



OFFICE OF INSPECTOR GENERAL

for the Millennium Challenge Corporation

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION (MCC) RESOURCES MANAGED BY THE MILLENNIUM CHALLENGE ACCOUNT-TANZANIA (MCA -TANZANIA), UNDER THE COMPACT AGREEMENT BETWEEN THE MCC AND THE REPUBLIC OF TANZANIA FROM JULY 1, 2009 TO DECEMBER 31, 2009

AUDIT REPORT NO. M-000-11-004-N
December 30, 2010

WASHINGTON, DC

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.



*Office of Inspector General
for the Millennium Challenge Corporation*

December 30, 2010

Mr. Dennis Nolan
Deputy Chief Financial Officer
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005-2203

Subject: Audit of the Millennium Challenge Corporation (MCC) Resources Managed by the Millennium Challenge Account-Tanzania (MCA-Tanzania), Under the Compact Agreement Between the MCC and the Republic of Tanzania from July 1, 2009 to December 31, 2009 (Report No. M-000-11-004-N)

Dear Mr. Nolan:

Attached is the subject audit report prepared by the independent audit firm, Innovex Auditors. The audit was contracted by Millennium Challenge Account-Tanzania (MCA-Tanzania) and covered expenditures totaling \$2,722,969 for 609(g) funds, \$1,592,984 for Compact Implementation Funding, and \$6,486,959 for the compact for the period from July 1, 2009 to December 31, 2009.

The U.S. Government acting through the Millennium Challenge Corporation (MCC) signed a 5-year Compact with the Government of Tanzania for approximately \$698 million. The Government of Tanzania established MCA-Tanzania to implement and manage the programs described in the signed Compact. The purpose of the Compact is to advance economic growth and poverty reduction in Tanzania through strategic investments in transportation, energy, and water infrastructure.

We have reviewed the report and accepted it as meeting the reporting requirements of the *Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities* issued by the USAID's Office of the Inspector General. However, the Innovex auditors disclosed that they did not fully comply with the U.S. Generally Accepted Government Auditing Standards (GAGAS) since they did not have an external quality control review by an unaffiliated audit organization, as required by Chapter 3, paragraph 3.55, of U.S. Government Auditing Standards, as no such program is offered by professional organizations in Tanzania. Innovex Auditors also did not have a continuing education program that fully satisfies the requirements set forth in Chapter 3, paragraph 3.46, of U.S. Government Auditing Standards. Our review was limited to an examination of the audit report. We did not conduct a quality control review of the audit working paper documentation.

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The audit included: (a) expressing an opinion on MCA-Tanzania's fund accountability statement, (b) evaluating and obtaining an understanding of MCA-Tanzania's internal control structure, (c) determining MCA-Tanzania's compliance with the Compact terms and applicable laws and regulations, and (d) determining if MCA-Tanzania had taken adequate corrective action on the prior audit report recommendations.

The auditors reported that the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred for the period audited. However, they identified deficiencies in the internal control structure.

Internal Control

- Employees were not filling out leave return forms upon returning from leave as required by the Fiscal Accountability Plan. This is a repeat finding.
- Employees were not retiring imprest within 4 days after returning from official travel as required by the Fiscal Accountability Plan. Also, MCA-Tanzania was not updating the imprest register. This is a repeat finding.

Based on our review of the audit report, we are making the following recommendation that we will include in the Inspector General's Audit Recommendation Tracking System.

Recommendation. We recommend that MCC request MCA-Tanzania to submit a corrective action plan (CAP) designed to correct the internal control deficiencies described on pages 31 to 32 of the Schedule of Findings regarding leave return forms not being completed, imprest not being retired within 4 days after official travel, and the imprest register not being updated.

This report is being transmitted to you for your action. Please advise the USAID Assistant Inspector General for the Millennium Challenge Corporation within 30 days of this letter of the action planned or taken to implement the recommendations. Refer questions concerning this report to James Charlifue, Deputy Assistant Inspector General, at (202) 216-6965.

Sincerely,



Alvin A. Brown
USAID Assistant Inspector General
Millennium Challenge Corporation

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MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

**AUDIT OF THE FUND ACCOUNTABILITY STATEMENT OF
MILLENNIUM CHALLENGE CORPORATION (MCC) MANAGED
BY MILLENNIUM CHALLENGE ACCOUNT-TANZANIA (MCA-
TANZANIA) UNDER THE COMPACT AGREEMENT DATED
FEBRUARY 17, 2008 BETWEEN MCC AND THE GOVERNMENT
OF UNITED REPUBLIC OF TANZANIA FOR THE PERIOD FROM
JULY 1, 2009 TO DECEMBER 31, 2009**



MILLENNIUM CHALLENGE ACCOUNT- TANZANIA

AUDIT OF FUND ACCOUNTABILITY STATEMENT OF MILLENNIUM CHALLENGE CORPORATION (MCC) RESOURCES MANAGED BY MILLENNIUM CHALLENGE ACCOUNT-TANZANIA UNDER THE COMPACT AGREEMENT DATED FEBRUARY 17, 2008 BETWEEN MCC AND THE GOVERNMENT OF UNITED REPUBLIC OF TANZANIA FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

TABLE OF CONTENTS	Page
Transmittal Letter	3
Summary	
Background	4
Objectives of the Audit	4-5
Scope of the Audit	5-7
Results of the Audit	7-11
Fund Accountability Statement	
Independent Auditor's Report	12-13
Fund Accountability Statement	14-16
Notes to the Fund Accountability Statement	17-24
Internal Control	
Independent Auditor's Report on Internal Control	25-27
Compliance with Terms of the Compact, other agreements and Applicable Laws and Regulations	
Independent Auditor's Report on Compliance	28-29
Schedule of Audit Findings and Questioned Costs	30-35



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October 25, 2010

Audit of the Fund Accountability Statement of the Millennium Challenge Corporation (MCC) resources managed by Millennium Challenge Account (MCA)-Tanzania under the Compact Agreement dated February 17, 2008 between MCC and the Government of the United Republic of Tanzania for the period from July 1, 2009 to December 31, 2009

Dear Sirs,

We are pleased to present our report on the Fund Accountability Statement, which includes the results of the financial audit, the report on internal control, and the report on compliance with laws and regulations applicable to the Millennium Challenge Account (MCA)-Tanzania, for the implementation of the Millennium Challenge Account Program to advance economic growth and poverty reduction in Tanzania for the period from July 1, 2009 to December 31, 2009. The actual cost incurred and audited for the period July 1, 2009 to December 31, 2009 is \$2,722,969 for 609(g), \$1,592,984 for Compact Implementation Funding, and \$6,486,959 for the Compact.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Christopher Mageka", written over a light blue horizontal line.

Innovex Auditors
Certified Public Accountants
Dar es Salaam
Christopher Mageka, CPA

Date: October 25, 2010

BACKGROUND

On February 17, 2008 the Millennium Challenge Compact was signed between the Government of the United Republic of Tanzania and the Government of the United States of America, acting through the Millennium Challenge Corporation (MCC) – a United States Government Corporation. The objective of the agreement is to advance economic growth and poverty reduction in Tanzania through strategic investments in transportation, energy and water infrastructure. The total value of the Compact is USD \$698 million over a 5-year period.

The Government of the United Republic of Tanzania established the Millennium Challenge Account (MCA)-Tanzania, an independent accountable entity through Government Notice No. 202 of September 21, 2007 to oversee and administer the implementation of the Compact. The MCA-Tanzania programs audited are: (1) 609(g) which started on September 1, 2007 to support the activities related to the Compact before the compact agreement was signed; and (2) the Compact Implementation Funding (CIF) to fund administrative activities of MCA-Tanzania which started on March 1, 2008. The audits covered the period from July 1, 2009 to December 31, 2009.

OBJECTIVES OF THE AUDIT

We have been contracted to conduct a financial audit of the MCC resources managed by MCA-Tanzania under the Compact, pre-Compact and/or supplemental agreement between the Millennium Challenge Corporation, representing the U.S. Government, and the Government of Tanzania from July 1, 2009 to December 31, 2009 in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States and the Office of Inspector General for the Millennium Challenge Corporation's "Guidelines for Financial Audits Contracted by The Millennium Challenge Corporation's Accountable Entities" (Revision dated August 3, 2007).

The Fund Accountability Statement (FAS) is the basic financial statement to be audited that presents MCA-Tanzania's revenues, costs incurred, and cash balance of MCC-provided funds.

Specifically, we have been required to:

- Express an opinion on whether the Fund Accountability Statement for the MCC-funded programs presents fairly, in all material respects, revenues received and costs incurred for the period audited in conformity with the terms of the Compact, pre-Compact and/or supplemental agreement and related ancillary agreements and Generally Accepted Accounting Principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis), including supplemental schedules to reflect accruals for items, such as accounts payable and other related expenses.
- Evaluate and obtain a sufficient understanding of MCA-Tanzania's internal controls related to the MCC-funded programs, access control risk, and identify reportable conditions, including material internal control weaknesses. This evaluation must include the internal controls related to required cost-sharing contributions (if applicable).

- Perform tests to determine whether MCA-Tanzania complied, in all material respects, with the Compact, pre-Compact and/or supplemental agreement, and applicable laws and regulations related to MCC-funded programs. All material instances of non-compliance 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 required cost-sharing contributions, if applicable. Specifically, the auditor shall perform tests to determine whether MCA-Tanzania complied, in all material respects, with the Procurement Agreement and the Fiscal Accountability Plan in effect during the audit period.
- Determine if MCA-Tanzania has taken adequate corrective action on the prior audit report recommendations.

SCOPE OF THE AUDIT

The scope of work included the following procedures as the basis for the audit programs and the review. They are not considered all-inclusive or restrictive in nature and do not relieve the auditor from exercising due professional care and judgment. We modified the procedures to fit local conditions and specific contract design, implementation procedures and agreement provisions. The limitation of scope explained in this section was communicated to the appropriate MCC office. The audit procedures included the following:

- I. We reviewed the Program documents including the Compact, Program Implementation Agreement (PIA), 609 (g) and Compact Implementation Funding (CIF) agreements, the Fiscal Accountability Plan, Procurement Guidelines, service contracts, and implementing entity agreements among others.
- II. We selected a sample of costs incurred by the Program and reimbursed by MCC and costs incurred, but not yet reimbursed, examined supporting documentation, verifying whether disbursements are backed up with adequate documentation, and if they are reasonable and allowable under the terms of the Compact and applicable laws and regulations.
- III. On a sample basis, a review of the general and program ledgers was done to determine whether costs incurred were properly recorded.
- IV. We reviewed the procedures used to control the funds including those for channeling them to contracted financial institutions (Bank of Tanzania) or other implementing entities.
- V. Reviewed the bank accounts and the controls on those bank accounts including bank reconciliation. We confirmed bank balances, as required.
- VI. Tested a sample of the expenses submitted in requests for disbursements to MCC and any MCA-Tanzania advances of funds to sub-implementing entities to ensure documentation support, including reconciliations of funds advanced, disbursed, and available.

We verified whether all funding received by MCA-Tanzania from MCC was appropriately recorded in MCA-Tanzania's accounting records and that those records were periodically

MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

SUMMARY OF THE FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

- VII. Reconciled with information provided by MCC.
- VIII. Determined 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 the terms of the Compact and related agreements.
- IX. We reviewed procurements to establish whether best practices including competition, reasonable prices and adequate controls over the qualities and quantities received exist. Compliance with the Procurement Guidelines, approved Procurement Plan, and the Fiscal Accountability Plan was also tested.
- X. On a sample basis we reviewed salary rates for staff to determine the reasonableness of salary charges compared to those approved by MCC, and checked whether they were supported by appropriate payroll records.
- XI. Tested the overtime charged to the program including whether it is allowable under the terms of the Compact and related agreements. The same test covered allowances and fringe benefits received by employees to establish compliance with the agreements and applicable laws and regulations.
- XII. Examined on a sample basis, travel and transportation charges to establish whether they are adequately supported, approved and in accordance with the Compact, other agreements and regulations.
- XIII. We audited a sample of assets acquired by MCA-Tanzania by verifying their physical existence, checked if they are properly safeguarded, and examined whether they are used wholly and exclusively for the Program activities in accordance with the Compact and related agreements.
- XIV. We reviewed on a sample basis technical assistance and services costs to assess whether they have been used for the intended objectives as per the terms of the Compact and related agreements.
- XV. Reviewed payments made to non-US consultants for technical assistance and services contracted by MCA-Tanzania. This included a review of the contracts for compliance; allowability, allocability, and reasonableness.
- XVI. We obtained an understanding and assessed the internal control structure of the Program and evaluated its ability to record, process, and report financial information required for the preparation of the Fund Accountability Statement.
- XVII. We checked compliance of MCA-Tanzania with the terms of the Compact and applicable laws and regulations.

MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

SUMMARY OF THE FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

SCOPE LIMITATIONS

Our continuing education program may not fully satisfy the requirements set forth in Chapter 3, paragraph 3.46 of U.S. Government Auditing Standards, since not all auditors involved in the engagement's planning, directing, performing field work and reporting have completed at least 24 hours every 2 years of continuing education directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. However, the firm's current continuing education program provides for at least 120 hours of continuing education and training every 3 years.

We did not have an external quality control review conducted by an unaffiliated audit organization as required by Chapter three, paragraph 3.55 of U.S. Government Auditing Standards, since no such program is offered by any professional organization in Tanzania. Nevertheless, we believe that the effects of this departure from U.S. Government Auditing Standards are not material, because we are subject to external review by the regulatory body National Board of Accountants and Auditors (NBAA) in Tanzania.

SUMMARY RESULTS OF THE AUDIT

Fund Accountability Statement

The MCA-Tanzania Fund Accountability Statement has been prepared on a cash basis of accounting. Income and assets were recognized when received rather than when earned, and expenses when paid for rather than when incurred.

In our opinion, the Fund Accountability Statement presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by Millennium Challenge Corporation (MCC) for the period from July 1, 2009 to December 31, 2009 in accordance with the terms of Compact Agreement and in conformity with the cash basis of accounting as described in Note 1(a) in the Fund Accountability Statement.

Internal Controls

Our approach to audit the Fund Accountability Statement considered MCA-Tanzania's Internal Control Structure to obtain sufficient understanding of its design and operation. The understanding enabled us to determine the nature, timing and extent of tests to be performed, and evaluate the inherent and control risks, so as to express an appropriate opinion on the Fund Accountability Statement.

Our assessment identified one significant deficiency and one material weakness that could adversely affect MCA-Tanzania's ability to initiate, authorize, record, process, or report financial data reliably in accordance with Generally Accepted Accounting Principles.

MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

SUMMARY OF THE FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

In addition, we noted additional internal control matters that we have reported to MCA-Tanzania's management in a separate letter dated May 17, 2010. We have reported these items in the Schedule of Audit Findings for the period July 1, 2009 to December 31, 2009 of this report, pages 31 to 34.

Compliance with Agreement Terms and Applicable Laws and Regulations

To determine whether the Fund Accountability Statement does not contain material omissions and errors, we reviewed MCA-Tanzania's compliance with the Compact, pre-Compact, Procurement Agreement and Procurement Guidelines, Fiscal Accountability Plan, other agreements, and applicable laws and regulations related to MCC-funded projects. However, our objective was not to express an opinion on MCA-Tanzania's general compliance with the above provisions.

We did not identify any instances of non-compliance that are material. We noted an immaterial instance of non-compliance that we have reported to the management of MCA-Tanzania in a separate letter dated May 17, 2010.

Common Payment System

We have reviewed all payment ledgers via Common Payment System (CPS) and payment detail reports to determine those payments made in accordance with policies and procedures for CPS. Also, all payment request forms have been reviewed regarding those requests made, and were approved by authorized persons who are stated in the Fiscal Accountability Plan. Payment amounts have been reconciled with the vendor's invoices and payment detail reports. We have scrutinized amounts in payment detail reports with the accounting records of the MCA-Tanzania and assessed the MCC payment deadline.

Follow-up of Prior Audit Recommendations

As part of our audit procedures, we have reviewed the status of actions taken on findings and recommendations included in the Independent Auditor's Report on the Fund Accountability Statement for the period from September 1, 2007 to June 30, 2009, the Independent Auditor's Report on Internal Controls, and the Independent Auditor's Report on Compliance. We report on status of the corrective actions below:

Reported issues from prior period

	Type	Issue	Status	Open or Closed
1	Internal Control	Non-completion of leave return forms (Repeat Finding, page 31-32)	Implementation in progress. Management has designed a new form which will be included in the FAP update of December 2009 for implementation from January	Open

MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

SUMMARY OF THE FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

2	Internal Control	Late retirement of imprest (Repeat Finding, page 32-33)	2010. Not implemented. Staff members are still taking a long time to retire imprest after returning from official trips.	Open
3	Internal Control	Asset value differences between fixed asset register (FAR) and supplier invoices	Implemented. The extra amount was added to the Asset Register as it has been entered into EPICOR	Closed
4	Compliance	Non-implementation of the Whistle-blower Program	Not implemented.	Open
5	Compliance	Appointment of the Technical Evaluation Panel (TEP) for tenders by the Procurement Agent	Implemented.	Closed
6	Compliance	Involvement by the Procurement Agent in the selection of vendors for tender bids	Implemented.	Closed
7	Compliance	Non-notification of tender results to unsuccessful bidders by the Procurement Agent	Implemented.	Closed
8	Compliance	Amendments of contact terms without appropriate approval	Implemented	Closed

Reported issues for period ending 31 December 2008

	Type	Issue	Status	
1	Internal Control	Partial Address of the Epicor accounting system to MCA-Tanzania's information requirements	Implementation in progress. Management is finalising the process of preparing the USER REQUIREMENT SPECIFICATION in collaboration with the Ministry of Finance, System Development Unit (SDU). The exercise is earmarked to	Open

MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

SUMMARY OF THE FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

2	Internal Control	Lack of IT corporate strategic plan	be completed by June 2010. Implemented.	Closed
4	Internal Control	Lack of adequate controls to the server room	Implemented	Closed
8	Internal Control	Accounting for Imprest.	Implementation in progress. Management is still in discussions and consulting on how best to implement the system. The system is forecasted to be implemented by June 2010.	Open
9	Internal Control	Assets not identified by their serial numbers in the fixed asset register	Implemented	Closed
10	Internal Control	Transferred assets not identified with monetary values	Not implemented.	Open
11	Internal Control	Payroll and fixed assets register are prepared in Microsoft Excel	Implemented. EPICOR was installed with asset management module to track all asset information. Payroll will continue to be processed in Excel as management do not see the benefit of procuring a separate payroll system.	Closed
12	Compliance	Conflict of interest	Resolved	Closed

Indirect Cost Rates

MCA-Tanzania has no established indirect cost rates. Indirect rates are thus not applicable.

MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

SUMMARY OF THE FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

The Results of the Review of Cost-sharing Contributions

The cost-sharing contribution does not apply in this Compact. However, the Government of the United Republic of Tanzania contributed towards setting up the MCA-Tanzania office. In particular, the Government contributed used office furniture and computers whose values could not be established during our audit. The Government also pays for the office rent for MCA-Tanzania, which is estimated at USD \$329, 230 per annum.

MCA-Tanzania's Management Comments on the Audit and Findings

MCA-Tanzania has responded to all internal control and compliance findings that were raised in our management letter referred to in the Schedule of Audit Findings, pages 31 to 35.



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October 25, 2010

INDEPENDENT AUDITORS' REPORT ON THE FUND ACCOUNTABILITY STATEMENT for the period July 1, 2009 to December 31, 2009

We have audited the Fund Accountability Statement of the Millennium Challenge Account (MCA)-Tanzania for the period from July 1, 2009 to December 31, 2009. The Fund Accountability Statement is the responsibility of MCA-Tanzania's management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

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

We do not have a continuing education program that fully satisfies the requirements set forth in Chapter 3, paragraph 3.46 of U.S. Government Auditing Standards. However, our current program provides for at least 120 hours of continuing education and training every 3 years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

INDEPENDENT AUDITORS' REPORT TO THE FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.55 of the U.S. Government Auditing Standards, since no such program is offered by professional organizations in Tanzania. We believe that the effect of this departure from U.S. Government's auditing standards is not material because quality control reviews, however, are conducted by a regulatory body, the National Board of Accountants and Auditors in Tanzania.

In our opinion, the Fund Accountability Statement presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by Millennium Challenge Corporation (MCC) for the period from July 1, 2009 to December 31, 2009 in accordance with the terms of Compact agreement and in conformity with the cash basis of accounting as described in Note 1(a) in the Fund Accountability Statement.

In accordance with U.S. Government Auditing Standards, we have also issued our reports dated October 25, 2010, on our consideration of MCA-Tanzania's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this Independent's Auditor's Report in considering the results of our audit.

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



Innovex Auditors

Certified Public Accountants

Dar es Salaam

Christopher Mageka, CPA

Date October 25, 2010

MILLENNIUM CHALLENGE ACCOUNT -TANZANIA

INDEPENDENT AUDITORS' REPORT TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

MCA-TANZANIA
609(g) FUNDING STATEMENT
July 1, 2009 to December 31, 2009

	ACTUAL COSTS				QUESTIONED COSTS		Notes
	Budget	Prior Period	Current Period	Cumulative	Ineligible	Unsupported	
	USD	USD	USD	USD			
REVENUE	\$4,600,131	\$4,162,438	\$2,722,969	\$9,229,587			4
	<u>\$4,600,131</u>	<u>\$4,162,438</u>	<u>\$2,722,969</u>	<u>\$9,229,587</u>			
COSTS INCURRED							
Transportation	\$1,285,950	\$248,452	\$ 213,738	\$630,018			5
Energy	\$2,735,923	\$2,627,656	\$2,006,933	\$4,988,641			6
Water	-	-	-	-			
Programme Management	\$219,632	\$927,705	\$183,522	\$2,813,985			7
Monitoring and Evaluation	\$358,626	\$358,625	\$318,776	\$796,943			8
	<u>\$4,600,131</u>	<u>\$4,162,438</u>	<u>\$2,722,969</u>	<u>\$9,229,587</u>			
Outstanding balance	fund \$0	\$0	\$0	\$0			

MILLENNIUM CHALLENGE ACCOUNT -TANZANIA

INDEPENDENT AUDITORS' REPORT TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

MCA-TANZANIA
COMPACT IMPLEMENTATION FUNDING STATEMENT
July 1, 2009 to December 31, 2009

	<u>ACTUAL COSTS</u>				<u>Questioned costs</u>		<u>Notes</u>
	<u>Budget</u>	<u>Prior Period</u>	<u>Current Period</u>	<u>Cumulative</u>	<u>Ineligible</u>	<u>Unsupported</u>	
	USD	USD	USD	USD			
REVENUE							
Grant no.GR08TZ08001 (MCC/CIF)	\$2,175,712	\$1,532,324	\$1,592,984	\$3,865,209			4
	<u>\$2,175,712</u>	<u>\$1,532,324</u>	<u>\$1,592,984</u>	<u>\$3,865,209</u>			
COSTS INCURRED							
Transportation	\$1,057,521	\$319,418	\$935,034	\$1,254,452			9
Energy	-	\$538,205	-	\$538,205			
Water	\$887,338	\$3,372	\$ 504,687	\$511,431			10
Programme Management	\$197,234	\$519,700	\$129,276	\$1,377,053			11
Monitoring and Evaluation	\$33,619	\$151,629	\$23,987	\$184,068			12
	<u>\$2,175,712</u>	<u>\$1,532,324</u>	<u>\$1,592,984</u>	<u>\$3,865,209</u>			
Outstanding fund balance	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>			

MILLENNIUM CHALLENGE ACCOUNT -TANZANIA

INDEPENDENT AUDITORS' REPORT TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

MCA-TANZANIA
COMPACT FUNDING STATEMENT
July 1, 2009 to December 31, 2009

	ACTUAL COSTS				Questioned costs Ineligible	Unsupported	Notes
	Budget USD	Prior Period USD	Current Period USD	Cumulative USD			
REVENUE							
Grant no.GR08TZ08001 (MCC/CIF)	\$18,564,434	\$721,223	\$6,486,959	\$7,065,706			4
	\$18,564,434	\$721,223	\$6,486,959	\$7,065,706			
COSTS INCURRED							
Transportation	\$8,373,086	\$45,000	\$2,246,799	\$2,319,316			13
Energy	\$5,642,464	-	\$2,412,913	\$2,412,913			14
Water	\$24,000	-	\$24,000	\$24,000			15
Programme Management	\$3,812,091	\$676,223	\$1,799,479	\$2,305,709			16
Monitoring and Evaluation	\$712,793	-	\$3,768	\$3,768			17
	\$18,564,434	\$721,223	\$6,486,959	\$7,065,706			
Outstanding fund balance	\$0	\$0	\$0	\$0			

1. Accounting Entity

The accounting entity is Millennium Challenge Account (MCA)-Tanzania.

On February 17, 2008 the Millennium Challenge Compact was signed between the Government of the United Republic of Tanzania and the Government of the United States of America, acting through the Millennium Challenge Corporation (MCC), a United States Government Corporation.

The objective of the agreement is to advance economic growth and poverty reduction in Tanzania through strategic investments in transportation, energy, and water infrastructure. The total value of the Compact is USD \$698 million over a 5-year period.

The Government of the United Republic of Tanzania established MCA-Tanzania, an independent accountable entity through Government Notice No. 202 of September 21, 2007 to oversee and administer the implementation of the Compact.

Significant Accounting Policies

a) Basis of Preparation

The Fund Accountability Statement has been prepared on the basis of cash receipts and cash payments. Income and assets were recognized when received rather than when earned, and expenses when paid for rather than when incurred.

This is a cash basis of accounting rather than the accrual basis which is required by the International Financial Reporting Standards, adopted in Tanzania from 2004. However, the cash basis of accounting is still considered appropriate for projects reporting in Tanzania.

The Fund Accountability Statement was prepared using the accounting records of MCA-Tanzania. The recording, processing and reporting of information for Fund Accountability Statement follows the guidelines of the Fiscal Accountability Plan Manual, dated June 2009, which also emphasises the use of cash accounting.

b) Interest

There was no interest earned on MCC funding that is held in the Bank of Tanzania (BoT) account because of the requirement to disburse the fund to respective vendors within 2 hours of receipt. Further, BoT as a non-commercial entity does not offer interest rates for deposits held awaiting disbursement.

c) Property and Equipment

MCA-Tanzania's assets are recorded at cost and expensed immediately. No depreciation or revaluation is provided for asset usage or appreciation in their value as per section 10.3 on Capitalization and Depreciation of assets of the Fiscal Accountability.

2. Exchange Rate and Monetary Unit

The Fund Accountability Statement is presented in United States Dollars (USD) to comply with the U.S. Government reporting requirements. All receipts were in USD and all payments were made in USD except for administrative expenses, which were disbursed in Tanzanian Shillings (TZS). These expenses were converted into USD at the ruling rate on the date of transactions.

3. Tax Exemption

Through section 2.7(a) of the Compact, the Government of the United Republic of Tanzania committed that MCC assistance will be exempted from any existing or future taxes, duties, levies, contributions or other similar charges by the Government including national, regional, local or other governmental or taxing Authority.

4. Revenue

Revenue consists of disbursements received from MCC during the period from July 1, 2009 to December 31, 2009. The disbursements were made against MCA-Tanzania payment requests to MCC. The MCA-Tanzania programs audited are 609(g) and Compact Implementation Funding, which were provided for in the agreement signed on February 17, 2008.

The 609(g) funding started on September 1, 2007 to support the activities related to the Compact before the Compact agreement was signed. The 609(g) budgeted funds are \$4,600,131 and the 609(g) actual costs incurred for the audited period is \$2,722,969. The 609(g) funds were to support the activities related to the Compact before the Compact agreement was signed.

The Compact signed on February 17, 2008 provided for Compact Implementation Funding (CIF) in the amounts budgeted at \$2,175,712. The actual cost incurred for the audited period is \$1,592,984. The CIF was used to fund administrative activities of MCA-Tanzania which started operations on March 1, 2008.

The Compact budgeted funds are \$18,564,434 and the Compact actual costs incurred for the audited period is \$6,486,959.

5. 609(g) Funding

Transportation (609g)

The expenses are associated with transportation activities of the Compact implementation.

Transport	<u>\$213,738</u>
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Transport refers to costs incurred in respect of payments of \$99,557 to EGIS BCEOM International and \$114,180 to UWP Consulting for consultant services for supervision of works for package 3, which is the upgrading of the Tunduma –Sumbawanga trunk road.

MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

NOTES TO THE FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

6. 609(g) Funding

Energy (609g)

The expenses are associated with support activities to Compact implementation.

	Actual
Zanzibar Interconnector activity	\$519,870
Malagarasi Hydropower and Kigoma Distribution activity	\$1,068,872
Distribution systems rehabilitation and extension activity	\$418,191
Total	<u>\$2,006,933</u>

Energy costs were for payments made to ESB International amounting to \$519,870 for study, design and bid documents for the Submarine Cable Interconnector to Zanzibar and a payment of \$1,068,872 to ESB International for system studies for the design and bid documents for the Malagarasi Hydropower and Kigoma distribution activity network without interconnection to the national grid. For the study, design and bid documents for the distribution system rehabilitation and extension activity work in six regions, a payment of \$418,191 was made to ESB International.

7. 609(g) Funding

Programme Management (609g)

The expenses are associated with support activities to Compact implementation.

	Actual
MCA-Tanzania- salaries	\$177,831
MCA-Tanzania-administrative cost assistance	\$6,038
Exchange rate differences	(\$347)
Total	<u>\$183,522</u>

- Salaries were incurred in remunerating the MCA-Tanzania staff.
- Administrative cost assistance expenses are for payments of \$6,038.46 to Anfield Investment for designing, laying out and proofreading of the MCA-Tanzania's July to September 2009 newsletter and printing 1000 copies of the newsletter.
- Exchange rate differences emanated from payments made in local currency and reported at the EPICOR fixed rate of TZS 1,300 to the United States dollar and the rate used by the U.S. Department of Treasury.

8. 609(g) Funding

Monitoring and Evaluation (609g)

The expenses are associated with support activities after Compact Signing and Compact Implementation Funding (CIF).

Data collection	<u>\$318,776</u>
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MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

NOTES TO THE FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

This expenditure relates to payments of \$318,776 made to Economic Development Initiatives (EDI Ltd) for consultancy services for the design and implementation of a household survey and community profile.

9. Compact Implementation Funding Transportation (CIF)

	Actual
The expenses are associated with transportation activities related to Compact implementation.	
Studies, designs, and bid documents	\$254,065
TANROADS salaries assistance	\$118,263
Resettlement compensation	\$562,706
Total	<u>\$935,034</u>

The costs were incurred in respect of a payment of \$254,065 made to Africom Ltd for reviewing and updating the detailed design, cost estimates, and the environmental & social impact Resettlement Action Plan for Tunduma - Laela. The other payment of \$118,263 was made to TANROADS for salaries assistance. Resettlement disbursements of \$562,706 were paid out in compensation to Tanga – Horohoro residents who were displaced to pave way for the construction of the road.

10. Compact Implementation Funding

Water (CIF)

	Actual
The expenses are associated with water activities for Compact implementation.	
Lower Ruvu plant expansion	\$459,910
Non-revenue water activity	\$29,336
Morogoro water supply	\$15,441
Total	<u>\$504,687</u>

Water costs were for payments to SMEC International Pty Ltd for consultant services for preparation of feasibility and environmental reports for Lower Ruvu water treatment plant and Morogoro water supply system amounting to \$439,838. Payments of \$20,072.33 were also made to UWP CONSULTING Pty Ltd for program coordination and technical assistance to Dawasa, Dawasco, and Moruwasa and for construction supervision services for the Lower Ruvu plant expansion activity. There were also payments made to UWP CONSULTING Pty Ltd amounting to \$29,336 and \$15,441 for program coordination and technical assistance to Dawasa, Dawasco, and Moruwasa and for construction supervision services for the non-revenue water activity and Morogoro water supply respectively.

11. Compact Implementation Funding Programme Management (CIF)

	Actual
The expenses are associated with support activities to Compact implementation.	

MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

NOTES TO THE FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

MCA-Tanzania- audit	\$20,478
MCA-Tanzania-administrative cost assistance	\$62,040
MCA-Tanzania-capital expenditure	\$46,758
	<u>\$129,276</u>

- Audit fees of \$20,478 were paid to Innovex Auditors for audit services for financial audit of MCC resources.
- Administrative cost assistance of \$62,040 refers to the following payments: \$1,949.49 to Akhaz General Dealers for office fumigation services; Book World Ltd for book service supply of reference books of \$1,220.17; \$32,100 to Cats-Net Ltd for supply, installation and commissioning of equipment for internet services; \$6,440.38 to East African Technology for local area network maintenance; \$1,301.12 to Crown Agents for procurement services; \$1,153.85 to Fulltime Security Services Ltd; and \$1,038.46 to Ultimate Security for security services. A payment of \$16,836.53 relates to other administrative cost assistance in lieu of traveling and telephone allowances for the MCA-Tanzania staff.
- Capital expenditure of \$46,758 refers to payments of \$11,705.38 made to The Living Room for supply of furniture, \$7,113.66 made to Infosys IPS (T) Ltd for the supply of IT equipment, \$25,059 made to Computer Connections for the information technology hardware and software, and a payment of \$2,880 made to Felix Kalisti Sukums as part of cost for website redesign.

12. Compact Implementation Funding

Monitoring and Evaluation (CIF)

The expenses are associated with support activities after Compact signing and Compact Implementation Funding.

Actual

\$23,987

Gender Integration Plan Specialist

- This expenditure of \$23,987 relates to payments made to E.H Mhina, the gender integration plan specialist.

13. COMPACT Funding

Transportation (COMPACT Funding)

The expenses are associated with transportation activities related to Compact implementation

Actual

Tanga-Horohoro	\$1,550,795
Tunduma Sumbawanga	\$47,036
Songea-Namtumbo	\$227,960
Peramiho Junction-Mbinga	\$190,564

MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

NOTES TO THE FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

Technical Assistance	\$61,914
Implementing Entity	\$90,000
Zanzibar Rural Roads Activity	\$48,155
Road Maintenance Activity	\$30,375
	\$2,246,799

- Costs incurred for transport were for resettlement payments for project-affected people for Mainland Trunk roads for Tanga–Horohoro amounting to \$1,550,795.
- Payments of \$47,036 were made to Intercontinental Consultants and Technocrats for road works on Tunduma Sumbawanga.
- For Songea - Namtumbo a payment of \$227,960 was made to Intercontinental Consultants and Technocrats as mobilization funds for consultant services for supervision of works for upgrading of Tanga-Horohoro.
- For Peramiho Junction-Mbiga, a payment of \$122,000 was made to TANROADS as implementing entity support towards salaries, and \$65,066.48 was paid to D.T Dobie for supply of a motor vehicle as in kind support to the implementing entity while \$3,497.50 was paid to Atma Electronic and Software Ltd for the contract to supply information technology software to the implementing entity.
- Payments of \$61,913.70 were made to Peter M.G. Cochrane, which catered for technical assistance in respect of supervision of works for upgrading of Tanga-Horohoro.
- A payment of \$90,000 was made to WWF (Tanzania) for Wildlife Mitigation Study for the Mtwara Corridor Trunk Roads.
- Zanzibar rural roads activities are consulting costs paid to Peter M.G. Cochrane of \$48,155.
- Roads maintenance activity costs related to payments made to D.T Dobie of \$30,375 for the provision of a motor vehicle for the implementing entity's support for the Mafia Island airport activity.

14. COMPACT Funding

Energy (COMPACT Funding)

The expenses are associated with support activities to Compact implementation.

	Actual
Supervision for Distribution systems rehabilitation and extension activity	\$150,204
Studies, designs and bid documents for distribution systems rehabilitation and extension activity	\$913,540

MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

NOTES TO THE FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

Malagarasi Hydropower and Kigoma Distribution activity	\$639,358
Zanzibar Interconnector activity	\$709,811
	<u>\$2,412,913</u>

Energy costs were for payments to ESBI Engineering and Facility Management (Ireland) of \$150,204 for supervision and oversight for the distribution systems rehabilitation and extension. Payments of \$913,540 were made to ESBI Engineering and Facility Management (Ireland) for feasibility studies, designs, and bid documents for the distribution systems rehabilitation and extension. For the Malagarasi Hydropower and Kigoma distribution activity network, payments were made to ESBI Engineering & Facility Management (Ireland) of \$639,358 for feasibility studies, designs and bid documents. For the Zanzibar Interconnector, payments of \$709,811 were made to ESBI Engineering and Facility Management (Ireland) for studies, designs, and bid documents for the energy project. ESBI Engineering & Facility Management (Ireland) is the consulting engineer for the energy projects.

15. COMPACT Funding

Water (COMPACT Funding)

	Actual
The expenses are associated with water activities for Compact implementation.	
Water	<u>\$24,000</u>

Water costs were for payments of \$24,000 to Sher G. Singh for technical assistance to review and finalize the terms of reference for a consultancy to prepare a baseline study and preparation of technical specifications for NRW in Dar es Salaam.

16. COMPACT Funding Programme Management (COMPACT Funding)

	Actual
The expenses are associated with support activities to Compact implementation.	
MCA-Tanzania- salaries	\$821,693
MCA-Tanzania-administrative cost assistance	\$303,121
MCA-Tanzania-Fiscal Agent support	\$8,000
MCA-Tanzania-Procurement Agent services	\$595,284
Capacity building	\$67,379
Environmental and social assessment	\$4,002
Total	<u>\$1,799,479</u>

- Salaries of \$821,693 were incurred in remunerating the MCA-Tanzania staff.
- Administrative cost assistance of \$303,121 refers to payments made for the following: Fame Consolidated for cleaning services of \$3,727.52; Kipawa for supply of fuel of \$14,589.41; \$2,125.52 to BP Road Ocean for fuel; DHL for courier charges amounting to \$7,902.63; \$2,830.77 to NBAA for subscription fees and seminar costs for CPA(T) holders; \$12,823.30 to TTCL for telephone bills; MCA-Tanzania staff per diems and travel allowances of \$41,656.55; communication allowances of \$24,655.74; Takims Travel Agent for airline tickets of \$23,982.00; \$20,791.46 to G&L Bright Agency and Services LTD for supply of stationery

MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

NOTES TO THE FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

and office supplies; \$51,001.62 to the Living Room for the supply of furniture, water dispensers, and refrigerators; \$4,198.89 to Tanzania Standard Newspapers and \$570.62 to the Guardian LTD for subscriptions to newspapers; \$21,508.72 to Victoria Earth Plan LTD for provision of facelift and office modification and enhancement of the mainland office; \$5,162 to Hima Investments LTD for office modification and repair works for Zanzibar office; \$2,610 for supply of information technology hardware and software; Computer Connections of \$14,470 for supply of information technology hardware and software; \$6,770.77 to Nyange General Enterprises Ltd for the supply and installation of air conditioners; \$26,093.10 to T.K Anstey for the evaluation of tender; and \$15,650.90 to Brian Warren for evaluation of tender.

- Fiscal Agent support fees of \$8,000 were paid to Soft Tech Consultants Ltd for work done on the EPICOR accounting system.
- Procurement Agent services are payments made to Crown Agents for their services totaling \$595,284.
- Capacity building costs of \$67,379 relate to payments made to Pravar Kumar Mishra, a resettlement specialist, of \$42,529.05 and payments made to Jose M. Cabral, an environmental consultant, of \$18,400.40. The National Environmental Management Council was paid \$6,450 for capacity building as in-kind implementing entity support.

17. COMPACT Funding

Monitoring and Evaluation (COMPACT Funding)

The expenses are associated with support activities after Compact Signing and Compact Implementation Funding (CIF).	Actual
Technical assistance	<u>\$3,768</u>

The payment of \$3,768 was made to Agumba Computer Limited for a contract to supply information technology software.

18. Reconciling items

COMPACT

Confirmed funds disbursed during the year by MCC	\$6,452,338
Total program revenue funds received during the period per the Fund Accountability Statement	<u>\$6,486,959</u>
Excess of program revenues per the Fund Accountability Statement over confirmed revenue funds disbursed	<u>\$34,621</u>

The excess of program revenues per the Fund Accountability Statement over confirmed revenue funds disbursed of \$34,621 were funds confirmed as received under the 609(g) account, which were reallocated to the Compact fund.



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October 25, 2010

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL FOR THE PERIOD JULY 1,
2009 TO DECEMBER 31, 2009**

We have audited the Fund Accountability Statement of Millennium Challenge Account (MCA)-Tanzania as of and for the period July 1, 2009 to December 31, 2009, and have issued our report on it dated October 25, 2010.

We do not have a continuing education program that fully satisfies the requirements set forth in Chapter 3, paragraph 3.46 of U.S. Government Auditing Standards. However, our current program provides for at least 120 hours of continuing education and training every 3 years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.55 of the U.S. Government Auditing Standards, since no such program is offered by professional organizations in Tanzania. We believe that the effect of this departure from U.S. Government's auditing standards is not material because quality control reviews, however, are conducted by a regulatory body, the National Board of Accountants and Auditors in Tanzania.

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

MILLENNIUM CHALLENGE ACCOUNT- TANZANIA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

The management or those charged with governance of MCA-Tanzania is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the Fund Accountability Statement in conformity with the basis of accounting described in Note 1 (a) to the Fund Accountability Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Fund Accountability Statement of MCA-Tanzania for the period July 1, 2009 to December 31, 2009, in accordance with U.S. Government Auditing Standards, we considered MCA-Tanzania's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

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

However, we noted certain matters involving internal control and its operation that we have reported to the management of MCA-Tanzania in a separate letter dated May 17, 2010.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Fund Accountability Statement will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes material weakness:

- Improper retirement of the Imprest and failure to update the Imprest register (see Schedule of Findings, pages 32 to 33).

We also noted certain matters involving internal control and its operation. Although they were neither significant nor material, we reported them to the management of MCA-Tanzania in a separate letter dated May 17, 2010.

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



Innovex Auditors
Certified Public Accountants
Dar es Salaam
Christopher Mageka, CPA

Date: October 25, 2010



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October 25, 2010

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE PERIOD JULY 1, 2009 TO
DECEMBER 31, 2009**

We have audited the Fund Accountability Statement of Millennium Challenge Account (MCA)-Tanzania as of and for the period July 1, 2009 to December 31, 2009, and have issued our report on it dated October 25, 2010.

We do not have a continuing education program that fully satisfies the requirements set forth in Chapter 3, paragraph 3.46 of U.S. Government Auditing Standards. However, our current program provides for at least 120 hours of continuing education and training every 3 years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.55 of the U.S. Government Auditing Standards, since no such program is offered by professional organizations in Tanzania. We believe that the effect of this departure from U.S. Government's auditing standards is not material because quality control reviews, however, are conducted by a regulatory body, the National Board of Accountants and Auditors in Tanzania.

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

MILLENNIUM CHALLENGE ACCOUNT- TANZANIA

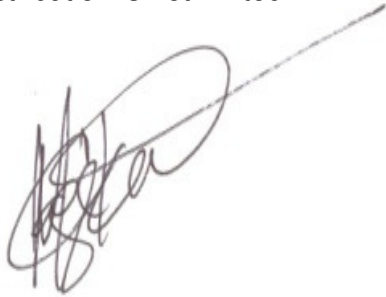
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE PERIOD FROM 1 JULY, 2009 DECEMBER 31, 2009

material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Fund Accountability Statement amounts.

Compliance with agreement terms and laws and regulations applicable to MCA-Tanzania is the responsibility of MCA-Tanzania's management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of MCA-Tanzania's compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of non-compliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from failures or violations is material to the Fund Accountability Statement. The results of our compliance tests did not disclose any instances of non-compliance that constitute material weaknesses.

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



Innovex Auditors
Certified Public Accountants
Dar es Salaam
Christopher Mageka, CPA

Date: October 25, 2010



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October 25, 2010

SCHEDULE OF FINDINGS FOR THE PERIOD FROM JULY 1, 2009 TO DECEMBER 31, 2009

We have finalised the audit of Millennium Challenge Account (MCA)-Tanzania's Fund Accountability Statement for the period from July 1, 2009 to December 31, 2009.

Our assessment identified a single material weakness, which could adversely affect MCA-Tanzania's ability to initiate, authorize, record, process, or report financial data reliably in accordance with Generally Accepted Accounting Principles.

In addition, we noted two internal control matters that we have reported to MCA-Tanzania's management in a separate letter dated May 17, 2010. These findings are described in this report on pages 31 to 34.

We did not identify any instances of non-compliance which are material. We have reported a single item of non-compliance in the attached Schedule of audit findings for the period July 1, 2009 to December 31, 2009. This finding is described on page 35 of this report and we have reported it to the management in a separate letter dated May 17, 2010.

We take this opportunity to record our appreciation to the management and staff of MCA-Tanzania for the support accorded to us during the audit period.

Sincerely,

A handwritten signature in black ink, appearing to read "Christopher Mageka", is written over a light blue horizontal line.

Innovex Auditors
Certified Public Accountants
Dar es Salaam
Christopher Mageka, CPA

Date October 25, 2010

SECTION I – INTERNAL CONTROL

1. Non-completion of leave return forms - Management Letter Item (Repeat Finding)

Condition

It was noted that employees are not filling out the leave return forms upon returning from leave.

Employee	Month	# of leave days taken	Leave authorised	Sufficient leave days available on leave grant	Closing leave days balance	Leave return forms signed	Leave days taken per records
Employee 1	Dec 2009	14	Yes	Yes	14	no	14
Employee 2	Jul 2009	23	Yes	Yes	5	no	23
Employee 3	Dec 2009	10			Nil	no	10
Employee 4	Jul 2009	21	Yes	Yes	7	no	21

Criteria

Section 9.1, Part VI, *Leave Entitlements* of the Fiscal Accountability Plan regards failure to fill out the leave return form will be treated as absenteeism, which is liable for disciplinary action. Reference being made to section 9.4, *Payroll Processing for MCA-Tanzania Staff*, failure to fill out the leave return form should impact on the salary earnings since salaries according to the schematic process are prepared in relation to days worked per attendance register.

Cause

The Human Resources department has not been firm on adherence of the policy as it has been recurring

Effect

Leave days granted might be exceeded without notifying the Human Resources department for approval.

Recommendation

All employees returning from leave should fill out the leave return forms as specified in the Fiscal Accountability Plan.

Management Comments

Regarding filling out of forms on returning from leave, part VI, section 56, states and I quote: “The officer coming back from leave will notify the superior on the returning day by sending an official E-mail and a copy to Human Resource Division.”

MILLENNIUM CHALLENGE ACCOUNT- TANZANIA

INDEPENDENT AUDITOR'S SCHEDULE OF FINDINGS FOR THE PERIOD FROM JULY, 2009 TO DECEMBER 31, 2009

2. Improper retirement of imprest and not updating the imprest register - Material Weakness (Repeat Finding)

Condition

Some members of staff took too long to retire imprest after returning from official travel, some over retired the imprest, while some did not retire upon return from official travel. The imprest register was also not being updated. Noted instances are as shown below:

Employee	Imprest amount (TZS)	Imprest amount (USD equiv)	Date taken	Number of days spent	Amount retired (TZS)	Amount retired (USD equiv)	Date retired	late by
Employee 1	240,000	184.62	23/09/2009	2	240,000	184.62	08/10/2009	9 days
Employee 2	854,000	656.92	24/07/2009	4	654,000	503.08	31/12/2009 ¹	-
Employee 3	1,378,830	1,060.64	23/07/2009	-	-	-	31/12/2009 ²	-
Employee 4	515,000	396.15	19/11/2009	3	580,000	446.15	31/12/2009	34 days
Employee 5	1,100,000	846.15	30/7/2009	11	1,100,000	846.15	21/11/2009	98 days
Employee 6	440,000	338.46	9/12/2009	4	440,000	338.46	28/12/2009	15 days
Employee 7	1,400,000	1,076.92	20/7/2009	14	1,400,000	1,076.92	4/9/2009	28 days
Employee 8	1,000,000	769.23	14/9/2009	10	2,700,000	2,076.92	12/10/2009	14 days

Criteria

Section 11.1 *Travel*, of the Fiscal Accountability Plan requires imprest to be retired within 4 days after return from a trip, and travel advances must be cleared before the next travel advance is authorized.

Cause

Non-compliance with the Fiscal Accountability Plan

¹ This travel advance was subsequently retired on 8 April, 2010. However this is considered a material weakness because MCA-Tanzania did not enforce its policy for travel advances during the period under review

² This travel advance was subsequently retired on 16 July, 2010. However this is considered a material weakness because MCA-Tanzania did not enforce its policy for travel advances during the period under review.

MILLENNIUM CHALLENGE ACCOUNT- TANZANIA

INDEPENDENT AUDITOR'S SCHEDULE OF FINDINGS FOR THE PERIOD FROM JULY, 2009 TO DECEMBER 31, 2009

Effect

Reported expenditure may be overstated where there are subsequent refunds and understated when actual expenditure exceeds the advance provided if reliance is placed on incomplete information in compiling travel expenses. This may misrepresent financial information reported especially when there is an overlap between accounting periods when imprest was advanced and on retirement. Funds may also go missing if staff members do not retire imprest as stipulated by the Fiscal Accountability Plan.

Recommendation

Management should make sure that advances to employees are cleared within the specified period of 4 days, and no further travel advances are authorized and issued to anyone before the previous imprest is accounted for as per the Fiscal Accountability Plan.

Management Comments

Management partly agrees with the auditors that in some instances there were some delays in retiring official travel imprests. However, the dates as stated are not dates of receiving neither funds nor dates that the staff returned from the trips; hence the delay is not actually as stated by the auditors. Moreover, the process of application of funds and actual payment of the imprest at times makes timely retirement difficult as at times funds are not received in the staff bank accounts even after returning from the trips. In such cases staff would start the retirement process after they confirm that the money has been deposited in their bank accounts. In some instances, the payment is delayed, hence the imprest is cancelled and a travel claim form submitted, especially when the person returns from an emergency trip and the imprest has not been processed. It takes up to 14 days before the funds are deposited into the staff's accounts. In the future, MCA-Tanzania's management will closely follow up on the official travel imprest retirement and update the register, which is also at times affected by the delay in the payment process.

3. Abnormal fuel consumption – Management Letter Item

Condition

Vehicles STK5530 and STK5294 were noted to have abnormal fuel consumption levels. Noted below are the variances in consumption between the expected and actual consumption levels.

Vehicle Description	Km reading as at June 30, 2009	Km reading as at Dec 31, 2009	Total Km travelled as at Dec 31, 2009	Computed average Km per Litre	Total expected fuel consumption	Total fuel consumed as at Dec 31, 2009 per Consumption register	Variance in Litres
STK 5531	5357	14982	9,625	6.11	1,575.39	1,910	334.61
STK 5294	4389	12948	8,559	7.10	1,205.49	1,330	124.51

Criteria

Section 11.2 of the Fiscal Accountability Plan states that the Director of Finance and Administration (DFA) will establish a weekly allocation for each vehicle that will be known to each driver, which may be reviewed from time to time depending on circumstances. No vehicle will be allowed to refuel quantities more than its weekly allocations without the DFA's approval.

Cause

No monitoring measures are in effect to ensure that refueling of vehicles is as per required under the consumption standard.

Effect

Fuel allocations may be consumed on mileage that is not consistent with the objectives of the Compact, thereby compromising the cost-effectiveness of the program.

Recommendation

Fuel consumption is supposed to be monitored so that vehicles which are consuming abnormal quantities of fuel will be identified and sent for servicing if any technical problems are the cause of the anomaly. Management should immediately put in place a vehicle usage review system as stated by section 11.2 of the Fiscal Accountability Plan that will ensure that all the vehicle log books are checked by a senior staff member and any noted anomalies in the fuel consumption and mileage travelled are investigated and dealt with promptly.

Management Comments

Management of vehicles is one of the areas MCA-Tanzania's management has been following very closely through Car tracking, checking log books, monthly reports, maintenance reports, etc. The fuel usage of the said vehicles was noted by management and the matter discussed with the respective drivers. It was noted that there was a problem with filling out the log books and the drivers have been trained and reminded of their responsibilities.

SECTION II- COMPLIANCE ISSUES

4 Non declaration of impartiality and confidentiality by evaluation panel members before they are officially appointed - Management Letter Item

Condition

Members of the evaluation panel signed the impartiality and confidentiality declaration forms after the procurement agent had proposed their appointment but before they were officially appointed by the Procurement Director - (MCA-T/COM/0016)

Criteria

The MCC Program Procurement guidance under *Confidentiality and Conflict of Interest* requires that each appointed member of an evaluation panel must sign impartiality and confidentiality declarations before the evaluation process begins but after being appointed by the Procurement Director. Also, section 24.2 of the procurement operations manual states that the members and the chair of the evaluation panel shall be proposed by the procurement agent and approved by the procurement director in writing.

Cause

Non-compliance with the MCC Program Procurement (PPG) guidance

Effect

- Inconsistencies in the awarding of contracts might occur and go unnoticed.
- Declaration of independence and impartiality by the Technical Evaluation Panel members might cast doubt on their transparency and impartiality if they do it before they are officially appointed to serve on the panel by the proper level of authority.
- The procurement director might be rubber stamping the appointment of predetermined Technical Evaluation Panel members who lack independence and impartiality.

Recommendation

Members of the Technical Evaluation Panel must sign an impartiality and confidentiality declaration form after they are officially appointed to serve on the panel and before commencement of the evaluation process.

Management Comments

COM/0016 was for an individual consultant for environmental assistance and commenced in May 2009. Therefore, the PPG of July 2008 covered this procurement. This means that the guidance on Organizing Technical Evaluation Panels of August 2007 applies. It states that "Each member of the TEP must sign an Impartiality and Confidentiality Declaration." This guidance does not state that the appointed member of the TEP must sign only after appointment; the important point is that anyone involved with the evaluation must sign the forms before the evaluation commences. The Procurement Director often approves the TEP members verbally before issuing the formal written confirmation.

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