



## OFFICE OF INSPECTOR GENERAL

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# AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S MONITORING OF TRAFFICKING IN PERSONS IN MCC-FUNDED PROGRAMS

AUDIT REPORT NO. M-000-13-004-P  
February 12, 2013

WASHINGTON, D.C.



*Office of Inspector General*

February 12, 2013

Mr. Patrick Fine, Vice President  
Department of Compact Operations  
Millennium Challenge Corporation  
875 15th Street, NW  
Washington, DC 20005-2203

Dear Mr. Fine:

This letter transmits the Office of Inspector General's report on the "Audit of the Millennium Challenge Corporation's Monitoring of Trafficking in Persons in MCC-funded Programs." In finalizing the report, we considered your written comments on our draft report and included those comments in their entirety in Appendix II of this report.

The report contains one recommendation to strengthen the Millennium Challenge Corporation's policies and procedures on detecting and deterring trafficking in persons. We consider that management decision has been reached on the recommendation. Final action will be reached when MCC issues written guidance.

We appreciate the cooperation and courtesy extended to our staff during this audit.

Sincerely,

/s/

Richard J. Taylor  
Deputy Assistant Inspector General for Audit  
Millennium Challenge Corporation

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<b>Abbreviations</b>	
The following abbreviations appear in this report:	
2WL	Tier 2 Watch List
GAO	Government Accountability Office
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
OIG	Office of Inspector General
SGA	social and gender assessment
TIP	trafficking in persons

# SUMMARY OF RESULTS

The Victims of Trafficking and Violence Protection Act (Public Law 106-386) was passed in 2000 to combat trafficking in persons (TIP). The U.S. State Department estimated that about 27 million men, women, and children worldwide are victims to human trafficking, which has been called the face of modern slavery. The department further stated that the challenge is not just punishing traffickers and protecting victims, but also putting safeguards in place to ensure the freedom of future generations.

To further combat TIP, in September 2012 the White House released Executive Order 13627 that strengthened protections against TIP in federal contracting. It stated, "As the largest single purchaser of goods and services in the world, the United States Government bears a responsibility to ensure that taxpayer dollars do not contribute to trafficking in persons."

The objective of this audit was to determine whether the Millennium Challenge Corporation (MCC) established and implemented procedures to detect and deter TIP in selected compact countries.

The audit found that MCC issued an interim amendment notice as part of its program procurement guidelines, effective May 2011,<sup>1</sup> that formalized across all Millennium Challenge Accounts (MCAs) "the procedures to be used in procurements to help ensure that the contractors, subcontractors and employees of the MCA Entities are not engaged in" TIP. In January 2012<sup>2</sup> MCC further revised guidelines that required its environment and social assessment and gender experts to conduct risk assessments on TIP, including child and forced labor, on infrastructure projects. It also issued *Gender Equality and Poverty Reduction through Growth* in its Principles into Practice document in September 2012 that made the Social and Gender Assessment (SGA) team responsible for identifying and managing TIP risks associated with compact projects.

As of October 2, 2012, MCC had not received any reports of TIP allegations linked to MCC projects. The Office of Inspector General (OIG) did not observe any indications of TIP during a site visit to MCC-funded infrastructure projects in Mozambique in June 2012. Additionally, the Investigations Office of the USAID Inspector General and the State Department's Office to Monitor and Combat Trafficking in Persons did not receive any allegations of TIP associated with MCC's projects.

Although MCC established and implemented procedures to detect and deter TIP in MCC-funded projects, OIG found the following problem.

- MCC did not issue specific guidance on TIP risk management plans (page 4). The MCAs therefore did not have one consistent approach.

To address this concern, the report recommends that MCC's Vice President, Department of Compact Operations:

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<sup>1</sup> Millennium Challenge Corporation, Interim Amendment Notice 2011-001.

<sup>3</sup> The State Department categorizes countries in four tiers based on how well they comply with the Victims of Trafficking and Violence Protection Act.

1. Issue in writing specific guidance on when MCAs should require contractors to develop and implement TIP risk management plans (page 4).

Detailed findings appear in the following section. Appendix I describes the audit scope and methodology. Our evaluation of management comments is on page 6, and full text of the comments appears in Appendix II.

# AUDIT FINDINGS

## **MCC Established and Implemented Procedures to Detect and Deter Trafficking in Persons**

MCC established and implemented procedures to detect and deter TIP. MCC issued procurement guidelines in May 2011 that MCAs would use to ensure that contractors, subcontractors, and MCA employees are not engaged in TIP. MCC developed additional guidelines in January 2012 that included conducting risk assessments of TIP on infrastructure projects. MCC also issued the gender Principles into Practice document in September 2012 identifying SGA as being responsible for managing TIP risks on compact projects.

OIG reviewed documents and found that some MCAs and contractors did more than MCC required to combat TIP.

MCA-Jordan issued TIP plans and impact assessments in 2012, which stated the following:

- Contractors are required to provide quarterly TIP awareness training to employees and subcontractors.
- Contractors are required to report to the project engineer annually on their compliance with MCC's zero tolerance standards on TIP.
- Contractors have a duty to advise the contracting officer if employees are violating TIP.
- Commitment to anti-TIP requirements will be one of the selection and evaluation criteria for contractors before awarding contracts and bids.

MCA-Moldova's September 2011 monitoring and evaluation plan included an indicator on the number of workers the contractor had trained on TIP. Similarly, MCA-Mongolia's May 2012 monitoring and evaluation plan included an indicator on the number of employees trained on TIP for a MCC-funded road project.

MCA-Mozambique issued its *Anti-human Trafficking Strategy for the Roads Projects Direct Area of Influence* in October 2010. The strategy included mechanisms to prevent TIP on road projects, like conducting workshops to disseminate information to community leaders regarding TIP. OIG conducted an audit in Mozambique in calendar year 2012 and during a site visit verified anti-TIP efforts taken by the MCA. OIG also found language prohibiting TIP in five infrastructure contracts, totaling about \$160 million, that supported the Mozambique compact. OIG interviewed ten contract employees for a drainage project and found that they were not aware of any instances of TIP on the project.

## MCC Did Not Issue Specific Guidance on Trafficking in Persons Risk Management Plans

MCC's Interim Amendment Notice 2011-001, May 2011, outlines general procurement procedures to be used to help prevent TIP. In addition, MCC's draft *Social and Gender Assessment (SGA) Approach to Addressing Trafficking in Persons (TIP) in Compact Operations*, dated August 1, 2011, states, "When there is a specific project-related TIP risk identified, especially in Tier 2 Watch List countries,<sup>3</sup> SGA staff are responsible for ensuring that contracts include a requirement for a TIP Risk Management Plan."

MCAs have taken different approaches toward requiring contractors to develop TIP risk management plans. In some cases, TIP management plans were required in instances of high risk, and in other cases, the plans were required regardless of the level of risk. Several examples are discussed below.

- In March 2012 MCA-Philippines issued its social and gender integration plan, which stated that because TIP was high in an area of the road project, contractors were required to develop TIP management plans.
- MCA-Mongolia hired a contractor to produce an environmental management plan<sup>4</sup> for a MCC-funded road project. The plan stated that the road project did not "create any additional opportunities for illegal activities, including human trafficking," and therefore there would be no impact on TIP. However, the plan still required the road contractor to create a TIP risk management plan.
- MCA-Moldova issued its *Guide for Contractors on Combating Trafficking in Persons* in 2012, stating that all contractors are required to develop a social management plan that included a TIP risk management plan.

According to MCC officials, they have been disseminating the draft SGA TIP guidance through meetings and presentations with MCC and MCA staff. However, because MCC does not have specific written guidance on when TIP risk management plans should be developed and implemented, the MCAs are inconsistent in their approaches. Specific written guidance would create uniformity and help MCC and MCAs better implement and monitor TIP risk management plans. To address this concern, this audit makes the following recommendation.

**Recommendation 1.** *We recommend that the Millennium Challenge Corporation's Vice President of Compact Operations issue in writing specific guidance on when Millennium Challenge Accounts should require contractors to develop and implement trafficking in persons risk management plans.*

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<sup>3</sup> The State Department categorizes countries in four tiers based on how well they comply with the Victims of Trafficking and Violence Protection Act.

<sup>4</sup> *North-South Road Project Environmental Impact Assessment (EIA) and Environmental Management Plan (EMP) for the Bayanzurkh Bridge Activity*, March 2, 2011.

## Other Matter

OIG followed up on its previous review of “MCC’s Approach to Address and Deter Trafficking in Persons” (Report No. M-000-12-001-S, December 20, 2011) and found that MCC had designed controls to help prevent TIP in its projects. OIG recommended that MCC finalize and implement the fiscal year 2012 communications plans for Liberia, Niger, and Tanzania. During this audit, OIG found that MCC had acted on that recommendation.

The communication plans provided proposed strategies that MCC would use to address the countries’ State Department tier rankings. The department’s TIP report ranks countries according to four tiers: Tier 1, Tier 2, Tier 2 Watch List (2WL), and Tier 3. The best ranking is Tier 1, and the worst is Tier 3.

- Niger was ranked as 2WL for 2 consecutive years (2010 and 2011) in the June 2011 TIP report. MCC’s managing director for Development Cooperation and Policy Improvement sent a letter to the U.S. Ambassador to Niger on April 11, 2012, stating, “[C]ountries with such unchanged status are at risk of downgrade to Tier 3, which can prompt certain restrictions on receiving U.S. foreign assistance.”

The June 2012 TIP report ranked Niger as 2WL for a third consecutive year. However, the report further stated that Niger was granted a waiver to prevent an automatic downgrade to Tier 3 because its government “has a written plan that, if implemented, would constitute making significant efforts to meet the minimum standards for the elimination of trafficking and is devoting sufficient resources to that plan.”

- Tanzania was ranked as 2WL for 2 consecutive years (2010 and 2011) in the State Department’s June 2011 TIP report. MCC’s Acting Vice President, Department of Policy and Evaluation, sent a letter to Tanzania’s Ministry of Home Affairs on April 11, 2012, stating, “[C]ountries with such unchanged status are at risk of automatic downgrade to Tier 3” and that should one of MCC’s partners receive a downgrade to Tier 3, they would be at risk of not receiving MCC assistance. In the June 2012 TIP report, Tanzania was ranked Tier 2.
- Liberia was downgraded from Tier 2 to 2WL in 2011. MCC officials said because Liberia was ranked 2WL for the first time that year, they communicated their concerns verbally during high-level visits.



# EVALUATION OF MANAGEMENT COMMENTS

MCC provided written comments on the draft report that are included in their entirety in Appendix II of this report. MCC agreed with the recommendation.

**Recommendation 1.** MCC agreed to issue written guidance for MCAs on developing TIP risk management plans. OIG considers that a management decision has been reached on this recommendation. Final action will occur when MCC issues the guidance.

# SCOPE AND METHODOLOGY

## Scope

OIG conducted the audit of MCC's approach to establish and implement procedures to detect and deter TIP in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

Our objective was to determine whether MCC established and implemented procedures to detect and deter TIP in selected compact countries. The scope of the audit included analyzing judgmentally selected infrastructure contracts issued between May 2011 and December 2012.

As part of OIG's efforts to address TIP, audit teams conducting performance audits in calendar year 2012 carried out tests to determine whether TIP was occurring in MCC compact countries. Mozambique was selected because it had infrastructure contracts, which may have the highest risk of TIP. We analyzed OIG audit teams' working papers regarding TIP audit tests during calendar year 2012 and reviewed five contracts, totaling about \$160 million, for TIP language requirements. We also reported on the status of MCC countries that have received 2WL rankings for 2 or more consecutive years. We conducted the audit at MCC headquarters in Washington, D.C., from September 19 to December 20, 2012.

To answer the audit objective, we met with MCC officials to determine what actions MCC took in 2012 to combat TIP. We also followed up on a recommendation from a previous OIG report<sup>5</sup> on MCC's approach to TIP. We analyzed documents created by MCC, MCAs, and contractors to identify what actions they took to deter and prevent TIP.

We examined the internal control environment by reviewing MCC's zero tolerance policy on TIP and guidance issued to MCAs. Specifically, we analyzed documents created by MCAs and contractors to confirm what actions they had taken to detect and prevent TIP.

## Methodology

We interviewed MCC officials in the Department of Compact Operations and Department of Policy and Evaluation. We also interviewed staff from the State Department's Office to Monitor and Combat Trafficking in Persons and contacted the USAID OIG's Investigations Office. In addition, we reviewed the State Department's June 2012 TIP report.

To answer the audit objective, we performed the following:

- Reviewed infrastructure contracts to determine whether TIP provisions were included.
- Reviewed documents to determine whether MCC was taking action against countries that did not make significant efforts to comply fully with minimum standards of TIP policy.

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<sup>5</sup> "Review of the Millennium Challenge Corporation's Approach to Address and Deter Trafficking in Persons" (Report No. M-000-12-001-S, December 20, 2011).

- Reviewed documents to determine whether MCC was taking additional actions to design controls to help prevent TIP.
- Reviewed documents to determine whether selected MCAs and contractors supporting MCC compacts developed their own actions to combat TIP.
- Judgmentally selected a sample of Tier 2 and 2WL countries with infrastructure projects to determine whether they met MCC's May 2011 procurement guidance. We reviewed infrastructure projects because they were high risk in terms of TIP. We selected 2WL countries because they also were high risk in terms of TIP. We further selected Tier 2 countries because they did not fully comply with Public Law 106-386.

# MANAGEMENT COMMENTS



## Memorandum

**DATE:** January 29, 2012

**TO:** Richard Taylor  
Deputy Assistant Inspector General  
Millennium Challenge Corporation  
/s/

**FROM:** Patrick Fine, Vice President  
Millennium Challenge Corporation  
Department of Compact Operations

**SUBJECT:** MCC's Official Response to the OIG Draft Report and Notice of Management Decision for the Audit of the Millennium Challenge Corporation's Monitoring of Trafficking in Persons in MCC-Funded Programs, dated January 17, 2013.

This memo serves as MCC's response to the OIG Draft Report and Notice of Management Decision for the Audit of the Millennium Challenge Corporation's Monitoring of Trafficking in Persons in MCC-Funded Programs.

### **OIG Recommendation No. 1:**

We recommend that the Millennium Challenge Corporation's Vice President of Compact Operations issue in writing specific guidance on when Millennium Challenge Accounts should require contractors to develop and implement trafficking in persons risk management plans.

### **MCC Management Response:**

MCC concurs with this recommendation. As communicated to the OIG, the Department of Compact Operation's Social and Gender Assessment team is developing written guidance for MCAs on the development of a Trafficking in Persons Risk Management Plan. MCC expects to finalize this written guidance by September 30, 2013. This constitutes MCC's Management Decision on this recommendation.

If you have any questions or require any additional information, please contact Pat McDonald, MCC Compliance Officer, at 202-521-7260.

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February 12, 2013

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Richard J. Taylor  
Deputy Assistant Inspector General for Audit  
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