



USAID
FROM THE AMERICAN PEOPLE

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF INSPECTOR GENERAL
FOR THE
MILLENNIUM CHALLENGE CORPORATION**

**Annual Plan
2007**

Mission

The mission of Office of Inspector General (OIG) is to contribute to and support integrity, efficiency, and effectiveness in all activities of the organizations for which it has oversight responsibilities.

Values

In accomplishing our mission, OIG is committed to the following:

- Integrity
- Excellence
- Teamwork

Strategic Goals

- Promote sound accounting and reporting on financial activities and information security.
- Promote economy, efficiency, and effectiveness, and assess program results.
- Preserve and protect program and employee integrity.

MESSAGE FROM THE INSPECTOR GENERAL

This plan describes the activities that the United States Agency for International Development (USAID), Office of Inspector General (OIG), will undertake in support of the Millennium Challenge Corporation (MCC) in fiscal year (FY) 2007.

OIG established this plan in support of its three strategic goals. Each audit and action planned is briefly described under the strategic goal it supports. The decision to perform the specific work of this plan

was made by considering the risk associated with MCC's programs and assessing potential vulnerabilities in internal controls.

During FY 2007, OIG will continue its review of MCC's most complex and vulnerable programs as more Compacts are signed and the Millennium Challenge Account (MCA) countries begin to implement their programs.

OIG will continue to work toward providing meaningful and actionable

recommendations that will improve the effectiveness and accountability of MCC's programs. We will do this by working closely with the MCC and the MCAs to understand their programs' designs and objectives prior to implementation, and by conducting our audits and investigations using the highest professional standards.

The results of this plan will be reported in future Semiannual Reports to the Congress.

Donald A. Gambatesa
Inspector General

United States Agency for International Development

Office of Inspector General

for the

Millennium Challenge Corporation

Annual Plan

Fiscal Year 2007

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INSPECTOR GENERAL AUTHORITY, RESPONSIBILITY AND CHALLENGES

Public Law 108-199 created MCC as a United States Government-owned corporation responsible for the stewardship of the Millennium Challenge Account (MCA) to promote, support, and ensure accountability for the innovative foreign aid strategies it administers, and established the USAID Inspector General as the Inspector General for MCC. MCC focuses specifically on promoting sustainable economic growth that reduces poverty through investments in areas such as agriculture, education, private-sector development, and capacity building.

Working closely with MCC, countries that receive assistance are responsible for identifying the greatest barriers to their own

development, ensuring civil society participation, and developing an MCA program. MCA participation requires a strong commitment from the host government. Each MCA country will enter into a public compact with MCC that includes a multiyear plan for achieving development objectives and identifies the responsibilities of each partner in achieving those objectives. This strategy of relying on the host country for design and implementation of the program is very different from the traditional foreign assistance model of the donor designing and implementing the program.

MCC anticipates a considerable increase in program and financial activity as the first group of signed

Compacts is implemented. By the end of FY 2007, MCC plans to have Compacts with more than 20 countries with a total value of approximately \$6 billion.

MCC's innovative approach is not without risk. Much of MCC's work is in countries that have limited experience in being solely responsible for implementing major infrastructure projects, and although the countries that sign Compacts with MCC must demonstrate a culture of anticorruption, there are still risks associated with programs of this magnitude. This combination of factors creates challenges for OIG and MCC, and this plan is intended to address the risks inherent in MCC's new programs and operations.

Strategic Goal 1: Promote sound accounting and reporting on financial activities and information security.

Audit of MCC's FY 2006 Financial Statements

In accordance with the Government Corporation Control Act, 31 U.S.C. Section 9101, MCC is required to have its consolidated financial statements audited by OIG or an independent external auditor. OIG will contract with an independent external auditor to audit MCC's FY 2006 financial statements. The audit objectives are to determine whether MCC's principal financial statements are presented fairly in all material respects and whether they conform to generally accepted accounting principles. The external auditors will perform tests of MCC's internal controls structure and compliance with laws and regulations that could have a material effect on the principal financial statements. OIG will supervise the audit work, brief MCC on the audit findings and provide recommendations to MCC for correcting identified weaknesses.

Audit of MCC's Compliance with the Provision of the Federal Information Security Management Act for FY 2007

The Federal Information Security Management Act of 2002 (FISMA), Public Law 107-347, requires each agency to develop, document, and implement an agency-wide information security program. This annually mandated audit will

determine whether MCC's information system security program meets FISMA requirements for program management and information security controls. It will enhance the protection of data files, computer equipment, and resources from unauthorized activity.

Assess Capabilities and Approve Local Accounting Firms for Auditing MCC Compacts

OIG will assess the capabilities of local audit firms in the countries where MCC has signed assistance Compacts. Assessments will address the capability of local firms and the need for alternative auditing from U.S.-based accounting firms or the Defense Contract Audit Agency.

Two Follow-up Audits of Recommendations from Two Previous Audits

In accordance with OMB Circular A-50, these audits will assess whether management's response to audit recommendations was effective in correcting identified problems to ensure that audit recommendations lead to results.

Three Limited-Scope Surveys/Risk Assessments of the Financial Accountability Arrangements for Compact Implementation

As part of its FY 2007 audit plan, OIG plans to continue its reviews of the financial implementation arrangements for new Compacts. OIG will perform these risk assessments to identify

vulnerabilities in high-risk areas that may have an adverse effect upon the recipient's financial operations.

These surveys are expected to provide greater assurance that the funds provided to the recipients will be effectively controlled and managed. OIG will make recommendations for enhancing the existing financial management practices as necessary.

Audit of MCC's Controls Over Its Contract for Information Technology Services

Information technology (IT) operations and related services are supplied through contract support to MCC. MCC requires technologies that continually update systems, improve mission performance, and provide business solutions in the most economical and efficient manner.

This audit will determine whether MCC implemented necessary controls to monitor its contractor's performance against the required service and security levels and engineering upgrades. The audit will also determine whether (1) performance measures were incorporated into the statement of work for each type of service to be provided; (2) the service level was completely and clearly defined in the statement of work; (3) performance-based incentives were included in the terms of the agreement; (4) the statement of work required the contractor to provide engineering upgrades; and (5) corresponding incentives were included in the contract. The results of the audit will be used to satisfy FISMA 2002 requirements.

Audit of MCC's Management of Cash

MCC approves the disbursement of cash to the Management Challenge Account (MCA) Accountable Entity in the host country on the basis of its cash needs for the following quarter. Cash transfers are made monthly. (OMB has not defined specific timeframes for immediate cash needs, but various federal agencies generally provide advances to nongovernmental entities to cover cash needs for up to 30 days.) Funds paid to a grantee are expected to be applied promptly to the grant purpose in accordance with OMB guidance.

The objective of this audit is to determine if MCC's current cash management policies are adequate and meet the immediate cash needs of the MCA Accountable Entity in a reasonable and efficient fashion. The anticipated result of this audit is MCC's establishment of cash management policies that provide for cash transfers that meet the immediate cash needs of the MCA host countries and comply with guidance issued by the U.S. Department of the Treasury to the extent applicable.

Oversight of Contracted Financial Audits of MCC's Program-Implementing Entities

Under the terms of MCC's Compact agreements during initial Compact implementation, semi-annual audits are required of MCA Accountable Entities. These audits are required to be conducted in accordance with U.S. Government Auditing Standards, and MCA Accountable Entities will engage non-federal auditors to perform these audits. OIG's oversight will ensure that the independence of the non-federal auditors has not been compromised in appearance or in fact; nonfederal auditors have adequately assessed expenditures adequately to ensure that they are allowable; nonfederal auditors have assessed the adequacy of the MCA Audited Entity's internal controls in relation to the audited awards; and nonfederal auditors are familiar with the compliance auditing requirements of MCC Compact agreements and have adequately assessed compliance with the agreement terms.

OIG will review the qualifications and capacity of audit firms interested in performing financial audits of MCA Accountable Entities; review key contracting documents used in contracting audit firms; and perform quality control reviews of the audit work papers of contracted auditors for selected financial audits.

**Strategic Goal 2:
Promote economy,
efficiency, and
effectiveness, and assess
program results.**

Audit of MCC's Management of Its Travel Activities

MCC must have adequate controls for properly managing travel activities in accordance with federal travel regulations and requirements. MCC recently developed its travel policy. This audit will evaluate the overall internal control environment of MCC's travel program. OIG's review of the policies and procedures and a sample of MCC travel activities may be able to provide MCC reasonable assurance that its policies, procedures, and travel activities are consistent with federal government travel regulations.

Audit of MCC's Plans for Monitoring Country Programs

Monitoring provides information to determine whether the inputs to a project is well defined and utilized; identifies project problems and solutions; and ensures that the project plan is followed in a timely manner.

MCC includes a plan for monitoring and evaluating results in each Compact and conducts progress reviews. OIG also will review MCC's monitoring plans to determine if the plans appear complete and adequate. OIG will also review project work plans, schedules and progress reports.

This audit will determine if MCC's progress oversight, monitoring and evaluation program is effective. The audit will evaluate the system that MCC uses to monitor the results of the MCA Accountable Entity's activities, identify any apparent weaknesses, and recommend actions for better managing programs.

Risk Assessment of Compact Program Implementation in Vanuatu and Nicaragua

Vanuatu and Nicaragua are two of the original 16 countries that MCC considered eligible to submit a proposal for a Compact project.

In 2006, a 5-year \$65.69 million Compact was signed with Vanuatu. The Compact addresses Vanuatu's costly and unreliable transportation infrastructure, a major impediment to economic growth. MCC signed a 5-year \$175 million Compact with Nicaragua in 2005. The Compact funds projects for reducing transportation costs and improving access to markets for rural communities; increasing wages and profits from farming and related enterprises in the region; and increasing investment by strengthening property rights.

To provide MCC with assurance that funding is effectively managed by MCA-Vanuatu and MCA-Nicaragua, OIG will review the planning for and implementation of major programs and project activities under the Compacts. These assessments will identify significant areas of administrative and operational risk and actions taken to mitigate risk. Recommendations, if any, will focus on financial management practices and

management controls of MCA-Vanuatu and MCA-Nicaragua.

Audits of the Quality of Data Reported by MCC for Its Programs in Georgia and Cape Verde

In 2005, MCC signed a \$295.3 million Compact with the Government of Georgia and a \$110 million Compact with the Republic of Cape Verde.

Section 609(b)(1)(c) of Millennium Challenge Act of 2003 requires the parties of the Compacts to regularly assess progress toward the Compacts' goals and objectives. Accordingly, the monitoring and evaluation plans of MCA-Georgia and MCA-Cape Verde contain requirements for data-quality reviews and collection and reporting of data for use by MCC to evaluate the progress and potential success of the Compacts' activity and the program.

The objective of these audits will be to determine if program data reported by MCA-Georgia and MCA-Cape Verde are complete, and accurate and whether MCC's means of verifying the data are adequate. Testing the quality of program data provided by MCA-Georgia and MCA-Cape Verde will allow weaknesses in data-gathering systems and data-verification processes to be detected. By identifying problems with data quality and recommending methods for improving the quality and timeliness of data, OIG will assist MCA-Georgia, MCA-Cape Verde and MCC management to obtain and provide more accurate and more timely data. As a result, MCA

Accountable Entities and MCC will be better able to identify and resolve problems with higher quality program data.

Audit of Millennium Challenge Corporation's Monitoring of the Country's Procurement Process

The contracting/procurement area is highly susceptible to fraud, waste, and abuse. MCC is a relatively new organization that has not fully tested the application of its modified procurement guidelines by MCA Accountable Entities. In addition, it is funding the implementation of Compact programs by MCA Accountable Entities in countries that have varying degrees of accountability standards. MCC's monitoring process must be effective in ensuring that MCA Accountable Entities are complying with procurement requirements.

This audit will evaluate MCC's monitoring process and make recommendations for correcting identified contracting/procurement monitoring problems and for addressing contracting/procurement deficiencies.

Audit of MCC's Management of Its Conditions Precedent in Its Compact Agreements

This audit will determine if MCC ensured that all required conditions were met before Compacts went into effect or disbursements were made to Compact countries. It also will address the thoroughness of MCC's review of required documents to ensure that the Compact countries met all the conditions.

The anticipated result of the audit is that MCC will set guidelines for better assessing countries' compliance with requirements before disbursing funds. It also may enable MCC to better identify the limitations of some developing countries that prevent completion of all necessary requirements. Recommendations will focus on policies that ensure that all conditions are met before funds are disbursed.

Strategic Goal 3: Preserve and protect program and employee integrity.

Investigate Allegations of Fraud, Waste, and Abuse in Programs and Operations

OIG will investigate all allegations of fraud, waste, and abuse received from MCC personnel, audit staff, contractors, grantees, the Hotline, and other sources. OIG will refer actions to MCC for administrative action, as appropriate. OIG will refer investigative findings to the U.S. Department of Justice for criminal and/or civil action, as warranted.

OIG will continue to prioritize program integrity cases involving major fraud in MCC programs and operations. Major fraud investigations are considered to be those involving large dollar losses.

OIG will track and report the number of allegations investigated, the number of cases referred for action, and the number of criminal, civil, and administrative actions resulting from investigations.

Prevent Fraud, Waste and Abuse in Programs and Operations

OIG will promote awareness of fraud by conducting fraud awareness training for MCC employees, contractors, grantees, and others to alert them to fraudulent schemes and practices. OIG will develop and distribute fraud awareness literature, audiovisual aids and other

material to MCC and its partners. OIG also will advise upon and support antifraud strategies through briefings, meetings, conferences and other forums. OIG will promote its Hotline as an effective tool for reporting fraud, waste, and abuse.

Preserve and Protect Employee Integrity By Conducting and Concluding Investigations of Employee Integrity Efficiently and Expeditiously

OIG will investigate all allegations of personnel misconduct received from MCC personnel, contractors, grantees, the Hotline, and other sources. Evidence of wrongdoing by any employee will be reported to the U.S. Attorney's Office for criminal/civil prosecution and/or to MCC for administrative action.

OIG will track and report the number of allegations investigated, the number of cases referred for action, and the number of criminal, civil, and administrative actions resulting from investigations.



Inspector General **HOTLINE**

OIG's Hotline makes it easy to report allegations of fraud, waste, abuse, mismanagement, or misconduct in programs and operations of USAID, IAF, ADF, and MCC. Employees, contractors, program participants, and the general public may report allegations directly by e-mail, telephone, or mail to:

Phone 1-202-712-1023
1-800-230-6539

E-mail ig.hotline@usaid.gov

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



**U.S. Agency for International Development
Office of Inspector General
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1300 Pennsylvania Avenue, N.W.
Room 6.6D
Washington, DC 20523

www.usaid.gov/oig

The OIG Annual Plan for MCC is available on the Internet at
www.usaid.gov/oig/public/mcc/mcc_ann_report.htm