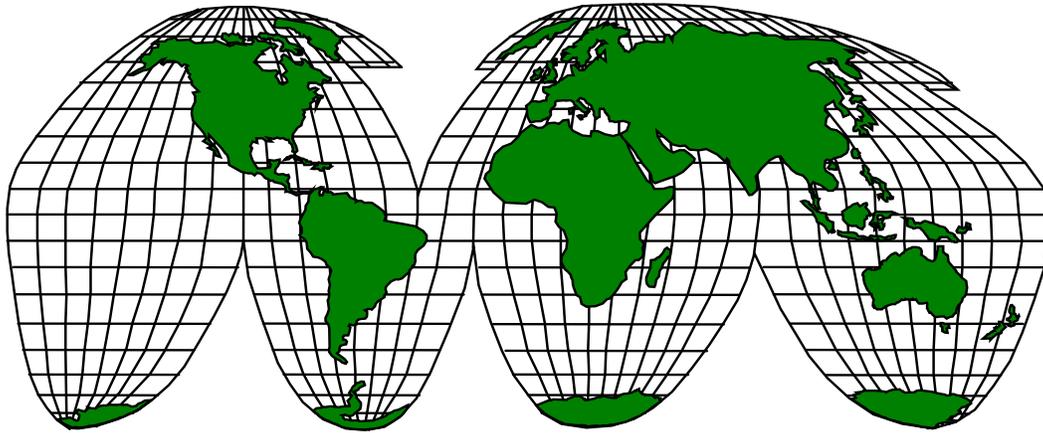


*The MCC-Office of Inspector General has rescinded the *Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's (MCC) Accountable Entities*, effective July 14, 2017. Until such time as these Guidelines are revised and updated by MCC management, the document that follows will serve as MCC's interim *Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities* effective as of the date hereof by decision of the Millennium Challenge Corporation in consultation with the MCC-Office of Inspector General. All references in the document to the Office of Inspector General should be read as references to MCC.

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 7, 2013

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Chapter 1: Purpose of Audit Guidelines

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. The Millennium Challenge Account will be devoted to projects in nations that govern justly, invest in their people and encourage economic freedom. 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 recipient organization will perform all the needed contracting actions necessary to engage an independent audit firm to perform the required audits of both the recipient organization's program and any covered providers. Funding for audits of the recipient organization's program in a recipient country will be funded from Compact funds.

The cost of an audit of a covered provider may be 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.

¹ The accountable entity is the entity established by the recipient government that manages and oversees all aspects of compact implementation.

² A covered provider is a recipient that expends greater than \$500,000 in MCC funds in its fiscal year as part of an implementing entity agreement.

In the event that more than one recipient country provides funds to a covered provider, the recipient country 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 require the recipient to contract with independent auditors acceptable to MCC and Office of Inspector General (OIG) to perform financial audits of the funds provided under the agreements at least annually, unless otherwise specified by MCC and the OIG. Any Implementing Agreements between a recipient 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 OIG 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 recipient organization ensure that an audit is contracted for itself at least annually in accordance with these *Guidelines*. MCC may require more frequent audits than annually. At the discretion of MCC, if the recipient organization expends less than \$500,000 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 contracted by the recipient organization be performed at least annually in accordance with these *Guidelines* when a Covered Provider expends \$500,000 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 an audit is not required under the Guidelines, if the MCC or the recipient organization determines that an audit should be performed, the contract, scope of the audit, and the draft audit report must be submitted to the OIG for review and issuance.

Incurring 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 recipient organization or MCC.

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 accountable entity and all non-US governmental and nongovernmental covered providers expending more than \$500 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 is also responsible for ensuring that audit contract agreements between the accountable entity 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 accountable entity office and overseeing the resolution of a covered provider's organization-wide internal control and compliance deficiencies.

Authorities and Responsibilities of the OIG

1.9 The OIG will establish and maintain an approved list of qualified auditors, oversee the quality of required financial audits of the recipient organization 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 recipient organization, the covered providers, and the independent auditors of the results of these reviews. If the QCR discloses evidence of substandard audit performance, the OIG may, at its discretion, remove the firm from the approved list of auditors.

1.10 Accountable entity -contracted audits must be conducted in accordance with *U.S. Generally Accepted 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 (GAAS) adopted by the American Institute of Certified Public Accountants (AICPA), which have been incorporated into *U.S. Government Auditing Standards* by reference. If accountable entity contracted auditors desire technical assistance related to these audits, they should contact the OIG.

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. 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

1.12 The accountable entity may consist of a Governing Council, Steering Committee, the Prime Minister's Office, Government Cabinet Office, or some combination thereof. The accountable entity is responsible for exercising government responsibilities under the compact. The MCA-[Country], which is part of the accountable entity, is the management unit in charge of implementation of the compact. The partner government delegates authority to the MCA-[Country] to enter into contracts and manage the day-to-day compact implementation.. The Fiscal and Procurement Agents are agents of the MCA-[Country] and fulfill certain fiduciary duties in accordance with the compact. The MCA-[Country] also procures an independent auditor to provide a period audit of its books and records.. The Fiscal Agent may be a Finance Ministry, a donor, an 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 will maintain an inventory of all its awarded contracts, grants, and agreements, identifying those that may require a contracted audit. Generally, those awarded for amounts greater than \$500 thousand for periods of 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. The accountable entity ensures that the required audits are performed for their programs and that all audit agreements for audits of the accountable entity 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 accountable entity 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 \$500 thousand or more in its fiscal year. One annual audit must cover all accountable entity 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 accountable entity (as noted in section 1.3) with which they have an agreement. The accountable entity that provides the greatest amount of funds will act as the designated lead, unless otherwise directed by MCC. This accountable entity 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 accountable entity will coordinate the audit efforts with any other accountable entities that have agreements with the covered provider. The accountable entities will provide the independent auditors with any information required in the conduct of the audit.

1.15 All required audits must be completed by the audit firm, the final reports submitted to and issued by the OIG 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 accountable entity and the covered provider in advance of the audit due date. The approval of the extension will be coordinated and approved by the OIG 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. 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. In addition, OIG may remove audit firms that do not provide timely responses to questions raised by MCC, recipient, or the OIG from the list of approved audit firms.

Compliance with Auditing Standards

1.18 The OIG and 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*).

1.19 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 Subrecipient

1.20 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.

1.21 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*.

Chapter 2: Selection of Independent Auditors

2.1 This chapter provides guidance to recipients in selecting independent auditors acceptable to OIG and 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 by independent audit firms in accordance with *U.S. Government Auditing Standards*.

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. In accordance with the Compact, the audit must be issued 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 the period to be audited, since initiating audits after the close of the period 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 period to be audited so that necessary interim audit work can be performed before the close of the audit period. 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, when approved by the OIG. The procedure is for the recipient 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*. 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 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 remove firms on the approved lists that have not performed any audits under these *Guidelines* for a period of four years, or not performed audits in accordance with applicable standards.

2.7 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 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 may send a letter to the audit regulatory body in the country where the audit was performed.

Chapter 3: Audit Objectives

3.1 The financial audit must include a specific audit of all the recipient's MCC-funded programs. The financial audit should also include an audit of the 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, or if the MCA specifically requests such an audit. 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 assets 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.

Audit of MCC Funds and Government Funds Eligible for MCC Reimbursement

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 assets 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 accountable entity's internal control related to the MCC-funded programs, assess control risk, and identify significant deficiencies or material weaknesses in the design and effectiveness of these internal controls. 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. 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.** Determine if the recipient has taken adequate corrective action on prior audit report recommendations.

The specific objectives of the audit of the Government's funding which may be eligible for MCC reimbursement are determined by the specific requirements of the relevant Audit Planning Document submitted by the audit firm as well as the requirements of any applicable supplemental agreements between MCC and the MCA.

3.3 Auditors must design audit steps and procedures in accordance with *U.S. Government Auditing Standards*, to provide reasonable assurance of detecting instances 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.

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 Statement³ 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 assets and technical assistance directly procured by MCC for the recipient's use. The Fund

³ 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 assets and technical assistance directly procured by MCC that were provided by MCC agreements.

Accountability Statement must include all MCC assistance funds identified by each specific program or agreement. A separate Fund Accountability Statement is required for Compact funds, Compact Implementation Funding (CIF), and 609 (g) funds. 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 costs billed to and reimbursed with MCC funds and costs incurred but pending reimbursement by MCC, identifying and quantifying any questioned costs. All costs that are not supported with adequate documentation or are not in accordance with the agreement terms or the *Cost Principles for Government Affiliates Involved in MCC Compact Implementation* must be reported as questioned. Questioned costs must be identified in the notes to the Fund Accountability Statement.

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; 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 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 by, MCC to the program and general ledgers.

c. Review the procedures used to control the funds, including transfer of funds to contracted financial institutions or other implementing entities. Review the bank statements 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 was appropriately recorded in the recipient's accounting records and that those records were periodically reconciled with information provided by MCC.

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 regulations, other implementing guidance, or the terms and conditions of the award.

f. Review procurement procedures to determine whether they were conducted in a manner consistent with the MCC Program Procurement Guidelines to ensure the use of sound commercial practices including competition and price reasonableness, as well as ensuring that 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 when MCC 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 assets (such as supplies, materials, vehicles, equipment, food products, tools, etc.), whether procured by the recipient or directly procured by MCC for the recipient's use. The auditors should determine whether assets 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 assets. As part of the procedures to determine if assets were used for intended purposes, the auditors should perform end-use reviews for an appropriate sample of all assets based on the control risk assessment (see paragraph 4.16.b of these *Guidelines*). End-use reviews may include site visits to verify that assets exist or were used for their intended purposes in accordance with the terms of the agreements. The cost of all assets 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, consultant services, and grant activity, whether procured by the accountable entity or directly procured by MCC for the accountable entity's use. The auditors should determine whether technical assistance, services and grants were used for their intended purposes in accordance with the terms of the agreements. The cost of technical assistance, services and grants 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 unliquidated advances to the recipient and pending reimbursements by MCC or the applicable accountable entity when performing final closeout audits. Verify that the accountable entity complied with its Closure Plan. Ensure that the accountable entity returned any excess cash to MCC. Also, ensure that all assets (inventories, fixed assets, assets, 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 MCA funded agreement, either for multiple projects in one country, or for projects in multiple counties. 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 subrecipient 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 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. Auditors must not express separate opinions on Fund Accountability Statements of each agreement or program unless specifically requested to do so by the MCC or recipient.

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 7.4.C and 7.4.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 7.4.C and 7.4.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 deficiencies in the design or operation of internal control. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's Fund Accountability Statement will not be prevented, or detected and corrected on a timely basis.

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. The management letter should be provided to the OIG along with the audit report.

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 assets (such as supplies, materials, vehicles, equipment, food products, tools, etc.) purchased either by the recipient or directly by MCC.

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 through 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. 78 and 115 (AU110, AU319, AU324 and AU325), respectively entitled *Consideration of Internal Control in a Financial Statement Audit, and Communicating Internal Control Related Matters Identified in an Audit* as well as SAS No. 117 (AU801) entitled *Compliance Audits*.

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. 117 (AU801) entitled *Compliance Audits*. 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. The management letter should be provided to the OIG along with the audit report.

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, *MCC Policies and Procedures for Common Payment System*, the *Cost Principles for Government Affiliates Involved in MCC Compact Implementation*, and 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, the Cost Principles, and applicable laws and regulations.

b.1 Determine whether the recipient is accurately tracking advance payments made to contractors and the liquidation of those advance payments consistent with the terms and conditions of contract agreements. Identify any material instances of non-compliance with agreement terms and/or instances in which the recipient's records do not support a complete and accurate status of advance payments owed by contractors.

b.2 Determine whether the recipient is accurately tracking amounts retained from their contractors as a percentage of amounts invoiced, consistent with the terms and conditions of contract agreements. Identify any material instances of non-compliance with agreement terms and/or instances in which the recipient's records do not support a complete and accurate status of amounts withheld from contractors.

b.3 Determine whether the recipient has an adequate system for ensuring that MCC funding is free of value-added taxes (VAT), and other such taxes, tariffs, duties and levies per the Compact agreement. The system should identify VAT paid, claims for reimbursement, status of refunds, and outstanding balance. A note and/ or schedule describing the recipient's taxation control system and status of claims should be included in the Audit Report (see Chapter 5.1b3).

c. Determine if funds have been expended for purposes not authorized or not in accordance with applicable agreement terms and Cost Principles. 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 in accordance with the Cost Principles, applicable laws and regulations.

e. Determine whether assets, whether procured by the recipient or directly procured by MCC 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 assets 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 funds⁴ were provided according to the terms of the agreements and quantify any shortfalls.

⁴ 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*.

- 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) contain information that is supported by the books and records.
- k. Determine whether the recipient held advances of MCC funds in interest-bearing accounts, and whether the recipient remitted to MCC any interest earned on those advances.
- l. Determine whether the recipient complied with MCC's *Policies and Procedures for Common Payment System*. This should include a determination as to whether the recipient had adequate systems in place to monitor the amount of periodic spending authority authorized by MCC, if applicable.

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. *U.S. Government Auditing Standards*, 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 finding 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 recipient contracted audit report for the same award (for a follow-up audit) or other MCC 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.

Other Audit Responsibilities

4.23 The auditors must perform the following steps:

- a. Hold entrance and exit conferences with the recipient. The OIG and MCC should be notified of these conferences in order that OIG and MCC representatives may attend, if deemed necessary. The audit firm is required to hold an entrance conference before the audit starts and an exit conference informing the MCA of its results and findings.
- 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.⁵ 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 Fund Accountability Statement 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

4.24 *U.S. Government Auditing Standard, 2011 Revision, dated December 2011*, may be obtained through the Internet at <http://www.gao.gov/yellowbook> .

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

OMB Circular A-50 Audit Follow-up

4.26 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.

⁵ The auditors only express an opinion on the Fund Accountability Statement as indicated in Chapter 3 of these *Guidelines*.

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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 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 in Chapter 7 of these *Guidelines*. The report must contain:

- a.** A title page,⁶ 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 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 regarding the review of the Common Payment System; and (6) 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 assets 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 assets and technical assistance directly procured for the period audited. The Fund Accountability Statement must also identify questioned costs not considered eligible for reimbursement and unsupported, if any, including the cost of any assets and technical assistance directly procured by MCC whose existence or proper use in accordance with the agreements could not be verified. All material questioned costs resulting from instances of

⁶ "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.

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.

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, value-added taxes 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,⁷ 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.

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

⁷ 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*.

the control risk, and; (2) the reportable conditions, including the identification of material weaknesses in the recipient's internal control. Reportable conditions 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. 115 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. 117. 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 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.

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, Compact Implementation Funding, 609(g), and Cost Sharing Schedules

Example 6.1 A- Illustrative Fund Accountability Statement

(MCA-NAME OF RECIPIENT)
FUND ACCOUNTABILITY STATEMENT
 January 1, 20XX to June 30, 20XX

	<u>BUDGET</u>	<u>Prior Period</u>	<u>ACTUAL COSTS</u>		<u>Questioned Cost</u>		<u>NOTES</u>
			<u>Current Period</u>	<u>Cumulative</u>	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>	
<u>REVENUE</u>	\$xxx	\$xxx	\$xxx	\$xxx			1
COSTS INCURRED							
1. Agriculture Project	\$xxx	\$xxx	\$xxx	\$xxx		\$xxx	2
2. Transportation Project			\$xxx	\$xxx			
3. Monitoring and Evaluation Grant	xxx	xxx	\$xxx	\$xxx			
4. Program Administration			\$xxx	\$xxx	\$xxx		3
TOTAL COSTS INCURRED	<u>xxx</u>	<u>xxx</u>	\$xxx	\$xxx			
Excess of Revenue Over Costs Incurred			\$xxx	\$xxx			
Fund Balance January 1, 20XX	<u>\$xxx</u>	<u>\$xxx</u>	\$xxx	\$xxx			
<u>Fund Balance June 30, 20XX</u> ⁸							

⁸ 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 6.1B - Illustrative Fund Accountability Statement -Compact Implementation Funding (CIF)

**(MCA-NAME OF RECIPIENT)
 COMPACT IMPLEMENTATION FUNDING (CIF) STATEMENT
 January 1, 20XX to June 30, 20XX**

	ACTUAL COSTS				Questioned Cost		
	<u>BUDGET</u>	<u>PRIOR PERIOD</u>	<u>CURRENT PERIOD</u>	<u>CUMULATIVE</u>	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>	<u>NOTES</u>
<u>REVENUE</u>	\$xxx	\$xxx	\$xxx	\$xxx			1
COSTS INCURRED							
1. Agriculture Project	\$xxx	\$xxx	\$xxx	\$xxx		\$xxx	2
2. Transportation Project			\$xxx	\$xxx			
3. Monitoring and Evaluation	xxx	xxx	\$xxx	\$xxx			
4. Program Administration			\$xxx	\$xxx	\$xxx		3
TOTAL COSTS INCURRED	<u>xxx</u>	<u>xxx</u>	\$xxx	\$xxx			
Excess of Revenue Over Costs Incurred			\$xxx	\$xxx			
Fund Balance January 1, 20XX	<u>\$xxx</u>	<u>\$xxx</u>	\$xxx	\$xxx			
<u>Fund Balance June 30, 20XX⁹</u>							

⁹ 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 6.1C - Illustrative Fund Accountability Statement – 609(g) Funding

**(MCA-NAME OF RECIPIENT)
609(g) FUNDING STATEMENT**

January 1, 20XX to June 30, 20XX

	ACTUAL COSTS				Questioned Cost		
	<u>BUDGET</u>	<u>PRIOR PERIOD</u>	<u>CURRENT PERIOD</u>	<u>CUMULATIVE</u>	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>	<u>NOTES</u>
<u>REVENUE</u>	\$xxx	\$xxx	\$xxx	\$xxx			1
COSTS INCURRED							
1. Agriculture Project	\$xxx	\$xxx	\$xxx	\$xxx		\$xxx	2
2. Transportation Project			\$xxx	\$xxx			
3. Monitoring and Evaluation	xxx	xxx	\$xxx	\$xxx			
4. Program Administration			\$xxx	\$xxx	\$xxx		3
TOTAL COSTS INCURRED	<u>xxx</u>	<u>xxx</u>	\$xxx	\$xxx			
Excess of Revenue Over Costs Incurred			\$xxx	\$xxx			
Fund Balance January 1, 20XX	\$ <u>xxx</u>	\$ <u>xxx</u>	\$xxx	\$xxx			
<u>Fund Balance June 30, 20XX¹⁰</u>							

¹⁰ 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 6.2.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 June 30, 20XX**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>CURRENT</u>	<u>CUMULATIVE</u>	<u>QUESTIONED COSTS</u> ¹¹		<u>NOTES</u> ¹²
					<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>	
<u>CASH</u>		\$xxx xxx			\$xxx		1
<u>IN-KIND</u>		\$xxx xxx				\$xxx	2
TOTAL		<u>\$xxx</u>			<u>\$xxx</u>	<u>\$xxx</u>	

¹¹ 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.

¹² 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

	<u>BUDGET</u> ¹⁴	<u>ACTUAL</u>	<u>CUMULATIVE</u>	<u>SHORTFALL</u> ¹⁵	<u>QUESTIONED COSTS</u> ¹³		<u>NOTES</u> ¹⁶
					<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>	
<u>CASH</u>							
<u>IN-KIND</u>							
TOTAL							

¹³ 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.

¹⁴ 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

¹⁵ 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.

¹⁶The 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.

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

Independent Auditor's Report¹⁷

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.¹⁸ Those standards

¹⁷ 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.

¹⁸ 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: 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 3.76 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

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.

In our opinion, the fund accountability statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and assets and technical assistance directly procured by MCC for the 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 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

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, paragraph 3.96 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 audit firm)* 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 Statement¹⁹ with a Qualified Opinion

Independent Auditor's Report

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.²⁰ Those standards

¹⁹ 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.

²⁰ 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 3.76 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, paragraph 3.96 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 audit firm)* 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."

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: ²¹

- (1) \$XXX in costs that are explicitly questioned because they are not program related, unreasonable, or prohibited by the terms of the agreements;
- (2) \$XXX in costs that are not supported with adequate documentation or did not have required prior approvals or authorizations.

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 assets and technical assistance directly procured by 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 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

²¹ The two paragraphs are illustrative only and can be modified or excluded based on the type of findings contained in the report.

Example 7.2.A - Illustrative Auditor's Report on Internal Control with No Significant Deficiencies and/or Material Weaknesses Noted

Independent Auditor's Report on Internal Control

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.²² 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

²² 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 3.76 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, paragraph 3.96 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 audit firm)* 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."

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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's Fund Accountability Statement will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be significant deficiencies or 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.²³ 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

²³ Exclude this paragraph if there are no deficiencies in internal control to be reported in a management letter.

Example 7.2.B - Illustrative Auditor's Report on Internal Control with Significant Deficiencies and/or Material Weaknesses Noted

Independent Auditor's Report on Internal Control

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.²⁴ 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

²⁴ 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 3.76 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, paragraph 3.96 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 audit firm*) 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."

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.

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.)

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 (*recipient organization*) 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.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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 deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's Fund Accountability Statement will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.²⁵

²⁵ 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.)

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.²⁶

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

²⁶ Exclude this paragraph if there are no other matters involving internal control to be included in a management letter.

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

Independent Auditor's Report on Compliance

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.²⁷ 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 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

²⁷ 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 3.76 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, paragraph 3.96 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 audit firm*) 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."

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*.²⁸

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.²⁹

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

²⁸ See *U.S. Government Auditing Standards*, Chapter 4.

²⁹ Exclude this paragraph if there are no immaterial instances of noncompliance.

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

Independent Auditor's Report on Compliance

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.³⁰ 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 (*recipient*)'s management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free

³⁰ 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 3.76 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, paragraph 3.96 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 audit firm*) 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."

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.)³¹

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.³²

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 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.

³² Exclude this paragraph if there are no immaterial instances of noncompliance.

Example 7.4 – 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 Significant Deficiencies Noted

Independent Auditor’s Review Report on the
Cost-Sharing Schedule

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).³³ 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

³³ For reporting guidance, see AICPA Statements of Standards for Attestation Engagements, Attestation Standard (AT) 100.64.

Example 7.4.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 Significant Deficiencies Noted

Independent Auditor's Review Report on the
Cost-Sharing Schedule

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).³⁴ 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.

(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.)³⁵

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

³⁴ For reporting guidance, see AICPA Statements of Standards for Attestation Engagements, Attestation Standard (AT) 100.64.

³⁵ The two paragraphs are illustrative only and can be modified or excluded based on the type of findings contained in the report.

Example 7.4.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 Significant Deficiencies Noted

Independent Auditor’s Review Report on the
Cost-Sharing Schedule

Board of Directors
Name of Recipient Organization
Complete Mailing Address

We have reviewed the accompanying Cost-sharing 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).³⁶ 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

³⁶ For reporting guidance, see AICPA Statements of Standards for Attestation Engagements, Attestation Standard (AT) 100.64.

Example 7.4.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 Significant Deficiencies Noted

Independent Auditor's Review Report on the
Cost-Sharing Schedule

Board of Directors
Name of Accountable entity
Complete Mailing Address

We have reviewed the accompanying Cost-sharing 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).³⁷ 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:³⁸

- (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.

(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

³⁷ For reporting guidance, see AICPA Statements of Standards for Attestation Engagements, Attestation Standard (AT) 100.64.

³⁸ The two paragraphs are illustrative only and can be modified or excluded based on the type of findings contained in the report.

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

Chapter 8: Outline of an Illustrative Auditor’s Statement of Work

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*.

IV. AUDIT SCOPE

This section must include the requirements of Chapter 4 of these *Guidelines*. In addition, the cognizant recipient organization may expand the scope of the audit to include additional requirements to address special concerns it may have.

V. REPORTS

This section must include the requirements of Chapter 5 of these *Guidelines*.

VI. INSPECTION AND ACCEPTANCE OF AUDIT WORK AND REPORTS

This section will discuss the responsibilities of 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, 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: Schedule of Audit Findings and Questioned Costs

Example 9.1 - Illustrative Schedule of Audit Findings and Questioned Costs

Name of Recipient Organization

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

For the Period from *Month Day, Year* to *Month Day, Year*

I. INTERNAL CONTROL

1. OUTSTANDING FUND BALANCE NOT RECONCILED TO BANK BALANCES

Condition

During the course of our audit we observed that there was a difference of U.S. \$XX between the outstanding fund balance and the bank balances as of *Month Day, Year*. However, we were unable to obtain an explanation for the difference and there were no alternative procedures that we could use to determine the nature of this difference.
(EXAMPLE ONLY)

Criteria

The fund balance should be reconciled to bank balances. (EXAMPLE ONLY)

Cause

The internal controls relating to the reconciliation of the fund balance to bank balances were not implemented properly. (EXAMPLE ONLY)

Effect

The Fund Accountability Statement prepared by MCA-*Country Name* could be misleading. (EXAMPLE ONLY)

Recommendation

We recommend that this difference be investigated and a reconciliation statement be prepared reconciling bank balances. If the difference cannot be ascertained, the amount may have to be repaid.

(NOTE: The recommendation should be written so as to address the “Cause” of the condition. Once the cause is addressed the condition should disappear.)

Management’s Comments

Agreed. (EXAMPLE ONLY)

Auditor's Response

Add auditor's response to management's comments.

II. COMPLIANCE

2. PAYMENT OF VAT

Condition

(A description of the condition. Specifically, what the auditor observes through physical observation, scheduling, analysis, testing or other techniques. Generally, findings include conditions that result from internal accounting or administrative control weaknesses, instances of noncompliance with or without questioned costs, or potential errors, irregularities or illegal acts.)

Criteria

(A description of the criteria—law, regulation and/or compact clause, etc.—is used to describe “what should be,” or the required or established method(s). Criteria may vary according to audit objectives and the type of engagement being performed. Written requirements such as laws, regulations, contracts, procedures, manuals and directives and good business practice may be used as criteria on all types of engagements. Ordinarily, the most suitable criteria for financial audits are generally accepted accounting principles and standards. Types of criteria common for performance audits are technically developed standards or norms, expert opinions, performance of similar entities and prior years' performance.)

Cause

(Cause explains “why did it happen” and forms the basis for making constructive recommendations to achieve corrective action. When the auditor and management know why something happened, they can more readily determine what action is needed to prevent its recurrence.)

Effect

(A description of the effect; what harm was caused by not complying? Effect represents the actual or potential impact, and can be either beneficial or undesirable. Efficiency, economy and effectiveness are useful measures of effect and frequently can be stated in quantitative terms such as dollars, time, number of procedures and processes, or transactions. Where actual effects cannot be ascertained, potential effects may be presented.)

Recommendation

(State the auditor's recommendation to correct the condition. The recommendation should take into consideration the cited cause that brought about the condition. Recommendations describe "what should be done." The auditor should report recommendations for actions to correct problem areas, improve operations and effect compliance with laws and regulations. Recommendations are most constructive when they are directed at resolving the cause of identified problems, are action oriented and specific, are addressed to parties that have the authority to act, are feasible, and to the extent practical, are cost effective. If the recommended action is one the auditor believes should be acted on promptly, the consequences of delay should be clearly stated.)

Managements comment

Add management's comment.

Auditor's Response

Add auditor's response to management's comments.

III. QUESTIONED COSTS
(EXAMPLE ONLY)

QUESTIONED COSTS

INELIGIBLE

UNSUPPORTED

**1. OUTSTANDING FUND BALANCE
NOT RECONCILED TO
BANK BALANCES**

During the course of our audit we observed that there was a difference of U.S. \$XXX between the outstanding fund balance and the bank balances as of Month Day, Year. However, we were unable to obtain an explanation for the difference and there were no alternative procedures that we could use to determine the nature of this difference.

\$XXX

2. PAYMENT OF VAT

\$XXX

Chapter 10: USAID Inspector General Contact Information

OIG Offices Addresses and Phone Numbers

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

Inspector General Hotline for Reporting Fraud, Waste and Abuse

Telephones:³⁹ 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.

³⁹ You may request confidentiality when using telephone or U.S. mail.