

**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, 2018 to September 30, 2019

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**Financial Audit of Threshold Program Grant Agreement between the
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Guatemala City, Guatemala March 5, 2020

To Ms. Francisca de Jesus Cardenas Moran
Director
**Programa Nacional de Competitividad
Guatemala**

Dear Ms. Cardenas:

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, 2018 to September 30, 2019.

BACKGROUND

Our firm was hired in April 2018 by the Ministerio de Economia 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 November 19, 2019 MCC confirmed its no objection to our continuity as the external auditors hired for the period from October 1, 2018 to September 30, 2019.

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

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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 1, 2018 to September 30, 2019.

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 procurement 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 Procurement Operational Manual (POM), the procurement plan, the guidelines for public procurement from MCC program, the Monitoring and Evaluation Plan.
 3. All financial and progress program reports; procurement 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 approved expenses and disbursed 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 procurement process to determine sound commercial practices were applied including fair competition, obtaining reasonable prices and proper controls to verify quality and amounts received. Approved procurement were made in conformity with the guidelines for public procurement from MCC program, approved procurement 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 staff. 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 reported 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 year ended September 30 2018. 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, 2018 to September 30, 2019, the following conclusions were obtained:

A. Cost-Sharing Contributions

The agreement does not establish Cost-Sharing Contributions.

B. 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. The results of our audit did not disclose reportable conditions related with the internal control system and its performance. Other findings not considered as reportable conditions have been reported in management letter.

C. 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.

D. Follow-up on previous audit recommendations

We reviewed the follow-up on the recommendations included in prior year report. We consider the management of the Threshold program has complied with the implementation of suggested recommendations.

E. 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 extending to the left.

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

INDEPENDENT AUDITOR'S REPORT

To Ms. Francisca de Jesus Cardenas Moran
Director
**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, 2018 to September 30, 2019. 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 the Fund Accountability Statement based on our audit. Except as discussed in the following paragraph, we conducted our audit in accordance with 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.

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. It includes the participation in training programs from AICPA with the support from internet. It includes the participation in training program from AICPA with the support of internet.

- a) 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

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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.

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, 2018 to September 30, 2019 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 March 5, 2020, 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 City, Guatemala March 5, 2020

**Millennium Challenge Account
Programa Umbral
Funds Accountability Statement
From October 1, 2018 to September 30, 2019
(Expressed in US Dollars)**

ACTIVITY	BUDGET	ACTUAL COSTS				AVAILABLE BUDGET AS OF SEPTEMBER 30, 2019	QUESTIONED COSTS	
		From April 8, 2015 to September 30, 2018	From October 1, 2018 to September 30, 2019	Note	CUMULATIVE		INELIGIBLE	UNSUPPORTED
Funds from MCC	28,000,000	5,008,692	9,425,842	7	14,434,534	13,565,466	-	-
Interest received from permitted Accounts	-	-	-		-	-	-	-
Total Revenue	28,000,000	5,008,692	9,425,842		14,434,534	13,565,466	-	-

COSTS INCURRED								
1. Education Project (EDU)	19,346,000	3,623,080	7,886,118		11,509,198	7,836,802	-	-
1.1 Improving the Quality of Education (0277)	12,000,000	2,436,514	5,007,775		7,444,289	4,555,711	-	-
1.1.a Education Project Implementation Contract		2,435,985	2,513,729	8	4,949,714		-	-
1.1.b Grants to Universities for Teacher Training (Diplomados)		-	2,494,046	9	2,494,046		-	-
1.1.c Other		529	-		529		-	-
1.2 Developing Technical and Vocational Education and Training (0400)	4,300,000	416,860	1,378,584		1,795,444	2,504,556	-	-
1.2.a TVET		416,860	1,378,584	10	1,795,444		-	-
1.3 Strengthening Institutional and Planning Capacity (0043)	3,046,000	769,706	1,499,759		2,269,465	776,535	-	-
1.3.a Education Project Implementation Contract		673,783	1,425,310	8	2,099,093		-	-
1.3.b Education Project Coordination team*		95,643	67,459		163,102		-	-
1.3.c Other		280	6,990		7,270		-	-
		-	-		-		-	-
2. Resource Mobilization Project (REV RFRM)	6,160,000	788,234	1,188,345		1,976,579	4,183,421	-	-
2.1 Improving Tax and Customs Administration (0443)**	2,600,000	257,934	178,472		436,406	2,163,594	-	-
2.1.a Tax and Customs		257,934	178,472		436,406		-	-
2.2 Strengthening Public-Private Partnership Capacity (0414)	3,560,000	530,300	1,009,873		1,540,173	2,019,827	-	-
2.2.a Advisors		398,888	70,412		469,300		-	-
2.2.b Feasibility Studies/ Transaction Advisory Services		125,450	904,779	11	1,030,229		-	-
2.2.c Other		5,962	34,682		40,644		-	-
		-	-		-		-	-
3. M&E (MON & Eval)	1,431,000	257,978	78,199		336,177	1,094,823	-	-
Monitoring and Evaluation (0016)	1,431,000	257,978	78,199		336,177	1,094,823	-	-
3.1.a Student Assessment		242,051	73,476		315,527		-	-
3.1.b Teacher Evaluations		-	-		-		-	-
3.1.c Voc Ed Tracer Studies		-	-		-		-	-
3.1 d Other		15,927	4,723		20,650		-	-
		-	-		-		-	-
4. Program Admin (PGM ADMIN)	1,063,000	339,400	273,180		612,580	450,420	-	-
Program Administration (0017)	1,063,000	339,400	273,180		612,580	450,420	-	-
4.1.a Staff Compensation*		286,888	198,097	12	484,985		-	-
4.1.b Travel*		23,192	8,623		31,815		-	-
4.1.c Audit		10,000	39,000		49,000		-	-
4.1.d Other		19,320	27,460		46,780		-	-
Total	28,000,000	5,008,692	9,425,842		14,434,534	13,565,466	-	-

The enclosed notes are integral part of this statement

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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
For the period from October 1, 2018 to September 30, 2019
(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.

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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
For the period from October 1, 2018 to September 30, 2019
(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:

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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
For the period from October 1, 2018 to September 30, 2019
(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)		\$19,700,000.00	\$46,000.00	-\$400,000.00	\$19,346,000.00
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	\$46,000.00		\$3,046,000.00
2. Resource Mobilization Project (REV RFRM)		\$4,000,000.00	\$800,000.00	-\$440,000.00	\$4,360,000.00
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		-\$440,000.00	\$3,560,000.00
3. M&E (MON & EVAL)		\$1,700,000.00	\$0.00	-\$269,000.00	\$1,431,000.00
Monitoring and Evaluation (0016)	0016	\$1,700,000.00		-\$269,000.00	\$1,431,000.00
4. Program Admin (PGM ADMIN)		\$800,000.00	\$263,000.00	-\$2,500.00	\$1,060,500.00
Program Administration (0017)	0017	\$800,000.00	\$263,000.00	-\$2,500.00	\$1,060,500.00
Total		\$26,200,000.00	\$1,109,000.00	-\$1,111,500.00	\$26,197,500.00
* This activity is partially MCC-Managed					
MCC Managed Fund					
2. Resource Mobilization Project (REV RFRM)		\$1,800,000.00	\$2,500.00	-	1,802,500.00
2.1 Improving Tax and Customs Administration	0443	\$1,800,000.00	\$2,500.00		\$1,802,500.00
Total		\$1,800,000.00	\$2,500.00	-	\$1,802,500.00
Grand Total		\$28,000,000.00	\$1,111,500.00	-\$1,111,500.00	\$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 Statements for the period from October 1, 2018 to September 30, 2019 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

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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, 2019, 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-

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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 for 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

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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

- 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.

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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 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, provided 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, 2019, are as follows:

October – December 2018	2,961,812
January - March 2019	1,582,095
April – June 2019	2,860,955
July – September 2019	<u>2,020,980</u>
Total disbursements	<u>9,425,841</u>

8. IMPROVING EDUCATION QUALITY

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:

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PRF	PAYMENT DATE	CODE	ACT	CONTRACT	BENEFICIARY	INVOICE	AMOUNT
278	03/22/2019	1.1.a	277	MCC-FC-001-2017	FAMILY INTERNATIONAL HEALTH	61786	725,612
283	04/16/2019	1.1.a	277	MCC-FC-001-2017	FAMILY INTERNATIONAL HEALTH	62133	725,612
297	06/30/2019	1.1.a	277	MCC-FC-001-2017	FAMILY INTERNATIONAL HEALTH	63469	518,295
302	07/24/2019	1.1.a	277	MCC-FC-001-2017	FAMILY INTERNATIONAL HEALTH	64423	25,915
313	09/10/2019	1.1.a	277	MCC-FC-001-2017	FAMILY INTERNATIONAL HEALTH	36	518,295
Total year 2018 - 2019							2,513,729

PRF	PAYMENT DATE	CODE	ACT	CONTRACT	BENEFICIARY	INVOICE	AMOUNT
251	11/06/2018	1.3.a	43	MCC-FC-001-2017	FAMILY INTERNATIONAL HEALTH	55183	725,612
278	03/22/2019	1.3.a	43	MCC-FC-001-2017	FAMILY INTERNATIONAL HEALTH	61844	103,659
278	03/22/2019	1.3.a	43	MCC-FC-001-2017	FAMILY INTERNATIONAL HEALTH	61836	51,829
288	04/23/2019	1.3.a	43	MCC-FC-001-2017	FAMILY INTERNATIONAL HEALTH	62397	103,659
288	04/23/2019	1.3.a	43	MCC-FC-001-2017	FAMILY INTERNATIONAL HEALTH	62428	103,659
288	04/23/2019	1.3.a	43	MCC-FC-001-2017	FAMILY INTERNATIONAL HEALTH	62370	103,659
295	06/11/2019	1.3.a	43	MCC-FC-001-2017	FAMILY INTERNATIONAL HEALTH	63016	103,659
309	08/14/2019	1.3.a	43	MCC-FC-001-2017	FAMILY INTERNATIONAL HEALTH	28	103,659
309	08/14/2019	1.3.a	43	MCC-FC-001-2017	FAMILY INTERNATIONAL HEALTH	35	25,915
Total year 2018 - 2019							1,425,310

9. GRANTS TO UNIVERSITIES FOR TEACHER TRAINING

Cooperation agreements have been signed as of September 30, 2019 with the following universities:

- Del Valle de Guatemala
- Panamericana de Guatemala
- Internaciones

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The general purpose is to strength technical skills for trainers and directors with the purpose to improve teaching processes and learning in the classrooms. One of the main objectives is: Develop and provide a university degree training addressed to trainers to obtain a Profesorado de Enseñanza Media – PEM with specialization in one of the curricular areas (mathematics, Communication and language or Natural Science) in the basic cycle.

The implementation started Agosto 2018 and will be ending June 2020, the program coverage was distributed as follows:

University	Coverage Department
Del Valle de Guatemala	Sololá
Panamericana de Guatemala	Alta Verapaz
Internaciones	Jalapa, Chiquimula y Sacatepéquez

Payments disbursed to the universities are detailed as follows:

Beneficiary	Contract	Code	Amount
UNIVERSIDAD DEL VALLE DE GUATEMALA	MCC-SUBV-002-2018 E3	1.1.b	661,171
UNIVERSIDAD INTERNACIONES	MCC-SUBV-001-2018	1.1.b	1,098,213
UNIVERSIDAD PANAMERICANA DE GUATEMALA	MCC-SUBV-003-2018	1.1.b	734,663
	TOTAL		2,494,046

10. DEVELOPING TECHNICAL AND VOCATIONAL EDUCATION AND TRAINING

The following payments have been disbursed to GOPA:

- 1) Contract MCC-FC-002-2018 consulting services “Training for Work, Family occupation for Agricultural and forestry harvesting” it includes among others the following objectives: Evaluate providing services for work training in the Vocational Education and provide recommendations to coordinate and harmonies job skills and qualification in educational centers.

The contract amount is USD 1.200,000 and the period term is from August 2018 to June 30, 2020.

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- 2) Contract MCC-FC-003-2017 consulting services “Training for work” the consultant will support MINEDUC in coordination with the Ministry for Work, the Ministry for Social Development and the Ministry of Economy to improve the design, implementation and evaluation of the curricular mess for new careers on job training in the diversified cycle; this effort should be focused in three occupational areas: tourism and hostals, telecommunications and information systems and vehicles transportation and maintenance; the influence area will include the departments of: Alta Verapaz, Chiquimula, Guatemala, Jalapa, Sacatepequez and Solola.

The contract amount is USD 2.239,507; payments delivered as of September 30, 2019 are as follows:

BENEFICIARY	CONTRACT	CODE	AMOUNT
GOPA CONSULTANTS	MCC-FC-003-2017 / MCC-FC-002-2018	1.2.a	1,341,213
ANACELI ISABEL AGUILAR BURGOS	PU-MCC-026-2017	1.2.a	34,271
ROSSANA PATRICIA ZULETA FIGUEROA DE HERNÁNDEZ	PU-MCC-006-2019	1.2.a	3,100
	Total		1,378,584

11. STRENGTHENING PUBLIC-PRIVATE PARTNERSHIP CAPACITY

Corresponds to payments delivered to Deloitte Consulting under contract no. MCC-FC-002-2017 consulting services on feasibility study to evaluate and structure the initiative from Private Public Alliance “Modernization, Efficiency and Security in the International Airport la Aurora in Guatemala City”.

12. STAFF

During the year ending September 30, 2019, the following payments have been made, against delivery of products and their authorizations:

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STAFF CONSULTANT	DESCRIPTION POSITION	AMOUNT
ROSA MARIA AGUILAR RODRIGUEZ	SPECIALIST IN ACQUISITIONS OF THE THRESHOLD PROGRAM	31,415
JOSUE ANDREÉ RICART VÁSQUEZ	FINANCIAL SPECIALIST	31,415
KAREN MICHELLE MORALES ALECIO	LEGAL ADVISER	28,875
IRINA AGNETTA REYES MASZICH	MONITORING AND EVALUATION COORDINATOR	43,425
MANFREDO OCTAVIO CHOCANO ALVARADO	DEPUTY DIRECTOR OF THE THRESHOLD PROGRAM	49,075
JORGE ALEXY ARÉVALO FUENTES	FINANCIAL ANALYST OF THE THRESHOLD PROGRAM	9,463
FARID ENRIQUE DAHDAH GIAMMATTEI	MONITORING AND CONTROL SPECIALIST	4,429
	Total	198,097

13. ACCUMULATED COMMITMENTS

The commitments payable as of September 30, 2019 are as follows:

Description	Committed	Paid	Balance
Commitments payable	22,347,226	14,434,538	7,912,692

The detail of payable balance is as follows:

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BENEFICIARY	Account Payable
FAMILY HEALTH INTERNATIONAL	3,317,086
GOPA CONSULTANTS	1,815,573
UNIVERSIDAD INTERNACIONES	864,735
UNIVERSIDAD PANAMERICANA DE GUATEMALA	526,514
UNIVERSIDAD DEL VALLE DE GUATEMALA	505,322
INTECAP	247,130
AUTOS DE ALQUILER SOCIEDAD ANONIMA	87,665
HERBIN AMORY GONZALEZ CASTELLANOS	71,000
EDUARDO GONZALO ESCOBAL MC EVOY	42,248
VALORES HOTELEROS, SOCIEDAD ANONIMA	38,872
INVERSIONES TURISTICAS GM, S.A.	37,471
CRISTINA DE LOS ANGELES PERDOMO MOSQUERA	34,717
ROSSANA PATRICIA ZULETA FIGUEROA DE HERNÁNDEZ	34,100
CARLOS RUBEN GANDDINI SOLARES	33,530
Instituto Guatemalteco Americano IGA	21,211
MANFREDO OCTAVIO CHOCANO ALVARADO	17,524
MARIO ALEXANDER RAMÍREZ	17,196
ANA LISETH JUÁREZ ESCOBAR	15,446
IRINA AGNETTA REYES MASZICH	14,866
MAURICIO ALVAREZ BLANCO	14,533
JORGE ALEXY ARÉVALO FUENTES	13,040
ALVARO DANIEL CASTILLO CARRERA	12,882
KENY ESTUARDO PÉREZ LEMUS	12,882
ANACELI ISABEL AGUILAR BURGOS	11,894
KAREN MICHELLE MORALES ALECIO	11,015
JOSUE ANDREÉ RICART VÁSQUEZ	10,930
ROSA MARIA AGUILAR RODRIGUEZ	10,930
Marvin Roberto Zúñiga Hernández	9,600
Comercial Lorena, S.A.	7,214
Abigail Lourdes Galicia López	6,720
Gladys Claudette Herrera García	6,720
Jorge Antonio Paque	6,720
Víctor Hugo Marroquín Díaz	6,720
LILIAN REGINA MERLO ROBLES	6,099
KARLA VERÓNICA LÓPEZ AQUINO	4,768
Fabiola Lizeth Hernandez Santos	3,840
Heylin Dianalis Duarte Solis	3,840
José Alberto Girón Monroy	3,840
Fredi Noel Teu Ordoñez KPM consultores	3,200
NEGOCIOS DIVERSOS CORPORATIVOS, S.A.	1,762
VIAJES KIXAMPE, S.A.	1,337
Grand Total	7,912,692

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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
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14. 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, 2019, the reference exchange rate published by the Banco de Guatemala was Q 7.73551 per US \$.1.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To Ms. Francisca de Jesus Cardenas Moran
Director
**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, for the period from October 1, 2018 to September 30, 2019 and have issued our report on it dated March 5, 2020.

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. It includes the participation in training program from AICPA with the support of internet.
- 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 PRONACOM 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, of the Fund Accountability Statement of Programa Nacional de Competitividad PRONACOM for the year ended September 30, 2019 in accordance with U.S. Government Auditing Standards, we considered Programa Nacional de Competitividad PRONACOM internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

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

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 that we have reported to the management of Programa Nacional de Competitividad PRONACOM in a separate letter dated March 5, 2020.

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

A handwritten signature in black ink, appearing to read "Amory González G.", with a large, sweeping underline that extends to the left.

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

Guatemala City, Guatemala March 5, 2020

INDEPENDENT AUDITORS REPORT ON COMPLIANCE

To Ms. Francisca de Jesus Cardenas Moran
Director
**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, 2018 to September 30, 2019 and have issued our report on it dated March 5, 2020.

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. It includes the participation in training programs from AICPA with the support of internet.
- 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 Fund Accountability Statement is free of material misstatement, we of Programa Nacional de Competitividad PRONACOM compliance with certain provisions of agreement terms

and laws. 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 City, Guatemala March 5, 2020

MANAGEMENT LETTER

To Ms. Francisca de Jesus Cardenas Moran
Director
**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 – Guatemala, for the period from October 1, 2018 to September 30, 2019 and have issued our report on it dated March 5, 2020.

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", with a stylized flourish extending to the left.

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

Guatemala City, Guatemala March 5, 2020

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 1, 2018 to September 30, 2019
(Expressed in US Dollars)**

1. THE EVIDENCE OF SUPPLIER ELIGIBILITY ATTACHED TO PROCUREMENT RECORDS AS A SCREEN CAPTURE DOES NOT CONTAIN THE DATE TO REFLECT TIMELY COMPLIANCE

In procurement records provided by management, no physical support of the Eligibility Verification Form is attached, nor is the date of consultation shown on the pages, these being; <http://worldbank.org/debarr>, <https://www.sam.gov/SAM/pages/public/searchRecords/search.jsf> made during the bids and proposals evaluation of procurement for the Threshold (PRONACOM) program; These consultations are filed electronically, and in some cases the date of the consultation is not shown. Following are some examples:

CONTRACT	BENEFICIARY	AMOUNT
MCC-PRONACOM-SNC-018-2018	Quintos Travel, SA	586.61
MCC-PRONACOM-SNC-019-2018	Quintos Travel, SA	685.71
PU-MCC-006-2019	Rossana Patricia Hernandez Figueroa Zuleta	37,200.00

CRITERIA

In the document annexed to the procurement guidelines for the MCC Program, i.e., "verification procedures for parts excluded from procurement of the program", paragraph 3, partial or full eligibility review should be performed "before the recommendation is adopted by the evaluation panel". Also, paragraph 4 indicates that the MCA entity must print the search results page. These documents should be printed or captured on screen and kept as part of the general procurement record. Also stated, is that the Eligibility Verification Form provides a space for the MCA (PRONACOM) to insert the date on which each of these lists were last updated, or the date on which the record was viewed.

Section 10.2 of the Fiscal Accountability Plan (FAP) regarding staff/consultant records, paragraph 3, anti-terrorism, background and reference verification documentation, states that documentation must be included for each of the PRONACOM consultants hired to assist with the Threshold Program.

**Financial Audit of Threshold Program Grant Agreement between the
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**INTERNAL CONTROL FINDINGS
For the period from October 1, 2018 to September 30, 2019
(Expressed in US Dollars)**

CAUSE

Procurement file inquiries that support supplier eligibility are not hard copied.

EFFECT

No immediate access to documentation supporting consultations was carried out in a timely manner.

RECOMMENDATION

Attach dated physical support of the consultations performed to the procurement files described in the preceding paragraphs, including the eligibility verification form with the date on which this procedure was performed, to show that the activities are executed in a timely manner.

MANAGEMENT COMMENTS

The verification is performed in accordance with the established procedures related with the FAP and the procurement guidelines, Per section 4 of "Excluded Parties Verification Procedures in MCA Entity Program Procurements", the eligibility documents can be "printed or screen-captured and retained as part of the overall record of the procurement." The Procurement specialist had digitally saved these results, but they were not attached to the specific file for each consultant.

2. LACK OF BUDGET EXECUTION ON THE SERVICE CONTRACTS IN PUBLIC PRIVATE PARTNERSHIPS (PPPs)

Contract PU-MCC-011-2017 Inés Ana Reategui Vela, for training services and reinforcement of structuring, evaluation and management of Public Private Partnerships (PPP), signed on 24/04/2017, with a duration of 12 months, for the amount US \$ 50,000, was extended by twelve months on 4/24/2018 (valid until 24/04/2019). This contract was canceled by adjustment on May 1, 2019, due to disbursements of only USD 6,212 to 10/30/2017, for which its extension is considered unnecessary.

Contract PU-MCC-014-2017 Miguel Angel Jara Muñoz, for training services and reinforcement of structuring, evaluation and management of Public Private Partnerships (PPP) signed on 04/17/2017, with a duration of 12

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months, for the amount of \$ 50,000, was extended by 12 months on 04/17/2018 (valid until 17.04.2019). This contract was canceled by adjustment on May 1, 2019 due to disbursements to May 21, 2018 of only \$ 22,141.00, for which its extension is considered unnecessary.

In both cases, extension of the terms of the contracts for services was determined without assessing compliance in their respective executions.

CRITERIA

According to MCC program procurement guidelines, part 11 indicates that payments are based on rates stipulated in the contracts.

Contract bases should be closely monitored and managed by the MCA Entity to ensure that satisfactory allocation advances and payments claimed by the consultants are appropriate. Expansions should be requested only in cases where the service is justified in accordance with the level of progress in implementing the contract.

CAUSE

Lack of monitoring in implementation of contract agreements, and untimely cancellation of reinforcement and training service contracts to support structuring, evaluation and management of Public Private Partnerships (PPPs).

EFFECT

Presentation of budgeted contract agreements that are not implemented in a timely manner. Arrears in the request for adjustments to contracts issued.

RECOMMENDATION

Contract extensions and subsequent performance should be closely monitored by the appropriate project lead to ensure that the expected level of effort can be achieved and that contracts are not unnecessarily extended, thereby holding up funds that could be used otherwise.

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MANAGEMENT COMMENTS

The contracts were originally planned to have a duration of 3 years, subject to the performance of the consultants and the progress achieved with the training requested. It is necessary to clarify that the planification and budget request for these contracts it's ANADIE's responsibility as the Project Lead for PPPs according to the Financial Accountability Plan, section 3.4. Therefore, the one option PRONACOM considered, to avoid paying for activities that depended on external conditions was to use a fixed price open contract with options to be executed according to each work order.

The problems encountered in implementing the goals set by ANADIE as the beneficiary and leader of PPP contracts, depends not only on these or their planning, but on will and political decisions. The low level implementation of the budgeted amount reveals the lack of political support for the development of Public Private Partnerships -PPPs- in the country, this being an external factor of the Program that affected the implementation of the initially planned activities.

The Program Administrator decided to keep the contracts open in hopes of changes in circumstances, thereby strengthening political will, since it is the task of the Administration to make every effort to achieve the objectives of the Program despite external political conditions at government level. None of those trained with the support of the Threshold Program underwent examination for certification. In view of this situation, the support for the Threshold Program to the PPPs was substantially reduced, being limited to the availability of one consultant to conduct training, awareness and counseling on issues related to the PPPs. For this reason, to date, of the 4 PPP contracts there is only one open contract, about to expire. The other contracts were cancelled.

3. PAYMENT AUTHORIZATION FORM

Invoice B-21 issued by Josué Ricart Vásquez for the amount of Q. 20,166.24, was paid on October 18, 2018 with PRF No.243. The payment authorization form is not signed by the persons responsible for the request.

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CRITERIA

All payments must be reviewed and previously authorized and signed by the persons assigned to these functions.

CAUSE

Noncompliance with established procedures.

EFFECT

Risk of not detecting errors or omissions in documentation and / or prerequisites for requests for payments, in a timely manner.

RECOMMENDATION

Always check for compliance with prerequisites before making request for payment.

MANAGEMENT COMMENTS

The document has been corrected and duly signed. Also it should be noted that it was an exceptional situation within the entire audit sample.

4. LACK OF AN UPDATED WORK PLAN TO REFLECT ADEQUATE MONITORING ON THE EDUCATION PROJECT

CONDITION

- A. The work plan for the Program was requested, but the staff stated that they do not have it because they are guided by the provisions in the grant agreement, although the agreement states the need to develop, adopt or implement the work plan.
- B. There is no baseline for the Monitoring & Evaluation Plan.
- C. There is no one responsible for monitoring and evaluation of the Education Project, who can implement the field-level training process and data collection, to support the program's monitoring and evaluation process.
- D. Lack of methodology to show how the monitoring and evaluation process will evolve.

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- E. No data collection format for the different levels of intervention.
- F. No indicator fact sheets were found to display the goal, collection period, format or instrument to collect the information, at what level it is collected, the person performing the survey, the person responsible for the accumulation of. Indicators, and etc.
- G. Absence of an indicator matrix.
- H. Lack of a Monitoring and Evaluation Manual for the program, in which the unit structure, its functions and responsibilities, and the logic behind the monitoring system is defined.

CRITERIA

Article 4, Section 4.1 of the PROGRAM THRESHOLD Grant Agreement, states that an Implementation Plan document should be available in addition to the Work Plan document. "The government will develop, adopt and implement a work plan, as well as develop and implement other work plans related to the projects". In addition to this, there must also exist a MONITORING AND EVALUATION PLAN, specifying, a) how progress will be measured to achieve program goals, program objectives and project objectives (monitoring components), b) a process and schedule for monitoring planned activities, ongoing and completed, to determine their efficiency and effectiveness, c) a methodology for diagnosis and thorough evaluation of the program.

CAUSE

There has been no proper follow-up as to monitoring and evaluation of the Education project (EDU).

EFFECT

Inadequate supervision of program activities.

RECOMMENDATIONS

- A. That the program Work Plan as well as the project Work Plan be developed, so that they can contribute to and guide the implementation of the program and the project for compliance with the objectives, activities, indicators, targets, timetables and persons responsible for them.

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- B. That the program develop the monitoring and evaluation Manual, to establish the monitoring system, methodology, formats, data collection, indicator matrix, indicator sheets, levels of data collection, and the collection period, and types of evaluation facilitating elements for the development of the Monitoring and evaluation Plan.
- C. Hire a professional to be responsible for training and data collection to be supplied to the Program monitoring system.

MANAGEMENT COMMENTS

- A. As for Monitoring and Evaluation, there is a work plan that was presented for the first time in February 2019, and it has been updated as the program progresses.

In the case of the resource mobilization project, the Activity 1: Improving Tax and Customs Administration has work plans for the main components that serve as the basis for tracking the planned activities.

As for the Education project, it has operational plans that provide guidance for the work related to the various components of the Improving the Quality of Education in Support of Student Success in Lower Secondary activity, Improving Technical and Vocational Education and Training activity and Strengthening Institutional and Planning Capacity activity .

- B. The Monitoring and Evaluation Plan consists of a PDF document and an Excel file, referred to as Annex I and II. On page 16, section 4.1.9, Table of indicator baselines and targets, reference is made to the indicators with their respective baselines being included in the Annex II Excel file, showing that some indicators have a baseline. In the new version of the Monitoring and Evaluation Plan, adopted after the audit period, most of the indicators have baselines and targets.
- C. The implementing firms are responsible for carrying out field monitoring, and have supervisors and coordinators in the field, depending on the scope of the task. Consulting firms hired by MCC are responsible for data gathering and evaluation, Pronacom is only supporting the field information gathering process from student's tests in 2018 and 2019.

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- D. The monitoring and evaluation methodology is clearly defined in the Monitoring and Evaluation Plan, in which is included a summary of the monitoring strategy with all indicators related to review of data quality and reporting standards.
- E. Data collection formats have been designed, collected and reported, this are shown in the quarterly reports of the FHI 360 consulting firm and is part of the support documentation that is delivered to MCC quarterly, with the indicator tracking table.
- F. The information requested is presented in Annex I of the Monitoring and Evaluation Plan, individual indicator exhibits as such, are found in the new version of the Plan which was approved outside of the audit period.
- G. The indicator matrix for the Threshold Program is presented in Annex I of the Monitoring and Evaluation Plan.

From the analysis of the cause and criteria invoked by the auditor on the finding detail, the lack of an updated work plan has affected an appropriate follow up of the education Project, but this plan does not specifically address what the Program's Monitoring and Evaluation is.

The Program does have a Monitoring and Evaluation Plan attached to the MCC's guidelines which has been developed and updated in direct coordination with MCC. The Monitoring and Evaluation Plan, covering all Program projects, is approved by Pronacom's Executive Committee and MCC Non-Objection.

AUDIT FINAL COMMENT

Our comment is referred to the Monitoring and Evaluation Plan delivered by management as of February 2019. This issue was amended in the plan prepared as of November 2019.

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

To Ms. Francisca de Jesus Cardenas Moran
Director
Programa Nacional de Competitividad
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, 2018 to September 30, 2019 and have issued our report dated March 5, 2020.

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

The implementation of the recommendations of the base period audit, from April 18, 2015 to September 30, 2017 and for the prior year ended September 30, 2018 was reviewed, and we determined that the management of Programa Umbral has implemented those recommendations suggested for prior years.

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 City, Guatemala March 5, 2020

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1	Management has not created the tools to identify the risks of a financial and operational nature that may affect the achievement in the implementation of the products generated by the program.	1. Provide the necessary tools to develop the risk matrix and related mitigation procedures.	The Threshold program took steps to mitigate those risks. It could affect the implementation of the program and the allocation of funds.	Implemented (1. The risk matrix identified possible fraud and corruption activities in June 2018).
		2. Give priority to operational strategies when defining the objectives of each stage of the project.	Risks are managed through due diligence in the application of those standards and Policies approved for the program. MCC policies require preparing a risk matrix to protect program funds against fraud and corruption.	Implemented on November 15/19 for the Closing Workshop, the matrix to be used for the closing period was received from Mr. Siobhan Pangeri,
		3. Assign responsibilities at the senior management level, to monitor the results of the Risk Assessment, for the improvement of existing risks or the implementation of	The legal adviser is the person assigned to operate and update the risk matrix with the support of program staff.	a tool that the administration has implemented.

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		internal controls necessary to meet the objectives of the project or program in general.		Implemented (2 and 3).
2	<p>Regarding the contracts of the Threshold Program consultants with the different individual consultants, the following was found:</p> <p>a) The text establishes the existence of a dependency relationship. (40 hours per week and 1950 hours per year. This can be integrated with the Guatemalan Labor Code).</p> <p>b) In Clause 3 of the individual contract, "Payments", Literal A is</p>	<p>A review of the legal aspects of the project in the drafting of contracts, to determine the risks of possible labor conflicts, through recommendations.</p>	<p>The contract includes a clause related to "Parts List". This clause establishes that this relationship cannot be interpreted as a relationship of labor dependency between the parties and their representatives.</p> <p>Regarding income tax withholding, the clause has been removed to formalize new contracts.</p>	Implemented

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	<p>for a total, the sum of the payments made is less than the total stipulated Possible labor dispute, because a staff consultant could claim a difference not paid by contract.</p> <p>c) There is a paragraph in the contracts stating that the "Employer, when applicable, will deduct the ISR".</p>			
3	<p>In contract MCC-01-2017, the issuance of proof of VAT exemption is established by PRONACOM in favor of the FHI consultant,</p>	<p>1. Maintain an updated inventory of the assets acquired, by the FHI consultant, where proof of VAT exemption has been</p>	<p>In this sense, there has been no breach of the contractual conditions in relation to granting VAT exemptions, since the Contract only establishes that support for</p>	<p>Implemented. A physical inventory of the assets was scheduled and carried out, based</p>

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	<p>according to amendment number 1-17, it is indicated that all the assets that are acquired by the consultant applying Said exemption must be made available to PRONACOM at the end of the contract. In this regard we comment:</p> <p>A. No evidence was found, in which PRONACOM is making periodic visits, to verify the existence of the assets acquired by the program, to which this provision applies.</p>	<p>issued.</p> <p>2. Carry out selective tests on the services reported in relation to the execution of the program; Selectively interview providers to validate that the concept of billed service is applicable.</p>	<p>the benefit of exemptions will be granted provided that it is solely for the execution of the Contract for the aims and objectives of the Program, which is verified in attention to the process established by the justifications presented by FHI for authorization of the exemptions.</p> <p>PRONACOM has taken as measures to mitigate the existing risks, the review and verification prior to the approval of exemptions that has been requested by FHI for which the consulting firm submits a request included in a purchase plan indicating the justification of the exemption prior to approval</p>	<p>on the VAT exemptions issued and the list of assets provided by FHI.</p>

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No	CONDITION	AUDITOR RECOMMENDATION	PRONACOM COMMENT	AUDITOR'S COMMENT
	<p>B. There is a risk that some assets will be acquired and billed as services. To manage this risk, it is important that PRONACOM is carrying out selective tests on the reported services.</p>		<p>by the Executive Management.</p> <p>The FAP establishes the obligation to keep a list of Inventory of current and past Assets purchased with Funds from the Threshold Program only when they are in possession of PRONACOM. Establishing only the obligation on Asset Control at the end of the Threshold Program, according to which all the remaining Fixed Assets at the end of the Threshold Period will continue to be under the responsibility of PRONACOM and if these assets are under the control of an Executing Entity (IE),</p>	

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No	CONDITION	AUDITOR RECOMMENDATION	PRONACOM COMMENT	AUDITOR'S COMMENT
			Documentation will be specifically initiated by PRONACOM, with MCC approval, to transfer ownership of these Fixed Assets with specific instructions on the liability and maintenance of such assets consistent with the MCC Guidelines for Program Closure.	
4	In relation to contract MCC-FC-002-2017, by means of amendment number 1, the socio-environmental study contained in subsection	Take into account the effects on the payment plan, when approving an amendment to the conditions initially agreed, to adequately	The consulting contracts concluded to date within the framework of the Threshold Program have been concluded under the contract modality with a Lump Sum	Implemented. During our review of the contracts signed and payments made during the year

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	<p>2.c is transferred to deliverable 4.8; The socio-environmental study was initially part of a package of several deliverables that contemplate a payment of 30%. When withdrawing the socio-environmental study of payment number 2, it should have been negotiated to transfer 30% to payment no. 4 related to deliverable 4.8, considering the importance of said study.</p>	<p>protect the interests of the program</p>	<p>Payment, that is, a Total Fixed Price Contract with all inclusive, covering all the costs necessary to perform the Services. Described in the Scope of the Services. The contracts do not estimate a specific value for each of the deliverables.</p> <p>In this sense, the finding refers to contract MCC-FC-002-2017 for the Feasibility Study of La Aurora International Airport, in which when structuring the payment mechanism throughout the execution of the contract, divided proportional payments were established each of the expected deliverables</p>	<p>October / 18 - September / 19, there was no evidence of additional cases in similar situation.</p>

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			<p>enters, without the amount payable for each deliverable signifying the real value that each one represents, which does not allow an exact estimate of the value of a proportional part of a deliverable, as is the case of the Partner Study Environmental that was part of the deliverable 2. In this particular case, it is necessary to refer to what is documented in the file regarding the reason for requesting the transfer of the Socio-Environmental Study to product 4; Since this modification does not address a breach by the consulting firm in carrying out the Socio-Environmental</p>	

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			Study, but rather its improvement. At the time of delivering Product 2, there was a Socio-Environmental Study, but the possibility was provided, for the benefit of the Program, of giving feedback to said study given its importance for the structuring of the project, with information that would be obtained through development of product 3 and 4. The foregoing does not allow an exact economic value of a work carried out to be determined but which would be improved.	
5	The initial contract MCC-FC-002-2017, does not contemplate deadlines for deliverables. This	Make sure that the dates of the deliverables are identified in all contracts.	In this sense, with the exception of the contract referred to in the finding (MCC-FC-002-2017), all	Implemented. During our review of the contracts signed and

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No	CONDITION	AUDITOR RECOMMENDATION	PRONACOM COMMENT	AUDITOR'S COMMENT
	<p>deficiency was corrected by means of amendment number. 2 following a request from the consultant, in which he proposes dates for the deliverables, 15 days before the agreed date for the expiration of the contract.</p>		<p>current consulting contracts have established dates for each deliverable, incorporating the procedure to be followed for the extension of time. In this regard, the MCC regulations establish that in the Fixed Price Contracts (Lump Sum) the payments are linked to the work carried out in the development of the contract and to results (deliverables) and are easier to administer than the Time Based Contracts due that payments are payable against clearly specified results (P1.B.4.1 PPGs) .In this framework, contract MCC-FC-002-2017 for the feasibility study for the evaluation and</p>	<p>payments made during the year October / 18 - September / 19, there was no evidence of cases in similar situation.</p>

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No	CONDITION	AUDITOR RECOMMENDATION	PRONACOM COMMENT	AUDITOR'S COMMENT
			structuring of the Alliance for Development initiative of Economic Infrastructure "Modernization, Efficiency and Security of La Aurora International Airport in Guatemala City", due to its nature, did not stipulate dates in which the products defined therein should be delivered, considering only percentage payments that should be made throughout its execution, having been established in the final negotiation report signed with the consultant prior to the final signing of the contract; that the consultant Deloitte-Tetra Tech had to deliver a proposed schedule with the established dates for	

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No	CONDITION	AUDITOR RECOMMENDATION	PRONACOM COMMENT	AUDITOR'S COMMENT
			<p>the execution of the contract during the first fifteen days of having started the consultancy in order to control and monitor the execution of the contract. This obligation was verified by the Project Leader and adequately supervised by the person in charge of the Resource Mobilization component. Before each request for an extension of the term, the consultant was required to present an updated schedule that was validated by ANADIE as Project Leader and beneficiary entity prior to the approval of the amendment to the contract, which is documented in the contract</p>	

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No	CONDITION	AUDITOR RECOMMENDATION	PRONACOM COMMENT	AUDITOR'S COMMENT
			file in reference, in the different Opinions and Technical Opinions that were granted in order to carry out each of the amendments.	