

Section V. Terms of Reference

**AUDIT OF RESOURCES MANAGED
BY RECIPIENT ORGANIZATIONS UNDER MCC-FUNDED
GRANTS, CONTRACTS, AND IMPLEMENTING AGREEMENTS**

Annex A: Description of Services

This Annex A shall incorporate by reference: the Proposal dated **DATE** submitted by **CONSULTANT** in connection with the procurement for this Contract (the “Proposal”). In the event of any inconsistency between this Description of Services and the Proposal, the priority of interpretation shall be given to this Description of Services.

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LIST OF ABBREVIATIONS

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| AICPA | American Institute of Certified Public Accountants |
| FAS | Fund Accountability Statement |
| FASAB | Federal Accounting Standards Advisory Board |
| FASB | Financial Accounting Standards Board |
| GAO | Government Accountability Office |
| GAGAS | Generally Accepted Government Auditing Standards |
| IG | Inspector General |
| MCA | Millennium Challenge Account |
| MCC | Millennium Challenge Corporation |
| MCC Audit Guidelines | Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities |
| OIG | Office of Inspector General |

I. BACKGROUND

The United States of America, acting through the Millennium Challenge Corporation ("**MCC**") and the Government of the Kingdom of Morocco (the "**Government**" or "**GoM**") have entered into (1) a Grant and Implementation Agreement by and between MCC and the Government of the Kingdom of Morocco Acting through the Ministry of Economy and Finance for the Development of a Millennium Challenge Compact in the amount up to Four Million Eight Hundred Thousand United States Dollars (US \$4,800,000) in MCC funding ("**609(g) Funds**"); and (2) a Millennium Challenge Compact to help facilitate poverty reduction through economic growth in Morocco (the "**Compact**") in the amount up to Four Hundred Fifty Million United States Dollars (US\$ 450,000,000) in MCC funding ("**MCC Funding**"). In addition, pursuant to the terms of the Compact, the Government committed to provide funding as a Government LMIC Contribution to support implementation of the Compact in an amount equal to no less than Sixty-Seven Million Five Hundred Thousand United States Dollars (US\$ 67,500,000) (the "**Government Contribution**"). Together, MCC Funding and the Government Contribution are herein referred to as "**Program Funding**." Together, 609(g) Funds and Program Funding are herein referred to as the "**Audited Funds**."

The Compact provides that (i) MCA-Morocco ("**MCA-Morocco**"), an agency of the Government, is designated as the Accountable Entity to implement the Compact and to exercise and perform the Government's right and obligation to oversee, manage and implement the Compact, including without limitation, managing the implementation of the Compact Program, allocating resources and managing procurements; and (ii) other recipient entities of the Government can receive or use MCC Funding or any other Program Asset in carrying out activities in furtherance of the Compact as a Provider or Covered Provider.

In addition, because the MCC *Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities* (the "**Audit Guidelines**"), currently posted at the following web address,

https://assets.mcc.gov/content/uploads/guidelines_for_financial_audits_interim.pdf,

provide that other recipient entities of the Government that expend greater than \$500,000 in MCC funds in its fiscal year as part of an implementing entity agreement are Covered Providers, Covered Providers are also subject to audits under this Contract via an On-Call Audit mechanism described in Annexes E and F.

II. PROGRAM DESCRIPTION

MCC and the Government have agreed to reduce poverty through economic growth in Morocco (the "**Compact Goal**") in a manner that strengthens good governance, economic freedom, and investments in the people of Morocco.

The Compact objectives (the "**Program Objectives**") are to:

- (1) increase the employability and employment rate of Moroccans by improving the quality and relevance of, and equitable access to, secondary education and workforce

development programs in response to private sector needs (the “Employability Project Objective”); and

- (2) increase land productivity in Morocco by enabling land markets to better respond to investor demand and by strengthening the enabling environment for investment (the “Land Project Objective”).

The Compact program consists of two Projects namely "Education and Training for Employability" and "Land Productivity", the implementation of which has been entrusted to the Millennium Challenge Account-Morocco Agency (MCA-Morocco).

The project "Education and Training for Employability" aims to improve the employability of young people through the improvement of quality, relevance and equitable access to secondary education and vocational training to better meet the needs of the private sector.

The first activity of this project which focuses on Secondary Education foresees three fundamental components:

- (a) the implementation of an integrated model of improvement of secondary education institutions through the contractualization of performances and the Strengthening of management skills of the institutions manager, curricular innovation and rehabilitation of the infrastructure.

Within the framework of this component, an Employability Education Partnership Fund is planned to promote new multi-disciplinary approaches (management, pedagogy and capacity building) to complement, reinforce and sustain the actions to be carried out in the field. Integrated Model for Improving Secondary Education Institutions (MIAES), capitalizing on public-private partnership. Grantees would be selected to benefit from funds in order to (1) Encourage and bring out initiatives that meet the priorities of quality, relevance and access to education for all, (2) Strengthen the involvement of civil society in the processes of planning and implementation of new pedagogical approaches (3) Allow civil society actors to benefit from funding in support of their activities, and to strengthen their capabilities for a consolidated impact and for the networks promotion. At the date of this bid, the grantees are at number of three. MCA-M is expecting to sign agreements with 20 to 30 new grantees..

- (ii) the strengthening of the MASSAR system of learning assessment and information system and;

- (iii) the development of a new approach for the maintenance and upkeep of school infrastructure and equipment.

The second activity of this project related to the development of Vocational Training (TVET) and employment includes:

- 1) The creation of a fund named “Charaka fund” to finance initiatives to create new centers or reconvert existing centers through a partnership public-private.

The TVET activity launched a call for projects under the Charaka Fund. Donations will be made to public and private partners “PPP” for : (i) the creation of new training centers or extension of centers managed under a public / private partnership framework or (ii) the rehabilitation of existing public training institutions and their transformation

from a traditional business model to a PPP model.

The call of projects process, to select the grantees, was closed on October 30th, 2017. Projects' evaluation is still in process.

2) Support for the operationalization of the reform of vocational training;

3) Promoting inclusive employment through innovative financing for the integration of unemployed youth and disadvantaged women into the labor market;

4) Support for the establishment of an integrated labor market observation system.

Project "Productivity of land" which aims to increase the productivity of land and private investment through the implementation of three activities:

- i) improving the governance of land through the development of a national strategy land tenure and its plan of action;
- ii) the transfer to the beneficiaries of approximately 46,000 (forty-six thousand) hectares of collective land within the irrigation perimeter of the Gharb region according to a model based on an optimized and cost-efficient procedure; and delay; and
- iii) the design of a new model for the development of industrial parks and the revitalization of existing industrial zones, emphasizing the public-private and demand-driven partnership, its pilot implementation at the three-zone level as well as the launch of a fund to support the development of sustainable industrial areas. This fund called "FONZID" aligns with the overall objective of the "Industrial Land" activity, namely the provision of land at the market level that meets the needs of industry in terms of location, land supply, infrastructure and basic services by supporting, in the context of a call for projects, projects (i) aimed at improving the governance and sustainability of existing or new industrial zones, (ii) adopting new approaches in terms of revitalizing areas to improve their sustainability and the development of sustainable industrial areas.

For more details on the project activities, please refer to Annex I of the signed Compact Document which is available at www.mcamorocco.ma and www.mcc.gov.

Monitoring and Evaluation

The Monitoring and Evaluation (M&E) Project is comprised of two components: The Monitoring Component and Evaluation Component.

The Monitoring Component identifies the indicators, the sources and methods for data collection, the frequency for data collection, the timeline, the format for reporting on each indicator and the method by which the reported data will be validated in order to assess the Project.

The Evaluation Component consists of three evaluations—impact, project performance, and special studies.

Program Administration

The Compact is primarily implemented by MCA-Morocco (“**MCA-Morocco**”) which has overall management responsibility for implementation of the Compact. MCA-Morocco is governed by a Board of Directors. The Board is an independent decision making authority with ultimate authority and responsibility for the overall implementation of the Compact Program.

In addition, MCA-Morocco is supported by a Fiscal Agent and a Procurement Agent, and may be supported by various Providers and Covered Providers. The Fiscal Agent is responsible for financial management and reporting functions of MCA-Morocco; the Procurement Agent is responsible for the administration, management and execution of MCA-Morocco procurement activities; and the Providers and Covered Providers are other entities of the Government that may receive or use MCC Funding or any other Program Asset in carrying out activities in furtherance of the Compact.

III. AUDIT OBJECTIVES

The primary objective of this engagement is to conduct financial audits of the MCC and Government resources managed by MCA-Morocco and other recipient organizations under (1) the Grant and Implementation Agreement between MCC and the Government from the period May 5, 2015 through March 31, 2020; (2) the Compact agreement between MCC and the Government from the period November 30, 2015 through March 31, 2020, including Compact Implementation Funding (“**CIF**”), Program Funding, and the Government Contribution established therein; and (3) other MCC-funded grants, contracts, and implementing agreements via an On-Call Audit mechanism described in Annexes E and F—in accordance with the *U.S. Government Auditing Standards* issued by the Comptroller General of the United States and the *MCC Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation’s Accountable Entities* (the “**Audit Guidelines**”), currently posted at the following web address:

https://assets.mcc.gov/content/uploads/guidelines_for_financial_audits_interim.pdf.

Audit of Funds Managed by Recipient Organizations under MCC-funded Grants, Contracts, and Implementing Agreements

A financial audit of the funds managed by recipient organizations under MCC-funded grants, contracts, and implementing agreements must be performed in accordance with *U.S. Government Auditing Standards*, or other approved standards where applicable, and accordingly must include such tests of the accounting records as deemed necessary under the circumstances. The specific objectives of the audit of resources managed by MCA-Morocco and its Covered Providers are to:

- Express an opinion on whether the FAS for the resources managed by recipient organizations under MCC-funded grants, contracts, and implementing agreements using both MCC and Government funds presents fairly, in all material respects, revenues received, costs incurred and reimbursed, and commodities, assets, and technical assistance directly procured by MCC and the Government (including by MCA-Morocco and its Covered Providers) for the period audited in accordance with MCC rules and regulations; other implementing guidance; the terms of the 609(g) Agreement, Compact, related grants, contracts, and agreements; conditions of award; and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).

- Evaluate and obtain a sufficient understanding of the recipient organization’s internal controls related to the recipient organization’s development and implementation of the Compact using both MCC and Government funds, assess control risk, and identify reportable conditions, including material internal control weaknesses. This evaluation must include the internal controls related to Government Contributions required for this Compact.
- Perform tests to determine whether the recipient organization complied, in all material respects, with the 609(g) Agreement, Compact (including those MCC rules and regulations regarding Government Contributions), supplemental agreements, and applicable laws and regulations related to MCC-funded grants, contracts, and implementing agreements. All material instances of noncompliance and all illegal acts that have occurred or are likely to have occurred must be identified. Such tests must include the compliance requirements related to the required Government Contributions. Specifically, the auditor shall perform tests to determine whether the recipient organization complied, in all material respects, with the MCC *Program Procurement Guidelines*, the MCC *Cost Principles for Accountable Entity Operations*, the MCA-Morocco *Fiscal Accountability Plan* in effect during the audit period, and the terms and conditions of the MCC-funded grant, contract, or implementing agreement.
- Determine whether the recipient organization has taken adequate corrective action on prior audit report recommendations, if applicable.

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

IV. AUDIT PERIOD

Except for the Base Period, audits of resources managed by recipient organizations will be performed semi-annually with audit periods ending March 31 and September 30, but may be combined, extended, or modified from time-to-time if recipient organizations are so instructed by MCC or the OIG—and if combined, extended, or modified, the price of any Option Period(s) affected will be revised based on any changes in the scale, level of effort, or number of deliverables required to conform to such instructions according to the rates established in Annex E.

The Base Period audit will cover the forty-one (41) months ending September 30, 2018 (though May 5, 2015 is the date of the first funding agreement, funds were only first made available after January 1, 2016); the 1st Option Period will cover the six (6) months ending March 31, 2019; the 2nd Option Period will cover the six (6) months ending September 30, 2019; the 3rd Option Period will cover the six (6) months ending March 31, 2020; and the 4th Option Period will cover the six (6) months ending September 30, 2020.

| Contract Period | Audit Period Covered | |
|-------------------------------|----------------------|--------------------|
| | From | To |
| Base Audit Period | May 5, 2015 | September 30, 2018 |
| 1 st Option Period | October 1, 2018 | March 31, 2019 |
| 2 nd Option Period | April 1, 2019 | September 30, 2019 |
| 3 rd Option Period | October 1, 2019 | March 31, 2020 |
| 4 th Option Period | April 1, 2020 | September 30, 2020 |

Audits of resources managed by other recipient organizations will be determined in accordance with MCA-Morocco's Audit Plan, updated from time to time and whenever a Covered Provider expends greater than \$500,000 in MCC funds in its fiscal year.

On-Call Audit Services (Covered Provider Audits and/or Compliance Audits) will follow audit periods detailed in each request to exercise a service, as needed and as detailed in Annex E of the Form of Contract (Section 6 of this RFP).

V. AUDIT SCOPE

The Auditor must use the following steps as the basis for preparing their audit programs. These steps are not all-inclusive or intended to be restrictive in nature and do not constitute relief from exercising professional judgment and due professional care. The steps must be modified to address local conditions and specific program design; implementation procedures; and grant, contract, 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 MCC.

A. Pre-Audit Steps

Following is a list of documents applicable to different Compact programs. The Auditor must review the applicable documents considered necessary to perform the audit:

1. The 609(g) Agreement, Compact, and any supplemental agreements by and between MCC, the Government, MCA-Morocco, its Covered Providers, and other recipient organizations under MCC-funded grants, contracts, and implementing agreements for development and implementation of the Compact.
2. Other documents including but not limited to the: Program Implementation Agreement; Bank Agreement; Procurement Agent Agreement; Fiscal Agent Agreement; Fiscal Accountability Plan; Procurement Operations Manual; Procurement Plan; Program Procurement Guidelines; Implementing Entity Agreement(s); M&E Plan; Implementation Plan(s); and Work Plans for the relevant Project, Activity, grant, contract, or implementing agreement.
3. The agreements by and between MCA-Morocco and contractors and grantees, and any other entities implementing MCC-funded or Government-funded activities for the Compact.
4. The sub-agreements or implementing entity agreements between MCA-Morocco and other implementing entities, if applicable.

5. Contracts and subcontracts with third parties, if any.
6. The budgets, implementation letters, and written procedures approved by MCC and MCA-Morocco.
7. Applicable procurement laws and regulations, including the MCC *Program Procurement Guidelines*.
8. 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.
9. MCC's *Cost Principles for Accountable Entity Operations* in effect during the audit period.
10. Any previous audits, financial reviews, etc., that directly relate to the objectives of the audit.

B. Fund Accountability Statement

The Fund Accountability Statement (“*FAS*”) is the basic financial statement to be audited that presents revenues received under the MCC-funded grant, contract, or implementing agreement from MCC and the Government for the period covered by the audit; the budgeted amounts by category and major items (i.e., Project and Activity); costs reported by the recipient organization as incurred during the audit period; cash balance of funds (after reconciling items) provided to the recipient organization by MCC and the Government; commodities (such as supplies, materials, vehicles, equipment, food products, tools, etc.), assets, and technical assistance directly procured with MCC and Government funds by MCC, the Government, or the recipient organization for use by MCA-Morocco, the Government, or an Implementing Entity (including Covered Providers).

Separate FAS's are required for all sources of funds, including 609(g) funds, CIF funds, Compact funds, and Government Contributions, managed by the recipient organization.

The Fund Accountability Statement should be reconciled to both the MCC and Government 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 (of Government Contributions), and the report findings, if any, must be stated in U.S. Dollars and the exchange rate(s) used must be disclosed in the notes to the Fund Accountability Statement.

The FAS must also include one or more lines for expenditures directly managed by MCC for the benefit of MCA-Morocco which are typically (most likely to be) related to 609(g) Funds or CIF. However, as noted in section III, detailed audit procedures are not required for 609(g) funds or CIF that are managed by MCC since those funds will be audited by MCC's independent financial statement auditors.

The fund accountability statement must include all resources managed by the recipient organization identified by each specific grant, contract, or implementing agreement. The revenues received from MCC and the Government, less the costs incurred, after considering any reconciling items, must reconcile to the balance of cash on hand and/or in bank accounts. The fund accountability statement must not include cost-sharing/Government Contributions provided from MCA-Morocco's own funds or in-kind. However, a separate cost sharing/Government Contributions schedule must be presented as a separate FAS within the audit report.

The Auditors may prepare or assist the recipient organization in the preparation of the fund accountability statements from the books and records maintained by the recipient organization, but the recipient organization is solely responsible for the accuracy and content of the FAS before the audit commences.

The opinion on the fund accountability statements must be in accordance with the American Institute of Certified Public Accounts' (AICPA) Statement of Auditing Standards No. 62 (SAS 62) "Financial Statements Prepared in Conformity With a Comprehensive Basis of Accounting Other Than Generally Accepted Accounting Principles," AU623 "Special Reports." The fund accountability statement must separately identify those revenues and costs applicable to each specific agreement funded by MCC and the Government for the development and implementation of the Compact. 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, waste, abuse, and illegal acts have occurred or are likely to have occurred as a result of inadequate internal control. At a minimum, the Auditor must:

1. Review direct and indirect costs billed to and reimbursed with MCC funds and the Government Contribution and costs incurred but pending reimbursement by MCC and the Government, identifying and quantifying any questioned costs. All costs which are not supported by adequate documentation or that are not in compliance with the 609(g) Agreement; Compact; MCC-funded grant, contract, or implementing agreement; MCA-Morocco's Fiscal Accountability Plan; or MCC's *Cost Principles for Accountable Entity Operations* must be reported as questioned. Questioned costs that are pending reimbursement must be identified in the notes to the fund accountability statement as not yet reimbursed.

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 Compact and related 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 questioned costs resulting from instances of noncompliance with the Compact and related 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 the questioned costs and must be cross-referenced to the corresponding findings in the report on compliance.

2. Review general and program ledgers to determine whether costs incurred were properly recorded. Reconcile direct costs billed to, and reimbursed by, MCC and the Government to the program and general ledgers.
3. Review the procedures used to control the funds, including transfers to contracted financial institutions or other implementing entities. Review the bank accounts and the controls on those bank accounts. Perform positive confirmation of balances, as necessary.
4. Determine whether payment or disbursement requests made to MCC and any advances of MCC funds or the Government Contribution were supported with adequate documentation, including reconciliations of funds advanced, disbursed, and available. The Auditor must ensure that all funding received by the recipient organization from MCC and the Government were appropriately recorded in the recipient organization's accounting records and that those records were periodically reconciled with information provided by MCC and the Government.
5. Determine whether program income was added to the funds used to further eligible program objectives, to finance the non-MCC share of the Program, or deducted from program costs, in accordance with MCC rules and regulations, other implementing guidance, and the terms of the 609(g) Agreement, Compact, related agreements, and conditions of award.
6. Review procurement procedures to determine whether sound commercial practices including competition were used, reasonable prices were obtained, and adequate controls were in place over the qualities and quantities received. Assess whether the procurements were in accordance with MCC's *Program Procurement Guidelines*, the approved Procurement Plan(s) in effect during the period audited, and the MCA-Morocco *Fiscal Accountability Plan*.
7. Review direct and indirect salary payments to determine whether salary rates are reasonable for that position, in accordance with those approved by MCC when MCC approval is required, and supported by appropriate payroll records including recipient organization staff employment agreements and timesheets. Determine if any overtime was charged to the program and whether overtime payments are allowable under the terms of the 609(g) Agreement, Compact, and related MCC-funded grants, contracts, and implementing agreements. Determine whether allowances and fringe benefits received by employees, contractors, and consultants (whether employees of MCA-Morocco or an Implementing Entity) were in accordance with the employment agreements, consulting agreements, contracting agreements, implementing entity agreements, and applicable laws and regulations, including the 609(g) Agreement and Compact. Determine whether salary increases or changes in compensation and benefits received were consistent with the policies and procedures of MCA-Morocco or the recipient organization, and that they were appropriately reviewed, approved by MCC when MCC approval is required, and adequately documented. The Auditor must include unallowable salary, compensation, and benefit charges as questioned costs in the fund accountability statement.

8. Review airline, hotel, accommodation, per diem, transportation, and other travel charges and allowances to determine whether they are reasonable, adequately supported, and approved. Airline, hotel, accommodation, per diem, transportation, and other travel charges that are not supported with adequate documentation or not in accordance with the 609(g) Agreement, Compact, related agreements and regulations, the MCA-Morocco *Fiscal Accountability Plan*, and the MCC *Cost Principles* must be questioned in the fund accountability statement.
9. Review commodities (such as supplies, materials, vehicles, equipment, food products, tools, etc.), directly procured with MCC and Government funds by MCC, the Government, or the recipient organization for use by MCA-Morocco, the Government, or an Implementing Entity (including Covered Providers). The Auditors must determine whether commodities exist or were used for their intended purposes in accordance with the terms of the 609(g) Agreement; Compact; and MCC-funded grant, contract, and related agreements; and whether adequate control procedures have been placed in operation to adequately safeguard the commodities. As part of the procedures to determine if commodities were used for intended purposes, the Auditors must perform end-use reviews for an appropriate sample of all commodities based on the control risk assessment. End-use reviews would normally include site visits to verify that commodities exist or were used for their intended purposes in accordance with the terms of the 609(g) Agreement; Compact; and MCC-funded grant, contract, and related agreements. The cost of all commodities that cannot be verified must be questioned in the fund accountability statement. (The Auditor should determine the cost of commodities based on supporting documentation from MCA-Morocco, MCC, or the Government, as appropriate).
10. Review technical assistance and services (including implementing entity, advisory, or consulting services). The Auditor must determine whether technical assistance and services were used for their intended purposes in accordance with the terms of the 609(g) Agreement, Compact, Implementing Entity Agreement(s), or any other formal or informal agreements. The cost of technical assistance and services (including implementing entity, advisory, or consulting services) not reasonable or not properly used in accordance with the agreements must be included as questioned costs in the fund accountability statement.

In addition to the above audit procedures, if technical assistance and services (including implementing entity, advisory, or consulting services) were contracted by the recipient organization from a non-U.S. contractor, the Auditor must perform additional audit steps of the technical assistance and services (including implementing entity, advisory, or consulting services) under this Contract, unless the recipient organization has separately contracted for an audit of these costs.

When testing for compliance with the agreement terms and applicable laws and regulations, the Auditors must not only consider the agreements between MCA-Morocco, the recipient organization, and MCC but also the agreements between MCA-Morocco, the recipient organization, and non-U.S. contractors providing technical assistance and services (including implementing entity, advisory, or consulting services). The

agreements between MCA-Morocco, the recipient organization, and the non-U.S. contractors must 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 the 609(g) Agreement, Compact, and related agreement terms. In case of any deficiencies or issues identified by MCA-Morocco or MCC in the activity of any of MCA-Morocco's contractors, consultants, or other service providers (including an Implementing Entity or other recipient Government organizations), MCA-Morocco or MCC may require the Auditors to perform additional audit actions as needed to review compliance with the terms of the contract, 609(g) Agreement, Compact, supplemental agreements, or rules, regulations, policies, and procedures of MCC, the Government, or MCA-Morocco.

If technical assistance and services (including implementing entity, advisory, or consulting services) were contracted by MCA-Morocco or the recipient organization from a U.S. contractor, the Auditor is still responsible for determining whether technical assistance and services (including implementing entity, advisory, or consulting services) were used for their intended purposes in accordance with the terms of the 609(g) Agreement, Compact, and related agreements. However, the Auditor is 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.

11. When the recipient organization charges indirect costs to MCC or the Government using provisional rates, review the allocation method to determine that the indirect cost pool and distribution base include only allowable items in accordance with the 609(g) Agreement, Compact, and related agreement terms. The auditors must be aware that costs that are unallowable as charges to MCC- or Government-funded agreements (e.g., fundraising) must be allocated their share of indirect costs if they represent activities that (1) include the salaries of personnel, (2) occupy space, and (3) benefit from the organization's indirect costs. Indirect costs must be calculated after all adjustments have been made to the pool and base. When indirect costs are charged to MCC or the Government using predetermined or fixed rates, verify that the correct rates are applied in accordance with the agreements with and/or approved by MCC.
12. When performing final closeout audits (primarily, of MCA-Morocco), review unliquidated advances to MCA-Morocco, and pending reimbursements by MCC and the Government. Verify that MCA-Morocco complied with all aspects of its *Program Closure Plan*. Ensure that MCA-Morocco has returned any excess cash to MCC and the Government. Also, ensure that all assets (inventories, fixed assets, commodities, etc.) procured with program funds were disposed of in accordance with the terms of the 609(g) Agreement, Compact, and related agreements, including the MCA-Morocco *Program Closure Plan*. The Auditors must present, as an annex to the fund accountability statement, the balances and details of final inventories of nonexpendable property acquired under the agreements. This inventory must indicate which items, if

any, were titled to the U.S. Government, and which were titled to other entities. These closeout audit procedures must be performed for any award that expires during the period audited.

Any funds managed by MCC and/or other third parties authorized by MCC as part of a Compact, pre-Compact or supplemental agreement will not be subject to the detailed audit procedures described below, but summary information must be displayed in the consolidated fund accountability statement. “Managed by MCC and/or third parties authorized by MCC” refers to any situation in which a formal agreement requires MCC and/or other third parties authorized by MCC to procure goods, works and services and/or to make payments against the delivery of such goods, works and services, pursuant to the objectives of the relevant Compact or supplemental agreement. Audit treatment of funds managed by MCC and/or other third parties authorized by MCC shall be as follows:

1. MCC and/or other third parties authorized by MCC will provide to the recipient organization summary information on procurements conducted by MCC and/or other third parties authorized by MCC on behalf of the recipient organization.
2. MCC and/or other third parties authorized by MCC will provide the recipient organization with the total value of third party payments made by MCC and/or other third parties authorized by MCC on behalf of the recipient organization.
3. The recipient organization shall prepare the fund accountability statement adding the MCC and/or other third party payments on behalf of the recipient organization to the bottom of it and providing a grand total.
4. MCC and third party payment amount should be footnoted, “Recipient organization expenditures paid to a third party by MCC. These third party payments are added to the fund accountability statement for the purpose of providing full disclosure of the recipient organization’s expenditures for the audit period. The scope of the [Insert name of the] Recipient Organization Audit *does not* cover funds managed by MCC and/or other third parties authorized by MCC on behalf of the recipient organization. The audit of these of expenditures will take place in the annual MCC Financial Audit.

Any questioned costs identified through audits of MCA-Morocco Covered Providers must be reported in the audit of MCA-Morocco since all uses of funds, whether by covered providers or by MCA-Morocco itself, will appear in MCA-Morocco fund accountability statement. Any internal control findings identified through audits of MCA-Morocco Covered Providers must be reported in the audit of MCA-Morocco if the internal control deficiencies could adversely affect the ability of MCA-Morocco to record, process, summarize, and report financial data consistent with the assertions of MCA-Morocco management in the fund accountability statement. Finally, any compliance findings identified through audits of MCA-Morocco Covered Providers must be reported in the audit of MCA-Morocco if the compliance deficiencies, alone or cumulatively, have a direct and material effect on the amounts in MCA-Morocco’s fund accountability statement.

C. Cost-Sharing/Government Contributions Schedule

The Compact between MCC and the Government of Morocco requires a minimum contribution from the Government of 15% of the amount of MCC Funding, which may include in-kind and financial contributions (including obligations of Morocco on any debt incurred toward meeting these obligations). Because the Compact establishes both a life-of-project and annual budget for

such Government Contributions, the audit of the cost-sharing schedule must be approached differently depending on whether the cost-sharing budget is a life-of project or annual budget. In either case, the Auditor follows the same steps and procedures for an audit of Government Contributions as they would for an audit of Compact funds.

The Auditor may prepare or assist the Government in preparing the cost-sharing schedule from the books and records maintained by MCA-Morocco and other recipient organizations. MCA-Morocco and the recipient organizations must, however, accept responsibility for the schedule's accuracy before the audit of the Government Contributions commences.

C.1 Agreement with Life-of-Project Cost-Sharing/Government Contributions Budget

For an MCC agreement with a life-of-project budget for cost-sharing contributions, it is usually not possible to determine whether the cost-sharing contributions have been made as required until the term of the agreement ends. Nonetheless, MCC and the recipient government need reliable information to monitor actual cost-sharing contributions throughout the life of the agreement.

Thus, for an MCC-compact with a life-of-project budget for cost-sharing contributions, for each period that an audit is performed in accordance with this Scope of Work, the Auditor will audit the cost-sharing schedule to determine if the schedule of cost-sharing contributions is fairly presented in accordance with the basis of accounting used by the recipient government to prepare the schedule. The Auditor must question all expenditures of 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.

In addition, for closeout audits of MCC-agreements with a life-of-project budget for cost-sharing contributions, auditors will audit the cost-sharing schedule to determine if the recipient government provided such contributions in accordance with the terms of the MCC-funded agreement. If actual contributions were less than budgeted contributions, the shortfall will be identified in the appropriate column of the cost-sharing schedule.

C.2 Agreement with Annual Cost-Sharing Budget

For this MCC Compact with an annual budget for cost-sharing contributions, for each period that an audit is performed in accordance with this Scope of Work, the Auditor will audit the cost-sharing schedule to determine whether (1) the schedule is fairly presented in accordance with the basis of accounting used by the recipient organization to prepare the cost-sharing schedule, (2) contributions were provided by the Government in accordance with the terms of the Compact, (3) MCA-Morocco properly and timely disbursed funds from the Government Contribution into the program, and (4) the recipient organization complied in all material respects with the policies and procedures regarding the source, use, valuation, timing,

recording, and reporting of Government Contributions required by MCC and the Government in support of the program. The Auditor 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.

D. Closeout Audits

The final close-out audit may be combined with a customary periodic audit but the final audit period may not exceed one year without permission of MCC. In addition to those activities stated in Sections V.A through V.C above, the final close-out audit must also contain:

1. Review of un-liquidated advances from MCC to MCA-Morocco and pending reimbursements by MCC and the Government. Verify that MCA-Morocco complied with all aspects of its *Program Closure Plan*. Ensure that MCA-Morocco has returned any excess cash to MCC and the Government. Also, ensure that all assets (inventories, fixed assets, commodities, etc.) procured with program funds were disposed of in accordance with the terms of the 609(g) Agreement, Compact, and related agreements, including the MCA-Morocco *Program Closure Plan*.
2. The Auditors must present, as an annex to the fund accountability statements, the balances and details of final inventories of nonexpendable property acquired under the agreements. This inventory must indicate which items, if any, were titled to the U.S. Government, and which were titled to other entities.
3. As part of the reconciliation of program income and costs, auditors will need to reflect any offsets to income such as questioned costs, which may or may not have been refunded by MCA-Morocco to the U.S. Government.
4. The disposition of assets may include treatment of special asset classes and circumstances including, but not limited to:
 - a. trusteeships to manage revolving funds;
 - b. trusteeships for administration of certificates of guarantee or certificates of completion for contractors; and
 - c. escrow accounts.
5. In addition to ensuring that all ordinary assets (e.g., inventories, vehicles) are properly disposed of, the auditor must assess and report on the appropriateness of control structures and management arrangements for the perpetuation by the Government or other entity of any unusual assets, examples of which are listed above.

E. Internal Control

The Auditor must review and evaluate the recipient organization's internal control related to the development and implementation of the Compact 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. Government Accountability Office's [Standards for Internal Controls in the Federal Government](#) (GAO-14-704G; 2014) may be helpful in assessing recipient internal controls. The auditor's understanding of the internal controls must be documented in the audit documentation file.

The Auditor must then prepare the report required by the *Audit Guidelines*, identifying deficiencies in the design or operation of internal control.

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 statements will not be prevented, or detected and corrected on a timely basis.

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.

Any significant deficiencies or material weaknesses must be set forth in the report as "findings." Any other matters related to internal control—such as suggestions for improving operational or administrative efficiency or internal control, or control deficiencies that are not significant deficiencies or material weaknesses—should be included in a separate management letter to the recipient organization and referred to in the report on internal control. The management letter should also be provided to MCC along with the audit report.

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 for each source of funds (from both MCC and the Government). The Auditors must:

1. Obtain a sufficient understanding of the internal controls to plan the audit and to determine the nature, timing and extent of tests to be performed.
2. 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 on a timely basis 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 depends upon the effectiveness of an auditing procedure and its application by the auditor.
3. Summarize the risk assessments for each assertion in the audit documentation. The risk assessments must 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 audit documentation must 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, extent, and timing of the tests performed based on the combined risk. The summarized audit documentation must be cross-indexed to the supporting audit documentation files 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 audit documentation files.

If the control risk is assessed 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 audit documentation files 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 ineffective to test the controls.

4. Evaluate the control environment, the adequacy of the accounting systems, and control procedures. Emphasis must be placed on the policies and procedures that pertain to MCA-Morocco's ability to record, process, summarize, and report financial data consistent with the assertions embodied in each account of the fund accountability statement. This evaluation must include, but not be limited to, the control systems for:
 - a. Ensuring that charges to the program are proper and supported;
 - b. Managing cash on hand and in bank accounts;
 - c. Procuring goods, works, and services;
 - d. Managing assets, commodities (such as supplies, materials, vehicles, equipment, food products, tools, etc.), inventory and receiving functions;
 - e. Managing personnel functions such as timekeeping, salaries, and benefits for MCA-Morocco and its Implementing Entities;
 - f. Managing and disposing of assets (such as vehicles, equipment, and tools, as well as other assets) purchased either by the program or directly by MCC, MCA-Morocco, an Implementing Entity, or the Government; and
 - g. Ensuring compliance with Compact and related agreement terms and applicable laws and regulations that collectively have a material impact on the Fund Accountability Statement. The results of this evaluation must be contained in the audit documentation section described in Section V.F of this Scope of Work dealing with the review of compliance with Compact and related agreement terms and applicable laws and regulations and presented in the compliance report.
5. Evaluate internal control established to ensure compliance with cost-sharing requirements, if applicable, including provision, management, disbursements, and reporting of the Government Contributions.
6. Include in the study and evaluation other policies and procedures that may be relevant if they pertain to data the auditor uses in applying auditing procedures. This may include, for example, policies and procedures that pertain to non-financial data that the auditor uses in analytical procedures.

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* and SAS No. 99 entitled *Consideration of Fraud in a Financial Statement Audit*.

F. Compliance with Agreement Terms and Applicable Laws and Regulations

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 a periodic 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 organization and referred to in the report on compliance. The management letter should also be provided to MCC along with the audit report.

The auditor's report must include all conclusions that a fraud, wasteful, abusive, or illegal act either has occurred or is likely to have occurred. In reporting material fraud, illegal acts, abuse, 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 be quantified in terms of U.S. Dollar value, if appropriate. In presenting material irregularities (including fraud, waste, and abuse), 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 irregularities and illegal acts that are not material in either a quantitative or qualitative sense. Chapter 4 of U.S. *Government Auditing Standards* provides guidance on factors that may influence Auditors' materiality judgments. If the auditor concludes that sufficient evidence of irregularities (including fraud, waste, or abuse) or illegal acts exists, the Auditor must immediately contact the MCC Inspector General, and must exercise due professional care in pursuing indications of possible irregularities (including fraud, waste, and abuse) and illegal acts so as not to interfere with potential future investigations and/or legal proceedings.

In planning and conducting the tests of compliance, the Auditor must:

1. Identify the pertinent laws and regulations and terms of the 609(g) Agreement, Compact, and related agreements and determine which of those, if not observed, could have a direct and material effect on the fund accountability statement. The Auditors must:
 - a. 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;
 - b. Assess the inherent and control risk that material noncompliance could occur for each of the compliance requirements listed in 1.a. above;

- c. 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 must be based on the risk assessment in 1.b. above; and
 - d. Prepare a single summary document in the audit documentation 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 document must be cross-indexed to detailed audit documentation that support the facts and conclusions contained in the summary document.
- 2. Determine if payments have been made in accordance with the 609(g) Agreement, Compact, and any supplemental agreements by and between MCC, the Government, MCA-Morocco, and a recipient organization under an MCC-funded grant, contract, or implementing agreement for the development and implementation of the Compact, as well as any applicable rules, regulations, policies, and procedures of MCC or the Government.
 - a. Determine whether MCA-Morocco, Covered Providers, and recipient organizations under MCC-funded grants, contracts, or implementing agreements are 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. Determine whether MCA-Morocco, Covered Providers, and recipient organizations under MCC-funded grants, contracts, or implementing agreements are 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.
 - c. Determine whether MCA-Morocco, Covered Providers, and recipient organizations under MCC-funded grants, contracts, or implementing agreements have 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.

3. Determine whether funds have been expended for purposes not authorized or not in accordance with applicable agreement terms. If so, the Auditor must question these costs in the fund accountability statement.
4. Identify any costs not considered appropriate, classifying and explaining why these costs are questioned.
5. Determine whether commodities (such as supplies, materials, vehicles, equipment, food products, tools, etc.), whether directly or indirectly procured by MCC, MCA-Morocco, the Government, Covered Providers, and recipient organizations under MCC-funded grants, contracts, or implementing agreements for use by MCA-Morocco, the Government, Covered Providers, and recipient organizations under MCC-funded grants, contracts, or implementing agreements exist or were used for their intended purposes in accordance with the 609(g) Agreement, Compact, and/or related agreements. Ensure that assets are marked in accordance with agreement requirements. If not, the cost of such commodities must be questioned.
6. Determine whether any technical assistance and services (including implementing entity, advisory, or consulting services), whether directly or indirectly procured by MCC, MCA-Morocco, the Government, Covered Providers, and recipient organizations under MCC-funded grants, contracts, or implementing agreements for use by MCA-Morocco, the Government, Covered Providers, and recipient organizations under MCC-funded grants, contracts, or implementing agreements were used for their intended purposes in accordance with the 609(g) Agreement, Compact, and/or related agreements. If not, the cost of such technical assistance and services must be questioned (including implementing entity, advisory, or consulting services).
7. Determine if the amounts of cost-sharing funds was calculated and accounted for as required by the Compact, Program Implementation Agreement, and any related agreements or applicable rules, regulations, policies, and procedures of MCC or the Government.
8. Determine if the cost-sharing funds were provided by the Government in accordance with the terms of the Compact; that MCA-Morocco properly and timely disbursed funds from the Government Contribution into the program; that the recipient organization complied in all material respects with the policies and procedures regarding the source, use, valuation, timing, recording, and reporting of the Government Contributions required by MCC and the Government in support of the program; and quantify any shortfalls.
9. Determine whether those who received services and benefits were eligible to receive them.
10. Determine whether MCA-Morocco's financial reports (including those on the status of cost-sharing contributions) and claims for advances and reimbursement contain information that is supported by the books and records.
11. Determine whether MCA-Morocco (through its Fiscal Agent) complied with MCC's *Common Payment System Policy and Procedures*.

12. Determine whether MCA-Morocco (through its Fiscal Agent) held advances of MCC and Government funds in interest-bearing accounts, and whether MCA-Morocco (through its Fiscal Agent) remitted to MCC, and the Government (as applicable), any interest earned on those advances. If MCA-Morocco was required to place MCC funds in an interest-bearing bank account but did not, then the Auditor should determine the amount of interest that was foregone by MCA-Morocco, and this amount should be classified as ineligible costs.
13. Determine whether MCA-Morocco (and its Fiscal Agent) had adequate systems in place to monitor the amount of periodic spending authority authorized by MCC, if applicable.

G. Follow-Up on Prior Audit Recommendations

The Auditors must review the status of actions taken on findings and recommendations reported in any pre-award and in any prior audits of the 609(g) Agreement and the Compact. Section 8.30 of the U.S. *Government Auditing Standards* ([2018 edition](#)) entitled *Results of Previous Engagements*, states: "Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives. When planning the audit, auditors should ask management of the audited entity to identify previous engagements or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives." The Auditor must do this to determine whether the recipient organization under the MCC-funded grant, contract, and implementing agreement has taken timely and appropriate corrective actions. The Auditor must report the status of uncorrected material findings and recommendations from any pre-award survey and prior audits that affect the financial statement audit.

The Auditor must describe the scope of their work on prior audit recommendations and the status of actions taken on prior findings and recommendations in the summary section of the audit report. The Auditor must refer to the most recent audit report for the same award (for a follow-up audit), or other MCC-funded awards and any pre-award survey (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 Auditor needs 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 Auditor must include a note to that effect in this section of the audit report.

H. Indirect Cost Rates

The Auditor should determine the actual indirect cost rates for the year if the recipient organization under the MCC-funded grant, contract, and implementing agreement has used provisional rates to charge indirect costs to MCC or the Government. The audit of the indirect cost rates should include tests to determine whether the:

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

- b. Distribution or allocation base is in compliance with the governing MCC Negotiated Indirect Cost Rate Agreement, if applicable.
- c. Indirect cost pool includes only costs authorized by the MCC or Government agreements and applicable MCC *Cost Principles*.
- d. Indirect cost rates obtained by dividing the indirect cost pool by the base are accurately calculated.
- e. Costs included in this calculation reconcile with the total expenses shown in the recipient's audited general purpose financial statements.

The results of the audit of the indirect cost rate should be presented in a schedule of computation of indirect cost rate. This schedule should contain: (1) a listing of costs included in each indirect cost pool, (2) the distribution base, and (3) the resultant indirect cost rate calculation. The costs in the schedule should reconcile with the total expenses shown in the recipient's general purpose financial statements. U.S. Office of Management and Budget (OMB) Guidance at 2 CFR Part 200 provides additional guidance on allocation of indirect costs and determination of indirect cost rates.

I. Other Audit Responsibilities

The Auditors must perform the following steps:

1. Hold entrance and exit conferences with MCA-Morocco, Covered Providers, and recipients audited under MCC-funded grants, contracts, and implementing agreements. The OIG and MCC must be notified of these conferences in order that their representatives may attend.
2. During the planning stages of an audit, communicate information to MCA-Morocco, Covered Providers, and recipients audited under MCC-funded grants, contracts, and implementing agreements regarding the nature and extent of planned testing and reporting on compliance with laws and regulations and internal control over financial reporting. Such communication must state that the Auditors do not plan to provide opinions on compliance with laws and regulations and internal control over financial reporting. This communication must be in the form of an engagement letter. Auditors must document the communication in the audit documentation files.
3. Institute quality control procedures to ensure that sufficient competent evidence is obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit. While auditors may use their standard procedures for ensuring quality control, those procedures must, at a minimum, ensure that:
 - a) Audit reports and supporting audit documentation files are reviewed by an auditor, preferably at the partner level, who was not involved in the audit. This review must be documented in the audit documentation files;
 - b) All quantities and monetary amounts involving calculations are footed and cross-footed; and

- c) All factual statements, numbers, conclusions and monetary amounts are cross-indexed to supporting audit documentation files.
4. Ascertain, before preparing its proposal for the audit engagement (or if this is not possible, at the earliest opportunity during the engagement itself), whether MCA-Morocco ensured that audits of its Covered Providers were performed to ensure accountability for MCC funds passed through to the Covered Providers (see paragraph 1.6 of the *Audit Guidelines*). If audit requirements for Covered Providers were not met, the Auditors must immediately notify MCC and the OIG and consider whether they can audit the Covered Providers themselves. If, after consultation with MCC and the OIG, the auditors conclude that a restriction on the scope of the audit exists and the restriction cannot be removed, then the auditors should consider modifying their opinion and any costs that have not been audited as required must be questioned as unsupported costs.
5. Obtain a management representation letter in accordance with AICPA SAS No. 85 (AU333), SAS No. 89, and SAS No. 99 signed by MCA-Morocco's management. See Example 4.1 of the *Audit Guidelines* for an illustrative management representation letter.
6. Evaluate the supplemental information prepared and provided to recognize accrual activity such as expenses incurred, but not yet paid, for and portion of the outstanding advances that are actually assets at the end of the period.

J. Additional On-Call Audit Services

Under terms and conditions described in more detail in Annexes E and F, the Auditor may be requested to provide additional On-Call Audit Services for two types of additional audits:

1. On-Call Audits of Covered Providers; and
2. On-Call Audits of Grantees, Contractors, Service Providers, or other Recipient Organizations.

Additional On-Call Audits could be program-specific audits of a whether a Covered Provider, grantee, service provider, or recipient organization (or a group of grantees, service providers, or recipient organizations) engaged by MCA-Morocco complied with the terms of their agreement(s) with MCA-Morocco. On-Call Audits require the Auditors to express an opinion, at the level specified by the On-Call Audit requirement, on whether the audited entity complied in all material respects with the applicable compliance requirements in their agreement(s) with MCA-Morocco, and report appropriately. In forming an opinion, the auditor should evaluate likely questioned costs, not just known questioned costs, as well as other material noncompliance that, by its nature, may not result in questioned costs.

Additional On-Call Audits will follow the Audit Guidelines and the same professional auditing and reporting standards outlined in this Section V of the Description of Services, but as part of exercising each service (see Annexes E and F of the Contract), MCA-Morocco may tailor the audits to focus solely on one or more grantees, contractors, service providers, or recipient organizations and their compliance with their agreements with MCA-Morocco.

VI. AUDIT REPORTS

The Auditor must submit one (1) hard copy and one (1) electronic copy of the Planning Document, Draft Audit Report, Final Audit Report, and all Management Letters and minutes from the Entrance and Exit Conferences to MCA-Morocco in English in both Microsoft Word and Adobe PDF formats. Thereafter, MCA-Morocco will follow documented MCC processes for review, No Objection, and acceptance of the audit deliverables and meeting minutes.

To make it easier for auditors to comply with the *Audit Guidelines*, the format and content of the audit report must closely follow the illustrative reports in Chapter 7, *Illustrative Reports*, of the *Audit Guidelines*. The audit report must specify the correct award number(s) of each award covered by the audit. The report must contain:

- A. A title page⁸, table of contents, transmittal letter, and a summary which includes: (1) a background section with a general description of the MCC-funded grants, contracts, and implementing agreements 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, whether cost-sharing contributions (Government Contributions) were required during the period audited, and whether the recipient organization has a provisional indirect cost rate authorized by MCC; (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, questioned costs, internal controls, compliance with the agreement terms and applicable laws and regulations, and the status of prior audit recommendations; (4) a brief summary of the results of the audit of cost-sharing contributions (Government Contributions); (5) for audits of MCA-Morocco, a brief summary regarding the review of the Common Payment System; and (6) a brief summary of the recipient entity's management comments regarding their views on the audit results and findings.
- B. The auditor's report on the fund accountability statement must identify any questioned costs not fully supported with adequate records or not eligible under the terms of the 609(g) Agreement, Compact, and related agreements. The report must be in conformance with the standards for reporting in Chapter 6 of the U.S. *Government Auditing Standards* and must include:
 - 1. The auditor's opinion on whether the fund accountability statement presents fairly, in all material respects, program revenues, costs incurred, cash balance of funds provided to MCA-Morocco, Covered Providers, and recipient organizations under MCC-funded grants, contracts, and implementing agreements by MCC, MCA-Morocco, and the Government, and commodities (such as supplies, materials, vehicles, equipment, food products, tools, etc.), assets, and technical assistance and services (including implementing entity, advisory, or consulting services) directly or indirectly procured by MCC, MCA-Morocco, the Government, Covered Providers, and recipient organizations under MCC-funded grants, contracts, or implementing agreements for use by MCA-Morocco, the Government, Covered Providers, and recipient organizations under MCC-funded grants, contracts, or implementing agreements for the period then ended in accordance with the terms of the agreements and in conformity with generally

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

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.

2. The fund accountability statement identifying the program revenues, costs incurred, cash balance of funds provided to MCA-Morocco, Covered Providers, and recipient organizations under MCC-funded grants, contracts, and implementing agreements by MCC, MCA-Morocco, and the Government, and commodities (such as supplies, materials, vehicles, equipment, food products, tools, etc.), assets, and technical assistance and services (including implementing entity, advisory, or consulting services) directly or indirectly procured by MCC, MCA-Morocco, the Government, Covered Providers, and recipient organizations under MCC-funded grants, contracts, or implementing agreements for use by MCA-Morocco, the Government, Covered Providers, and recipient organizations under MCC-funded grants, contracts, or implementing agreements (in the summary format outlined by this Scope of Work).

The statement must also identify questioned costs not considered eligible for reimbursement and unsupported, if any, including the cost of any commodities (such as supplies, materials, vehicles, equipment, food products, tools, etc.), assets, and technical assistance and services (including implementing entity, advisory, or consulting services) directly or indirectly procured by MCC, MCA-Morocco, the Government, Covered Providers, and recipient organizations under MCC-funded grants, contracts, or implementing agreements for use by MCA-Morocco, the Government, Covered Providers, and recipient organizations under MCC-funded grants, contracts, or implementing agreements whose existence or proper use in accordance with agreements could not be verified. All questioned costs resulting from instances of noncompliance with the 609(g) Agreement, Compact, and related 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 all questioned costs and must be cross-referenced to any corresponding findings in the report on compliance. All questioned costs in the notes to the fund accountability statement must be stated in U.S. Dollars. The U.S. Dollar equivalent must be calculated at the exchange rate applicable at the time the dollars were converted to local currency by MCA-Morocco, the Covered Provider, or the recipient organization under MCC-funded grants, contracts, or implementing agreements.

3. Notes to the fund accountability statement, including a summary of the significant accounting policies, explanation of the most important items of the statements, the exchange rates during the audit period and foreign currency restrictions, if any. In addition, a note to the fund accountability statement must state whether any interest on MCC-provided funds was returned to MCC or otherwise used in accordance with the terms of the Compact and related agreements.
4. The auditor's report on the schedule of cost-sharing contributions (Government Contributions) must include:

- a. 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.
 - b. The cost-sharing schedule identifying questioned costs. 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. The cost-sharing schedule identifying the budgeted amounts required by the agreements, the amounts actually provided, and any cost-sharing shortfalls.
 - d. 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.
- C. The Auditor's report on internal control must include as a minimum: (1) the scope of the auditor's work in obtaining an understanding of the internal controls and in assessing the control risk, and; (2) the reportable conditions, including the identification of material weaknesses in MCA-Morocco's internal controls. Reportable conditions must be described in a separate section. This report must be made in conformance with SAS No. 115 and the standards for reporting in Chapter 6 of U.S. *Government Auditing Standards*. Non-reportable conditions must be communicated to MCA-Morocco, the Covered Provider, and the recipient organization audited under an MCC-funded grant, contract, or implementing agreement in a separate management letter which must be referred to in the report on internal controls and sent with the audit report.
- D. The Auditor's report on the recipient organization's compliance with terms and conditions of the 609(g) Agreement, Compact, and supplemental agreements in addition to the MCC *Program Procurement Guidelines*, MCA-Morocco Procurement Plan(s), MCA-Morocco *Procurement Operations Manual*, the MCA-Morocco *Fiscal Accountability Plan*, and applicable laws and regulations related to MCC-funded programs in effect during the period audited. The report must follow the guidance in SAS No. 117. Nonmaterial instances of noncompliance must be communicated to the recipient organization in a separate management letter that should be sent with the audit report. All 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 questioned costs must be cross-referenced to any corresponding findings in the report on compliance.
 - a. The Auditor's report must include all conclusions, based on evidence obtained, that a fraud (including waste and abuse) or illegal act either has occurred or is likely to have occurred. This report must include an identification of all questioned costs, if any, as a result of fraud (including waste and abuse) or

illegal acts, without regard to whether the conditions giving rise to the questioned costs have been corrected and whether the recipient organization does or does not agree with the findings and questioned costs. Abuse that is material, either quantitatively or qualitatively, must also be reported.

- Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant. If during the course of the audit, auditors become aware of abuse that could be quantitatively or qualitatively material to the financial statements, auditors should apply audit procedures specifically directed to ascertain the potential effect on the financial statements or other financial data significant to the audit objectives. After performing additional work, auditors may discover that the abuse represents potential fraud or illegal acts. Because the determination of abuse is subjective, auditors are not required to provide reasonable assurance of detecting abuse.
 - b. In reporting material fraud (including waste and abuse), 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 must be related to the universe or the number of cases examined and 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 irregularities 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 irregularities or illegal acts exist, they must contact the MCC Inspector General and exercise due professional care in pursuing indications of possible irregularities and illegal acts so as not to interfere with potential future investigations and/or legal proceedings.
- E. The auditor's comments on the status of prior audit recommendations. The Auditor must review and report on the status of actions taken on findings and recommendations reported in prior audits and any pre-award survey recommendations. 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 Auditor needs only briefly describe the prior finding and show the page reference where it is included in the current report. If there were no prior findings and recommendations, a note to that effect must be included in this section of the audit report.

- F. The findings contained in the reports on internal controls and compliance related to audits of MCA-Morocco, Covered Providers, and recipient organizations audited under an MCC-funded grant, contract, or implementing agreement MCC-funded programs must include a description of:
- the condition (what is);
 - the criteria (what should be);
 - the cause (why it happened);
 - the effect (what harm was caused by not complying with the criteria); and
 - an actionable recommendation that corrects the cause and the condition, as applicable.

It is recognized that material internal control weaknesses and noncompliance found by the Auditor may not always have all of these elements fully developed, given the scope and objectives of the specific audit. The Auditor 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.

- G. Audit firms are expected to exercise independent judgment throughout the audit engagement, including in reporting on questioned costs. Indications of a lack of independence may result in removal of firms from the list of firms eligible to conduct audits of MCC funds. Findings which involve monetary effect must:
1. Be quantified and included as questioned costs in the fund accountability statement, the Auditor's Report on Compliance, and cost sharing contributions (Government Contributions) schedule (cross-referenced).
 2. Be reported without regard to whether the conditions giving rise to them were corrected.
 3. Be reported whether MCA-Morocco, the Covered Provider, or the recipient organization audited under an MCC-funded grant, contract, or implementing agreement does or does not agree with the findings or questioned costs.
 4. 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.*).
- H. The reports must also contain, after each recommendation, pertinent views of responsible recipient officials concerning the auditor's findings and actions taken by MCA-Morocco, the Covered Provider, or the recipient organization audited under an MCC-funded grant, contract, or implementing agreement 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 should explain their reasons following the comments. Conversely, the Auditors should modify their report if they find the comments valid.
- I. Any evidence of fraud, illegal acts or abuse that have occurred, or are likely to have occurred, must be included in a separate written report if deemed necessary by the MCC Inspector General. This report must include an identification of all questioned costs as a

result of abuse, irregularities or illegal acts, without regard to whether the conditions giving rise to the questioned costs have been corrected or whether MCA-Morocco, the Covered Provider, or the recipient organization audited under an MCC-funded grant, contract, or implementing agreement does or does not agree with the findings and questioned costs.

VII. INSPECTION AND ACCEPTANCE OF AUDIT WORK AND DELIVERABLES

For the purposes of this section, if the audit is of a Covered Provider or another recipient organization that is not MCA-Morocco, the Auditor must consult with MCC for more information and confirm with MCC the appropriate delivery, acceptance, and approval process as some of the processes may change.

Each audit cycle is completed through the following phases and steps:

Phase 1: Audit Plan (Responsibility of MCA-Morocco)

- Step 1. The MCA-Morocco Finance Director develops an Audit Plan and submits it to MCC for No Objection no later than 60 calendar days before the end of the first period to be audited; and for subsequent audit periods no later than January 30 for an April 1 to September 30 audit period, or by August 1 for an October 1 to March 31 audit period.

Phase 2: Planning Document (Responsibility of the Auditor)

- Step 2. The Auditor shall submit to MCA-Morocco, the Covered Provider, or recipient organization (as relevant to each audit) a complete audit Planning Document, written in English, within **21 calendar days** after payment by MCA-Morocco, the Covered Provider, or recipient organization (as relevant to each audit) of the previous audit period's Final Audit Report.
- Step 3. The Accountable Entity transmits the Planning Document to MCC for review and No Objection.
- Step 4. MCC provides No Objection to the Planning Document within 21 calendar days if it is in form and substance acceptable to MCC. MCC authorizes the Accountable Entity to accept the deliverable and to make payment according the terms and conditions of the audit contract.
- Step 5. The Accountable Entity accepts the deliverable and pays the Auditor for the Planning Document.

Phase 3: Entrance Conference (Responsibility of the Auditor)

- Step 6. The Fiscal Agent compiles the annual or semi-annual Fund Accountability Statement(s) and provides them to the Auditor with supporting documentation.

- Step 7. The Auditor holds an Entrance Conference⁹ with the Accountable Entity or Covered Provider, and other invited entities (if applicable), and a copy of the meeting minutes are provided to the Accountable Entity.

The Accountable Entity reviews and accepts the meeting minutes of the Entrance Conference, and provides a copy to MCC for information.

- Step 8. The Accountable Entity pays the Auditor for the Entrance Conference, and fieldwork begins.

Phase 4: Fieldwork (Responsibility of the Auditor)

- Step 9. The Auditor conducts and completes its fieldwork.

Phase 5: Exit Interview (Responsibility of the Auditor)

- Step 10. Following completion of fieldwork, the Auditor conducts an Exit Interview with the Accountable Entity or Covered Provider to discuss its preliminary audit findings. At the Exit Interview, the Auditor provides the Accountable Entity or Covered Provider an opportunity to correct and clarify any misunderstandings that may have arisen during fieldwork and requests formal written comments for inclusion into the Draft Audit Report. This process gives the Accountable Entity, Covered Provider, and other relevant entities an opportunity to disagree with draft audit findings and to provide further information or documentation to support their objection(s).

Phase 6: Draft Audit Report (Responsibility of the Auditor)

- Step 11. The Auditor writes up its Draft Audit Report, includes any of the formal written comments collected during the Exit Interview from the Accountable Entity or Covered Provider, adds any of their own final comments to the Accountable Entity's or Covered Provider's comments, and submits the Draft Audit Report to the Accountable Entity within **45 calendar days** after the acceptance of the Planning Document by MCA-Morocco, the Covered Provider, or recipient organization (as relevant to each audit).

In the event that MCC has rejected the Draft Audit Report during Step 14, below, the Auditor revises its Draft Audit Report according to any comments or corrections required by MCC and resubmits the revised Draft Audit Report to the Accountable Entity.

Phase 7: Exit Conference (Responsibility of the Auditor)

- Step 12. Following submission of the Draft Audit Report to the Accountable Entity, the Auditor conducts an Exit Conference to discuss the Draft Audit Report with the Accountable Entity or Covered Provider, and provides a copy of the meeting minutes to the Accountable Entity.

⁹ With invitations sent to MCC representatives per the audit contract.

The Accountable Entity reviews and accepts the meeting minutes of the Exit Conference, and provides MCC with a copy for information.

- Step 13. The Accountable Entity pays the Auditor for the Exit Conference and submits the Draft Audit Report to MCC.

Phase 8: MCC Review and No Objection of the Draft Audit Report

- Step 14. Within 21 calendar days of receipt of the Draft Audit Report, MCC reviews and provides No Objection to the Draft Audit Report unless there are deficiencies which would prevent the Accountable Entity or Covered Provider from satisfying Grant requirements to present an audit in form or substance satisfactory to MCC. MCC's No Objection standards will be based on the quality, consistency, completeness, and compliance with the Audit Guidelines and applicable professional reporting standards.

- (a) In the event that the Draft Audit Report is incomplete, unacceptable, or not in form and substance satisfactory to MCC, MCC will return revisions and/or questions on the Draft Audit Report to the Auditor with a copy to the Accountable Entity representative named in the audit contract. The process returns to Step 11.
- (b) If the report is in form and substance satisfactory to MCC, MCC will provide No Objection to the Draft Audit Report and will authorize the Accountable Entity to accept it and to make payment according to the terms and conditions of the audit contract.

- Step 15. The Accountable Entity accepts the deliverable, and pays the Auditor for the Draft Audit Report.

Phase 9: Final Audit Report (Responsibility of the Auditor)

- Step 16. Once all necessary revisions to the Draft Audit Report are completed, the Auditor signs the report and submits it to the Accountable Entity as the Final Audit Report. The Accountable Entity then transmits the Final Audit Report to MCC for No Objection.

- Step 17. Within 14 calendar days of receiving the Final Audit Report, MCC will review and send its No Objection and the Final Audit Report to the Accountable Entity CEO with a transmittal letter with comments, instructions, and whatever actions are required by the Accountable Entity or Covered Provider to correct any (i) significant deficiencies or material weaknesses in internal control, (ii) material instances of noncompliance, or (iii) to refund MCC for any ineligible or unsupported costs questioned in the report.

In providing its No Objection on the Final Audit Report, MCC will authorize the Accountable Entity to accept the report and to make payment according to the terms and conditions of the audit contract.

Step 18. The Accountable Entity accepts the deliverable, and pays the Auditor for the Final Audit Report.

Step 19. Upon receiving the Final Audit Report from MCC, the Accountable Entity CEO and CFO (who may seek assistance from MCC Program Financial Services, as necessary) shall prepare a Corrective Action Plan, if necessary, and submit it along with a copy of the Final Audit Report to the Accountable Entity Board of Directors.

Within 30 calendar days after receiving No Objection on the Final Audit Report from MCC, the Accountable Entity CEO shall submit a draft Corrective Action Plan to MCC. Accountable Entities shall use their best efforts to ensure that Covered Providers take, where necessary, appropriate and timely corrective actions in response to audits.

Phase 10: OIG Desk Review of Final Audit Reports

Step 20. MCC will transmit all Final Audit Reports to the OIG, and OIG shall perform a desk review of the Final Audit Report.

MCC and the MCC Inspector General are responsible for ensuring that the work performed under this statement of work complies with U.S. *Government Auditing Standards* and the *Audit Guidelines*. To accomplish this objective, MCC and/or the OIG will perform desk reviews on every draft audit report, and may review audit documentation files prior to approving draft audit reports or perform quality control reviews of the audit documentation files after the audit has been completed.

At all times, MCC reserves the right to suspend Grant disbursements if the Government, MCA-Morocco, a Covered Provider, or recipient organization under an MCC-funded grant, contract, or implementing agreement does not remain in compliance with the audit requirements of each Grant agreement. In addition, continued disbursements of Grant funding is conditional upon the Auditor, Government, MCA-Morocco, Covered Provider, or recipient organization under an MCC-funded grant, contract, or implementing agreement addressing any issues that may come up from MCC or OIG desk reviews.

For MCC and/or the OIG's review of audit documentation files, the Auditors must ensure that all audit records related to the audited agreements are available to enable MCC and/or OIG auditors to accomplish and support their review. To this end, the MCC and OIG auditors must have access to all pertinent audit documentation files and records of the MCA-Morocco, Covered Provider, and recipient organization and be authorized to make excerpts, photocopies, and transcripts as deemed necessary by MCC and/or the OIG.

If MCC and/or the OIG do not accept the report because of deficiencies in the work, the Auditor must perform any additional audit work requested at no additional cost to MCC, MCA-Morocco, or the U.S. Government.

VIII. RELATIONSHIPS AND RESPONSIBILITIES

The Auditor will work in coordination with the Finance Director of MCA-Morocco. The liaisons for information and assistance from MCC will be MCC's Chief Risk Officer and/or MCC's Director of Program Financial Services.

OIG and MCC representatives may meet with the Auditor at the beginning of the audit to explain any financial/compliance areas of concern contained in the statement of work that they want emphasized and provide any advice concerning the performance of the audit, or at any time thereafter. The MCC Director of Program Financial Services or his/her designee shall provide the following information to the Auditors for the entrance conference:

1. A list of all disbursements made by the MCC to the recipient organization under the 609(g) Agreement and Compact, as applicable; and
2. The total value of third party payments made by MCC on behalf of the recipient organization.

MCC may also provide written comments on the Draft Audit Report concerning the facts and conclusions contained in the report in order to obtain the best possible end product. The OIG and MCC representatives may also attend the exit conference for the same purpose.

The Auditor must properly maintain and store the audit documentation files for a period of five (5) years from the completion of the audit. During this five-year period, the Auditor must immediately provide the audit documentation files when requested by MCC. Auditors that are nonresponsive or do not provide timely responses to questions raised by the MCC representatives shall be temporarily or permanently excluded from performing additional audits of MCC-funded programs.

IX. AUDITOR'S QUALIFICATIONS

The staffing requirements to carry out the responsibilities, duties and tasks of the Auditor will be determined by the Auditor. The Auditor shall maintain an organization chart of the team structure together with a description of the Composition of Team and Task Assignments. The eventual total size of the team will depend on the number and size of audited transactions and other activities. However, the Auditor is required to make an estimate based on the total value of the Auditor's level of effort. The Auditor is required to identify a minimum of three (3) Key Professional Personnel – the Audit Manager/Team Leader and two (2) other auditors. These three positions will be evaluated as Key Professional Personnel.

The Auditor must provide a team of experts with qualifications and experience needed to perform the role and obligations specified in this Statement of Work. Key Personnel are expected to directly conduct the work of the audit although the Auditor may also complete their team with support personnel. The Key and Additional Personnel shall have as a minimum the experience and qualifications listed below:

1. Audit Manager / Team Leader (key Professional personnel)

- (i) Qualified accountant, holding current membership of an internationally-recognized accounting institution, such as current credentials as a Certified Public Accountant, Chartered Accountant, Chartered Certified Accountant, or equivalent;
- (ii) Familiarity with the U.S. Government Auditing Standards;
- (iii) Minimum of twelve (12) years practical experience, with at least five (5) years in a senior position;
- (iv) Experience in auditing large (multimillion dollars) projects;
- (v) Excellent oral and written English and French language skills.

2. Senior Auditors (Quantity 2) (key Professional personnel)

- (i) Graduates of a university in the fields of finance, accounting, or auditing;
- (ii) Familiarity with U.S. Government Auditing Standards;
- (iii) Minimum of eight (8) years practical financial audit experience; and
- (iv) Excellent oral and written English and French language skills.

3. Audit Assistants (Additional Professional Personnel)

- a. graduates of a university in the fields of finance, accounting, or auditing;
- b. minimum of three (3) years practical financial audit experience;
- c. excellent oral and written English and French language skills.

X. TERMS OF PERFORMANCE

Base Period Audit: The Base Period audit from May 5, 2015 until September 30, 2018 must begin as soon as practicable after the Effective Date of the Contract, and from the Effective Date, the Auditor must submit to MCA-Morocco:

- (a) a complete audit Planning Document, written in English, within **21 calendar days** after the commencement of services;
- (b) an indexed Draft Audit Report, written in English, within **45 calendar days** after the acceptance of the Planning Document by MCA-Morocco, the Covered Provider, or recipient organization (as relevant to each audit); and
- (c) a Final Audit Report, written in English, that incorporates all necessary revisions to the Draft Audit Report within **15 calendar days** after acceptance of the Draft Audit Report by MCA-Morocco, the Covered Provider, or recipient organization (as relevant to each audit).

Option Period Audits: Each subsequent Option Period audit will require that the Auditor submits to MCA-Morocco, the Covered Provider, or recipient organization (as relevant to each audit):

- (a) a complete audit Planning Document, written in English, within **21 calendar days** after payment by MCA-Morocco, the Covered Provider, or recipient organization (as relevant to each audit) of the previous audit period's Final Audit Report;

- (b) an indexed Draft Audit Report, written in English, within **45 calendar days** after the acceptance of the Planning Document by MCA-Morocco, the Covered Provider, or recipient organization (as relevant to each audit); and
- (c) a Final Audit Report, written in English, that incorporates all necessary revisions to the Draft Audit Report within **15 calendar days** after acceptance of the Draft Audit Report by MCA-Morocco, the Covered Provider, or recipient organization (as relevant to each audit).

It is the responsibility of MCA-Morocco, the Covered Provider, or recipient organization (as relevant to each audit) to ensure that all records are available, all accounting entries and adjustments are made, and all other necessary steps are taken to make it possible for the Auditors to perform all the work necessary to be conduct the assignment.

In order for the Auditors to meet this Compact requirement, MCA-Morocco, the Covered Provider, or recipient organization (as relevant to each audit) will need to close its books and have its fund accountability statement ready for audit within 14 calendar days after the audit cutoff period. Further, in order to perform all the work necessary to conduct the assignment, the Auditors may need to have conducted interim testing well before the audit cutoff date and begin final testing while MCA-Morocco, the Covered Provider, or recipient organization (as relevant to each audit) is still in the process of closing its accounting records. MCA-Morocco, the Covered Provider, or recipient organization (as relevant to each audit) need to provide sufficient space in its offices for the Auditors to conduct their audit during the course of the assignment.

Availability of Records: MCA-Morocco will make financial records and documentary evidence available up to 120 days after completion of the Compact.

Timeframe for final Closeout Audit activities: Due to the fact that the Compact end date and the last day of the close-out audit period are the same, and that the Fiscal Agent is on contract until 120 days after the Compact completion, time management of the closeout audit process will be very important to ensure successful completion.

XI. AUDIT DELIVERABLES AND MINUTES OF DISCUSSION

Deliverables which must be submitted or copied to MCC at mccaudits@mcc.gov:

1. **Audit Planning Document.** This deliverable shall include a detailed Audit Program with clearly established milestones for completing the audit.
2. **Formal meeting minutes from the Entrance Conference.**
3. **Formal meeting minutes from the Exit Conference.**
4. **Draft Audit Report.** This deliverable shall include an indexed draft audit report that includes the Auditor's opinion on the financial statements, the Auditor's report on internal controls, and the Auditor's report on compliance with the terms and conditions of the Compact and related Agreements and laws and regulations applicable to MCA-Morocco.
5. **Final Audit Report.** This deliverable shall include the final Auditor's opinion and reports noted above.

XII. COMMUNICATIONS TO MCC

All communications and audit deliverables related to the MCA-Morocco audit program must be transmitted to MCA-Morocco and then by the MCA-Morocco Finance Director to his/her MCC Program Financial Services counterpart and to the following, additional individuals and mailboxes at MCC:

| Name | | Email Address |
|------------------------|--|--|
| General Mailbox | | mccaudits@mcc.gov |
| Alice Miller | Chief Risk Officer | milleram@mcc.gov |
| Jude Koval | Director of Internal Controls and Compliance | kovaljg@mcc.gov |

XIII. TYPE OF CONTRACT

This contract is considered a fixed price contract.

XIV. TERMS OF PAYMENT

Separately for each audit cycle (i.e., for the Base Period, Option Period, or On-Call Audit) payment will be provided in five equal amounts for each audit cycle. The standard for payments to Auditors will be No Objection of deliverables by MCC and/or acceptance by MCA-Morocco according to the table below and detailed steps in Annex C.

| Deliverable | Discussion | Payment Conditions | Payment amount of the fixed price amount for the current period |
|-------------|---------------------|--|---|
| 1 | Planning Document | No Objection of Planning Document by MCC + Acceptance by the Accountable Entity | 20% |
| 2 | Entrance Conference | Acceptance of Meeting Minutes by the Accountable Entity | 20% |
| 3 | Exit Conference | Acceptance of Meeting Minutes by the Accountable Entity | 20% |
| 4 | Draft Audit Report | No Objection of Draft Audit Report by MCC + Acceptance by the Accountable Entity | 20% |
| 5 | Final Audit Report | No Objection of Final Audit Report by MCC + Acceptance by the Accountable Entity | 20% |

The payment schedule for each period will be as follows:

1. Twenty percent (20%) of the fixed price amount for the current period (either Base Period, Option Period, or On-Call Audit) paid upon successful completion by the Auditor of **Deliverable No. 1**, titled audit **“Planning Document,”** No Objection by MCC, and acceptance by MCA-Morocco;

2. Twenty percent (20%) of the fixed price amount for the current period (either Base Period, Option Period, or On-Call Audit) paid upon completion of the formal **Entrance Conference**, and acceptance of the formal meeting minutes by MCA-Morocco;
3. Twenty percent (20%) of the fixed price amount for the current period (either Base Period, Option Period, or On-Call Audit) paid upon completion of the **Exit Conference**, and acceptance of the formal meeting minutes by MCA-Morocco;
4. Twenty percent (20%) of the fixed price amount for the current period (either Base Period, Option Period, or On-Call Audit) paid upon successful completion by the Auditor of **Deliverable No. 2**, titled “**Draft Audit Report**,” No Objection by MCC, and acceptance by MCA-Morocco; and
5. Twenty percent (20%) of the fixed price amount for the current period (either Base Period or Option Period) paid upon successful completion by the Auditor of **Deliverable No. 3**, titled “**Final Audit Report**,” No Objection by MCC, and acceptance by MCA-Morocco.

For the purposes of determining the remuneration due for On-Call Audit Services (“Covered Provider Audits” and “Compliance Audits” as described in Annex A), the total cost of each On-Call Audit Service will be proposed by the Auditor using the unit rates provided in Annexes E and F. MCA-Morocco reserves the right to conduct a price-reasonableness analysis of each proposal under the On-Call Audit Services. MCA-Morocco also reserves the right to re-compete these On-Call Audit Services any time, at its sole discretion, regardless of the performance of the Auditor.

XV. PAYMENT CONDITIONS

1. Payment shall be made no later than thirty (30) days following submission by the Auditor of invoices in duplicate to the party designated in the contract.
2. For Deliverables No. 1, 2, and 3, no payments shall be made without No Objection by MCC. For the Entrance and Exit Conferences, no payments shall be made without MCC acknowledging receipt of the corresponding formal meeting minutes.
3. Any payments not made by MCA-Morocco before the Compact Closure Date will be made by MCC (via a payment mechanism to be set directly between the Auditor and MCC).

XVI. ADDITIONAL ON-CALL AUDIT SERVICES

The contract will also include On-Call Audit Services for two types of additional audits which may be conducted by the Selected Auditor.

These Services are:

- a. On-Call Financial Audit of MCC Resources Managed by Covered Providers (“Covered Provider Audits”)

b. On-Call Compliance Audit of MCA-Morocco Grantees or Service Providers (“Compliance Audits”)

While MCA-Morocco is the direct recipient of MCC funds, MCA-Morocco may enter into contracts or agreements for goods/service with other entities—either host country or foreign entities. Such entities may qualify as Covered Providers and be subject to audits under the same terms and conditions proscribed by the MCC Audit Guidelines.

Compliance Audits are program-specific audits of a whether a grantee or service provider (or

group of grantees or service providers) engaged by MCA-Morocco complied with the terms of their agreement(s) with MCA-Morocco. On-Call Compliance Audits require the Auditors to express an opinion, at the level specified by the On-Call audit requirement, on whether the audited entity complied in all material respects with the applicable compliance requirements in their agreement(s) with MCA-Morocco, and report appropriately. In forming an opinion, the auditor should evaluate likely questioned costs, not just known questioned costs, as well as other material noncompliance that, by its nature, may not result in questioned costs.

Given this uncertainty, this lump-sum fixed price contract will not initially include a price for either Covered Provider Audits or Compliance Audits. Instead, weekly prices proposed for each On-Call Audit service will be based on the monthly rates used to determine the financial proposal and corresponding price of the contract presented in FIN-4.