

**PROGRAMA NACIONAL DE COMPETITIVIDAD DE GUATEMALA
PRONACOM**

**Financial Audit of Threshold Program Grant Agreement between the
Government of Guatemala and the United States of America through
Millennium Challenge Corporation**

From October 1, 2017 to September 30, 2018

Alemania

Argentina

Bélgica

Bolivia

Brazil

Canadá

Chile

Costa Rica

El Salvador

Estados Unidos

Francia

Honduras

Japón

México

Panamá

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Puerto Rico

Reino Unido

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Venezuela

**Financial Audit of Threshold Program Grant Agreement between the
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Guatemala, April 15, 2019

To Executive Committee
**Programa Nacional de Competitividad
Guatemala**

Gentlemen:

This report contains the results of our financial audit to Threshold Program Grant Agreement between the Government of Guatemala and the United States of America acting through Millennium Challenge Corporation for the period from October 1, 2017 to September 30, 2018.

BACKGROUND


Our firm was hired in April 2018 by the Ministerio de Economía through the National Program for Competitiveness – PRONACOM to perform a “Financial Audit of MCC Resources Administered by PRONACOM” coming from Threshold Program Grant Agreement signed between the Government of Guatemala and the United States of North America acting through Millennium Challenge Corporation for the period from April 8, 2015 to September 30, 2017.

On December 20, 2018 MCC confirmed its no objection to our audit report delivered for the base period, and our continuity as the external auditors hired for the period from October 1, 2017 to September 30, 2018.

THE ENTITY

National Program for Competitiveness –PRONACOM-, is a participative program, facilitator of efforts and inter-institutional alliances among public and private sector, civil society and academy, for the development of human and business capital that generate investment, and contribute to decentralized development of the country, improving the quality of life of Guatemalan citizens and generate opportunities to formal employment.

The activities coordinated by PRONACOM come from the National Agenda for Competitiveness (ANC), whose purpose is to increase productivity levels for local economy, addressing constraints that limit business development and investment. PRONACOM was established through Grant Agreement 306-2204 modified through Governmental agreements 21-2008, 39-2016 y 192-2016. The agreement



established PRONACOM is integrated by three organs: The Executive Committee, the Advisory Commission and the Special Unit for Execution.

THE AGREEMENT

On April 08, 2015, the Government of Guatemala signed the Threshold Program Grant Agreement with the Government of the United States of America, acting through the Millennium Challenge Corporation –MCC– with the purpose to assist Guatemala in supporting the implementation of fundamental institutional and policy reforms that address binding constraints to economy growth in the country.

The program financing is through MCC subject to grant agreement terms and conditions not to exceed USD 28,000,000.00; the agreement term is from April 08, 2015 to April 30, 2019.

The implementation letter dated July 20, 2018 is issued with the purpose to extend the Agreement's termination date for the Threshold Program Grant Agreement (the agreement), dated April 8, signed between the United States of America, 2015, acting through the Millennium Challenge Corporation (MCC) and the Government of the Republic of Guatemala.

According to Section 6.1 of the agreement, April 19, 2019 was initially agreed as the termination date. On June 20, 2017 the termination date was extended to April 30, 2020. A further requested was issued by PRONACOM to extend the termination date through December 31, 2020.

Therefore, in conformity with section 7.7 (b) (ii) of the agreement, MCC agrees to confirm a second extension to the termination date, from April 30, 2020 to December 31, 2020.


The proposed extension will be financed through the reallocation of the grant remaining funds and should be determined by PRONACOM and MCC no later than September 30, 2018.

The objective of the program is to support reforms initiated by the Government to support the quality and relevance of secondary education in Guatemala and to increase fiscal revenues to enable the Government to address constraints to economic growth.

OBJECTIVES

General:

The Objective of this assignment is to perform a financial and compliance audit to the Fund Accountability Statement –FAS- of Threshold Program Gran Agreement



implemented by Ministerio de Economía through the National Program for Competitiveness – PRONACOM for the period from October 8, 2017 to September 30, 2018.

Our audit was performed in conformity with Government Auditing Standards approved by the General Controller of the United States of America and the Guidelines for Financial Audits contracted by the Millennium Challenge Corporation’s Accountable Entities issued by the Office of Inspector General and consequently included those tests to the accounting records we considered necessary under the circumstances.


Specific objectives:

The audit specific objectives were:

- Issue an opinion about whether the Fund Accountability Statement fairly presents, in all material aspects the income received by the program, incurred and reimbursed expenses, acquired assets and technical assistance directly provided to PRONACOM for the period ended, in conformity with agreement and complementary terms under the accounting basis described in accompanying financial notes.
- Evaluate and obtain an understanding of the internal controls of PRONACOM related to the program financed by MCC, evaluate control risks and identify reportable conditions, including material and significant weaknesses in the internal control. This evaluation should include those internal controls related to contributions on shared expenses, while established in the agreement.
- Conduct test to determine whether PRONACOM has complied, in all material aspects, with the agreement, complementary agreements, laws and regulations applicable to the program financed by MCC. Any observed material incompliance or illegal act should be identified. Audit test should include requirements on contributions to shared costs if applicable. Specifically, the auditor should perform tests to determine whether PRONACOM has complied, in all material aspects, with the guidelines on program acquisitions issued by MCC and the fiscal responsibility plan valid for the audit period.
- Determine whether PRONACOM has implemented adequate corrective actions related to finding on prior audits, while applicable.

PRELIMINARY AUDIT STEPS

The scope of our work included non limitative review of applicable documents considered necessary as to conduct our audit:

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1. The grant and/or any preliminary agreement between MCC and the Government of Guatemala. We have reviewed the documents applicable to the agreement to improve our understanding of the Project.
 2. Other documents, including on a non limitative basis: the Fiscal Responsibility Plan (FAP), the Acquisitions Operational Manual (POM), the acquisitions plan, the guidelines for public acquisitions from MCC program, the Monitoring and Evaluation Plan.
 3. All financial and progress program reports; acquisitions policies and procedures.
 4. Review of Fund Accountability Statement (FAS).


We examined the Fund Accountability Statements (FAS) prepared by PRONACOM, including budgeted amounts by category and important items, disbursements from MCC for the audited period and costs reports as incurred during the period. Our audit opinion was issued according to SAS 62 (AU623).

The scope of our review to the Fund Accountability Statement (FAS) included:

- a) Review expenses collected and reimbursed by MCC, and those incurred expenses pending of payment, identifying and quantifying any questionable expense. All expenses not supported with proper documents or not complying with the agreement terms to be reported as questionable expenses. Those expenses pending to be reimbursed were properly identified in the Fund Accountability Statement.
- b) Questionable expenses were included in the Fund Accountability Statement through two separate categories as (a) non eligible expenses to be non reasonable; forbidden by the agreement and applicable laws and regulations or non related with the program and (b) non documented expenses supported with improper documentation or without proper previous approval or authorization.

All questionable expenses resulting from incompliance with the agreement, laws and regulations should be included as findings in the report on compliance. References included in the Fund Accountability Statement should provide a brief description of questionable expenses and be related with those findings included in the compliance report.


- c) General Ledger and program accounting records were reviewed to determine whether incurred expenses were properly registered. Collected direct expenses and reimbursed by MCC to the program were reconciled to the accounting records.

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- d) We determined reimbursement requests to MCC, were supported with proper documents. We verified any financing from MCC was duly registered in the accounting records.
 - e) We reviewed the acquisitions process to determine sound commercial practices were applied including fair competition, obtaining reasonable prices and proper controls to verify quality and amounts received. Approved acquisitions were made in conformity with the guidelines for public acquisitions from MCC program, approved acquisitions plan and fiscal responsibility plan.
 - f) We reviewed direct payment of salaries to determine fair amounts for each position according to MCC approval were required and supported by proper payroll records, including employment contracts for PRONACOM personnel. We verified neither overtime payments nor allowance and other complementary payments were paid. We determined salary increases or changes in received benefits were approved according to PRONACOM's policies and procedures and properly reviewed, approved and supported. We verified non allowed salaries were reported.
 - g) We reviewed collected charges on travel and transportation to determine proper support and authorization. We verified travel expenses comply with proper support documentation and are according to agreement terms and applicable regulations.
 - h) We reviewed the commodities (supplies, materials, equipment, goods, etc.) provided by PRONACOM. We verified the assets exist and are used for program purposes according to agreement terms and related agreements and proper procedures are applied to assure assets protection.
 - i) We reviewed the technical assistance and contracted services to determine the assistance and services were used for program purposes according to the agreement terms.

5. Internal Control

We reviewed and evaluated the internal controls of PRONACOM regarding the grant agreement financed by MCC according to AICPA guidelines included in SAS 109, 115 and 74, identifying any reportable condition to be considered a significant finding.

Evaluated significant internal controls included but were not limited to the adequacy of accounting system, policies and procedures on purchasing and



other related controls necessary to assure than costs and expenses charged to the program were adequate and properly supported and controls related with assets use and protection were implemented. We evaluated and reviewed the internal control structure of PRONACOM with the purpose to obtain an understanding on designed policies and controls and its application.

We evaluated the control environment, the adequacy of accounting system and control procedures, with emphasis on pertinent policies and procedures applied to register, processing, summarizing and reporting consistent financial information according to assertions included in the accounts reported in the Fund Accountability Statement.

6. Compliance with Agreement terms, Laws and Applicable Regulations.

We identified grant agreement terms, laws and applicable regulations, with the purpose to determine those, while not observed, might have a direct material effect in the Fund Accountability Statement according to guidelines included in SAS 74.

We determined payments have been disbursed according to agreement terms, laws and applicable regulations.

We determined funds were expensed according to program purposes and agreement terms.

We identified any cost not considered to be appropriate, classifying and reporting as a questionable cost.

We determined the information included in the financial reports and reimbursement requests of PRONACOM are supported and included in the accounting records.

7. Follow-up on prior audit recommendations.

A financial audit was previously conducted for the base year of the aforementioned agreements, for the period from April 8, 2015 to September 30, 2017. According to Chapter 4 of the Government Auditing Standards, we evaluated whether the entity has implemented appropriate corrective actions to implement recommendations from prior year and the effect of these actions to the current audit objectives.

8. Indirect Cost Rate

The agreement does not establish indirect cost rates.

AUDIT RESULTS

As result of the audit for the period from October 1, 2017 to September 30, 2018, the following conclusions were obtained:

A. Fund Accountability Statement

In our opinion, the Fund Accountability Statement for the Threshold program financed with funds from MCC, fairly presents, in all material matters, the disbursement reported by MCC, costs and incurred expenses for the project during the period from October 1, 2017 to September 30,2018 in accordance with the terms of the agreement and accounting basis described in Note 3 (b).

B. Counterpart contributions

The agreement does not establish counterpart contributions.

C. Internal Control

In planning and executing our audit, we considered the internal controls of PRONACOM to determine audit procedures with the purpose to express an opinion on the Fund Accountability Statement and not to provide security of internal control. Reportable conditions were observed and included in our audit report.

D. Compliance with Agreement Terms and Applicable Laws and Regulations

As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material errors, we performed tests of compliance with the agreement terms, laws and regulations. However, our objective was not to express an opinion on the general compliance of such matters and therefore we do not express any opinion.

The result of our tests did not disclose material instances of non-compliance.

E. Follow-up on previous audit recommendations

The results of our follow-up on previous audit recommendations to the base period from April 8, 2015 to September 30, 2017 report some findings require the authorization from PRONACOM and MCC and are still pending of implementation as of the end of our audit report. The management of PRONACOM delivered and action plan to be implemented during the period ending September 30, 2019. This is included as an integral part of this report.

F. Indirect Cost Rates

No procedures were performed to review indirect cost rate since the agreements executed by PRONACOM do not include an Indirect Costs rate authorized by MCC.

MANAGEMENT COMMENTS

The content of this report was discussed with the management of PRONACOM and representatives of our Firm, and suggested changes were discussed and included.

AMORY GONZALEZ, CPA

A handwritten signature in black ink, appearing to read "Amory González", with a stylized flourish underneath.

Lic. H. Amory González.C.
Colegiado No. 035

INDEPENDENT AUDITOR'S REPORT

To Executive Committee
Programa Nacional de Competitividad
Guatemala

We have audited the Fund Accountability Statement of Threshold Program Grant Agreement, provided with funds from the Millennium Challenge Corporation, and executed by Programa Nacional de Competitividad - PRONACOM, for the period from October 1, 2017 to September 30, 2018. The Fund Accountability Statement is the responsibility of the management of PRONACOM. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

Management's Responsibility

Management is responsible in preparing and presenting the financial statements, and the necessary internal control to allow preparation of financial statements is free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing; the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-122 Cost Principles for Non Profit Organizations. Those standards require that we comply with ethical requirements and that we plan and perform our audit to obtain reasonable assurance on whether the financial statements are free of material misstatement.

Except as commented in the following paragraphs, we conducted our audit on the Fund Accountability Statement in conformity with Government Auditing Standards issued by the Comptroller General of the United States.

- a) We do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.76 of U.S. Government Auditing Standards. However, our current program provides for at least forty (40) hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.
- b) We did not have an external quality control review by an unaffiliated external audit control organization as required by Chapter 3, paragraph 3.82 of U.S. Government Auditing Standards, since no such program is offered by professional organizations in Guatemala and such a revision program is not required by the local auditing standards accepted in Guatemala. We believe that the effect of this

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Chile
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El Salvador
Estados Unidos
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Japón
México
Panamá
Perú
Puerto Rico
Reino Unido
Uruguay
Venezuela

departure from U.S. Government Auditing Standards is not material because we participate in the DFK International worldwide internal quality control review program, which requires our office to be subject, every three years, to an extensive quality control review by partners and managers from other affiliate offices.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's opinion, including assessing the risks of material misstatement, material to the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of financial statements for the entity, in order to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

We believe that our audit provides a reasonable basis for our opinion.

OUR OPINION

In our opinion, the aforementioned Fund Accountability Statement presents fairly, in all material aspects, program revenues, costs incurred and reimbursed, assets and technical assistance directly acquired by MCC for the period from October 1, 2017 to September 30, 2018 in accordance with the terms of the agreements and in accordance with the accounting basis described in Note 3 (b).

In accordance with the US Government Auditing Standards, we have also issued our reports dated April 15, 2019, regarding our consideration of the internal control of Threshold Program Grant Agreement, provided with funds from the Millennium Challenge Corporation, and executed by Programa Nacional de Competitividad - PRONACOM, on financial reports and our tests on compliance with certain provisions of laws and regulations. These reports are an integral part of an audit conducted in accordance with the US Government Auditing Standards and should be read in conjunction with the Independent Auditor's Report when considering the results of our audit.

This report is destined only for the use of Programa Nacional de Competitividad - PRONACOM and the Millennium Challenge Corporation. However, upon release by MCC, this report is a matter of public record and its distribution is not limited.

AMORY GONZALEZ, CPA



Lic. H. Amory González C.
Colegiado No. 035
Guatemala, April 15, 2019

**Millennium Challenge Account
Programa Umbral
Funds Accountability Statement
From October 1, 2017 to September 30, 2018
(Expressed in US Dollars)**

| ACTIVITY | BUDGET | ACTUAL COSTS | | | | QUESTIONED COSTS | |
|--|-------------------|--|--|------|------------------|------------------|-------------|
| | | From April 8, 2015 to September 30, 2017 | From October 1, 2017 to September 30, 2018 | Note | CUMULATIVE | INELIGIBLE | UNSUPPORTED |
| REVENUE | | | | | | | |
| Funds from MCC | 28,000,000 | 1,199,113 | 3,809,579 | 7 | 5,008,692 | - | - |
| Interest received from permitted Accounts | - | - | - | | - | - | - |
| Total Revenue | 28,000,000 | 1,199,113 | 3,809,579 | | 5,008,692 | - | - |
| COSTS INCURRED | | | | | | | |
| 1. Education Project (EDU) | 19,300,000 | 763,287 | 2,859,793 | | 3,623,080 | - | - |
| 1.1 Improving the Quality of Education (0277) | 12,000,000 | 725,612 | 1,710,902 | | 2,436,514 | - | - |
| 1.1.a Education Project Implementation Contract | | 725,612 | 1,710,373 | 8 | 2,435,985 | - | - |
| 1.1.b Grants to Universities for Teacher Training (Diplomados) | | - | - | | - | - | - |
| 1.1.c Other | | - | 529 | | 529 | - | - |
| 1.2 Developing Technical and Vocational Education and Training (0400) | 4,300,000 | 8,042 | 408,818 | | 416,860 | - | - |
| 1.2.a TVET | | 8,042 | 408,818 | | 416,860 | - | - |
| 1.3 Strengthening Institutional and Planning Capacity (0043) | 3,000,000 | 29,633 | 740,073 | | 769,706 | - | - |
| 1.3.a Education Project Implementation Contract | | - | 673,783 | 8 | 673,783 | - | - |
| 1.3.b Education Project Coordination team* | | 29,633 | 66,010 | | 95,643 | - | - |
| 1.3.c Other | | - | 280 | | 280 | - | - |
| | | - | - | | - | - | - |
| 2. Resource Mobilization Project (REV RFRM) | 6,200,000 | 243,611 | 544,623 | | 788,234 | - | - |
| 2.1 Improving Tax and Customs Administration (0443)** | 2,000,000 | 84,272 | 173,662 | | 257,934 | - | - |
| 2.1.a Tax and Customs | | 84,272 | 173,662 | | 257,934 | - | - |
| 2.2 Strengthening Public-Private Partnership Capacity (0414) | 3,600,000 | 159,339 | 370,961 | | 530,300 | - | - |
| 2.2.a Advisors | | 153,377 | 245,511 | | 398,888 | - | - |
| 2.2.b Feasibility Studies/ Transaction Advisory Services | | - | 125,450 | | 125,450 | - | - |
| 2.2.c Other | | 5,962 | - | | 5,962 | - | - |
| | | - | - | | - | - | - |
| 3. M&E (MON & Eval) | 1,700,000 | 30,175 | 227,803 | | 257,978 | - | - |
| Monitoring and Evaluation (0016) | 1,700,000 | 30,175 | 227,803 | | 257,978 | - | - |
| 3.1.a Student Assessment | | 30,175 | 211,876 | | 242,051 | - | - |
| 3.1.b Teacher Evaluations | | - | - | | - | - | - |
| 3.1.c Voc Ed Tracer Studies | | - | - | | - | - | - |
| 3.1 d Other | | - | 15,927 | | 15,927 | - | - |
| | | - | - | | - | - | - |
| 4. Program Admin (PGM ADMIN) | 800,000 | 162,040 | 177,360 | | 339,400 | - | - |
| Program Administration (0017) | 800,000 | 162,040 | 177,360 | | 339,400 | - | - |
| 4.1.a Staff Compensation* | | 143,138 | 143,750 | 9 | 286,888 | - | - |
| 4.1.b Travel* | | 3,519 | 19,673 | | 23,192 | - | - |
| 4.1.c Audit | | - | 10,000 | | 10,000 | - | - |
| 4.1.d Other | | 15,384 | 3,936 | | 19,320 | - | - |
| Total costs incurred | 28,000,000 | 1,199,113 | 3,809,579 | | 5,008,692 | - | - |
| Funds Balance as at September 30, 2018 | - | - | - | | - | - | - |
| Total Questioned Costs | | | | | | - | - |

The enclosed notes are integral part of this statement

**Financial Audit of Threshold Program Grant Agreement between the
Government of Guatemala and the United States of America through
Millennium Challenge Corporation**

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
For the period from October 01, 2017 to September 30, 2018
(Expressed in US Dollars)**

1. THE EXECUTING ENTITY

The Programa Nacional de Competitividad -PRONACOM-, is a participatory national program, facilitating inter-institutional efforts and alliances between the public, private, civil society and academia, for the development of the competitiveness of human and business capital that generates investment, contributes to the decentralized development of the country, improve the quality of life of Guatemalans and generate opportunities for formal employment.

Activities coordinated by PRONACOM are governed by the National Competitiveness Agenda (ANC), whose objective is to make efforts to improve the levels of productivity of the country's economy, addressing constraints that limit business development and investment.

PRONACOM was created through Government Agreement 306-2004, which has been reformed through Government Agreements 21-2008, 39-2016 and 192-2016. This Governmental Agreement establishes that PRONACOM is made up of three organs: a. The Executive Committee, b. The Advisory Board and c. The Special Execution Unit.

It also establishes that the Special Execution Unit will be in charge of executing the guidelines of the Executive Committee, it will be directed by an Executive Director appointed by the Minister of Economy at the proposal of the Executive Committee and attached to the Ministry of Economy.

Reason for which the Special Unit of Execution of the Program was created through Ministerial Agreement number 675-2012 dated December 14, 2012, of the Ministry of Economy, in compliance with the terms and stipulations contained in the IADB Loan Agreement 1734 / OC-GU, signed on August 24, 2012, between the Republic of Guatemala and the Inter-American Development Bank (IADB), attached to the Vice Ministry of Investment and Competition, which is derived from the cooperation and / or donation agreements signed with national and international organizations, had to be updated by means of a new legal provision. This being Ministerial Agreement 320-2016 of the Ministry of Economy.

According to the Governmental Agreement 192-2016, it establishes the following work attributions:

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- Promote actions and policies that improve the conditions for productive investment in the country.
- Support the formation of productive conglomerates and services, identified as potentially competitive and monitor their strengthening and development.
- Support the formation of Local Development Agendas, at the municipal or regional level, aimed at promoting sustainable human and productive development.
- Execute projects and programs of agreements agreed with Governments and Organizations, national and international, signed by the competent authorities, when assigned.

2. THE AGREEMENT

On April 8, 2015, the Grant Agreement for the Threshold Program between the Republic of Guatemala and the United States of America was signed, acting through the Millennium Challenge Corporation -MCC- in order to assist Guatemala, supporting the implementation of institutional reforms and fundamental policies that address the restrictions binding on economic growth in Guatemala.

The financing of the Program is through MCC subject to the terms and conditions of the Agreement, for an amount not exceeding US\$ 28,000,000.00, the validity of the Agreement is from April 8, 2015 to April 30, 2019.

According to implementation letter dated July 20, 2018, it is issued for the purpose of extending the date of the Grant Agreement of the Threshold Program of the Millennium Challenge Corporation (the Agreement), dated April 8, 2015, signed between the States United of America, acting through the Millennium Challenge Corporation (the MCC) and the Republic of Guatemala (Guatemala), acting through its government.

In accordance with section 6.1 of the Agreement, it was initially designated on April 19, 2019 as the end date. On June 20, 2017, the Program was extended until April 30, 2020. A request was received from PRONACOM to extend the end date until December 31, 2020.

**Financial Audit of Threshold Program Grant Agreement between the
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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
For the period from October 01, 2017 to September 30, 2018
(Expressed in US Dollars)**

Therefore, in accordance with section 7.7 (b) (ii) of the Agreement, the MCC agrees to extend for the second time the end date, from April 30, 2020 to December 31, 2020.

It should be noted that this proposed expansion will be financed through the reallocation of the remaining funds of the Grant, which must be determined by PRONACOM and the MCC no later than September 30, 2018.

The objective of the Program is to support the reforms promoted by the Government to improve the quality and relevance of the level of secondary education in Guatemala and increase the tax revenues that allow the Government to address the restrictions on economic growth. The Program includes the following Projects and activities:

Education Project:

Activity 1: Improvement of the Educational Quality in Support of School Success in the Basic Cycle.

Activity 2: Improve Training for Diversified Cycle Work.

Activity 3: Strengthen the Institutional and Planning Capacity.

Resource Mobilization Project:

Activity 1: Improvement of the Tax and Customs Administration.

Activity 2: Strengthening the Capacity to Form Public-Private Partnerships (PPP).

The budget assigned to the Threshold Program is as follows:

Financial Audit of Threshold Program Grant Agreement between the Government of Guatemala and the United States of America through Millennium Challenge Corporation

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
For the period from October 01, 2017 to September 30, 2018
(Expressed in US Dollars)**

| Project (code) | Act | Proposed Adjusted Multi-Year Financial Plan | Increase | Decrease | Proposed Adjusted Multi-Year Financial Plan |
|---|------|---|-----------|------------|---|
| 1. Education Project (EDU) | | \$19,700,000 | | | \$19,300,000 |
| 1.1 Improving the Quality of Education (0277) | 0277 | \$12,000,000 | | | \$12,000,000 |
| 1.2 Developing Technical and Vocational Education and Training (0400) | 0400 | \$4,700,000 | | -\$400,000 | \$4,300,000 |
| 1.3 Strengthening Institutional and Planning Capacity (0043) | 0043 | \$3,000,000 | | | \$3,000,000 |
| 2. Resource Mobilization Project (REV RFRM) | | \$4,000,000 | | | \$4,400,000 |
| 2.1 Improving Tax and Customs Administration (0443)* | 0443 | \$0 | \$800,000 | | \$800,000 |
| 2.2 Strengthening Public-Private Partnership Capacity (0414) | 0414 | \$4,000,000 | | -\$400,000 | \$3,600,000 |
| 3. M&E (MON & EVAL) | | \$1,700,000 | | | \$1,700,000 |
| Monitoring and Evaluation (0016) | 0016 | \$1,700,000 | | | \$1,700,000 |
| 4. Program Admin (PGM ADMIN) | | \$800,000 | | | \$800,000 |
| Program Administration (0017) | 0017 | \$800,000 | | | \$800,000 |
| Grand Total | | \$26,200,000 | | | \$26,200,000 |
| * This activity is partially MCC-Managed | | | | | |
| MCC Managed Fund | | | | | |
| 2. Resource Mobilization Project (REV RFRM) | | \$1,800,000 | | | \$1,800,000 |
| 2.1 Improving Tax and Customs Administration | 0443 | \$1,800,000 | | | \$1,800,000 |
| Grand Total | | \$28,000,000 | | | \$28,000,000 |

3. MAIN ACCOUNTING POLICIES

The following is a summary of the main accounting policies used in the preparation of the Fund Accountability Statement:

- A. Basis of Presentation - The Financial Statements for the period from October 1, 2017 to September 30, 2018 includes the disbursements and payments made by the agreement described in note 2 above.
- B. Accounting Basis - The Financial Statements of Accounts were prepared in accordance with the base of the modified cash, which is an accepted accounting basis and different from the International Financial Reporting Standards (IFRS). This basis differs from the IFRS in that the income is recorded when it is received and the expenses when they are actually disbursed, do not accumulate the record of liabilities, purchases of property, plant and equipment are recorded as disbursements and are not capitalized.

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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
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- C. Budget Execution - The budget execution of the Agreement described in note 2 above is approved directly by the administration of the Threshold Program, through amendments to the Agreement, in which all the expenses per activity are authorized. PRONACOM maintains accounting controls and records at the level of expense accounts and not by activity.

4. AGREEMENTS WITH OTHER ENTITIES

As of September 30, 2017, Cooperation Agreements were signed with the following entities:

a) National Agency of Partnerships for the Development of Economic Infrastructure "ANADIE"

On March 16, 17 the inter-institutional cooperation agreement between the Ministry of Economy and the National Agency of Partnerships for the Development of Economic Infrastructure "ANADIE" was signed for the implementation of the Resource Mobilization Project, within the framework of the Threshold Program of the Millennium Challenge Corporation.

Objective of the Agreement:

Establish the operating framework for the implementation of the Resource Mobilization Project, specifically to strengthen the capacity to finance infrastructure through public-private partnerships as a measure to preserve limited public funding for social expenditures such as education.

Project description:

The project seeks to support the efforts of the Government, mainly the National Agency of Partnerships for the Development of Economic Infrastructure (ANADIE), to foster the capacity to implement Public-Private Partnerships, promote transparency in Public-Private Partnerships, evaluate direct liabilities and contingents of the Public-Private Partnerships and promote one or two Public-Private Partnership projects to the market by financing feasibility studies that form the basis of technical, financial and legal structuring, value-for-money analysis

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and other requirements so that projects can be tendered as well as transaction advisory services.

Term

The term of the agreement is subject to the date of termination of the Agreement of the Threshold Program from the date of its subscription.

b) Ministry of Education

On March 16, 2017, the Inter-Institutional Cooperation Agreement was signed between the Ministry of Economy and the Ministry of Education, for the execution of the Education Project, within the framework of the Threshold Program of the Millennium Challenge Corporation.

Objective

Establish the operating framework for the execution of the Project Education of the Threshold Program between MINEDUC and MINECO, derived from the objectives as well as coordination mechanisms between both Ministries.

Project description

Support efforts aimed at providing quality education that prepares the diverse Guatemalan youth to succeed in the labor market. To achieve this goal, it has been proposed to work on the following activities:

- 1) Improvement of educational quality in support of school success in the basic cycle that includes training processes for teachers and directors in service, the organization of educational networks and educational support at the middle level.
- 2) Improve the training for the work of the diversified cycle: it includes the design of diversified careers according to occupational families, the design of the company-school training program, teacher training in technical areas, and the piloting of the designed careers.
- 3) Strengthen the institutional and planning capacity: it includes the analysis of the efficiency and effectiveness of delivery modalities of

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the basic cycle, the strengthening of the planning of educational services at the middle level, as well as actions to improve recruitment and selection of teachers of secondary education level. The Mineduc in consultation with the Mineco through Pronacom and the MCC will define the coverage areas of the education project.

Term

The term of this agreement is subject to the date of termination of the Threshold Program Agreement from the date of its subscription.

c) Superintendence of Tax Administration

On November 21, 2017, the Inter-Institutional Cooperation Agreement between the Ministry of Economy and the Superintendence of Tax Administration -SAT- was signed for the implementation of the Resource Mobilization project, within the framework of the Threshold program of the Millennium Challenge Corporation.

Project description

Support Guatemalan government reforms to increase the availability of resources by improving efficiency in tax and customs administration.

Amount

- 1) US \$ 1,800,000.00 for the Improvement of the Tax and Customs Administration; administered directly by MCC, for which MCC has signed an agreement with the Technical Assistance Office of the United States Department of the Treasury (OTA).
- 2) US \$ 800,000.00 for the support and strengthening of the SAT, whose destination will be determined by common agreement between the SAT and MINECO.

Validity

The agreement will enter into force from the date of its subscription, until the date of termination of the Threshold Program Grant Agreement.

Financial Audit of Threshold Program Grant Agreement between the Government of Guatemala and the United States of America through Millennium Challenge Corporation

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
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5. AVAILABLE CASH AND BANKS

PRONACOM does not administer funds from the Threshold Program, due to the Grant Agreement establishes that payments will be made directly by MCC to the suppliers of goods and services, based on the Disbursement Requests.

6. ASSETS

The assets acquired by the Threshold Program were recorded as disbursements of the budget execution, however PRONACOM, made adequate control and custody procedures, through liability cards and administrative records of receipt of assets and the corresponding registration in the fixed asset book.

7. DISBURSEMENTS

The disbursements made by MCC, as of September 30, 2018, are as follows:

| Date | Type of Transaction | Description | Trimester | Amount Disbursement | Refund Disbursement | Balance |
|--|---------------------|--------------------------------------|--------------------------|---------------------|---------------------|-----------|
| 10/01/2017 | Deposit | Disbursement MCC Funds available MCC | 10/01/2017 to 12/31/2017 | 1,703,970 | - | - |
| 12/31/2017 | Journal entry | Return | | - | 591,534 | 1,112,436 |
| 01/01/2018 | Deposit | Disbursement MCC Funds available MCC | 01/01/2018 to 03/31/2018 | 3,284,313 | - | - |
| 04/10/2018 | Journal entry | Return | | - | 1,918,306 | 1,366,007 |
| 04/11/2018 | Deposit | Disbursement MCC Funds available MCC | 04/01/2018 to 06/30/2018 | 2,733,762 | - | - |
| 06/30/2018 | Journal entry | Return | | - | 2,448,032 | 285,730 |
| 07/12/2018 | Deposit | Disbursement MCC Funds available MCC | 07/01/2018 to 09/30/2018 | 2,596,246 | - | - |
| 09/30/2018 | Journal entry | Return | | - | 1,550,840 | 1,045,406 |
| Total for MCC disbursements for year 1 | | | | 10,318,291 | 6,508,712 | 3,809,579 |

8. IMPROVING EDUCATIONAL EDUCATION

On March 30, 2017, the contract No. MCC-FC-001-2017 was signed to carry out a consultancy "Implementation of a program aimed at improving the quality of education in the Basic Cycle", with FAMILY HEALTH INTERNATIONAL, (FHI 360) for a value of US \$ 10,365,892.

As of September 30, 2018, the following payments have been made, against delivery of products and their authorizations:

Financial Audit of Threshold Program Grant Agreement between the Government of Guatemala and the United States of America through Millennium Challenge Corporation

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
For the period from October 01, 2017 to September 30, 2018
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| PRF | Application date | Payment date MCC | Contract | Beneficiary | Invoice Number | Value |
|--------------|------------------|------------------|-----------------|-----------------------------|----------------|-----------|
| 78 | 10-16-2017 | 10-26-2017 | MCC-FC-001-2017 | FAMILY HEALTH INTERNATIONAL | 3 | 103,659 |
| 85 | 10-23-2017 | 10-27-2017 | MCC-FC-001-2017 | FAMILY HEALTH INTERNATIONAL | 4 | 103,659 |
| 86 | 10-23-2017 | 10-27-2017 | MCC-FC-001-2017 | FAMILY HEALTH INTERNATIONAL | 5 | 103,659 |
| 111 | 11-28-2017 | 12-14-2017 | MCC-FC-001-2017 | FAMILY HEALTH INTERNATIONAL | 6 | 518,295 |
| 122 | 01-10-2018 | 01-25-2018 | MCC-FC-001-2017 | FAMILY HEALTH INTERNATIONAL | 7 | 103,659 |
| 123 | 01-10-2018 | 01-25-2018 | MCC-FC-001-2017 | FAMILY HEALTH INTERNATIONAL | 8 | 51,829 |
| 145 | 02-28-2018 | 03-14-2018 | MCC-FC-001-2017 | FAMILY HEALTH INTERNATIONAL | 9 | 25,915 |
| 147 | 03-01-2018 | 04-06-2018 | MCC-FC-001-2017 | FAMILY HEALTH INTERNATIONAL | 10 | 518,295 |
| 159 | 03-27-2018 | 04-09-2018 | MCC-FC-001-2017 | FAMILY HEALTH INTERNATIONAL | 12 | 103,659 |
| 160 | 03-27-2018 | 04-09-2018 | MCC-FC-001-2017 | FAMILY HEALTH INTERNATIONAL | 13 | 103,658 |
| 161 | 03-27-2018 | 04-09-2018 | MCC-FC-001-2017 | FAMILY HEALTH INTERNATIONAL | 14 | 25,915 |
| 218 | 07-19-2018 | 07-25-2018 | MCC-FC-001-2017 | FAMILY HEALTH INTERNATIONAL | 17 | 103,658 |
| 219 | 07-19-2018 | 07-25-2018 | MCC-FC-001-2017 | FAMILY HEALTH INTERNATIONAL | 16 | 518,295 |
| Total Year 1 | | | | | | 2,384,155 |

9. PERSONNEL

As of September 30, 2018, the following payments have been made, against delivery of products and their authorizations:

| Contract No. | Name | Position | Year 1 |
|-----------------|---------------------------------|---------------------------------------|---------|
| PU-MCC-040-2017 | FARID ENRIQUE DAHDAH GIAMMATTEI | SPECIALIST IN MONITORING AND CONTROL | 25,594 |
| PU-MCC-001-2018 | IRINA AGNETTA REYES MASZICH | MONITORING AND EVALUATION COORDINATOR | 10,053 |
| PU-MCC-025-2017 | JOSUÉ ANDREÉ RICART VÁSQUEZ | FINANCIAL SPECIALIST | 30,171 |
| PU-MCC-028-2017 | KAREN MICHELLE MORALES ALECIO | LEGAL ADVISER | 25,117 |
| PU-MCC-008-2017 | LILIAN REGINA MERLO ROBLES | BILINGUAL ASSISTANT CONSULTANT | 5,666 |
| PU-MCC-004-2016 | ROSA MARÍA AGUILAR RODRÍGUEZ | ACQUISITIONS SPECIALIST | 29,916 |
| PU-MCC-003-2016 | RUBÉN DARÍO NARCISO CRUZ | MONITORING AND EVALUATION COORDINATOR | 17,233 |
| TOTAL Year 1 | | | 143,750 |

10. ACCUMULATED COMMITMENTS

The commitments payable as of September 30, 2018 are as follows:

| Description | Accrued | Perceived | Balance | |
|-----------------------------|------------|-----------|------------|-----|
| Commitments pending payment | 20,773,299 | 4,602,460 | 16,170,839 | (a) |
| Commitments paid | 406,232 | 406,232 | - | |
| Total | 21,179,531 | 5,008,692 | 16,170,839 | |

(a) As of September 30, 2018, this is the balance payable

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| Description | Accrued | Perceived | Balance |
|--|------------|-----------|-----------|
| Family Health InternationalL | 10,365,892 | 3,109,768 | 7,256,124 |
| GOPA – Gesellschaft für Organisation, Planung und Ausbildung mbH | 3,529,507 | 372,721 | 3,156,786 |
| Universidad Internaciones | 1,923,987 | 57,832 | 1,866,155 |
| Universidad Panamericana de Guatemala | 1,185,760 | - | 1,185,760 |
| Universidad Del Valle | 1,141,083 | - | 1,141,083 |
| Deloitte Consulting | 1,030,229 | 103,023 | 927,206 |
| Herbin Amory González Castellanos | 120,000 | 10,000 | 110,000 |
| Manfredo Chocano | 49,998 | - | 49,998 |
| Ana Inés Reategui Vela | 50,000 | 6,213 | 43,787 |
| Eduardo Gonzalo Escobal Mc evoy | 50,000 | 7,752 | 42,248 |
| Irina Agnetta Reyes Maszich | 43,926 | 10,221 | 33,705 |
| Eugenio | 28,000 | - | 28,000 |
| Miguel Ángel Jara Muñoz | 50,000 | 22,141 | 27,859 |
| Rene Helbert Cornejo Díaz | 50,000 | 22,427 | 27,573 |
| Anaceli Isabel Aguilar Burgos | 70,081 | 43,408 | 26,673 |
| Karen Michelle Morales Alecio | 57,268 | 32,029 | 25,239 |
| Sergio Rafael Bravo Orellana | 208,250 | 183,750 | 24,500 |
| Mauricio Álvarez Blanco | 80,133 | 58,942 | 21,191 |
| Josué Andreé Ricart Vásquez | 62,251 | 41,427 | 20,824 |
| Álvaro Daniel Castillo Carrera | 74,475 | 57,975 | 16,500 |
| Keny Estuardo Pérez Lemus | 74,642 | 58,546 | 16,096 |
| Edgar Danilo Salazar Solares | 74,475 | 58,462 | 16,013 |
| Francisco José Ureta Morales | 52,430 | 36,430 | 16,000 |
| Ana Liseth Juárez Escobar | 88,294 | 74,895 | 13,399 |
| Quintos Travel, Sociedad Anónima | 18,020 | 6,886 | 11,134 |
| Patrick Michael Cronin | 9,999 | - | 9,999 |
| Rosa María Aguilar Rodríguez | 65,221 | 55,793 | 9,428 |
| Inmobiliaria Elite, S. A. | 11,464 | 3,739 | 7,725 |
| VICLASA, Sociedad Anónima | 50,884 | 44,251 | 6,633 |
| Renta Autos de Guatemala, S. A. | 45,529 | 39,031 | 6,498 |
| Lilian Regina Merlo Robles | 34,149 | 28,127 | 6,022 |
| RENTALSA | 6,000 | - | 6,000 |
| DATAFLEX S.A. | 5,704 | - | 5,704 |
| Farid Enrique DahDah Giammattei | 30,148 | 25,749 | 4,399 |

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| Description | Accrued | Perceived | Balance |
|-----------------------------|-------------------|------------------|-------------------|
| Karla Verónica López Aquino | 25,104 | 21,625 | 3,479 |
| Grupo Segá S. A. | 10,396 | 9,297 | 1,099 |
| Total | 20,773,299 | 4,602,460 | 16,170,839 |

11. MONETARY UNIT

The Financial Statements of Funds and their notes are presented in Dollars of the United States of America (US \$); however, the transactions made in Quetzales (Q), the official currency of the Republic of Guatemala, are translated into Dollars at the exchange rate prevailing in the financial market on the day the transfer or transaction is made.

The Bank of Guatemala publishes daily the exchange rate to be used as a reference by the national banking system.

According to resolution No. 126-2006 issued by the Monetary Board, the methodology for calculating the Quetzal reference exchange rate was approved in relation to the United States Dollar, which is based on the weighted average of the exchange rates corresponding to the operations of buying and selling currencies equal to or greater than US \$ 50,000, made by the public and by the institutions that constitute the institutional currency market. Based on this weighted exchange rate and with the exchange rate of the Inter-institutional operations, the Banco de Guatemala calculates the reference exchange rate that will be equal to the weighted average of both components. As of September 30, 2018, the reference exchange rate published by the Banco de Guatemala was Q 7.70206 per US \$.1.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To Executive Committee
Programa Nacional de Competitividad-PRONACOM
Guatemala


We have audited the Fund Accountability Statement of the Threshold Program Grant Agreement, provided with funds from the Millennium Challenge Corporation, and executed by Programa Nacional de Competitividad, for the period from October 1, 2017 to September 30, 2018 and have issued our report on it dated April 15, 2019.

Except as commented in the following paragraphs, we conducted our audit on the Fund Accountability Statement in conformity with Government Auditing Standards issued by the Comptroller General of the United States.

- a) We do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.76 of U.S. Government Auditing Standards. However, our current program provides for at least forty (40) hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.
- b) We did not have an external quality control review by an unaffiliated external audit control organization as required by Chapter 3, paragraph 3.96 of U.S. Government Auditing Standards, since no such program is offered by professional organizations in Guatemala and such a revision program is not required by the local auditing standards accepted in Guatemala. We believe that the effect of this departure from U.S. Government Auditing Standards is not material because we participate in the DFK International worldwide internal quality control review program, which requires our office to be subject, every three years, to an extensive quality control review by partners and managers from other affiliate offices.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

The management or those charged with governance of Programa Nacional de Competitividad 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 3b 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, we considered the entity'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 financial statements, 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 was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

We noted certain matters related with the internal control system we considered to be reportable conditions according to the above commented definition, and we have reported them to the Management of PRONACOM.

1. Amendment approved without considering proportionality in the payment.
2. Initial contract does not include deadlines for deliverables nor a compliance guarantee bond.

This report is destined only for the use of Programa Nacional de Competitividad-PRONACOM and the Millennium Challenge Corporation. However, upon release by MCC, this report is a matter of public record and its distribution is not limited.



Lic. H. Amory González C.
Colegiado No. 035

Guatemala April 15, 2019

**Financial Audit of Threshold Program Grant Agreement between the
Government of Guatemala and the United States of America through
The Millennium Challenge Corporation**

**INTERNAL CONTROL FINDINGS
For the period from October 01, 2017 to September 30, 2018
(Expressed in US Dollars)**

**1. AMENDMENT APPROVED WITHOUT CONSIDERING
PROPORTIONALITY IN THE PAYMENT**

In relation to contract MCC-FC-002-2017, through amendment no. 1, the socio-environmental study contained in section 2.c is transferred to deliverable 4.8; The socio-environmental study was initially part of a package of several deliverables that contemplates a payment of 30%. By withdrawing the socio-environmental study from payment no. 2, there should have been a negotiated transfer of 30% to payment No. 4, pertaining to deliverable 4.8, considering the importance of said study.

CRITERION

The socio-environmental study is an important element of the deliverables agreed upon. Any change in the conditions, makes necessary an equivalent adjustment in the programming of payments for adequate negotiation.

CAUSE

The financial impact was not taken into consideration when approving the amendment.

EFFECT

Non-compliance by the consultant can increase damage to the program.

RECOMMENDATION

That the impact on the payment plan be taken into consideration when approving an amendment to the conditions initially agreed upon, thereby adequately protecting the interests of the program.

MANAGEMENT COMMENT

Consulting contracts held so far under the Threshold Program have been paid for by means of Lump Sum payments, i.e., a total fixed-price contract, covering all costs required to perform the services described in the Scope of Services. Contracts do not consider a specific value for each of the deliverables.

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**INTERNAL CONTROL FINDINGS
For the period from October 01, 2017 to September 30, 2018
(Expressed in US Dollars)**

In this sense, the finding refers to contract MCC-FC-002-2017 for the feasibility study of the Aurora International Airport, in which when structuring the payment mechanism throughout the execution of the contract, proportional payments were divided among each one of the anticipated deliverables, without the amount payable for each deliverable showing the real value of each, disallowing an exact calculation of the value of a proportional part of a deliverable, as in the case of the Socio-Environmental Study that was part of deliverable 2. It is necessary in this particular case, to refer to what is documented on file, as related to the reason for which the Socio-Environmental Study was transferred to product 4, since this modification does not constitute a breach by the consulting firm in the execution of the Socio-Environmental Study, but rather to the improvement of it. At the time Product 2 was delivered, there was a Socio-environmental Study, but in benefit of the Program, it was determined to provide feedback to said study, given its importance in structuring the project, with information that would be obtained through the development of products 3 and 4. The above does not allow for exact determination of the economic value of a given job performed, but it would be an improvement.

2. INITIAL CONTRACT DOES NOT INCLUDE DEADLINES FOR DELIVERABLES NOR A COMPLIANCE GUARANTEE BOND

Initial contract MCC-FC-002-2017 does not include deadlines for deliverables. This deficiency was corrected by amendment no. 2, following a request by the consultant, in which dates were proposed for the deliverables, 15 days before the date agreed upon for the expiration of the contract.

CRITERION

Contract conditions, especially related to consulting services, must include deadlines for deliverables and possible sanctions in cases of delays in compliance with the established dates.

CAUSE

This situation was not considered when approving the contract.

**Financial Audit of Threshold Program Grant Agreement between the
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The Millennium Challenge Corporation**

**INTERNAL CONTROL FINDINGS
For the period from October 01, 2017 to September 30, 2018
(Expressed in US Dollars)**

EFFECT

Increased risk of non-compliance with established dates, possibly affecting project objectives.

RECOMMENDATION

1. Make sure that in all cases, the contracts identify dates of deliverables.

MANAGEMENT COMMENT

In this regard, except for the contract referred to in finding (MCC-FC-002-2017) all consulting contracts with current accounts show dates established for each deliverable, considering the procedure required for the extension of time. Regarding this, the rules state that in MCC Contracts Fixed Price (Lump Sum) payments are linked to work done in carrying out the contract, including results (deliverables) are easier to administer than time-based contracts, because the payments are supported by clearly specified results (P1.B.4.1 PPGs). In this context, contract MCC-FC-002-2017 for the feasibility study in the evaluation and structuring of the Partnership for Economic Infrastructure Development initiative, "Modernization, Efficiency and Safety of La Aurora International Airport, in Guatemala City" by design, did not provide for product delivery dates as stipulated therein, considering that only partial payments would be given during its execution, this having been established in the final report on negotiations, and agreed upon with the consultant prior to the final signing of the contract; the consultant, Deloitte-Tetra Tech would deliver a timeline for the implementation of the contract, during the first fifteen days of its execution to insure tracking and monitoring of the contract performance schedule. This obligation was confirmed by the Project Leader and properly supervised by the person in charge of the Resource Mobilization component. Before each request for extension of time, the consultant was required to submit an updated timeline validated by ANADIE as Project Leader and beneficiary, prior to the approval of any amendment to the contract, as stipulated in writing on file for said contract, in the various Opinions and Technical Directives provided to support such amendments.

INDEPENDENT AUDITORS REPORT ON COMPLIANCE

To Executive Committee
Programa Nacional de Competitividad
Guatemala

We have audited the Fund Accountability Statement of the Threshold Program Grant Agreement provided with funds from the Millennium Challenge Corporation, and executed by Programa Nacional de Competitividad-PRONACOM, for the period from October 1, 2017 to September 30, 2018 and have issued our report on it dated April 15, 2019.

Except as commented in the following paragraphs, we conducted our audit on the Fund Accountability Statement in conformity with Government Auditing Standards issued by the Comptroller General of the United States.

- a) We do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.76 of U.S. Government Auditing Standards. However, our current program provides for at least forty (40) hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.
- b) We did not have an external quality control review by an unaffiliated external audit control organization as required by Chapter 3, paragraph 3.96 of U.S. Government Auditing Standards, since no such program is offered by professional organizations in Guatemala and such a revision program is not required by the local auditing standards accepted in Guatemala. We believe that the effect of this departure from U.S. Government Auditing Standards is not material because we participate in the DFK International worldwide internal quality control review program, which requires our office to be subject, every three years, to an extensive quality control review by partners and managers from other affiliate offices.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Fund Accountability Statement.

Compliance with agreement terms and laws and regulations applicable to Programa Nacional de Competitividad - PRONACOM is the responsibility of PRONACOM's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of PRONACOM's

Alemania
Argentina
Bélgica
Bolivia
Brazil
Canadá
Chile
Costa Rica
El Salvador
Estados Unidos
Francia
Honduras
Japón
México
Panamá
Perú
Puerto Rico
Reino Unido
Uruguay
Venezuela

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.

The results of our tests did not disclose any incompliance we consider to be reportable condition according to U. S. Government Auditing Standards.

This report is destined only for the use of Programa Nacional de Competitividad-PRONACOM and the Millennium Challenge Corporation. However, upon release by PRONACOM, this report is a matter of public record and its distribution is not limited.

AMORY GONZALEZ, CPA



Lic. H. Amory González C.
Colegiado No. 035

Guatemala, April 15, 2019

MANAGEMENT LETTER

To Executive Committee
Programa Nacional de Competitividad-PRONACOM
Guatemala

We have audited the Fund Accountability Statement of the Threshold Program Grant Agreement, provided with funds from the Millennium Challenge Corporation and executed by Programa Nacional de Competitividad – Guatemala, for the period from October 31, 2017 to September 30, 2018 and have issued our report on it dated April 15, 2019.

We conducted our audit in accordance with International Standards on Auditing and 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 financial statements are free of material misstatement.

The management of Programa Nacional de Competitividad - Pronacom is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with the basis of accounting described in Note 3 to the financial statements. Due to inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, a 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.

We noted certain matters involving the internal control structure and its operation that we are reporting with the purpose to strength this structure.

Alemania
Argentina
Bélgica
Bolivia
Brazil
Canadá
Chile
Costa Rica
El Salvador
Estados Unidos
Francia
Honduras
Japón
México
Panamá
Perú
Puerto Rico
Reino Unido
Uruguay
Venezuela

This report is destined only for the use of Programa Nacional de Competitividad - PRONACOM and the Millennium Challenge Corporation. However, upon release by the MCC, this report is a matter of public record and its distribution is not limited.

AMORY GONZALEZ, CPA

A handwritten signature in black ink, appearing to read "Amory González C.", with a large, sweeping underline that extends to the left and under the text below.

Lic. H. Amory González C.
Colegiado No. 035

Guatemala, April 15, 2019

**Financial Audit of Threshold Program Grant Agreement between the
Government of Guatemala and the United States of America through
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**INTERNAL CONTROL FINDINGS
For the period from October 31, 2017 to September 30, 2018
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1. INAPPROPRIATE FOLLOW-UP TO VAT EXEMPTIONS

In relation to the MCC-01-2017 contract, the issuance of VAT exemption certificates by PRONACOM to the FHI consultant, as stated in amendment no. 1-17, that all assets acquired by the consultant, making use of said certificates, must be made available to PRONACOM at the end of the contract. In this regard we comment:

- A. We did not find evidence that PRONACOM was making periodic visits to verify the existence of the assets acquired by the program, to which this provision applies.
- B. Some risk exists that assets may be acquired and billed as services. To manage this risk, it is important that PRONACOM perform selective tests on reported services.

CRITERION

PRONACOM must identify and manage risks related to the execution of the program. For that purpose, PRONACOM must ensure that exemptions are being used for approved purposes. They must also maintain control of the assets acquired to facilitate their identification and location at the end of the program.

CAUSE

The conditions established in the contract are not being adequately monitored.

EFFECT

There is a risk that some assets may be acquired and billed by the supplier as services. Risk of not adequately identifying the assets that should be transferred to the program.

RECOMMENDATION

Maintain an updated inventory of assets acquired by issuing VAT exemptions certificates. Carry out selective tests on the services reported in relation to the

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execution of the program; selectively interview suppliers to validate that the invoiced services concept is applicable.

MANAGEMENT COMMENT

In this sense, there has been no breach of contractual conditions regarding the granting of exemptions from VAT, since the contract only states that support in the form of exemptions will be granted exclusively for the execution of the Contract as related to aims and objectives of the program, and verified by adherence to the process that establishes justifications provided by FHI for approval of exemptions.

PRONACOM has determined as measures to mitigate existing risks, the prior review and verification of exemption approvals requested by FHI, for which the consulting firm submits an application included in a procurement plan, indicating the justification for the exemption prior to approval by the Executive Board.

The Fiscal Accountability Plan -FAP- on Asset Management (section 11) stipulates that the policy for asset control applies to any entity that operates under PRONACOM (ie, administration of PRONACOM, the projects, Implementing Partners, consultants and PRONACOM contractors) paid with MCC Grant funds. So, the responsibility for monitoring, reporting and asset management, in the present case, belongs to the consulting firm FHI 360, as the contractor.

The FAP establishes the obligation to keep an inventory list of present and past assets purchased with funds from the Threshold Program, only when they are in possession of PRONACOM. It only states the obligation for Assets Control at the end of the Threshold Program, under which all assets remaining at the end of the Threshold Period will continue under the responsibility of PRONACOM, and if these assets are under the control of an Implementing Entity (IE) documentation will be specifically initiated by PRONACOM, with MCC approval, to transfer ownership of these fixed assets with specific instructions on responsibility for and maintenance of such assets consistent with the MCC guidelines for Closure of Programs.

FOLLOW-UP ON PREVIOUS AUDIT RECOMMENDATIONS
INDEPENDENT AUDITOR'S REPORT

To Executive Committee
Programa Nacional de Competitividad- PRONACOM
Guatemala.

We have audited the Fund Accountability Statement of Threshold Program Grant Agreement signed between the Government of Guatemala and the United States of America, acting through the Millennium Challenge Corporation, administered by Programa Nacional de Competitividad Guatemala for the period from October 1, 2017 to September 30, 2018 and have issued our report dated April 15, 2019.

We have applied our audit procedures related to the prior year findings (base year) to determine its implementation.

The implementation of the recommendations of the base period audit, from April 18, 2015 to September 30, 2017, was reviewed, evidencing that for some cases the authorizations of PRONACOM and MCC are necessary prior to their implementation, and therefore remain pending at the close of the audit. The project management presented an action and implementation plan (see enclosed) to execute during the period ending September 30, 2019.

This report is destined only for the use of Programa Nacional de Competitividad-PRONACOM and the Millennium Challenge Corporation. However, upon release by PRONACOM, this report is a matter of public record and its distribution is not limited.

AMORY GONZALEZ, CPA



Lic. H. Amory González C.
Colegiado No. 035

Guatemala, April 15, 2019

Alemania
Argentina
Bélgica
Bolivia
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Canadá
Chile
Costa Rica
El Salvador
Estados Unidos
Francia
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Japón
México
Panamá
Perú
Puerto Rico
Reino Unido
Uruguay
Venezuela

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| No. | CONDITION | AUDITOR RECOMMENDATION | PRONACOM COMMENT | AUDITOR'S COMMENT | PRONACOM CORRECTIVE ACTION PLAN |
|-----|--|---|---|-------------------|--|
| 1. | The consulting contract with Mr. Santiago Valdes Fernández, stipulates that for each visit he be paid \$ 6,100.00. Supporting documentation does not contain sufficient evidence of the visits paid. | Evaluate inclusion of additional supporting documentation for this kind of payment, such documents as: -Photographs of the workshops -List of attendants -Photocopy of passport -Others considered relevant | No additional information is required according to contract terms. A report including the detail of provided services according to the scope of work established in the contract is enough as to approve the payment. | Implemented | PRONACOM will issue an Administrative Circular to the FAP by July 30, 2019 to include explicit details about the requirements that have to be submitted in every report submitted for payment for consultant services. Additionally, the Procurement Specialist is incorporating into her review of Terms of Reference for consultant services contracts a detailed requirement of supporting documentation for each payment request such as airplane tickets and photographs. |

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| 2. | <p>Hiring of the General Coordinator and Coordinator of Monitoring and Evaluation, had not materialized at the time of our review, which could affect the overall development of the Agreement, because the duties of these officials are performed partly by the Agreement staff.</p> | <p>Streamline recruitment process to replace staff, who for various reasons, no longer work for the program, considering the importance and responsibility attributable to their positions.</p> | <p>Regarding the Coordinator of Monitoring and evaluation, the process was performed according to hiring procedures established by the MCC. The process is concluded. The hiring term is one year beginning June 15, 2018.</p> <p>The position of Program Coordinator was changed to Threshold Program Subdirector due to a strategic program restructuring. This hiring process is in the evaluation phase.</p> | <p>Implemented</p> | <p>As of April 1, 2019, PRONACOM is fully staffed. The M&E Coordinator was hired June 15, 2018 and a THP Deputy Director on September 4, 2018. The delays in hiring these individuals were due to structural changes to the staffing chart of the program. Additionally after consultations with MCC, the need for an additional finance team member was identified and this person began on April 1, 2019. In addition to always complying with MCC standards for these hiring processes, additional parameters to streamline the hiring process for the THP Program will be introduced via Administrative Circular to the FAP by July 30, 2019.</p> |
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| 3. | <p>The products of certain contracts were delivered with delay, so that at the end date thereof, the products had not been received, affecting compliance with the program's plans. The Ministry of Education staff produced and delivered the products, but the contracts were not amended regarding delivery deadline or breach thereof.</p> | <p>Report any condition that fails to comply with the terms of the contracts, to the procurement staff and legal counsel to decide what action to take.</p> | <p>As per legal advisor recommendation, payment was disbursed according to those products duly received and approved.</p> | <p>Implemented</p> | <p>As of January 2019 Management has streamlined communications within the team through weekly meetings that serve to update management and the rest of the team to risks and challenges the program is facing. PRONACOM's Executive Director and/or Deputy Director also participate in these meetings. The Procurement Specialist and Legal Advisor are also meeting on a weekly basis to follow up on contract administration issues. The Legal Advisor is also sending monthly reminders to the technical team of upcoming contract administration action items. The contracts in question at the time of the audit have been amended to allow a path to extend deliverable deadlines.</p> |
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| 4. | <p>The Fiscal Accountability Plan of the Threshold Program, has not been updated, nor has there been alignment of the various the MCC guidelines and / or operating manuals (Guidelines for disbursement request, financial reporting, procurement and formats, etc.) nor PRONACOM operating manuals with the conditions of program operations, to develop an operational manual, tailored to suit the conditions of the program. These do not specifically provide for procedures or methodology for procurement of goods or services and standardized documents formats (there are some in English and others in Spanish). Those used are identified on the MCC website</p> | <p>Evaluate and revise the Fiscal Accountability Plan "FAP", implementing and updating existing administrative and financial operations for Threshold Program procedures</p> | <p>The management of the MCC Threshold is taking steps to update FAP first phase, with the purpose to make it valid immediately prior to approval from the Executive Committee. This will allow updating administrative and financial procedures according to Threshold Program operations and complying with those requirements established by the MCC.</p> | <p>Implemented</p> | <p>The Fiscal Accountability Plan "FAP" was updated and approved by the executive committee on February 22 2019 and received MCC No Objection on April 5, 2019. The FAP will continue to be reviewed on an annual basis.</p> |
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| 5. | <p>A comparison was made between information recorded in QuickBooks and MCDR, by budget line, and the following variations were determined.</p> <p>Contracts with individual consultants were recorded in QuickBooks, without accounting assignment.</p> | <p>1. Provide evidence of reconciliation for information shared by the two financial reporting systems.</p> <p>2. Assign all transactions recorded in QuickBooks their respective accounting codes.</p> | <p>In this case, the amounts correspond to the records of the same contracts. When several transactions are registered, Quickbooks demands to operate each single contract as an item, reporting them in a separated area. That doesn't mean the transactions is not being registered in the corresponding account. To avoid this problem, each single contract will be registered separately in the future, since Quickbook does not allow recording several contracts in a single transaction.</p> | Implemented | <p>1. Attached to this letter please find documents demonstrating the financial reconciliation between QuickBooks and the Program's Monthly Commitment and Disbursements Reports (Annex I). These reconciliations happen on a monthly basis by the Financial Specialist.</p> <p>2. At the time of this Audit, the Program had not completely defined how certain contracts would be recorded. This is now corrected, and the Financial Specialist has made the appropriate changes, as can be demonstrated in the Annex.</p> |
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| 6. | <p>The administration has not created the tools to identify the risks of financial and operational nature that may affect achievement in the implementation of the products generated by the program.</p> | <p>1. Provide the tools necessary to develop the risk matrix and related mitigation procedures. 2. Prioritize operational strategies when defining the objectives of each stage of the project. 3. Assign responsibility at senior management level, to monitor results of risk diagnosis, for improvement of existing or implementation of necessary internal controls to meet the objectives of the project or program in general</p> | <p>The management of Threshold program take actions to mitigate those risks might affect program implementation and funds allocation. Risks are managed through a due diligence on the application of those standards and policies approved for the program. The MCC policies require to prepare a risk matrix to protect program funds from fraud and corruption. The legal advisor is the person assigned to operate and update the risk matrix with the support from program staff.</p> | <p>Implemented 1. (Risk matrix identified possible activities of fraud and corruption in June 2018). Non Implemented (Fiscal risks were identified in this plan, the financial team will produce a more detailed internal controls risk plan by July 30, 2019). Implemented</p> | <p>1. PRONACOM developed a risk matrix identified possible activities of fraud and corruption in June 2018. This Anti-Fraud and Corruption Plan was approved by the Executive Director of PRONACOM on March 15, 2019 and received MCC's no objection on March 29, 2019. The AFC Plan focuses on the risks rated with a high likelihood and/or high impact. While certain fiscal risks were identified in this plan, the financial team will produce a more detailed internal controls risk plan by July 30, 2019. Both of these plans will be revisited on an annual basis to see if they need to be updated. 2. Operational strategies have been more closely defined in the most recently updated FAP, which was approved this year.</p> |
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| 8. | <p>Concerning Threshold Program consultant contracts with the different individual consultants, the following was found:</p> <p>a) The text states the existence of a relationship of dependency. (40 hours per week, and 1950 hours per year. This can be integrated with the Labor Code of Guatemala).</p> <p>b) In Clause 3 of the individual contract, "Payments", Literal A is for a total, the sum of the payments made, is less than the total stipulated by the contract. Possible labor dispute, because a staff consultant could claim an unpaid difference.</p> <p>c) There is a paragraph in the contracts stating that the "Employer, where appropriate, will deduct the ISR".</p> | <p>A review of the project's legal aspects in the drafting of contracts, to determine risks of possible labor disputes, by providing recommendations.</p> | <p>The contract includes a clause related with "Parts relationship". This clause establishes this relationship can not be interpreted as a labor dependency relationship between the parts and their representatives. Regarding income tax withholding, the clause has been eliminated to formalize new contracts.</p> | <p align="center">Non Implemented</p> | <p>The Legal Advisor has commenced a review of all applicable contracts to adapt the language more appropriately to reduce the risk of labor disputes. This review will go through July 30, 2019 as all staff contracts are being reviewed for streamlining purposes.</p> |
|----|---|---|--|---------------------------------------|---|