

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
The Millennium Challenge Corporation

Period from April 08, 2015 to September 30, 2017

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Government of Guatemala and the United States of America through
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Guatemala, July 2, 2018

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 April 8, 2015 to September 30, 2017.

BACKGROUND

Our firm was hired in April 2018 by the Ministerio de Economía through the National Program for Competitiveness to perform a "Financial Audit of the 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.

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 Competition (ANC), whose purpose is to increase productivity levels for local economy, shooting down those barriers 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 elements: 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 The 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 objective of the program is to support reforms initiated by the Government to improve 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 Grant Agreement implemented by Ministerio de Economia through the National Program for Competitiveness – PRONACOM for the period from April 8, 2015 to September 30, 2017.

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 September 30, 2017 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 The 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 tests to determine whether PRONACOM has complied, in all material aspects, with the agreement, complementary agreements, laws and regulations applicable to the program financed by The 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 The 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:

1. The grant and/or any preliminary agreement between The 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 The 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 The 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 The 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 non supported with proper 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 The MCC to the program were reconciled to the accounting records.
- d) We determined reimbursement requests to MCC, were supported with proper documents. We verified any financing from The MCC was duly registered in the accounting records.
- e) We reviewed the acquisitions process to determine sound commercial practices were applied including fair competition, obtention of reasonable prices and proper controls to verify quality and amounts received. Approved acquisitions were made in conformity with the guidelines for public acquisitions from The 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 The MCC approval when 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 service 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 The 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 expensed charged to the program were adequate and properly supported and controls related with assets use and protection. 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.

The aforementioned agreements have not been audited before, so there is not information on prior audit deficiencies on internal control available, following for that purpose Chapter 4 of the Government Auditing Standards.

8. Indirect Cost Rate

The agreement does not establish indirect cost rates.

AUDIT RESULTS

As result of the audit for the period from April 8, 2015 to September 30, 2017, the following conclusions were obtained:

A. Fund Accountability Statement

In our opinion, the Fund Accountability Statement for the Threshold program financed with funds from The MCC, fairly presents, in all material matters, the disbursement reported by The MCC, costs and incurred expenses for the project during the period from April 8, 2015 to September 30, 2017 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. No reportable conditions were observed during the audit.

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

Since the Agreements above identified have not been audited, we did not consider any procedures to follow up on previous recommendations.

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 The MCC.

MANAGEMENT COMMENTS

The content of this report was discussed on June 28, 2018 - with the management of PRONACOM and representatives of our Firm, and suggested changes were discussed and included.

AMORY GONZALEZ, CPA



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

INDEPENDENT AUDITORS 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 April 8, 2015 to September 30, 2017. 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.

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 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 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.

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 The MCC for the period from April 8, 2015 to September 30, 2017 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 May 29, 2018, 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 The 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, May 29, 2018

Monthly Commitment and Disbursement Report Threshold Program									
For the month ended Sep 30, 2017									
DISBURSEMENTS							COMMITMENTS		
Project (Main)	Beg Bal Actual Cumulative disbursements at Beginning of Current Month Aug 31, 2017 ending balance)	Actual Direct Payments to Vendor (DPV) for the month	Refunds of Direct Payments to Vendors that have been returned to NBC Enter as a negative number	Monthly Activity for DPVs	Actual Cumulative Disbursements as of the end of the current month		Actual Cumulative Commitments at the beginning of the current month Aug 31, 2017 ending balance)	Actual Cumulative Commitments as of the end of the current month	
Activity	1	2b.1	2b.2	2b	3		4a	4b	4
				(2b.1 + 2b.2)	(1 + 2a + 2b)				(4a + 4b)
1. Education Project (EDU)	652,662.74	110,623.96	-	110,623.96	763,286.70		10,441,294.77	-	10,441,294.77
1.1 Improving the Quality of Education (0277)	621,953.54	103,658.92	-	103,658.92	725,612.46	Nota 8	8,010,007.66	-	8,010,007.66
1.1.a Education Project Implementation Contract	621,953.54	103,658.92		103,658.92	725,612.46		8,010,007.66	-	8,010,007.66
1.1.b Grants to Universities for Teacher Training (Diplomados)				-	-				-
1.1.c Other				-	-				-
1.2 Developing Technical and Vocational Education and Training (0400)	5,026.00	3,015.60	-	3,015.60	8,041.60		35,002.50	-	35,002.50
1.2.a TVET	5,026.00	3,015.60		3,015.60	8,041.60		35,002.50	-	35,002.50
1.3 Strengthening Institutional and Planning Capacity (0043)	25,683.20	3,949.44	-	3,949.44	29,632.64		2,396,284.61	-	2,396,284.61
1.3.a Education Project Implementation Contract				-	-		2,355,884.61	-	2,355,884.61
1.3.b Education Project Coordination team*	25,683.20	3,949.44		3,949.44	29,632.64		40,400.00		40,400.00
1.3.c Other				-	-				-
2. Resource Mobilization Project (REV RFRM)	199,390.12	44,220.47	-	44,220.47	243,610.59		727,317.91	-	727,317.91
2.1 Improving Tax and Customs Administration (0443)**	71,578.48	12,693.12	-	12,693.12	84,271.60		140,500.00	-	140,500.00
2.1.a Tax and Customs	71,578.48	12,693.12		12,693.12	84,271.60		140,500.00	-	140,500.00
2.2 Strengthening Public-Private Partnership Capacity (0414)	127,811.64	31,527.35	-	31,527.35	159,338.99		586,817.91	-	586,817.91
2.2.a Advisors	121,850.00	31,527.35		31,527.35	153,377.35		580,856.27	-	580,856.27
2.2.b Feasibility Studies/ Transaction Advisory Services				-	-			-	-
2.2.c Other	5,961.64	-		-	5,961.64		5,961.64	-	5,961.64
3. M&E (MON & Eval)	14,675.00	15,500.00	-	15,500.00	30,175.00		88,500.00	7,840.16	96,340.16
Monitoring and Evaluation (0016)	14,675.00	15,500.00	-	15,500.00	30,175.00		88,500.00	7,840.16	96,340.16
3.1.a Student Assessment	14,675.00	15,500.00		15,500.00	30,175.00		88,500.00	7,200.00	95,700.00
3.1.b Teacher Evaluations				-	-				-
3.1.c Voc Ed Tracer Studies				-	-				-
3.1 d Other				-	-			640.16	640.16
4. Program Admin (PGM ADMIN)	146,919.24	15,121.21	-	15,121.21	162,040.45		312,153.62	1,472.28	313,625.90
Program Administration (0017)	146,919.24	15,121.21	-	15,121.21	162,040.45		312,153.62	1,472.28	313,625.90
4.1.a Staff Compensation*	129,825.03	13,312.64		13,312.64	143,137.67	Nota 9	282,984.00	-	282,984.00
4.1.b Travel*	3,518.51	-		-	3,518.51		2,945.30	-	2,945.30
4.1.c Audit		-		-	-				-
4.1.d Other	13,575.70	1,808.57		1,808.57	15,384.27		26,224.32	1,472.28	27,696.60
Total	1,013,647.10	185,465.64	-	185,465.64	1,199,112.74	Nota 7	11,569,266.30	9,312.44	11,578,578.74

The enclosed notes are integral part of this statement.

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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
For the period from April 08, 2015 to September 30, 2017
(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 The 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.

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.

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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:

Project (code)	Act	Proposed Adjusted Multi- Year Financial Plan	Transferences		Actual
			Increase	Decrease	Proposed Adjusted Multi- Year Financial Plan
1. Education Project (EDU)		\$19,700,000.00			\$19,300,000.00
1.1 Improving the Quality of Education (0277)	0277	\$12,000,000.00			\$12,000,000.00
1.2 Developing Technical and Vocational Education and Training (0400)	0400	\$4,700,000.00		-\$400,000.00	\$4,300,000.00
1.3 Strengthening Institutional and Planning Capacity (0043)	0043	\$3,000,000.00			\$3,000,000.00
2. Resource Mobilization Project (REV RFRM)		\$4,000,000.00			\$4,400,000.00
2.1 Improving Tax and Customs Administration (0443)*	0443	\$0.00	\$800,000.00		\$800,000.00
2.2 Strengthening Public-Private Partnership Capacity (0414)	0414	\$4,000,000.00		-\$400,000.00	\$3,600,000.00
3. M&E (MON & EVAL)		\$1,700,000.00			\$1,700,000.00
Monitoring and Evaluation (0016)	0016	\$1,700,000.00			\$1,700,000.00
4. Program Admin (PGM ADMIN)		\$800,000.00			\$800,000.00
Program Administration (0017)	0017	\$800,000.00			\$800,000.00
Grand Total		\$26,200,000.00	\$0.00	\$0.00	\$26,200,000.00

* This activity is partially MCC-Managed

MCC Managed Fund					
2. Resource Mobilization Project (REV RFRM)		1,800,000.00			\$1,800,000.00
2.1 Improving Tax and Customs Administration	0443	1,800,000.00			1,800,000.00
Grand Total		28,000,000.00			28,000,000.00

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 Statement for the period from April 8, 2015 to September 30, 2017 includes the disbursements and payments made by the agreement described in note 2 above.

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- B. Accounting Basis - The Financial Statements was prepared in accordance with the base of the cash modified, which is an accepted accounting basis and different from the International Financial Reporting Standards (IFRS). This base 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.
- 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.

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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 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

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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 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

The amount of the donation for the activity Improvement in the Tax Administration and Customs is of US \$ 2,600,000.00, which are broken down as follows:

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

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
For the period from April 08, 2015 to September 30, 2017
(Expressed in US Dollars)**

- 1) US \$ 1,800,000.00 for the Improvement of the Tax and Customs Administration; administered directly by The MCC, for which The 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.

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 The MCC to the suppliers of goods and services, based on the Disbursement Requests. Operations with banking account is not allowed according to program policies.

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 The MCC, as of September 30, 2017, are as follows:

**Financial Audit of Threshold Program Grant Agreement between the
Government of Guatemala and the United States of America through
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Date	Type of Transaction	Description	Trimester	Amount Disbursement	Refund Disbursement	Balance
09/20/2016 09/30/2016	Deposit Journal entry	Disbursement MCC Funds available MCC Return	07/01/2016 to 09/30/2016	16,000	6,000	10,000
10/01/2016 12/31/2016	Deposit Journal entry	Disbursement MCC Funds available MCC Return	10/01/2016 to 12/31/2016	154,570	122,049	32,521
01/02/2017 04/09/2017	Deposit Journal entry	Disbursement MCC Funds available MCC Return	01/01/2017 to 03/31/2017	310,995	240,174	70,821
04/10/2017	Deposit	Disbursement MCC Funds available MCC	04/01/2017 to 06/30/2017	179,569	-	179,569
06/27/2017	Deposit	Disbursement MCC Funds available MCC		8,703	-	8,703
07/01/2017 09/30/2017	Deposit Journal entry	Disbursement MCC Funds available MCC Return	07/01/2017 to 09/30/2017	1,533,420	635,922	897,497
Total for disbursements MCC				2,203,257	1,004,144	1,199,113

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, 2017, the following payments have been made, against delivery of products and their authorizations:

PRF	Application date	Payment date MCC	Contract	Beneficiary	Invoice Number	Value
47	07-25-2017	08-14-2017	MCC-FC-001-2017	FAMILY HEALTH INTERNATIONAL	1a	621,954
57	09-06-2017	09-15-2017	MCC-FC-001-2017	FAMILY HEALTH INTERNATIONAL	2	103,659
Total						725,612

9. PERSONNEL

As of September 30, 2017, the following payments have been made, against delivery of products and their authorizations:

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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
For the period from April 08, 2015 to September 30, 2017
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Date	Contract No.	Name	Position	Contract Amount	Payments Made
09/21/2016	PU-MCC-001-2016	YURI ORLANDO ZENTENO LINARES	COORDINATOR SPECIALIST	73,000	49,000
10/03/2016	PU-MCC-003-2016	RUBÉN DARÍO NARCISO CRUZ	MONITORING AND EVALUATION COORDINATOR	49,000	39,156
11/07/2016	PU-MCC-005-2016	INGRID AZUCENA ZELAYA FLORIÁN	FINANCIAL SPECIALIST	30,360	6,160
11/07/2016	PU-MCC-004-2016	ROSA MARÍA AGUILAR RODRÍGUEZ	ACQUISITIONS SPECIALIST	30,360	22,835
02/22/2017	PU-MCC-008-2017	LILIAN REGINA MERLO ROBLES	BILINGUAL ASSISTANT CONSULTANT	15,375	9,723
04/24/2017	PU-MCC-024-2017	GILDA LILY CUEVAS CUJULUN	LEGAL ADVISER	24,999	3,384
05/19/2017	PU-MCC-025-2017	JOSUÉ ANDREÉ RICART VÁSQUEZ	FINANCIAL SPECIALIST	29,991	8,982
07/09/2017	PU-MCC-028-2017	KAREN MICHELLE MORALES ALECIO	LEGAL ADVISER	24,999	3,897
Total				278,084	143,138

10. ACCUMULATED COMMITMENTS

The commitments payable as of September 30, 2017 are as follows:

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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
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(Expressed in US Dollars)**

Name	Amount in US\$
ALVARO DANIEL CASTILLO CARRERA	33,000.00
ANA INES REATEGUI VELA	50,000.00
ANA LISETH JÚAREZ ESCOBAR	44,258.88
ANA RUTH NOEMÍ TOSCANO TECÚN	3,400.00
Anaceli Isabel Aguilar Burgos	35,002.50
ARGUS MEDIA, INC.	2,200.00
BESSY YOANNA RUÍZ BARRIOS DE TEBALÁN	3,400.00
CONSULTORA MACROSCOPE CHILE LIMITADA	1,800.00
EDGAR DANILO SALAZAR SOLARES	33,000.00
EDUARDO GONZALO ESCOBAL MC EVOY	50,000.00
FAMILY HEALTH INTERNATIONAL	10,365,892.27
FRANCISCO JOSÉ URETA MORALES	52,000.00
Fulvia Eunice Hernández Rendón	1,971.62
GILDA LILY CUEVAS CUJULÚN DE CASTAÑEDA	24,999.00
GLENDA ESMERALDA ZAMORA PEREZ	3,400.00
GRUPO SEGA S.A.	9,296.96
HOWARD JOHNSON INN - GUATEMALA	
REFORMA INN HOTEL, SOCIEDAD ANONIMA	1,672.10
HUGO ALLAN GARCÍA MONTERROSA	3,400.00
INGRID AZUCENA ZELAYA FLORIAN	30,360.00
INMOBILIARIA ELITE, S.A.	2,053.51
Jennifer Johana Colindres de León	1,948.46
JESSIE JONATHAN ALVAREZ MARROQUIN	2,700.00
JOSÉ CARLOS ALBERTO BONILLA ALDANA	-
JOSUE ANDREÉ RICART VÁSQUEZ	29,991.00
KAREN MICHELLE MORALES ALECIO	24,999.00
KENY ESTUARDO PÉREZ LEMUS	33,000.00
Laura Leticia Monroy Sandoval	1,948.46
LAURA MAGALY MENÉNDEZ SÁNCHEZ	2,700.00
LILIAN REGINA MERLO ROBLES	15,375.00
MANUEL EDUARDO MARTÍNEZ MARROQUÍN	2,700.00
MARÍA JUDITH ILLESCAS RODRIGUEZ	3,400.00
MAURICIO ALVAREZ BLANCO	36,000.00
MGO USA INC.	5,000.00
MIGUEL ANGEL JARA MUÑOZ	50,000.00
MUEBLES DE OFICINA, SOCIEDAD ANONIMA	1,232.14
PATRICK MICHAEL CRONIN	9,999.00
QUINTOS TRAVEL, SOCIEDAD ANONIMA	1,534.85
REED BUSINESS INFORMATION INC.	1,500.00
RENE HELBERT CORNEJO DÍAZ	50,000.00
RONALD OLIVERIO CHUBAY GALLINA	3,400.00
ROSA MARIA AGUILAR RODRIGUEZ	31,760.00
ROSSANA PATRICIA ZULETA FIGUEROA DE HERNÁNDEZ	8,000.00
RUBEN DARIO NARCISO CRUZ	51,157.45
Santiago Ajquejay Miculax	1,971.62
SANTIAGO MARÍA VALDÉS FERNÁNDEZ DE ALARCC	121,200.00
SERGIO RAFAEL BRAVO ORELLANA	208,250.00
TECNASA GUATEMALA, SOCIEDAD ANONIMA	1,629.54
UNDB DEVELOPMENT BUSINESS	1,000.00
Universidad Internaciones	51,406.27
YURI ORLANDO ZENTENO LINARES	73,669.11
Grand Total	11,578,578.74

**Financial Audit of Threshold Program Grant Agreement between the
Government of Guatemala and the United States of America through
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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
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(Expressed in US Dollars)**

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, 2017, the reference exchange rate published by the Banco de Guatemala was Q. 7.34427 per US \$.1.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To Execute 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 April 8, 2015 to September 30, 2017 and have issued our report on it dated May 29, 2018.

Except for not having an external quality control review by an unaffiliated audit organization (as described in our report on the Fund Accountability Statement), 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. 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.

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.

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.

However, we noted certain matters involving internal control and its operations that we have reported to the management of Programa Nacional de Competitividad-PRONACOM in a separate letter dated May 29, 2017.

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 stylized flourish at the end.

Lic. H. Amory González C.
Colegiado No. 035
Guatemala May 29, 2018

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 April 8, 2015 to September 30, 2017 and have issued our report on it dated May 29, 2018.

Except for not having an external quality control review by an unaffiliated audit organization (as described in our report on the Fund Accountability Statement), 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 fund accountability statement is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the fund accountability statement amounts.

Compliance with agreement terms and laws and regulations applicable to 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 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 reveal instances of non-compliance that require to be informed here under the United States 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 May 29, 2018

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Alemania
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Francia
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Panamá
Perú
Puerto Rico
Reino Unido
Uruguay
Venezuela

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 April 8, 2015 to September 30, 2017 and have issued our report dated May 29, 2018.

We did not apply audit procedures related to prior audit report, due to the agreement was not subject to previous audits.

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 May 29, 2018

Alemania
Argentina
Bélgica
Bolivia
Brasil
Canadá
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Francia
Honduras
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México
Panamá
Perú
Puerto Rico
Reino Unido
Uruguay
Venezuela

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 April 8, 2015 to September 30, 2017 and have issued our report on it dated May 29, 2018.

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.

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 stylized flourish at the end.

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

Guatemala, May 29, 2018

**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 April 08, 2015 to September 30, 2017
(Expressed in US Dollars)**

1. VISITS WITHOUT EVIDENCE

Condition

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 for; the dates of the visits were:

GT01-2017

First	from 17 to 21 April/17
Second	from 08 to 12 May/17

GT02-2017

First	from 13 to 17 February/17
Second	from 13 to 17 March/17

GT03-2017

First	from 12 to 16 June/17
Second	from 10 to 14 July/17

Criterion

Attach supporting documentation for payment, i.e., evidence of his visit to the country, such as photographs, lists of attendees to the training, etc.

Cause

The criterion to document the payments did not consider including more evidence, as described above.

Effect

Payments without sufficient support and evidence, related to visits by the consultant.

Recommendation

Evaluate inclusion of additional supporting documentation for this kind of payment, such documents as:

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**INTERNAL CONTROL FINDINGS
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- Photographs of the workshops
- List of attendants
- Photocopy of passport
- Others considered relevant

MANAGEMENT COMMENT

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.

2. DELAYS IN STAFF HIRING PROCEDURES

Condition

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. Termination dates of the officials were as follows:

Chief Coordinator	June / 17
Monitoring and Evaluation Coordinator	January / 18

Criterion

The above positions are very important in the supervision and monitoring of program activities, so hiring people who will occupy the positions described above, should be considered high priority.

Cause

Lack of impact assessment in the supervision and monitoring of program activities.

Effect

Increased workload for existing staff, and possibility of tasks left undone.

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**INTERNAL CONTROL FINDINGS
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Recommendation

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.

MANAGEMENT COMMENT

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.

The position of Program Coordinator was changed to Threshold Program Subdirector due to a strategic program reestructuration. This hiring process is in the evaluation phase.

3. BREACH OF CONTRACT

Condition

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. The consultants are as follows:

Name	Contract
Glenda Esmeralda Zamora	PU-MCC-016
Allan Hugo Garcia	PU-MCC-017
Manuel Eduardo Martinez	PU-MCC-023

Criterion

Any failure to comply with the terms of the contracts must be documented with amendments or activity reports, to detail the incompliances, allowing for termination of the contracts.

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**INTERNAL CONTROL FINDINGS
For the period from April 08, 2015 to September 30, 2017
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Cause

Failure to observe the terms and deliverables outlined in contracts and actions to take.

Effect

Contractual clauses of the contract not complied with, and possible actions of incomppliance by the hired consultant.

Recommendation

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.

MANAGEMENT COMMENT

As per legal advisor recommendation, payment was disbursed according to those products duly received and approved.

**4. FAILURE TO UPGRADE PLAN OF FISCAL RESPONSIBILITY AND
DEVELOPMENT OF OPERATING MANUAL TO MEET THRESHOLD
PROGRAM STANDARDS**

Condition

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.

**Financial Audit of Threshold Program Grant Agreement between the
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**INTERNAL CONTROL FINDINGS
For the period from April 08, 2015 to September 30, 2017
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Criterion

The THRESHOLD program technical and management team has made significant progress in the implementation of internal control and adaptation of the MCC guidelines (guides for disbursement request, financial reporting, procurement, etc.), determining that there are opportunities for improvement to the Fiscal Accountability Plan.

In Numeral 1 Generalities, in the Fiscal Accountability Plan. "The FAP will be reviewed annually, in order to incorporate changes to existing policies or procedures and new policies and procedures that have been implemented since the last update of FAP".

In Numeral 2.5.1 Annual Updates of the Fiscal Accountability Plan. "The FAP should be reviewed, and if necessary, updated annually. The main entities involved in fiscal accountability are PRONACOM and the MCC. The Executive Director and Chief Financial Officer shall ensure that the FAP is updated periodically to reflect operational changes and notify those affected about the changes.

Adequate internal control is aimed at supporting management to achieve its objectives.

Cause

Lack of review and update of the Fiscal Accountability Plan, to determine need to create detailed operational manuals to support general policies.

Effect

Perform activities and reports inappropriately, overstressing documentation of operations that do not apply to the type of program.

Recommendation

Evaluate and revise the Fiscal Accountability Plan "FAP", implementing and updating existing administrative and financial operations for Threshold Program procedures.

**Financial Audit of Threshold Program Grant Agreement between the
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**INTERNAL CONTROL FINDINGS
For the period from April 08, 2015 to September 30, 2017
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MANAGEMENT COMMENT

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 to update administrative and financial procedures according to Threshold Program operations and complying with those requirements established by the MCC.

5. NO EVIDENCE OF RECONCILIATION OF QUICK BOOKS FINANCIAL INFORMATION WITH THE MCDR

Condition

A comparison was made between information recorded in QuickBooks and MCDR, by budget line, and the following variations were determined:

QuickBooks			
Accounts	Obligations	Paid out	CxP
1.1 Consulting Firms	8,010,008	725,612	7,284,395
1.2 Individual Consultancies	35,003	8,042	26,961
1.3 Consulting Firms	2,355,885	29,633	2,326,252
2.1 Individual Consultancies	135,000	78,772	56,228
2.1 No Consulting Services	5,500	5,500	-
2.2 Training	200,000		200,000
2.2 Individual Consultancies	329,450	134,100	195,350
2.2 Travel Expenses	962	962	-
2.2 No Consulting Services	56,406	24,277	32,129
3 Single Consultorias	88,900	30,175	58,725
3 Travel Expenses	640		640
4 Real	10,023	8,791	1,232
4 Single Consultorias	243,983	143,138	100,845
4 Travel	3,759	3,519	240
4 Operating Expenses	5,189	4,921	268
4 Services Consulting No	1,672	1,672	-
TOTAL QUICKBOOKS	11,482,379	1,199,113	10,283,266
TOTAL MCDR	11,578,579	1,199,113	
VARIATION	(96,200)	-	

Contracts with individual consultants were recorded in QuickBooks, without accounting assignment.

**Financial Audit of Threshold Program Grant Agreement between the
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**INTERNAL CONTROL FINDINGS
For the period from April 08, 2015 to September 30, 2017
(Expressed in US Dollars)**

Date	Transaction Type	Ollie # Contract	First name	Account	Divide	Amount
03/10/2016	bill	PU-MCC-003-2016	RUBÉN DARIO CRUZ NARCISO	Accounts Payable (C / P)	-Division-	49,000.00
11/17/2016	bill	PU-MCC-006-2016	LISETH JUAREZ ANA ESCOBAR	Accounts Payable (C / P)	-Division-	40400.00
05/02/2017	bill	PU-MCC-015-2017	JUDITH ILLESCAS MARIA RODRIGUEZ	Accounts Payable (C / P)	-Division-	3,400.00
05/02/2017	bill	PU-MCC-016-2017	GLEND A EMERALD PÉREZ ZAMORA	Accounts Payable (C / P)	-Division-	3,400.00
Total						96200.00 [to]

Criterion

All contracts or payments must be assigned their respective accounting codes, by category, to allow for identification and comparison of all accounting transactions with MCDR.

Cause

Lack of accounting codes for payments or contracts recorded in the accounting system.

Effect

Doubtful accuracy of transactions recorded in the accounting system or the MCDR, primarily for decision-making to achieve program objectives.

Recommendations

1. Provide evidence of reconciliation for information shared by the two financial reporting systems.
2. Assign all transactions recorded in QuickBooks their respective accounting codes.

MANAGEMENT COMMENT

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

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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 to record several contracts in a single transaction.

6. RISK MANAGEMENT

Condition

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.

Criterion

In the monitoring of project activities, risk management is a necessary management tool to identify and define mitigation strategies, in order to have contingency plans in place prior to an event that could threaten Program objectives.

Cause

Responsibility has not been assigned for developing the risk matrix and monitoring of developments that may influence the activities to achieve the program objectives.

Effect

No consideration given to actions needed to when an event occurs that could jeopardize the project activities and the achievement of program objectives.

Recommendations

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.

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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.

MANAGEMENT COMMENT

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.

7. AUTOMATED ACCOUNTING SYSTEM

Condition

The QuickBooks accounting system is used for recording all operations of the Threshold Program, but it has not met expectations required for the Fiscal Accountability Plan, "FAP".

- a) Lack of training in software use, and lack of a user manual showing system functions and reports.
- b) Non use of the budget module.
- c) Accounting ledger labeled with descriptions of a commercial company.

Fondos propios de accionistas:	\$ -10,379,466.00
Obligaciones y fondos propios totales	\$0.00

Forcing the administration to develop auxiliary financial reports in Excel, causing duplication of information and effort.

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3	Condition	Observation
Keep records in multiple currencies,	✓	The system can operate in Dollars and Quetzales
Record budget ceilings for commitments and expenses per quarter;	✗	Not allowed to enter the budget and to generate an analysis of budget implementation.
Register to force commitments budgeted funds;	✓	It is functional to be able to register contracts and / or invoices, and to operate under accrual
Record the date of receipt of the invoice and the payment of expenses,	✓	This information can be registered to operate under accrual transactions and perceived.
Record assets and liabilities;	✓	Generates Balance Sheet
Check budgetary ceilings are exceeded for liabilities and expenses,	✗	Not allowed to enter the budget and generate analysis of budget execution.
Generate reports, including current account statements summarized and ad-hoc reports;	✗	These are carried off by the auxiliary administration reports
Ensure data security; Y	✓	Generated in the cloud, and is restricted to three users (1 Threshold 1 PRONACOM 1 MCC-USA)
Allow the rapid transfer of accounting to project management system or other accounting system as required records.	Not rated	It is evaluated in the next stage of the audit.

✗ Not Functional
✓ Is Functional

Criterion

According to the Fiscal Accountability Plan, "FAP", PRONACOM will use an accounting information management system to record financial data that will serve as a basis for expenditure commitments and payments as well as for financial reporting.

The accounting system should also include allotments for budget and commitments. The budget used in the system is approved by the MCC. It will capture expenditures and commitments both in total volume as well as those included in payment plan time frames.

Cause

The accounting system was implemented and provided by the MCC-USA.

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Effect

Parallel preparation of auxiliary financial reports in Excel, causing duplication of information and tasking, added to inaccurate data.

Recommendation

1. Train staff in the use of accounting software.
2. If you register accounts in the accounting system, use the chart of accounts as a basis, following the guidelines of the Fiscal Accountability Plan, "FAP".
3. Implement the budget program as provided in the QuickBooks system.

MANAGEMENT COMMENT

Quickbook was implemented to register program transactions and the accounting staff has been properly trained for its operation. Chart of accounts approved by the MCC is used. However accounting reports are delivered by QuickBook on a standard base and can not be modified. Quickbook lacks and application for budget control implementation.

8. IMPROVEMENT OF CONSULTANT CONTRACTS

Condition

Concerning Threshold Program consultant contracts with the different individual consultants, the following was found:

- 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).
- 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.

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- c) There is a paragraph in the contracts stating that the "Employer, where appropriate, will deduct the ISR".

Cause

Use of preset contract formats, without reviewing the clauses applicable to the Project.

Effect

Possible risk of labor disputes, noncompliance with the provisions of the contracts, unnecessary paragraphs in contractual clauses as related to withholding of income tax.

Recommendation

A review of the project's legal aspects in the drafting of contracts, to determine risks of possible labor disputes, by providing recommendations.

MANAGEMENT COMMENT

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.