an organization-wide basis and the auditor's report on them. These statements and the report on them only apply to recipients with an indirect cost rate that needs to be audited, unless the MCA specifically requests that the statements be audited.

5.2 The findings contained in the reports on internal control and compliance related to MCC-funded programs must include a description of the condition (what is) and criteria (what should be). The cause (why it happened) and effect (what harm was caused by not complying with the criteria) must be included in the findings. In addition, the findings must contain a *recommendation* that corrects the cause and the condition, as applicable. It is recognized that material internal control weaknesses and noncompliance found by the auditors might not always have all of these elements fully developed, given the scope and objectives of the specific audit. The auditors must, however, at least identify the condition, criteria and possible effect to enable management to determine the effect and cause. This will help management take timely and proper corrective action.

5.3 Findings that involve monetary effect must:

a. Be quantified and included as questioned costs in the fund accountability statement, the Auditor's Report on Compliance, and cost-sharing schedule (cross-referenced).

b. Be reported without regard to whether the conditions giving rise to them were corrected.

c. Be reported whether the recipient does or does not agree with the findings or questioned costs.

d. Contain enough relevant information to expedite the audit resolution process (e.g., number of items tested, size of the universe, error rate, corresponding U.S. dollar amounts, etc.).

5.4 The reports must also contain, after each recommendation, pertinent views of responsible recipient officials concerning the auditor's findings and actions taken by the recipient to implement the recommendations. If possible, the auditor should obtain written comments. When the auditors disagree with management comments opposing the findings, conclusions or recommendations, they must explain their reasons following the comments. Conversely, the auditors should modify their report if they find the comments valid.

5.5 Any evidence of fraud or illegal acts that have occurred or are likely to have occurred must be included in a separate written report if deemed necessary by the OIG office. This report must include an identification of all questioned costs as a result of fraud or illegal acts, without regard to whether the conditions giving rise to the questioned costs have been corrected or whether the recipient does or does not agree with the findings and questioned costs.

Chapter 6: Illustrative Fund Accountability Statement, Cost-Sharing Schedules, and Schedule of Computation of Indirect Cost Rate

Example 6.1 - Illustrative Fund Accountability Statement

(NAME OF RECIPIENT)
FUND ACCOUNTABILITY STATEMENT[10]

January 1, 20XX to December 31, 20XX

			QUESTIONED COSTS[11]		
	BUDGET	**ACTUAL**	**INELIGIBLE**	**UNSUPPORTED**	**NOTES[12]**
REVENUE					
Grant No. 1 (MCC/X)	$xxx	$xxx			
Grant No. 2 (MCC/Y)	xxx	xxx			
Project No. 1 (MCC/X)	xxx	xxx			
Total Revenue	$xxx	$xxx			
COSTS INCURRED[13]					
Administrative					
Grant No. 1	$xxx	$xxx	$xxx		Note 1
Grant No. 2	xxx	xxx		$xxx	Note 2

[10] Supporting schedules detailing revenues, costs incurred, outstanding fund balances, commodities, and technical assistance directly procured by MCC for each individual agreement should be attached.

[11] All questioned costs will be listed here. All material questioned costs resulting from instances of noncompliance with agreement terms and applicable laws and regulations should be included as findings in the report on compliance.

[12] The notes to the fund accountability statement should briefly describe both material and immaterial questioned costs and should be cross-referenced to any corresponding findings in the report on compliance.

[13] Should include both costs incurred and reimbursed (liquidated) by MCC and costs incurred but pending reimbursement (liquidation) by MCC. Questioned amounts for costs pending reimbursement should be identified in the findings and notes as not reimbursed by MCC.

Example 6.1 - Illustrative Fund Accountability Statement (Continued)

(NAME OF RECIPIENT)
FUND ACCOUNTABILITY STATEMENT

January 1, 20XX to December 31, 20XX

			QUESTIONED COST		
	BUDGET	ACTUAL	INELIGIBLE	UNSUPPORTED	NOTES
	xxx	xxx			
	$xxx	$xxx			
Salaries					
Grant No. 1	$xxx	$xxx	$xxx		Note 3
Grant No. 2	xxx	xxx		$xxx	Note 4
Loan No. 1	xxx	xxx		xxx	Note 5
	$xxx	$xxx		$xxx	
Transportation					
Grant No. 1	$xxx	$xxx			
Grant No. 2	xxx	xxx	$xxx		Note 6
Equipment					
Grant No. 2	$xxx	$xxx		$xxx	Note 7
Maintenance					
Grant No. 2	$xxx	$xxx			
Other Direct					
Grant No. 1	$xxx	$xxx			
Indirect					
Grant No. 1	$xxx	$xxx			
Loan No. 1	xxx	xxx			
	$xxx	$xxx			
Total Costs Incurred	$xxx	$xxx			
Outstanding Fund Balance[14]		$xxx	$xxx	$xxx	

[14] Should reconcile with cash on hand and in bank accounts after considering any reconciling items. This reconciliation should be included in a note to the fund accountability statement.

Example 6.1 - Illustrative Fund Accountability Statement (Continued)

(NAME OF RECIPIENT)
FUND ACCOUNTABILITY STATEMENT

January 1, 20XX to December 31, 20XX

			QUESTIONED COST		
	BUDGET	**ACTUAL**	**INELIGIBLE**	**UNSUPPORTED**	**NOTES**
Commodities & Technical Assistance Directly Procured by MCC[15]					
Vehicles					
Grant No. 1	$xxx	$xxx	$xxx		Note 8
Grant No. 2	xxx	xxx			
	$xxx	$xxx			
Technical Assistance					
Grant No. 1	$xxx	$xxx			
Grant No. 2	xxx	xxx	$xxx		Note 9
	$xxx	$xxx			
Equipment					
Grant No. 1	$xxx	$xxx	$xxx	$xxx	Notes 10, 11
Total MCC Procurement	$xxx	$xxx	$xxx	$xxx	
Total Questioned Costs			$xxx	$xxx	

[15] The cost of all commodities and technical assistance whose existence or proper use in accordance with the agreements cannot be verified should be questioned.

Example 6.2.A - Illustrative Cost-Sharing Schedule for Agreements with Life-of-Project Cost-Sharing Budgets That Have Not Yet Ended

(NAME OF RECIPIENT)
COST-SHARING SCHEDULE
FROM JANUARY 1, 20XX TO DECEMBER 31, 20XX

		QUESTIONED COSTS [16]		
	ACTUAL	**INELIGIBLE**	**UNSUPPORTED**	**NOTES**[17]
CASH				
Grant No. 1	$xxx			
Grant No. 2	xxx	$xxx		Note 1
IN-KIND				
Grant No. 1	$xxx		$xxx	Note 2
Grant No. 2	xxx			
TOTAL	$xxx	$xxx	$xxx	

[16] All questioned cost-sharing costs will be listed here. All material questioned costs resulting from instances of noncompliance with agreement terms and applicable laws and regulations must be included as findings in the report on compliance.

[17] The notes to the cost-sharing schedule should briefly describe both material and immaterial questioned costs and should be cross-referenced to any corresponding findings in the report on compliance.

Example 6.2.B - Illustrative Cost-Sharing Schedule for Close-Out Audits of Awards with Life-of-Project Cost-Sharing Budgets, and Audits of Awards with Annual Cost-Sharing Budgets

(NAME OF RECIPIENT)
COST-SHARING SCHEDULE
FROM JANUARY 1, 20XX TO DECEMBER 31, 20XX[18]

	BUDGET[20]	ACTUAL	SHORTFALL[21]	QUESTIONED COSTS[19]		NOTES[22]
				INELIGIBLE	UNSUPPORTED	
CASH						
Grant No. 1	$xxx	$xxx				
Grant No. 2	xxx	xxx	$xxx	$xxx		Note 1
IN-KIND						
Grant No. 1	$xxx	$xxx			$xxx	Note 2
Grant No. 2	xxx	xxx	xxx			
TOTAL	$xxx	$xxx	$xxx	$xxx	$xxx	

[18] The cost-sharing contributions, to be presented in the cost-sharing schedule, depend on the period covered by the cost-sharing budget. If the budget covers the life of the project, then the contributions, as well as any shortfalls or questioned costs, will be presented on a cumulative basis from the project's inception. If the cost-sharing budget covers a one-year period, then the cost-sharing contributions and any shortfalls or questioned costs will be presented on an annual basis.

[19] All questioned cost-sharing costs will be listed here. All material questioned costs resulting from instances of noncompliance with agreement terms and applicable laws and regulations must be included as findings in the report on compliance.

[20] For closeout audits of awards with life-of-project cost-sharing budgets, the auditors will use the life-of-project budget. For audits with annual cost-sharing budgets, the auditors will use the budget for the period under audit.

[21] This column will show required cost-sharing contributions that were not provided by the recipient. Since questioned costs are not considered as provided by the recipient, they might have an impact on the "shortfall" column. All material cost-sharing shortfalls must be included as findings in the report on compliance. All cost-sharing shortfalls will be briefly described in the notes to the cost-sharing schedule, and be cross-referenced to any corresponding findings in the report on compliance.

[22] The notes to the cost-sharing schedule should briefly describe both material and immaterial questioned costs, and shortfalls. The notes should be cross-referenced to any corresponding findings in the report on compliance.

Example 6.3 - Illustrative Schedule of Computation of Indirect Cost Rate

(NAME OF RECIPIENT)
SCHEDULE OF COMPUTATION OF
INDIRECT COST RATE

For the Year Ended December 20XX

	EXPENSES	EXCLUSIONS/ UNALLOWABLE EXPENSES[23]	DIRECT COST BASE	INDIRECT COST POOL
Salaries & Wages	$ 1,000	$ 100	$ 800	$ 100
Employee Benefits	100	10	80	10
Payroll Taxes	100	10	80	10
Professional Expenses	400	200	200	
Travel	50		50	
Representation	100	100		
Occupancy & Cleaning	50			50
Telephone	50			50
Office Supplies	50			50
Postage & Shipping	100		100	
Equipment Rental	200		200	
Repairs & Maintenance	150		100	50
Depreciation	50		50	
Printing & Duplicating	50			50
Resource Aids	100		100	
Insurance	100		100	
Bad Debt Expense	50	50		
Miscellaneous	50	10		40
Fund Raising	200	200		
Total	$ 2,950[24]	$ 680	$ 1,860	$ 410

Indirect cost rate calculation:

$$\frac{\text{Indirect Costs}\quad \$\ 410}{\text{Direct Cost Base}\quad \$\ 1{,}860} = \underline{22\%}$$

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[23] *Excludes capital expenditures and other distorting items such as major subcontracts or subawards. Unallowable costs should be excluded; however, costs that are unallowable as direct charges to MCC awards must still be included in the direct cost base and allocated their share of the organization's indirect costs if they represent costs which (1) include the salaries of personnel, (2) occupy space, and (3) benefit from the organization's indirect costs.

[24] Agrees to the total expenses shown in the audited general purpose financial statements.

Chapter 7: Illustrative Reports

The following illustrations of auditor's reports will provide useful examples of the types of reports that will satisfy the requirements of these *Guidelines*. For additional guidance, the auditors should refer to the applicable AICPA Statements on Auditing Standards. *****To make it easier for audit firms to comply with these *Guidelines*, the format and content of the audit reports should closely follow the following illustrative reports.

Example 7.1.A - Illustrative Auditor's Report on a Fund Accountability Statement with an Unqualified Opinion

<u>Independent Auditor's Report</u>[25]

Board of Directors
Name of Recipient Organization
Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* for the year ended June 30, 20XX. The fund accountability statement is the responsibility of *(name of recipient)'s* management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

We conducted our audit of the fund accountability statement in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.[26]

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[25] For guidance on these reports, refer to AICPA SAS No. 58, “Reports on Audited Financial Statements,” SAS No. 62, “Special Reports,” and SAS No. 79, “Amendment to Statement on Auditing Standards No. 58.” The auditors should express an adverse or disclaimer of opinion when material departures or scope restrictions are to such an extent that, in the auditor’s judgment, they would preclude the expression of a qualified opinion.

[26] The lack of a satisfactory continuing education program and/or external quality control review program must be disclosed in the second paragraph of the report. In such case, the second paragraph and additional explanatory paragraphs would read as follows:

“Except as discussed in the following paragraph(s), we conducted our audit of the fund accountability statement in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States....” (continue with the standard language for this paragraph).

“We do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.6 of *U.S. Government Auditing Standards*. However, our current program provides for at least *(number)* hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.”

“We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, In our opinion, the fund accountability statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by Millennium Challenge Corporation (MCC) for the year then ended in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note X.

*****In accordance with *U.S. Government Auditing Standards,* we have also issued our reports dated June 30, 20XX, on our consideration of *(name of recipient)'s* internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *U.S. Government Auditing Standards* and should be read in conjunction with this Independent's Auditor's Report in considering the results of our audit.

This report is intended for the information of *(name of recipient)* and MCC. However, upon release by MCC, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature

Date

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paragraph 3.33 of *U.S. Government Auditing Standards*, since no such program is offered by professional organizations in *(name of country)*. We believe that the effect of this departure from U.S. Government Auditing Standards is not material because we participate in the *(name of U.S. affiliate)* worldwide internal quality control review program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices."

Example 7.1.B - Illustrative Auditor's Report on a Fund Accountability Statement[27] with a Qualified Opinion

<u>Independent Auditor's Report</u>

Board of Directors
Name of Recipient Organization
Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* for the year ended June 30, 20XX. The fund accountability statement is the responsibility of *(name of foreign recipient)*'s management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

We conducted our audit of the fund accountability statement in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The results of our tests disclosed the following material questioned costs as detailed in the fund accountability statement: (1) $XXX in costs that are explicitly questioned because they are not program related, unreasonable, or prohibited by the terms of the agreements; and (2) $XXX in costs that are not supported with adequate documentation or did not have required prior approvals or authorizations.[28]

In our opinion, except for the effects of the questioned costs discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by Millennium Challenge Corporation (MCC) for the year then ended in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note X.

In accordance with *U.S. Government Auditing Standards,* we have also issued our reports dated June 30, 20XX, on our consideration of *(name of recipient)'s* internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *U.S. Government Auditing*

[27] For guidance on these reports, refer to AICPA SAS No. 58, "Reports on Audited Financial Statements," SAS No. 62, "Special Reports," and SAS No. 79 Amendment to Statement on Auditing Standards No. 58. The auditors must express an adverse or disclaimer of opinion when material departures or scope restrictions are to such an extent that, in the auditor's judgment, they would preclude the expression of a qualified opinion.

[28] This paragraph is illustrative only and can be modified or excluded based on the type of findings contained in the report.

Standards and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

This report is intended for the information of *(name of recipient)* and MCC. However, upon release by MCC, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature

Date

Example 7.2.A - Illustrative Auditor's Report on Internal Control with No Reportable Conditions Noted

<u>Independent Auditor's Report on Internal Control</u>

Board of Directors
Name of Recipient Organization
Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* as of and for the year ended June 30, 20XX, and have issued our report on it dated August 15, 20XX. We also reviewed the separate cost-sharing schedule *(if applicable).*

We conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.[29]

The management or those charged with governance of *(name of recipient)* is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the fund accountability statement in conformity with the basis of accounting described in Note X to the fund accountability statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the fund accountability statement of (*name of recipient*) for the year ended June 30, 20XX, in accordance with *U.S. Government Auditing Standards,* we considered (*name of recipient*) internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the fund accountability statement, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

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[29] The lack of a satisfactory continuing education program and/or external quality control review program must be disclosed in the second paragraph as follows:

"Except for not having a fully satisfactory continuing education program and/or not conducting an external quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement), we conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States...." (continue with the standard language for this paragraph).

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the fund accountability statement will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, we noted certain matters involving internal control and its operation that we have reported to the management of *(name of recipient)* in a separate letter dated August 15, 20XX.[30]

This report is intended for the information of *(name of recipient)* and the Millennium Challenge Corporation (MCC). However, upon release by MCC, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature

Date

[30] Exclude this paragraph if there are no nonreportable conditions.

Example 7.2.B - Illustrative Auditor's Report on Internal Control with Reportable Conditions Noted

<u>Independent Auditor's Report on Internal Control</u>

Board of Directors
Name of Recipient Organization
Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* as of and for the year ended June 30, 20XX, and have issued our report on it dated August 15, 20XX. We also reviewed the separate cost-sharing schedule *(if applicable).*

We conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

The management or those charged with governance of *(name of recipient)* is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the fund accountability statement in conformity with the basis of accounting described in Note X to the fund accountability statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the fund accountability statement of (*name of recipient*) for the year ended June 30, 20XX, in accordance with *U.S. Government Auditing Standards,* we considered (*name of recipient*) internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the fund accountability statement, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies [*and other deficiencies that we consider to be material weaknesses*].

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably such that there is more than a remote likelihood that a misstatement of the entity's fund accountability statement (*and cost-sharing schedule, if applicable*) that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control: (Include paragraphs summarizing the significant deficiencies, with references to the attached findings, which should fully describe the conditions noted.)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the fund accountability statement will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.[31]

We also noted other matters involving internal control and its operation that we have reported to the management of *(name of recipient)* in a separate letter dated August 15, 20XX.[33]

This report is intended for the information of *(name of recipient)* and the Millennium Challenge Corporation (MCC). However, upon release by MCC, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature

Date

[31] If conditions believed to be material weaknesses are disclosed, the report must describe the weaknesses that have come to the auditor's attention. The last sentence of this paragraph should be modified as follows:

"We believe that the following deficiencies constitute material weaknesses.

(A description of the material weaknesses that have come to the auditor's attention would follow and must be cross-referenced to the attached findings.)

[33] Exclude this paragraph if there are no other matters involving internal control that should be reported.

Example 7.3.A - Illustrative Auditor's Report on Compliance with No Material Noncompliance Noted

<u>Independent Auditor's Report on Compliance</u>

Board of Directors
Name of Recipient Organization
Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* as of and for the year ended June 30, 20XX, and have issued our report on it dated August 15, 20XX. We also reviewed the separate cost-sharing schedule *(if applicable)*.

We conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. *****Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the fund accountability statement amounts.[34]

Compliance with agreement terms and laws and regulations applicable to *(name of recipient)* is the responsibility of *(name of recipient)*'s management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of (*name of recipient*)'s compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We also performed tests of *(name of recipient)'s* compliance with certain provisions of agreement terms and laws and regulations applicable to the provision of cost-sharing contributions *(if applicable)*.

The results of our tests disclosed no instances of noncompliance that are required to be reported here under *U.S. Government Auditing Standards*.[35]

We noted certain immaterial instances of noncompliance that we have reported to the management of *(name of recipient)* in a separate letter dated August 15, 20XX.[36]

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[34] The lack of a satisfactory continuing education program and/or external quality control review program must be disclosed in the second paragraph as follows:

"Except for not having a fully satisfactory continuing education program and/or not conducting an external quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement), we conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States...." (continue with the standard language of this paragraph).

[35] See *U.S. Government Auditing Standards*, Chapter 5, paragraphs 5.18 - 5.25 for reporting criteria.

[36] Exclude this paragraph if there are no immaterial instances of noncompliance.

This report is intended for the information of *(name of recipient)* and the Millennium Challenge Corporation (MCC). However, upon release MCC, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature

Date

Example 7.3.B - Illustrative Auditor's Report on Compliance with Material Noncompliance Noted

<u>Independent Auditor's Report on Compliance</u>

Board of Directors
Name of Recipient Organization
Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* as of and for the year ended June 30, 20XX and have issued our report on it dated August 15, 20XX. We also reviewed the separate cost-sharing schedule *(if applicable).*

We conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. *****Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the fund accountability statement amounts.

Compliance with the terms and conditions of the Compact and related Agreements and laws and regulations applicable to *(name of recipient)* is the responsibility of *(name of recipient)*'s management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of *(name of recipient)*'s compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We also performed tests of *(name of recipient)*'s compliance with certain provisions of agreement terms and laws and regulations applicable to the provision of cost-sharing contributions *(if applicable).*

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statement and the cost-sharing schedule *(if applicable).* The results of our compliance tests disclosed the following material instances of noncompliance, the effects of which are shown as questioned costs in *(name of recipient)*'s 20XX fund accountability statement and cost-sharing schedule *(if applicable).*

(Include paragraphs summarizing the material instances of noncompliance, with references to the attached findings, which must fully describe the material instances of noncompliance.)[37]

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[37] *U.S. Government Auditing Standards* state that audit findings have been regarded as containing the elements of condition, criteria, cause, and effect. The auditors must attempt to identify these points to provide sufficient information to permit timely and proper corrective action. These findings may also serve as a basis for conducting additional audit work.

We considered these material instances of noncompliance in forming our opinion on whether *(name of recipient)*'s 20XX fund accountability statement is presented fairly, in all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note X to the fund accountability statement, and this report does not affect our report on the fund accountability statement dated *(date of report)*.

We noted certain immaterial instances of noncompliance that we have reported to the management of *(name of recipient)* in a separate letter dated August 15, 20XX.[38]

This report is intended for the information of *(name of recipient)* and the Millennium Challenge Corporation (MCC). However, upon release by MCC, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature

Date

[38] Exclude this paragraph if there are no immaterial instances of noncompliance.

Example 7.4 – Illustrative Report on Schedule of Computation of Indirect Cost Rate

Board of Directors
Name of Recipient Organization
Complete Mailing Address

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of computation of indirect cost rate contained on page (x) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Audit Firm's Signature

Date

Example 7.5 – Illustrative Unqualified Opinion on the General Purpose Financial Statements of the Recipient Organization as a Whole

Independent Auditor's Report[39]

Board of Directors
Name of Recipient Organization
Complete Mailing Address

We have audited the accompanying balance sheet of *(name of recipient)* as of June 30, 20XX, and the related statements of revenue and expenditures, and changes in fund balances for the year then ended. These financial statements are the responsibility of *(name of recipient)* management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with (*insert source of auditing standards*). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *(name of recipient)* at June 30, 20XX, and the results of its operation and its fund balances for the year then ended in conformity with generally accepted accounting principles.

Audit Firm's Signature

Date

[39] For guidance on basic financial statement reports requiring other than an unqualified opinion, refer to SAS No. 58, "Reports on Audited Financial Statements" and SAS No. 79, Amendment to SAS No. 58.

The auditors must express a qualified, adverse, or disclaimer of opinion when a lack of sufficient, competent evidential matter or restrictions on the scope of the auditor's examination have led him or her to conclude that an unqualified opinion cannot be expressed.

Example 7.6.A - Illustrative Auditor's Report on the Cost-Sharing Schedule for Agreements with Life-of-Project Cost-Sharing Budgets That Have Not Yet Ended, with No Reportable Conditions Noted

<u>Independent Auditor's Review Report on the</u>
<u>Cost-Sharing Schedule</u>

Board of Directors
Name of Recipient Organization
Complete Mailing Address

We have reviewed the accompanying cost-sharing schedule of *(name of recipient)* for the period *(date of beginning of current audit period)* to *(date of end of current audit period)*. Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA).[40] The purpose of our review was to determine if the cost-sharing schedule is fairly presented in accordance with the basis of accounting described in note X to the cost-sharing schedule. We also considered internal control related to the provision of and accounting for cost-sharing contributions.

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data. It is substantially more limited in scope than an examination, the objective of which is to express an opinion on the cost-sharing schedule. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that *(name of recipient)* 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.

This report is intended for the information of *(name of recipient)* and the Millennium Challenge Corporation (MCC). However, upon release by MCC, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature

Date

[40] For reporting guidance, see AICPA Statements of Standards for Attestation Engagements, Attestation Standard (AT) 100.64.

Example 7.6.B - Illustrative Auditor's Report on the Cost-Sharing Schedule for Agreements with Life-of-Project Cost-Sharing Budgets That Have Not Yet Ended, with Reportable Conditions Noted

<u>Independent Auditor's Review Report on the</u>
<u>Cost-Sharing Schedule</u>

Board of Directors
Name of Recipient Organization
Complete Mailing Address

We have reviewed the accompanying cost-sharing schedule of *(name of recipient)* for the period *(date of beginning of current audit period)* to *(date of end of current audit period)*. Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA).[41] The purpose of our review was to determine if the cost-sharing schedule is fairly presented in accordance with the basis of accounting described in note X to the cost-sharing schedule. We also considered internal control related to the provision of and accounting for cost-sharing contributions.

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data. It is substantially more limited in scope than an examination, the objective of which is to express an opinion on the cost-sharing schedule. Accordingly, we do not express such an opinion.

The results of our review disclosed the following material questioned costs as detailed in the cost-sharing schedule: (1) $XXX in ineligible costs which were not fairly presented in accordance with the basis of accounting used by the recipient to prepare the cost-sharing schedule, and (2) $XXX in unsupported costs which were not fairly presented in accordance with the basis of accounting used by the recipient to prepare the cost-sharing schedule.[42]

(Include paragraphs summarizing the internal control and compliance findings related to the cost-sharing schedule with references to the findings in the reports on internal control and compliance, as applicable, as well as the notes to the cost-sharing schedule.)

Based on our review, except as noted above, nothing came to our attention that caused us to believe that *(name of recipient)* 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.

This report is intended for the information of *(name of recipient)* and the Millennium Challenge Corporation (MCC). However, upon release by MCC, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature

Date

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[41] For reporting guidance, see AICPA Statements of Standards for Attestation Engagements, Attestation Standard (AT) 100.64.

[42] This paragraph is illustrative only and can be modified or excluded based on the type of findings contained in the report.

Example 7.6.C - Illustrative Auditor's Report on the Cost-Sharing Schedule for Close-Out Audits of Agreements with Life-of-Project Cost-Sharing Budgets, and Audits of Agreements with Annual Cost-Sharing Budgets, with No Reportable Conditions Noted

<u>Independent Auditor's Review Report on the</u>
<u>Cost-Sharing Schedule</u>

Board of Directors
Name of Recipient Organization
Complete Mailing Address

We have reviewed the accompanying schedule of counterpart contributions of *(name of recipient)* for the period *(date of beginning of current audit period)* to *(date of end of current audit period)*. Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA).[43] The purpose of our review was to determine if the cost-sharing schedule is fairly presented in accordance with the basis of accounting described in note X to the cost-sharing schedule and to determine if cost-sharing contributions were provided in accordance with the terms of the agreements. We also considered internal control related to the provision of and accounting for cost-sharing contributions.

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data. It is substantially more limited in scope than an examination, the objective of which is to express an opinion on the cost-sharing schedule. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that *(name of recipient)* 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. Furthermore, nothing came to our attention that caused us to believe that the recipient has not provided and accounted for cost-sharing contributions, in all material respects, in accordance with the terms of the agreements.

This report is intended for the information of *(name of recipient)* and the Millennium Challenge Corporation (MCC). However, upon release by MCC, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature

Date

[43] For reporting guidance, see AICPA Statements of Standards for Attestation Engagements, Attestation Standard (AT) 100.64.

Example 7.6.D - Illustrative Auditor's Report on the Cost-Sharing Schedule for Close-Out Audits of Agreements with Life-of-Project Cost-Sharing Budgets, and Audits of Agreements with Annual Cost-Sharing Budgets, with Reportable Conditions Noted

<u>Independent Auditor's Review Report on the</u>
<u>Cost-Sharing Schedule</u>

Board of Directors
Name of Recipient Organization
Complete Mailing Address

We have reviewed the accompanying schedule of counterpart contributions of *(name of recipient)* for the period *(date of beginning of current audit period)* to *(date of end of current audit period)*. Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA).[44] The purpose of our review was to determine if the cost-sharing schedule is fairly presented in accordance with the basis of accounting described in note X to the cost-sharing schedule and to determine if cost-sharing contributions were provided in accordance with the terms of the agreements. We also considered internal control related to the provision of and accounting for cost-sharing contributions.

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data. It is substantially more limited in scope than an examination, the objective of which is to express an opinion on the cost-sharing schedule. Accordingly, we do not express such an opinion.

The results of our review disclosed the following material questioned costs as detailed in the cost-sharing schedule: (1) $XXX in ineligible costs which were not provided in accordance with the terms of the agreements, and (2) $XXX in unsupported costs which were not accounted for in accordance with the terms of the agreements.[45]

(Include paragraphs summarizing the internal control and compliance findings related to the cost-sharing schedule with references to the findings in the reports on internal control and compliance, as applicable, as well as the notes to the cost-sharing schedule.)

Based on our review, except as noted above, nothing came to our attention that caused us to believe that *(name of recipient)* 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. Furthermore, except as noted above, nothing came to our attention that caused us to believe that the recipient has not provided and accounted for cost-sharing contributions, in all material respects, in accordance with the terms of the agreements.

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[44] For reporting guidance, see AICPA Statements of Standards for Attestation Engagements, Attestation Standard (AT) 100.64.

[45] This paragraph is illustrative only and can be modified or excluded based on the type of findings contained in the report.

This report is intended for the information of *(name of recipient)* and the Millennium Challenge Corporation (MCC). However, upon release by MCC, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature

Date

Chapter 8: Outline of an Illustrative Statement of Work for Recipient Contracted Audits

I. BACKGROUND

This section must contain a brief description of the MCC program objectives, implementing agencies and their responsibilities in the MCC programs, amount, type and purpose of MCC and other program contributions, duration of the program and other significant requirements.

II. TITLE

This section must contain the title and number of the MCC programs.

III. OBJECTIVES

This section must state that this is a financial audit of the MCC-funded programs and the period covered. It should also contain the requirements from Chapter 3 of these *Guidelines*. The objectives concerning the audit of the indirect cost rate and the general purpose financial statements of the recipient organization as a whole should only be included if applicable.

IV. AUDIT SCOPE

This section must include the requirements of Chapter 4 of these *Guidelines*. The scope requirements concerning the audit of the indirect cost rate and the general purpose financial statements of the recipient organization as a whole should only be included if applicable. In addition, the cognizant MCA may expand the scope of the audit to include additional requirements to address special MCA concerns.

V. REPORTS

This section must include the requirements of Chapter 5 of these *Guidelines*. The reporting requirements concerning the audit of the indirect cost rate and the general purpose financial statements of the recipient organization as a whole should only be included if applicable.

VI. INSPECTION AND ACCEPTANCE OF AUDIT WORK AND REPORTS

This section will discuss the responsibilities of the cognizant MCA, the recipient, and the OIG in the inspection and acceptance of the audit work and reports.

VII. RELATIONSHIPS AND RESPONSIBILITIES

This section should establish the relationships and responsibilities between the independent auditor, the recipient, the cognizant MCA, and the OIG.

VIII. TERMS OF PERFORMANCE

This section requires timely completion of the audit report after the end of the fiscal year. (The OIG must receive the audit report no later than ninety days after the end of the audited period.) This section must also describe how payments to the independent auditor are to be made. The final payment cannot be made until after the OIG office approves the report.

Chapter 9: Model Audit Agreement with Supreme Audit Institutions

The MCA and the *(title of the recipient country's Supreme Audit Institution -- hereinafter referred to as the SAI)* agree that the SAI may perform or contract for audits of MCC funding agreements with the Government of *(name of country)*.

The audits must be performed in accordance with the *Guidelines for Financial Audits Contracted by MCA* issued by the Inspector General, as required by the standard audit provisions contained in the respective agreements between MCC and the Government of *(name of country)*.

MCA and the SAI agree that the SAI will perform audits in accordance with *U.S. Government Auditing Standards* or such standards as the principals may agree upon.

MCA and the SAI may agree that the SAI can contract an independent public accounting firm to perform audits of governmental organizations. These contracted audits must be performed in accordance with *U.S. Government Auditing Standards* and be supervised by the SAI. MCA may finance these audit contracts. The audit firms and contracts must be approved by MCC before the contract is entered into.

MCA and the SAI may agree that the SAI can contract an independent public accounting firm or qualified individual to supervise the audits to be performed by the SAI or its contractor. MCA may finance these contracts. The contractor and contracts must be approved by MCC before the contract is entered into.

MCA and the SAI must jointly prepare an annual schedule of audits to be performed or contracted by the SAI. The schedule of audits must contain the following information:

- Names of the governmental institutions to be audited.
- Identifying numbers of MCA agreements to be covered by the audits.
- Fiscal year to be covered by the audits.
- Name of the auditors (SAI or public accounting firm).
- Name of the entity in charge of supervising the audits (SAI, public accounting firm, or individual contractor).

Standard statements of work provided by the OIG as examples to be used in performing audits of governmental organizations are attached, and are an integral part of this agreement. MCA must approve all statements of work before audit work begins. MCA may expand the scope of work to allow the review of specific areas that may be of particular interest to MCA for ensuring proper accountability over resources provided to the recipient, and may meet with the SAI or its contractor at the beginning of the audit to explain any financial or compliance areas of concern contained in the statement of work that MCA wants to emphasize.

The scope of audits must include, at a minimum, a report on the fund accountability statement for the MCC-funded programs, a report on internal control related to the MCC-funded programs, and a report on compliance with agreement terms and applicable laws and regulations related to the MCC-funded programs. The OIG will provide technical advice and perform quality control reviews (QCRs) of the workpapers of a sample of audit reports. The OIG will notify the auditee of the results of the QCRs. If the OIG does not accept an audit report because of deficiencies in the work of the SAI or its contractor, the auditors will perform any additional audit work requested by the OIG at no additional cost to MCA.

The SAI or its contractor must properly maintain audit working papers for a period of three years from the completion of the audit. During this three-year period, the SAI or its contractor must immediately provide the working papers when requested by MCA or the OIG.

Signed ______________________ Date
MCA Representative

Signed ______________________ Date
Supreme Audit Institution

Signed ______________________ Date
OIG

Chapter 10: USAID Inspector General Contact Information

Washington OIG Address and Phone Numbers

U.S. AND EXPRESS MAIL ADDRESSES		PHONES
Office of Inspector General U.S. Agency for International Development Director, OIG/MCC/FA OIG/MCC Suite 770 1401 H Street N.W. Washington, DC 20005	N/A	TEL: 202-216-6960 FAX: 202-216-6984

*Inspector General Hotline for Reporting Fraud, Waste and Abuse

Telephones:[46] 1-800-230-6539 (inside the U.S.) or 202-712-1023

E-Mail Address: ig.hotline@ usaid.gov

Mailing address:

USAID OIG HOTLINE
P.O. Box 657
Washington, DC 20044-0657

The purpose of the OIG Hotline is to receive complaints of Fraud, Waste or Abuse in MCC programs and operations, including mismanagement or violations of law, rules or regulations by MCC employees or program participants. In addition to MCC, the OIG provides oversight services for the United States Agency for International Development**,** the Inter-America Foundation, the African Development Foundation, and upon request, to the Overseas Private Investment Corporation. Complaints may be received directly from MCC employees, participants in MCC programs, or the general public. The IG Act and other pertinent laws provide for the protection of persons making Hotline complaints. You have the option of submitting your complaint(s) via Internet electronic mail, telephone, or U.S. mail. However, if you elect to submit your complaint(s) via Internet e-mail you must waive confidentiality due to the non-secure nature of Internet electronic mail systems.

[46] You may request confidentiality when using telephone or U.S. mail.