



BAKER TILLY DALAIVAN AUDIT

INDEPENDENT AUDITOR'S REPORT

MILLENNIUM CHALLENGE ACCOUNT MONGOLIA

Financial audit of the Fund Accountability Statement of the Millennium Challenge Corporation (MCC) Resources Managed by MCA-Mongolia under the Compact Agreement dated July 27, 2018 between MCC and the Government of Mongolia

Audit period: Compact Period #2 from April 1, 2022 to March 31, 2023



TABLE OF CONTENTS

SECTION	PAGE
Transmittal letter	5
1. Background	6
General description	
Project goal and objectives	
Project monitoring	
The period covered	
Multi-Year Financial Plan Summary and its performance	
Identification of Entities	
Indirect cost rates	
Cost-Sharing Schedule (Recipient Country Government Contribution)	
Review of prior audit recommendations	
2. Audit Objectives and Scope	12
Audit objectives	
Audit scope	
Audit procedures performed	
Scope limitation	
GAGAS departures	
3. Summary of Audit Results and Management Actions	16
Audit Findings on the FAS for CFF for the audit period from April 1, 2022 to March 31, 2023 and FAS for CF for the audit period from April 1, 2022 to March 31, 2023	
Audit Findings on MCA-Mongolia's Internal control over Financial Reporting	
Audit Findings on MCA-Mongolia's Compliance with the agreement terms, applicable laws, and regulations	
Management view on the audit results	
4. Audit reports and explanatory notes	17
Independent Auditor's Report on the Consolidated Fund Accountability Statement	
Consolidated Fund Accountability Statement for the audit period from April 1, 2022 to March 31, 2023 (CFF, CF and CDF)	
CFF Fund Accountability Statement for the audit period from April 1, 2022 to March 31, 2023	
CF Fund Accountability Statement for the audit period from April 1, 2022 to March 31, 2023	
CDF Fund Accountability Statement for the audit period from April 1, 2022 to March 31, 2023	
Notes to the Consolidated Fund Accountability Statement	
Notes to CDF Fund Accountability Statement	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters	
5. Schedule of Audit Findings and Questioned costs	34
Summary of audit findings and questioned costs	
Audit findings on Internal control	
6. Review of Prior Audit Recommendations	37
7. Review of the Cost-Sharing Schedule	41
Independent Accountant's Review Report on the Cost-Sharing Schedule	
Cost-Sharing Schedule of MCA-Mongolia for the period from April 1, 2022 to March 31, 2023 (Government contributions)	
Notes to the Cost-Sharing Schedule	

MCA-Mongolia's Board of Directors

Voting members

B. Javkhlan	Chairman, Minister for Finance
E. Battulga	Member, State Secretary of the Ministry of Environment and Tourism
S. Magnaisuren	Member, State Secretary of the Ministry of Construction and Urban Development
N. Ankhbayar	Member, State Secretary of the Ministry of Foreign Affairs
N. Tavinbekh	Member, State Secretary of Ministry of Energy
M.Bayaraa	Member, General Manager of Ulaanbaatar City and Head of the Governor's Office
N.Batsukh	Member, Professor, Geology and Hydrogeology Department of School of Geology and Mining Engineering, Mongolian University of Science and Technology
B.Tsolmon	Chief Executive Officer of the Zorig Foundation
O.Amartuvshin	President of MNCCI

Non-voting members

Tina Yu	Member, MCC Resident Country Director in Mongolia
E.Enkhgerel	Member, Chief Executive Officer of MCA-Mongolia

MCA-Mongolia's Management Team

E.Enkhgerel	Chief Executive Officer
R.Munkhbat	General Counsel
B.Batbayar	Director of Internal Audit
B.Batsukh	Downstream Wells Director
T.Khishigt	Wastewater Recycling Director
L.Unurjargal	Sustainability Director
B.Uuganbayar	Monitoring and Evaluation Director
A.Otgonchimeg	Gender and Social Inclusion Director
G.Uranchimeg	Finance Director
Ya.Oyungerel	Administration Director
T.Enkhtungalag	Procurement Director
Ts.Dashzeveg	Environmental and Social Performance Director
B.Amarsanaa	Communications Director

List of abbreviations

AICPA	American Institute of Certified Public Accountants
CDF	Compact Development Funding
CFF	Compact Implementation Funding
CF	Compact Funding
CHPP	Combined heating and power plant
CP	Conditions Precedent
CWWTP	Central Wastewater Treatment Plant
FA	Fiscal Agent
FAP	Fiscal Accountability Plan
FAS	Fund Accountability Statement
GAGAS	Generally Accepted Government Auditing Standards
IBC	Interior Business Center
IPC	Interim Payment Certificate
IT	Information Technology
HR	Human Resources
MCC	Millennium Challenge Corporation
MCA-Mongolia	Millennium Challenge Account - Mongolia
MICPA	Mongolian Institute of Certified Public Accountants
MNCCI	Mongolian National Chamber of Commerce and Industry
MCUD	Ministry of Construction and Urban Development
MNT	Mongolian Tugrugs (national currency of Mongolia)
MOF	Ministry of Finance
MCSP	MCS Property LLC (contractor)
NSO	National Statistical Office
OSNAAUG	Department of Housing and Public Utilities
PA	Procurement Agent
PMC	Project Management Consulting
RAP	Resettlement Action Plan
WRA	Water Recycling Activity
WSRC	Water Services Regulatory Commission
TEP	Tender Evaluation Panel
TDB	Trade Development Bank
WSP	Water Supply Project
USUG	Water Supply and Sewerage Authority
USA	United States of America
US\$	U.S Dollars



BAKER TILLY
DALAIVAN AUDIT

Audit assurance, property and business
valuation advisory services

Amarsanaa street-5, Bayangol district
Ulaanbaatar-16066, Mongolia
Phones:70005401, 70005404,70005405
Fax:+976-70005403
E-mail:info@btdalaivanaudit.mn
Web site: www.btdalaivanaudit.mn

Board of Directors of MCA-Mongolia
Millennium Challenge Account-Mongolia
Floor 5, MPM Complex,
UNESCO Street, Sukhbaatar
District,
Ulaanbaatar, Mongolia

Transmittal Letter

RE: Financial audit of the MCC Resources managed by MCA-Mongolia under the Compact Agreement between MCC and the Government of Mongolia

The period covered by the audit: April 1, 2022 to March 31, 2023

We are pleased to present our report on the MCC Resources managed by MCA-Mongolia for the audit period from April 1, 2022 to March 31, 2023. This report is prepared in accordance with the terms of reference specified in the contract between Baker Tilly Dalaivan Audit LLC and MCA-Mongolia dated April 1, 2021.

The total costs incurred for the period from MCC funding were US\$40,261,065.33.

Our report has included the following:

- Independent Auditor's Report on the Consolidated Fund Accountability Statement (CFF, CF and CDF)
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

We also reviewed the Cost-Sharing Schedule for the period from April 1, 2022 to March 31, 2023 and issued the separate Independent Accountant's Review Report.

Audit Partner Ts.Jigden

Baker Tilly Dalaivan Audit LLC

September 20, 2023

1. BACKGROUND

1.1 General description

The Government of Mongolia acting through the Ministry of Foreign Affairs and the United States of America acting through the Millennium Challenge Corporation (MCC) have entered into:

- (a) The Grant and Implementation Agreement on May 3, 2017 and duly amended on July 17, 2020 in an amount not to exceed US\$12,025,150 for the development and facilitation of implementation of a Millennium Challenge Compact and
- (b) the Millennium Challenge Compact ("Compact") on July 27, 2018 in the total amount of US\$350,000,000.

The US\$12,025,150 for the development and facilitation of implementation of the Compact (CDF) constitutes (i) the MCC managed funds of US\$8,500,000 and (ii) the Government managed funds of US\$3,525,150. By October 31, 2021, the Compact Development Fund (CDF) was closed with no outstanding fund balance. The FAS for CDF as of October 31, 2021 was covered by the Compact 1 period audit.

The US\$350,000,000 of Compact includes (i) MCC Grant to the Government an amount not to exceed US\$321,940,000 ("Program Funding") for use by the Government to implement the Water Supply Project and (ii) MCC Grant to the Government, in addition to the Program Funding, an amount not to exceed US\$28,060,000 ("CFF") under Section 609 (g) of the Millennium Challenge Act of 2003 for use by the Government to facilitate implementation of the Compact. Those parties signed the Program Implementation Agreement on March 5, 2019. The Compact entered into force on March 31, 2021. The Program Funding is available for a five-year period after the Compact's entry into force. In addition, according to the terms of the Compact, the Government committed to making a contribution of US\$111,760,000 over the Compact term toward meeting the Project objectives of the Compact.

MCA-Mongolia, established in October 2018 by the Government Resolution #297, is a state-owned entity to act as the Government's primary agent in implementing the Program and perform the Government's right and obligation to oversee, manage and implement the Program, including without limitation, to manage the implementation of projects and their activities, allocating resources and managing procurements. MCA-Mongolia comprises (a) the Board of Directors, who have ultimate authority to direct MCA-Mongolia, and (b) the Management Unit, which has the principal responsibility for the day-to-day management of the Program. In addition, MCA-Mongolia engaged a Procurement and Fiscal Agent to carry out specified procurement and financial management activities in furtherance of the Compact and related agreement.

The Chair of the Board, previously acted by the Minister for Foreign Affairs, was replaced by the Minister for Finance in December 2022. In association with the replacement of the Chair of the Board, the Charter of MCA-Mongolia has been revised on the provisions about the composition of the Board and Chair of the Board.

1.2 Project goal and objectives

The objective of the Water Supply Project is to meet the projected demand for water in Ulaanbaatar for residential consumers and commercial and industrial users. The Water Supply Project supports a series of strategically important investments to achieve the following activities:

- (i) **Downstream Wells Activity** – This activity supports the development of the Biokombinat Wellfield and the Shuvuun Wellfield downstream of Ulaanbaatar. MCC Funding for this activity funds the construction of (a) approximately 30 new wells in the two downstream wellfields, (ii) associated pumps, local collection pipelines, equalization tanks, and a transmission line to convey the water from the wellfields, (iii) an advanced water purification plant located at the western edge of the city to remove contaminants (designed to include multiple barriers to remove pathogens, volatile organic compounds, heavy metals, and other contaminants that may be present in the groundwater), and (iv) storage facilities, pumping station, and conveyance pipeline to transport finished water from the purification plant into the existing municipal water network of Ulaanbaatar. The activity shall be financed from the Compact funding.

- (ii) **Wastewater Recycling Activity** – This activity supports the recycling and reuse of a large quantity of wastewater effluent from the central wastewater treatment plant (“CWWTP”). MCC Funding for this activity funds the construction of (i) a wastewater recycling plant (located on available public land adjacent to the CWWTP) designed to treat a portion of the effluent from the CWWTP, (ii) pumping stations and associated pipelines to convey the recycled water to water storage facilities near combined heating and power plants (“CHP”) three and four (known as “CHP-3” and “CHP-4”), and (iii) internal piping, storage facilities, and control systems to facilitate the use of recycled wastewater for certain processes within CHP-3 and CHP-4.

Per the Annex III of the Program Implementation Agreement signed on March 5, 2019 by MCC and the Government of Mongolia, the Government contribution was stated to finance (i) Downstream Wells Activity and (ii) Wastewater Recycling Activity. MCC and MCA-Mongolia agreed that the government financing of US\$111,760,000 will be used only for Wastewater Recycling Activity to facilitate the recording, reporting and monitoring of the relevant project activity financing. The matter was discussed and approved by the Board of MCA-Mongolia in June 2021.

- (iii) **Water Sector Sustainability Activity**- This activity supports five interventions that address policy, legal, regulatory, and institutional issues and improve the long-term sustainability of the water sector in Ulaanbaatar. The activity shall be financed from the Compact funding.
- (A) The “Cost Recovery Sub-Activity” supports technical assistance to the WSRC for a detailed examination of the structuring of water and wastewater tariffs based on a detailed assessment of the willingness and ability of USUG customers to pay for improved water service. The sub-activity also supports assistance to USUG for the preparation of rate cases that reflect the goal of full coverage of costs for operations, maintenance and depreciation, as required by law.
 - (B) The “Ger Area Cost Containment Sub-Activity” supports efforts to curtail the high costs that USUG bears for providing water through the system of water kiosks throughout the ger areas of Ulaanbaatar. The sub-activity supports a variety of small-scale works intended to reduce the direct costs associated with the delivery and sale of water, including the conversion of manually operated kiosks to automatic “smart” kiosks that operate longer hours at lower cost, the extension of supply pipes in order to connect some water kiosks that are currently supplied by tanker truck to a continuous piped water supply, and the construction of additional filling stations to reduce distance and time traveled by USUG’s fleet of tanker trucks. The sub-activity also supports improvements in data sharing, planning, and coordination among USUG, municipal agencies, and district offices around the expansion and development of municipal infrastructure.
 - (C) The “Utility Operations Sub-Activity” supports the strengthening of critical operational capacities within USUG, to be identified through the implementation of Aqua Rating, an international assessment and benchmarking tool for utility operations developed by the International Water Association. The sub-activity includes funding support for a comprehensive partnership between USUG and an experienced water utility from a developed country that operates in similar conditions or deals with similar concerns. The sub-activity also includes targeted support for specific concerns with USUG’s ability to operate, maintain, manage and plan its asset base, as well as its ability to capture, analyze and make use of customer data.
 - (D) The “Industrial Pre-Treatment and Pollution Control Sub-Activity” supports efforts to reduce the incidence of industrial pollution in the municipal wastewater collection system before it is constructed and commissioned. The sub-activity will fund technical assistance to identify and model sources of industrial pollution and strengthen pollution standards, ordinances and penalties. The sub-activity also provides technical assistance and advanced laboratory equipment to those Government and municipal government entities responsible for monitoring, detecting, and enforcing pollution regulations in Ulaanbaatar.
 - (E) The “Public Awareness and Behavior Change Sub-Activity” supports improved communication and engagement with stakeholders and the general public in an effort to improve awareness and understanding of the scarcity of water resources available to Ulaanbaatar and the actual costs of exploiting them in ways that protect environmental and social concerns.

1.3 Project monitoring

The Compact is monitored systematically, and progress is reported regularly through the Indicator Tracking Table (ITT). The following table shows output indicators only that have been extracted from ITT.

Activity	Indicator Name	Unit of Measure	End Of Compact Target	Percent Complete to Date	Baseline	Y1 Target	Y1 % Complete	Y2 Target	Y2 % Complete
Activity 1: Downstream Wells*	Water production capacity added	Millions of liters per day	50.00		0.00	0.00		0.00	
Activity 1: Downstream Wells*	Date Advanced Water Purification Plant (AWPP) is complete	Date	03/30/2026	Pending					
Activity 1: Downstream Wells**	Treatment process units within centralized water or wastewater treatment facilities constructed, rehabilitated, or expanded	Number			0.00				
Activity 1: Downstream Wells*	Water production capacity added (groundwater wells)	Millions of cubic meters per year	50.00		0.00	0.00		0.00	
Activity 2: Wastewater Recycling	Water production capacity added (water recycling plant)	Millions of cubic meters per year	14.60		0.00	0.00		0.00	
Activity 2: Wastewater Recycling**	Treatment process units within centralized water or wastewater treatment facilities constructed, rehabilitated, or expanded	Number			0.00				
Sub-activity 3.1: Cost Recovery ****	Completion of willingness to pay study	Date	03/31/2021	Complete		03/31/2021	Complete		Complete
Sub-activity 3.1: Cost Recovery*****	Completion of affordability and customer assistance study	Date	03/31/2022	Pending		03/31/2022	Pending		Pending
Sub-activity 3.1: Cost Recovery*****	Completion of tariff options studies	Date	03/31/2021	Pending		03/31/2021	Pending		Pending
Sub-activity 3.3: Utility Operations *****	Trips between partner utility and USUG	Number			0.00				

*Downstream wells and AWPP has not been built to measure the indicator.

**The construction of Treatment process units within centralized water or wastewater treatment facilities (AWPP) has started. MCA signed contract with "MAPA INSAAT Ve TICARET AS" for the Construction Works of an Advanced Water Purification Plant (AWPP) and SCADA Controls in Aug 2, 2021. The completion of the construction is expected in 2024. No data to report.

***The construction of Wastewater Recycling Plant has not started. No data to report.

****Letter of Acceptance for final deliverable was issued by MCA GSI team on December 17, 2021 and Final Reports were delivered to WSRC on January 7, 2022.

*****MCA-M made a decision not to extend the CowaterSogema International Inc consultant's contract after the contract end date on December 30, 2021. MCA-M revised the Scope of Work for the consultancy service in consultation with MCC based on assessment results from ongoing discussions with stakeholders. MCA-M is expecting to collaborate with NSO to conduct an Affordability study from Q1, 2023.

*****Water Operators Partnership Facilitation Services procurement notice is expected to release in September 2022 provided that MCC's No objection process on the Request for proposal is completed in September 2022. Trips between partner utility and USUG are expected to begin in Q3, 2023. No data to report.

1.4 The period covered

Our audit covered the Fund Accountability Statement for CFF for the audit period from April 1, 2022 to March 31, 2023 and Fund Accountability Statement for CF for the audit period from April 1, 2022 to March 31, 2023.

In October 2021, the budget of the Compact Development Fund (CDF) was closed with no outstanding fund balance. The Fund Accountability Statement for CDF as of October 31, 2021 was covered by the Compact 1 period audit.

1.5 Multi-Year Financial Plan Summary and its performance

MYFP Summary- per Compact Agreement (in million US\$)

Component	CFF	Compact period					Program total	Gov't total	MCC total
		Year 1	Year 2	Year 3	Year 4	Year 5			
Water Supply Project									
Downstream Wells Activity	16.00	18.65	26.01	81.60	82.62	73.88	298.76	59.26	239.50
Wastewater Recycling Activity	2.25	12.33	20.04	27.70	23.04	10.34	95.70	52.50	43.20
Water Sector Sustainability Acti	2.96	5.18	4.41	4.57	1.98	0.90	20.00	0.00	20.00
Subtotal	21.21	36.16	50.46	113.87	107.64	85.12	414.46	111.76	302.70
Monitoring and Evaluation									
Monitoring and Evaluation exper	0.03	0.35	3.45	1.79	1.12	3.62	10.36	0.00	10.36
Subtotal	0.03	0.35	3.45	1.79	1.12	3.62	10.36	0.00	10.36
Program Administration									
Accountable entity expenses	6.55	3.28	3.34	3.49	3.54	4.93	25.13	0.00	25.13
Agent expenses	0.03	2.00	2.00	2.00	2.00	2.67	10.70	0.00	10.70
Audit expenses	0.24	0.16	0.17	0.17	0.18	0.19	1.11	0.00	1.11
Subtotal	6.82	5.44	5.51	5.66	5.72	7.79	36.94	0.00	36.94
TOTAL ESTIMATED FUNDING	28.06	41.95	59.42	121.32	114.48	96.53	461.76	111.76	350.00

Approved MYFP Summary and its performance (in million US\$)

Component	CFF-MYFP	Total disburse	Remaining MYFP	Perfor %
Water Supply Project				
Downstream Wells Activity	18.79	18.79	0.00	100.00
Wastewater Recycling Activity	0.03	0.03	0.00	100.00
Water Sector Sustainability Acti	0.53	0.53	0.00	100.00
Subtotal	19.35	19.35	0.00	100.00
Monitoring and Evaluation				
Monitoring and Evaluation expe	0.00	0.00	0.00	0.00
Subtotal	0.00	0.00	0.00	0.00
Program Administration				
Program Administration	7.35	7.21	0.14	98.10
Fiscal management	0.72	0.72	0.00	100.00
Procurement management	0.54	0.54	0.00	100.00
Audit expenses	0.10	0.10	0.00	100.00
Subtotal	8.71	8.57	0.14	98.39
TOTAL ESTIMATED FUNDING	28.06	27.92	0.14	99.50

Compact Y2 MYFP	Total disburse	Remaining MYFP	Perfor %
240.08	53.52	186.56	22.29
23.39	5.53	17.86	23.64
19.47	0.55	18.92	2.82
282.94	59.60	223.34	21.06
10.33	0.00	10.33	0.00
10.33	0.00	10.33	0.00
17.12	1.37	15.75	8.00
5.34	1.37	3.97	25.66
5.34	1.74	3.60	32.58
0.87	0.10	0.77	11.49
28.67	4.58	24.09	15.97
321.94	64.18	257.76	19.94

1.6 Identification of Entities

There are main parties that are involved:

- Millennium Challenge Corporation
- Fiscal Agent being served by DT Global
- Procurement Agent being served by Charles Kendall and Partners Ltd
- Ministry of Finance
- Ministry of Environment and Tourism
- Ministry of Energy
- Ministry of Construction and Urban Development
- Ministry of Foreign Affairs
- Ulaanbaatar Governor's office
- Central Wastewater Treatment Plant
- Combined Heating and Power Plant #3
- Combined Heating and Power Plant #4
- Water Supply and Sewerage Authority (USUG)
- National Statistics Office (NSO)
- Department of Housing and Public Utilities (OSNAAUG)
- Water Services Regulatory Commission (WSRC)
- Trade and Development Bank (TDB)

1.7 Indirect cost rates

The Compact agreement and other agreements have not stipulated any MCC-authorized provisional indirect cost rate; thus, no procedures were performed on indirect cost.

1.8 Cost-Sharing Schedule (Recipient Country's Government Contribution)

According to the terms of the Compact, the Government committed to making a contribution of US\$111,760,000 over the Compact term toward meeting the Project objectives of the Compact. In the reporting period, the total amount of US\$ 9,975,002.29 was paid from the Government of Mongolia as the government contribution. The Independent Accountant's Review Report on the Cost-Sharing Schedule has been issued separately in accordance with the *Accountable Entities Audit Guidelines for Contracted Financial Audit* issued by MCC in October 2022.

1.9 Review of prior audit recommendations

We followed up on the prior audit recommendations, and implementation status has been shown.

Audit recommendation	Status of implementation
Internal control related	

<p>1. The acceptance memo, which states review and receipt of the contractor's progress report, was not issued As specified in the MCA-Mongolia's CAMM, the Acceptance Memo must be produced for the receipt of a satisfactory level of service in accordance with the terms of the contract, regardless of whether or not it has a payment schedule.</p>	<p>Fully implemented</p>
<p>2. The quality and performance of the contract made by the administration department have not been concluded and documented Contracts for telephone, internet, office rent, car rental, cleaning service, and advertising have a short term and are automatically extended for one-year unless the parties propose to terminate the contract. MCA-Mongolia, before extending the contract, is necessary to review the quality of the contract performance and decide whether to extend it or not.</p>	<p>Fully implemented</p>
<p>3. Absence of a Comprehensive Information Security Policy We recommend that management consider developing an organization-wide security policy that includes the following areas. The policy shall be reviewed on an annual basis to maintain its currency.</p> <ul style="list-style-type: none"> • Information security policy statement; • Access control policy; • Backup policy; • Change management and release policy; • Information systems acquisition, development, and maintenance policy; • Human resources security policy; • Operations management policy; • Communication security policy; • Incident management policy; and • Compliance policy. <p>We recommend that MCA-Mongolia follow a leading information practice framework such as ISO 27001 to develop a comprehensive policy.</p>	<p>Fully implemented</p>
<p>4. Absence of a Formal Vulnerability Management Program Management should consider implementing a formal vulnerability management program, including regular internal, external, and independent vulnerability assessments. The vulnerability management program should also include processes and procedures to regularly review the system/application configurations and update the system hardening standards.</p>	<p>Fully implemented</p>
<p>5. Absence of a Change Management Process Management should consider defining and implementing a suitable change management process/methodology to address the following types of change at a minimum:</p> <ul style="list-style-type: none"> • System acquisition, development, and maintenance; • Changes made to applications (e.g., application configuration, updates, upgrades); • Changes made to IT Infrastructure (e.g., network/hardware configurations, device hot-fixes). <p>The documentation should include identifying areas affected, testing procedures and their results, implementation plans, user acceptance testing, and roll-back plans. The records should also include the approvals obtained before implementation.</p>	<p>Fully implemented</p>
<p>6. Absence of Backup Restoration Testing MCA-Mongolia should adhere to the documented backup and restoration procedures.</p>	<p>Fully implemented</p>
<p>7. Absence of Business Continuity and Disaster Recovery (BC/DR) Plans Management should consider developing a comprehensive IT BC/DP plan. A typical BC/DR Plan should primarily highlight the following:</p> <ul style="list-style-type: none"> • Risk Assessment of the IT systems and services that assists in finding the most important services/ applications that support the business • Risk ratings of all applications running in the organization together with the maximum acceptable downtimes, maximum acceptable loss of data, and single points of failures 	<p>Fully implemented</p>

<ul style="list-style-type: none"> Identified scenarios of service disruptions and detailed procedures and actions/ systematic steps to be taken to return to normalcy Test Plans and schedules and mechanisms to capture areas requiring further improvement for updating the BC/DR plan 	
Compliance related	
<p>1.The provisions of non-discrimination against employees do not include certain conditions “4.1. Equal Opportunities” section of the HR Manual is recommended to add a paragraph on non-discrimination by language, social background, marital status, wealth, views, trade union membership, pregnancy and childbirth, and non-discrimination based on language and social status between employees and future employees.</p>	Fully implemented
<p>2. About Gender discrimination and its different regulation It is recommended to add “An employee who adopts a child (female, single father) is granted a maternity leave until the child reaches 60 days of age”, (2) to remove “single father” from Article 10.4 “A female employee or a single father shall be entitled to the following child care breaks each day” and to make appropriate amendments.</p>	Fully implemented
<p>3. The amount of termination benefits is not in accordance with the revised Labor Law Under Article 82.1 of the revised Labor Law, it is recommended that the necessary changes be made to the relevant section of the HR Manual.</p>	Fully implemented
<p>4. Inadequate definition of “workplace” in the anti-sexual harassment policy It is recommended to add “when coming to work or returning from work; when handing over the work” in the definition of the “Workplace” condition of “Anti-sexual harassment policy” approved in Annex 2 of the HR Manual.</p>	Fully implemented
<p>5. “Grievance Procedure” does not meet the requirements of the revised Labor Law It is recommended that appropriate changes be made to the “Grievance Procedure” set out in Annex 16 of the HR Manual.</p>	Fully implemented
<p>6. The provision of the employment agreement about working overtime at no additional compensation is not in accordance with the revised Labor Law It is recommended to delete a paragraph of “The employee’s duties as specified in Annex A may occasionally require work beyond the regular business day at no additional compensation” from Article 3.6 of the Employment Agreement template.</p>	Fully implemented
<p>7.The term of non-compete obligations specified in employment agreements is not in accordance with the revised Labor Law It is recommended to amend the text of “two (2) years after the termination of the agreement” to “one (1) year after the termination of the agreement” of Article 4.5.3 of the Employment agreement template of MCA-Mongolia.</p>	Fully implemented
<p>8. Missing work condition of each position on Employment agreement template- Repeated finding The working condition should be assessed and its type should be identified in accordance with the standard. After the working conditions of each position of MCA-Mongolia has been assessed and identified, the article of working condition shall be added to the employment agreement template.</p>	Fully implemented
<p>9. Discriminated approach to pay overtime compensation and add a clause on overtime pay to the employment agreement template - Repeated finding As stated in the HR Manual, overtime payments should be structured based on the provisions of the Labor Law of Mongolia.</p>	Fully implemented
<p>10. HR manual states that one month salary to be provided to the redundant employee in lieu of notice period- Repeated finding The paragraph in the HR Manual that states “ provide one (1) month salary in lieu of notice period” should be deleted.</p>	Fully implemented

2. AUDIT OBJECTIVES AND SCOPE

2.1 Audit objectives

The objective of this audit engagement is to conduct a financial audit of the MCC resources managed by MCA-Mongolia for the audit period from April 1, 2022 to March 31, 2023 under the Grant and Implementation Agreement and Millennium Challenge Compact in accordance with the U.S. Government Auditing Standards issued by the Comptroller General of the United States and the MCC Accountable Entities Guidelines for Contracted Financial Audits.

The specific objectives of the audit of the MCC funds are to:

- Express an opinion on whether the Fund Accountability Statement for the MCC-funded programs presents fairly, in all material respects, revenues received, costs incurred, assets and technical assistance directly procured by MCC and the Government (including by MCA-Mongolia and its Covered Providers) for the audit period, in conformity with the terms of the agreements and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).
- Evaluate and obtain a sufficient understanding of the MCA-Mongolia's internal controls related to the MCC-funded programs, assess control risk, and identify significant deficiencies or material weaknesses in the design and effectiveness of these internal controls. This evaluation should include the internal control related to required cost-sharing contributions.
- Perform tests to determine whether MCA-Mongolia complied, in all material respects, with the Compact Development Funding Agreement, Compact (including those MCC rules and regulations regarding Government Contributions), supplemental agreements, and applicable laws and regulations related to MCC-funded grants, contracts, and implementing agreements. All material instances of noncompliance and all illegal acts that have occurred or are likely to have occurred should be identified. Such tests should include the compliance requirements related to the required cost-sharing contributions, if applicable. Specifically, we will perform tests to determine whether the recipient organization complied, in all material respects, with the MCC Program Procurement Guidelines, the MCC Cost Principles for Government Affiliates, the MCA-Mongolia's Fiscal Accountability Plan in effect during the audit period, and the terms and conditions of the MCC-funded grant, contract, or implementing agreement.
- Determine whether MCA-Mongolia has taken adequate corrective action on prior audit recommendations.
- Conduct a review engagement of the Cost-Sharing Schedule to determine if the schedule is fairly presented in accordance with the basis of accounting used by MCA-Mongolia to prepare the schedule.

2.2 Audit scope

The audit involves expressing an opinion on the Fund Accountability Statement for the CFF funding for the audit period from April 1, 2022 to March 31, 2023 and the Fund Accountability Statement for the CF funding for the audit period from April 1, 2022 to March 31, 2023 and illustrating an audit report on internal control and compliance with terms of agreements and applicable laws and regulations.

Pre-Audit Steps

We obtained and reviewed the following documents:

1. CDF, CFF, Compact, and any supplemental agreements by and between MCC, the Government, and MCA-Mongolia for the development and implementation of the Compact
2. Other documents include but are not limited to: a) Program Implementation Agreement, b) Bank Agreement, c) Procurement Agent Agreement, d) Fiscal Agent Agreement, e) Fiscal Accountability Plan, f) Procurement Operations Manual, g) Procurement Plan, h) Program Procurement Guidelines, i) Implementing Entity Agreement(s), j) M&E Plan, k) Implementation Plan(s), l) Audit Plan and m) Work Plans for the relevant Project or Project Activity
3. The agreements between MCA-Mongolia and contractors and grantees, and any other entities implementing MCC or Government-funded activities on the MCA-Mongolia's behalf
4. The sub-agreements or implementing entity agreements between MCA-Mongolia and other implementing entities
5. Contracts and subcontracts with third parties
6. The budgets, implementation letters, and written procedures approved by MCC and MCA-Mongolia

7. All program financial and progress reports; charts of accounts; organizational charts; accounting systems descriptions; procurement policies and procedures; and receipt, warehousing, and distribution procedures for materials, as necessary, to complete the required work
8. MCC's *Cost Principles for Government Affiliates* are in effect during the audit period
9. Any previous audits, financial reviews, etc. that directly relate to the objectives of the audit

Fund Accountability Statement

The Fund Accountability Statement is a financial statement that presents MCA-Mongolia's revenues received from MCC and the Government for the audit period, the costs reported by MCA-Mongolia as incurred during that period, cash balances on hand, the commodities, assets, and technical assistance procured by MCC or the Government for the use of MCA-Mongolia.

We examined the separate Fund Accountability Statements of MCA-Mongolia for activities funded with MCC resources, including CFF and CF. MCA-Mongolia management accepted responsibility for the statement's accuracy before the audit commenced.

Cost-Sharing Schedule

MCA-Mongolia prepared a separate Cost-Sharing Schedule for cost-sharing contributions for the period from April 1, 2022 to March 31, 2023. We reviewed the Cost-Sharing Schedule to (i) determine if the schedule is fairly presented in accordance with the basis of accounting used by MCA-Mongolia to prepare the schedule and (ii) determine whether cost-sharing contributions were provided and accounted for by the Government of Mongolia in accordance with the terms of the agreements. We prepared an Independent Accountant's Review Report on cost-sharing contributions, including relevant notes.

Common Payment System

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

Internal Control Structure

We reviewed MCA-Mongolia's internal control structure related to program activities to understand the design of relevant control policies and procedures and whether those policies and procedures have been placed in operation and in compliance with the Fiscal Accountability Plan. To understand and assess MCA-Mongolia's internal control, we followed guidance contained in AICPA SAS No. 122 (AU-C sec 315) *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* and AICPA SAS No. 122 (AU-C sec 265) *Communicating Internal Control Related Matters Identified in an Audit*.

We outline the tasks that we performed during our review of MCA-Mongolia's internal controls below:

- (a) Obtained a sufficient understanding of internal controls to plan the audit and to determine the nature, timing, and extent of tests to be performed.
- (b) Assessed inherent and control risks; and determined the combined risk.
- (c) Summarized the risk assessment for audit assertions in the working paper during the audit planning stage.
- (d) Evaluated the control environment, the adequacy of the accounting systems, and control procedures.

This evaluation included the control systems for:

- (a) ensuring that charges to the program are properly and adequately supported;
- (b) managing cash on hand and in bank accounts;
- (c) procuring goods and services;
- (d) managing inventory and receiving functions;
- (e) managing personnel functions such as timekeeping, salaries, and benefits;
- (f) managing and disposing of commodities purchased either by the recipient or directly by MCC or MCA-Mongolia;
- (g) ensuring compliance with agreement terms and applicable laws and regulations that collectively

have a material impact on the Fund Accountability Statement. Specifically, evaluate compliance with the Procurement Agreement and Procurement Guidelines and the Fiscal Accountability Plan.

Compliance with Agreement Terms and Applicable Laws and Regulations

In fulfilling the audit requirement to determine compliance with agreement terms and applicable laws and regulations related to donor activities, we, at a minimum, followed guidance contained in AICPA SAS No. 122 (AU-C sec 935) *Compliance Audits*.

To achieve the objective set out in terms of reference, we reviewed the following documents and agreements applicable to MCA-Mongolia to obtain an understanding of the program and identify key areas of compliance with MCC audit guidelines and other applicable regulations as required by the Compact:

Governing Agreements:

- Millennium Challenge Compact Agreement (Compact)
- Program Implementation Agreement
- Grant and Implementation Agreement

Supplementary Agreements:

- Fiscal Agent Agreement between MCA-Mongolia and DT Global
- Procurement Agent Agreement between MCA-Mongolia and Charles Kendall and Partners Ltd
- Bank Agreement between MCA-Mongolia and Trade and Development Bank

Implementation Entity Agreements:

- Water Supply and Sewerage Authority (USUG)
- Land Management Department of Capital City
- National Statistical Office (NSO)
- Water Services Regulatory Commission (WSRC)

MCC Guidelines:

- MCC Guidelines for Country Contributions
- MCC Environmental Guidelines
- MCC Program Guidelines
- MCC Program Procurement Guidelines
- MCC Accountable Entities Guidelines for Contracted Financial Audits
- MCC Gender policy
- MCC Gender Integration Guidelines
- MCC Cost principles for Government Affiliates involved in Compact implementation
- MCC Reporting Guidelines
- MCC Program Closure Guidelines
- MCC Guidelines For Accountable Entities and Implementation Structures
- MCC M&E Policy
- MCC Guidelines for Economic and Beneficiary Analysis
- MCC Standards for Global Marking

MCA-Mongolia plans, reports, and other documents developed for the Compact implementation:

- Work Plan (WP)
- Multi-Year Financial Plan (MYFP)
- Audit Plan (AP)
- Procurement Plan (PP)
- M&E Plan
- Fiscal Accountability Plan (FAP)
- Procurement Operations Manual (POM)
- Contract Administration & Management Manual (CAMM)
- Implementation Plan (IP)
- Social and gender integration Plan
- Indicator Tracking Table (ITT)
- Human Resources Manual (HRM)
- Action Plan for Preventing, Detecting and Remediating Fraud and Corruption
- Code of Business Ethics and Standards of Conduct
- Internal audit charter
- Internal audit manual

- Bid challenge system
- MCA-Mongolia Charter (State Owned Entity)
- Board resolutions, meeting minutes
- CEO Orders

2.3 Audit procedures performed

The audit team conducted the following audit procedures included in the audit planning document.

- Audit program for Fund Accountability Statement
- Audit program for Cost-Sharing Schedule
- Audit program for Internal Control
- Audit program for Compliance
- Audit program for Procurement
- Audit program for Fraud and illegal acts/abuse
- Audit program for assessing IS controls over financial reporting
- Audit program for Covered Providers
- Audit program for Common Payment System
- Audit program for Prior audit recommendations

2.4 Scope limitation

There was no limitation on the scope of the audit.

2.5 GAGAS departures

In Mongolia, we do not have a continuing education program that fully satisfies the requirement set forth in Chapter 4, paragraph 4.16 of U.S. Government Auditing Standards. However, our auditors must attend the 20 hours of continuing education and training from MICPA every year. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

We did not have an external quality control review by an unaffiliated audit organization as required in Chapter 5, paragraph 5.60 of U.S. Government Auditing Standards, since no such program is offered by MICPA. We believe that the effect of this departure from Government Auditing Standards is not significant because we participate in the Baker Tilly International worldwide internal quality control review program, which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices.

3. SUMMARY OF AUDIT RESULTS AND MANAGEMENT ACTIONS

We summarized the audit results below and did not issue a Management Letter during the audit.

3.1 Audit Findings on the FAS for CFF for the audit period from April 1, 2022 to March 31, 2023 and FAS for CF for the audit period from April 1, 2022 to March 31, 2023

Our audit has not identified any questioned costs on the Fund Accountability Statement for CFF for the audit period from April 1, 2022 to March 31, 2023 and Fund Accountability Statement for CF for the audit period from April 1, 2022 to March 31, 2023.

3.2 Audit Findings on MCA-Mongolia's Internal control over Financial Reporting

The table shows the audit findings from our review of MCA-Mongolia's Internal Control over Financial Reporting.

Audit findings	Material weakness or significant deficiency	Page
Internal control related		
Contractor Past Performance Report (CPPR) was not issued for some required contracts	Significant deficiency	35
Absence of a Remediation Plan for the Internal Vulnerability Assessment	Significant deficiency	36

3.3 Audit Findings on MCA-Mongolia's Compliance with the agreement terms, applicable laws, and regulations

Our audit has not identified any noncompliance instance from our review of MCA-Mongolia's Compliance with the agreement terms, applicable laws, and regulations.

3.4 Management view on the audit results

During the past five months, MCA-Mongolia management collaborated closely with the external auditors and provided all documents and information necessary in undertaking the audit

MCA-Mongolia appreciates the constructive feedback and support Baker Tilly Dalaivan Audit extended over the audit period. We hope that comments by MCA-Mongolia management on audit findings help provide our perspective on the matters raised and will facilitate ways and means for successful implementation of the auditor's recommendations.

MCA-Mongolia management is confident that its policies, procedures, and staff will succeed in achieving the Compact objectives while ensuring effective control mechanisms.



BAKER TILLY DALAIVAN AUDIT

Audit assurance, property and business
valuation advisory services

Amarsanaa street-5, Bayangol district
Ulaanbaatar-16066, Mongolia
Phones:70005401, 70005404,70005405
Fax:+976-70005403
E-mail:info@btdalaivanaudit.mn
Web site: www.btdalaivanaudit.mn

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FUND ACCOUNTABILITY STATEMENT

Board of Directors of MCA-Mongolia
Millennium Challenge Account-Mongolia
Floor 5, MPM Complex,
UNESCO Street, Sukhbaatar District,
Ulaanbaatar, Mongolia

Opinion

We have audited the accompanying Consolidated Fund Accountability Statement of MCA-Mongolia and related notes to the Consolidated Fund Accountability Statement for the audit period from April 1, 2022 to March 31, 2023 and have issued our report on it dated September 20, 2023. We also reviewed the separate Cost-Sharing Schedule.

In our opinion, the Fund Accountability Statements for the audit period from April 1, 2022 to March 31, 2023 present fairly, in all material respects, program revenues, costs incurred and reimbursed, and assets and MCC's procurement technical assistance for the year then ended in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 1.

Basis of Opinion

We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Fund Accountability Statements section of our report. We are required to be independent of MCA-Mongolia and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Fund Accountability Statements

Management is responsible for the preparation and fair presentation of the Fund Accountability Statements in accordance with United States generally accepted accounting principles (GAAP) or other comprehensive basis of accounting; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the Fund Accountability Statements that is free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MCA-Mongolia's ability to continue as a going concern for the period from April 1, 2022 to March 31, 2023.

Auditor's Responsibilities for the Audit of the Fund Accountability Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a

substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit as of March 31, 2023
- Identify and assess the risks of material misstatement of the Fund Accountability Statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Fund Accountability Statements
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MCA-Mongolia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Fund Accountability Statements as of March 31, 2023
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MCA-Mongolia's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In Mongolia, we do not have a continuing education program that fully satisfies the requirement set forth in Chapter 4, paragraph 4.16 of *Government Auditing Standards*. However, our auditors must attend the 20 hours of continuing education and training from MICPA every year. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

We did not have an external Quality Control Review (QCR) by an unaffiliated audit organization, as required in Chapter 5, paragraph 5.60 of *Government Auditing Standards*, since no such program is offered by MICPA. We believe that the effect of this departure from *Government Auditing Standards* is not material because we participate in the Baker Tilly International worldwide internal quality control review program that requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated September 20, 2023, on our consideration of MCA-Mongolia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on the effectiveness of MCA-Mongolia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

This report is intended for the information of MCA-Mongolia and MCC. However, upon release by MCC, this report is a matter of public record, and its distribution is not limited.

Baker Tilly Dalaivan Audit LLC


Baker Tilly Dalaivan Audit LLC

September 20, 2023


4.1 Consolidated Fund Accountability Statement of MCA-Mongolia for the audit period from April 1, 2022 to March 31, 2023 (CFF, CF and CDF)

(All amounts are expressed in US\$)

	Budget	Prior period	Current Period Apr 1, 2022 to Mar 31, 2023	Cumulative to Mar 31, 2023	Questioned cost		Note #
					Ineligible	Unsupported	
Revenues received:							
Receipts from MCC	353,525,150.00	55,590,633.86	40,320,351.33	95,910,985.19			2
Total revenue	353,525,150.00	55,590,633.86	40,320,351.33	95,910,985.19			
Costs incurred:							
Water Sector Infrastructure	302,289,690.40	43,010,746.13	35,941,072.23	78,951,818.36			4
Downstream Wells	258,866,766.21	39,786,778.98	32,526,760.12	72,313,539.10			4.1
Wastewater Recycling	23,422,923.07	2,695,526.94	2,864,137.57	5,559,664.51			4.2
Water Sector Sustainability	20,000,001.12	528,440.21	550,174.54	1,078,614.75			4.3
Monitoring and Evaluation	10,330,000.00	0.00	0.00	0.00			
M&E	10,330,000.00	0.00	0.00	0.00			
Program Administration	40,905,459.60	12,357,172.80	4,319,993.10	16,677,165.90			5
Program administration	25,715,366.33	7,343,771.23	2,471,354.30	9,815,125.53			5.1
Fiscal Management	7,356,388.27	2,643,061.57	746,672.60	3,389,734.17			5.2
Procurement Management	6,867,705.00	2,274,340.00	999,966.20	3,274,306.20			5.3
Audit	966,000.00	96,000.00	102,000.00	198,000.00			5.4
Total cost	353,525,150.00	55,367,918.93	40,261,065.33	95,628,984.26			
(Deficit)/Excess of revenue		222,714.93	59,286.00	282,000.93			6
Cash basis							
Opening Fund Balance		0.00	222,714.93	0.0			
(Deficit)/Excess of revenue		222,714.93	59,286.00	282,000.93			
Plus: Interest Income		1,107.98	344.08	1,452.06			3
Less: Interest Transferred		(1,107.98)	(0.00)	(1,107.98)			3
Closing Fund Balance		222,714.93	282,345.01	282,345.01			
Modified Cash Basis							
Closing Cash Basis Fund Balance		222,714.93	282,345.01	282,345.01			
Plus: Receivables/Advances		14,063,512.99	(813,110.01)	13,250,402.98			7
Less: Payables/Accrued expenses		(230,927.74)	(3,103,589.71)	(3,334,517.45)			8
Closing Modified Cash Basis Fund Balance		14,055,300.18	(3,634,354.75)	10,198,230.54			

Attested by: Chief Executive Officer  E. Enkhgerel

Date: September 20, 2023

Acting Finance Director  M. Zul

Date: September 20, 2023

4.2 CFF Fund Accountability Statement of MCA-Mongolia for the audit period from April 1, 2022 to March 31, 2023

(All amounts are expressed in US\$)

	Budget	Prior period	Current Period Apr 1, 2022 to Mar 31, 2023	Cumulative to Mar 31, 2023	Questioned cost		Note #
					Ineligible	Unsupported	
Revenues received:							
Receipts from MCC	28,060,000.00	25,759,089.71	2,159,839.87	27,918,929.58			2
Total revenue	28,060,000.00	25,759,089.71	2,159,839.87	27,918,929.58			
Costs incurred:							
Water Sector Infrastructure	19,349,565.56	18,818,638.34	530,927.22	19,349,565.56			9
Downstream Wells	18,792,421.42	18,261,494.20	530,927.22	18,792,421.42			9.1
Wastewater Recycling	29,053.13	29,053.13	0.00	29,053.13			9.2
Water Sector Sustainability	528,091.01	528,091.01	0.00	528,091.01			9.3
Monitoring and Evaluation	0.00	0.00	0.00	0.00			
M&E	0.00	0.00	0.00	0.00			
Program Administration	8,710,434.44	6,883,694.00	1,684,335.64	8,568,029.64			10
Program administration	7,352,768.43	5,526,027.99	1,684,335.64	7,210,363.63			10.1
Fiscal Management	721,402.01	721,402.01	0.00	721,402.01			10.2
Procurement Management	540,264.00	540,264.00	0.00	540,264.00			10.3
Audit	96,000.00	96,000.00	0.00	96,000.00			10.4
Total cost	28,060,000.00	25,702,332.34	2,215,262.86	27,917,595.20			
(Deficit)/Excess of revenue		56,757.37	(55,422.99)	1,334.38			6,11
Cash Basis							
Opening Fund Balance		0.00	56,757.37	0.00			
(Deficit)/Excess of revenue		56,757.37	(55,422.99)	1,334.38			
Plus: Interest Income		1,107.98	116.71	1,224.69			3
Less: Interest Transferred		(1,107.98)	(0.00)	(1,107.98)			3
Closing Fund Balance		56,757.37	1,451.09	1,451.09			
Modified Cash Basis							
Closing Cash Basis Fund Balance		56,757.37	1,451.09	1,451.09			
Plus: Receivables/Advances		0.00	0.00	0.00			
Less: Payables/Accrued expenses		(0.00)	(0.00)	(0.00)			
Closing Modified Cash Basis Fund Balance		56,757.37	1,451.09	1,451.09			

Attested by: Chief Executive Officer  E. Enkhgerel

Date: September 20, 2023

Acting Finance Director  M. Zul

Date: September 20, 2023

4.3 CF Fund Accountability Statement of MCA-Mongolia for the audit period from April 1, 2022 to March 31, 2023


(All amounts are expressed in US\$)

	Budget	Prior period	Current Period April 1, 2022 to Mar 31, 2023	Cumulative to Mar 31, 2023	Questioned cost		Note #
					Ineligible	Unsupported	
Revenues received:							
Receipts from MCC	321,940,000.00	26,306,394.15	38,160,511.46	64,466,905.61			2
Total revenue	321,940,000.00	26,306,394.15	38,160,511.46	64,466,905.61			
Costs incurred:							
Water Sector Infrastructure	282,940,124.84	24,192,107.79	35,410,145.01	59,602,252.80			12
Downstream Wells	240,074,344.79	21,525,284.78	31,995,832.90	53,521,117.68			12.1
Wastewater Recycling	23,393,869.94	2,666,473.81	2,864,137.57	5,530,611.38			12.2
Water Sector Sustainability	19,471,910.11	349.20	550,174.54	550,523.74			12.3
Monitoring and Evaluation	10,330,000.00	0.00	0.00	0.00			
M&E	10,330,000.00	0.00	0.00	0.00			
Program Administration	28,669,875.16	1,948,328.80	2,635,657.46	4,583,986.26			13
Program administration	17,129,875.16	585,020.50	787,018.66	1,372,039.16			13.1
Fiscal Management	5,335,000.00	621,673.30	746,672.60	1,368,345.90			13.2
Procurement Management	5,335,000.00	741,635.00	999,966.20	1,741,601.20			13.3
Audit	870,000.00	0.00	102,000.00	102,000.00			13.4
Total cost	321,940,000.00	26,140,436.59	38,045,802.47	64,186,239.06			
(Deficit)/Excess of revenue		165,957.56	114,708.99	280,666.55			6
Cash Basis							
Opening Fund Balance		0.00	165,957.56	0.00			
(Deficit)/Excess of revenue		165,957.56	114,708.99	280,666.55			
Plus: Interest Income		0.00	227.37	227.37			3
Less: Interest Transferred		(0.00)	(0.00)	(0.00)			3
Closing Fund Balance		165,957.56	280,893.92	280,893.92			
Modified Cash Basis							
Closing Cash Basis Fund Balance		165,957.56	280,893.92	280,893.92			
Plus: Receivables/Advances		14,063,512.99	(813,110.01)	13,250,402.98			7
Less: Payables/Accrued expenses		(230,927.74)	(3,103,589.71)	(3,334,517.45)			8
Closing Modified Cash Basis Fund Balance		13,998,542.81	(3,635,805.84)	10,196,779.45			

Attested by: Chief Executive Officer 

E.Enkhgerel

Date: September 20, 2023


Acting Finance Director 

M.Zul

Date: September 20, 2023

4.4 CDF Fund Accountability Statement of MCA-Mongolia for the audit period from April 1, 2022 to March 31, 2023
 (All amounts are expressed in US\$)

	Budget	Prior period	Current Period Apr 1, 2022 to Mar 31, 2023	Cumulative to Mar 31, 2023	Questioned cost		Note #
					Ineligible	Unsupported	
Revenues received:							
Receipts from MCC	3,525,150.00	3,525,150.00	0.00	3,525,150.00			
Total revenue	3,525,150.00	3,525,150.00	0.00	3,525,150.00			14
Costs incurred:							
Water Sector Infrastructure	0.00	0.00	0.00	0.00			
Downstream Wells	0.00	0.00	0.00	0.00			
Wastewater Recycling	0.00	0.00	0.00	0.00			
Water Sector Sustainability	0.00	0.00	0.00	0.00			
Monitoring and Evaluation	0.00	0.00	0.00	0.00			
M&E	0.00	0.00	0.00	0.00			
Program Administration	3,525,150.00	3,525,150.00	0.00	3,525,150.00			
Program administration	1,232,722.74	1,232,722.74	0.00	1,232,722.74			
Fiscal Management	1,299,986.26	1,299,986.26	0.00	1,299,986.26			
Procurement Management	992,441.00	992,441.00	0.00	992,441.00			
Audit	0.00	0.00	0.00	0.00			
Total cost	3,525,150.00	3,525,150.00	0.00	3,525,150.00			14
(Deficit)/Excess of revenue		0.00	0.00	0.00			
Cash Basis							
Opening Fund Balance		0.00	0.00	0.00			
(Deficit)/Excess of revenue		0.00	0.00	0.00			
Plus: Interest Income		0.00	0.00	0.00			
Less: Interest Transferred		(0.00)	(0.00)	(0.00)			
Closing Fund Balance		0.00	0.00	0.00			
Modified Cash Basis							
Closing Cash Basis Fund Balance		0.00	0.00	0.00			
Plus: Receivables/Advances		0.00	0.00	0.00			
Less: Payables/Accrued expenses		(0.00)	(0.00)	(0.00)			
Closing Modified Cash Basis Fund Balance		0.00	0.00	0.00			

Attested by: Chief Executive Officer  E. Enkhgerel
 Acting Finance Director  M. Zul

Date: September 20, 2023
 Date: September 20, 2023

Notes to the Consolidated Fund Accountability Statement

1. Significant Accounting Policies

1.1. Preparation of Fund Accountability Statement

The Fund Accountability Statement for the reporting period has been prepared under the modified cash-basis receipts and disbursements, which is comprehensive basis of accounting other than generally accepted accounting principles with as a mix of both cash and accrual basis of accounting.

1.2. Revenue

Revenue consists of MCC Grant contributions that are disbursed by one of the following methods:

- Transferred directly from the U.S. Treasury to the vendors of goods, works, and services received by MCA-Mongolia. The Common Payment System is used to process payments in US\$ or local currency; and
- Disbursed by the Common Payment System into Permitted Accounts at a local bank, where the funds are subsequently disbursed from the local bank accounts to pay vendors or other payees.

The interest earned on the MCC Funding is held in the Accrued Interest accounts (two bank accounts in US\$ and two in MNT) opened for CFF and CF sources at the Trade and Development Bank. All accrued interest is transferred to MCC quarterly.

1.3. Cost

All expenditures are recognized in the accounting records when actual cash is paid out.

1.4. Currency conversion

Receipts from MCC are dominated in US\$ and deposited into the Permitted Account (US\$) at the TDB. For the funds transferred between the Permitted accounts, the amount will be booked using the prevailing exchange rate at which the TDB converts the funds into the local currency. For transactions incurred in any currency other than US\$ and which are paid directly through the Common Payment System (CPS), the conversion rate will be the actual exchange rate at which funds were disbursed by Interior Business Center (IBC). For transactions incurred in any currency other than US\$ and which are paid through the Permitted Account (MNT), the conversion rate will be the previous day's closing exchange rate of the Central Bank of Mongolia.

For non-US\$ payment transactions handled via CPS, the actual translation rate of the CPS payment is used by posting the payment entries. Any realized gains and losses with the financial transaction are charged to the same account and budget codes as the underlying transaction. At the end of each month, the US\$ equivalent of the balances of all non-US\$ cash and bank accounts are to be adjusted according to the closing exchange rate published on that date by the Central Bank of Mongolia, with differences recognized in the books of accounts.

At the end of the reporting period, the ending balances of cash and cash equivalents denominated in any currency other than US\$ have converted into US\$ balances at the closing rate of MNT 3,518.14.

1.5 Purchase of fixed assets

The fixed assets acquired with MCC Grant funds are expensed immediately without being capitalized. However, fixed assets with a value of at least US\$500 and a lifetime of over twelve calendar months are recorded in a Fixed Asset Register for physical control purposes. The goods with a unit value or a group value of more than US\$500 and useful life of more than twelve months are defined as fixed assets and registered in the Fixed Asset Register.

1.6 Receivables

Receivables represent the money owed to or report to MCA-Mongolia by employees, customers, or contractors for the security deposit, advance payment, and travel advance.

1.7 Payables

Payables represent money that MCA-M owes to its suppliers or contractors for goods or services received but not paid or retention amount from construction progress payment.

2. Receipts from MCC (All amounts are expressed in US\$)

	CFF (2018.07.27- 2023.03.31)	CF (2021.04.01- 2023.03.31)	CDF (2017.05.03- 2021.10.31)	Cumulative to 2023.03.31
IBC/Banks in US	20,066,360.39	14,473,319.94	1,918,810.06	36,458,490.39
IBC/Banks outside US/US\$	7,112,286.63	48,548,681.16	1,164,578.42	56,825,546.21
IBC/Banks outside US/non-US\$	740,282.56	1,444,904.51	441,761.52	2,626,948.59
Total	<u>27,918,929.58</u>	<u>64,466,905.61</u>	<u>3,525,150.00</u>	<u>95,910,985.19</u>

For CFF	Prior period (2018.07.27- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
IBC/Banks in US	19,516,933.17	549,427.22	20,066,360.39
IBC/Banks outside US/US\$	5,501,873.98	1,610,412.65	7,112,286.63
IBC/Banks outside US/non-US\$	740,282.56	0.00	740,282.56
Total	<u>25,759,089.71</u>	<u>2,159,839.87</u>	<u>27,918,929.58</u>

For CF	Prior period (2021.04.01- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
IBC/Banks in US	8,171,833.44	6,301,486.50	14,473,319.94
IBC/Banks outside US/US\$	17,948,972.70	30,599,708.46	48,548,681.16
IBC/Banks outside US/non-US\$	185,588.01	1,259,316.50	1,444,904.51
Total	<u>26,306,394.15</u>	<u>38,160,511.46</u>	<u>64,466,905.61</u>

For CDF	Prior period (2017.05.03- 2021.10.31)	Current period (2022.04.01- 2023.03.31)*	Cumulative to 2023.03.31
IBC/Banks in US	1,918,810.06	0.00	1,918,810.06
IBC/Banks outside US/US\$	1,164,578.42	0.00	1,164,578.42
IBC/Banks outside US/non-US\$	441,761.52	0.00	441,761.52
Total	<u>3,525,150.00</u>	<u>0.00</u>	<u>3,525,150.00</u>

* As of October 31, 2021, the budget of the Compact Development Fund (CDF) was closed with no outstanding fund balance.

3. Interest earned on MCC-provided funds (All amounts are expressed in US\$)

	CFF (2018.07.27- 2023.03.31)	CF (2021.04.01- 2023.03.31)	Cumulative to 2023.03.31
Permitted account (US\$) – Interest earned	1,224.69	227.37	1,452.06
Permitted account (US\$) – Interest transferred to MCC	(1,107.98)	(0.00)	(1,107.98)
Subtotal	<u>116.71</u>	<u>227.37</u>	<u>344.08</u>
Permitted account (MNT) – Interest earned	0.00	0.00	0.00
Permitted account (MNT) – Interest transferred to MCC	(0.00)	(0.00)	(0.00)
Subtotal	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>116.71</u>	<u>227.37</u>	<u>344.08</u>

For CFF	Prior period (2018.07.27- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
Permitted account (US\$) – Interest earned	1,107.98	116.71	1,224.69
Permitted account (US\$) – Interest transferred to MCC	(1,107.98)	(0.00)	(1,107.98)
Subtotal	<u>0.00</u>	<u>116.71</u>	<u>116.71</u>
Permitted account (MNT) – Interest earned	0.00	0.00	0.00
Permitted account (MNT) – Interest transferred to MCC	(0.00)	(0.00)	(0.00)
Subtotal	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>0.00</u>	<u>116.71</u>	<u>116.71</u>

For CF	Prior period (2021.04.01- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
Permitted account (US\$) – Interest earned	0.00	227.37	227.37
Permitted account (US\$) – Interest transferred to MCC	(0.00)	(0.00)	(0.00)
Subtotal	<u>0.00</u>	<u>227.37</u>	<u>227.37</u>
Permitted account (MNT) – Interest earned	0.00	0.00	0.00
Permitted account (MNT) – Interest transferred to MCC	(0.00)	(0.00)	(0.00)
Subtotal	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>0.00</u>	<u>227.37</u>	<u>227.37</u>

4. Water Sector Infrastructure (All amounts are expressed in US\$)

4.1 Downstream Wells Activity

	CFF (2018.07.27- 2023.03.31)	CF (2021.04.01- 2023.03.31)	Cumulative to 2023.03.31
DWA Professional Service Expense	18,637,035.04	8,870,546.50	27,507,581.54
CP1-Groundwater Wells & Conveyance	38,376.38	656,118.90	694,495.28
CP2-AWPP and Scada Controls	61,977.25	42,435,133.82	42,497,111.07
Resettlement: Compensation	0.00	1,533,795.51	1,533,795.51
Resettlement: Admin Expenses	55,032.75	18,010.68	73,043.43
DWA Other General Expenses	0.00	7,512.27	7,512.27
DWA Contingency	0.00	0.00	0.00
Total	<u>18,792,421.42</u>	<u>53,521,117.68</u>	<u>72,313,539.10</u>

4.2. Wastewater Recycling Activity

	CFF (2018.07.27- 2023.03.31)	CF (2021.04.01- 2023.03.31)	Cumulative to 2023.03.31
WRA Professional Service Expenses	0.00	5,525,436.25	5,525,436.25
Wastewater Recycling Plant	0.00	0.00	0.00
Convey System Moficiation CHPP ¾ w Scada	0.00	0.00	0.00
Resettlement	0.00	1,444.44	1,444.44
WRA Other General Expenses	29,053.13	3,730.69	32,783.82
WRA Contingency	0.00	0.00	0.00
Total	<u>29,053.13</u>	<u>5,530,611.38</u>	<u>5,559,664.51</u>

4.3. Water Sector Sustainability Activity

	CFF (2018.07.27- 2023.03.31)	CF (2021.04.01- 2023.03.31)	Cumulative to 2023.03.31
Cost Recovery S-A-1	400,279.80	0.00	400,279.80
Ger Cost Contain SA2 Construction	0.00	0.00	0.00
Ger Cost Contain SA2 Data/Plan	0.00	0.00	0.00
Ger Cost Contain SA2 PMC	0.00	0.00	0.00
Ger Cost Contain SA2 Infra/Kiosk	0.00	369,993.00	369,993.00
Utility Ops SA3 Twin Facilitator	0.00	0.00	0.00
Utility Ops SA3 Twin Study Tours	0.00	0.00	0.00
Utility Ops SA3 Asset Management	0.00	0.00	0.00
Utility Ops SA3 Customer Data Management	0.00	0.00	0.00
Indust Treat/Pollution SA 4 Equipment	0.00	0.00	0.00
Indust Treat/Pollution SA 4 TA	0.00	98,446.51	98,446.51
Indust Treat/Pollution SA 4 Test	0.00	81,298.60	81,298.60
Behavior Change SA5 Design Eng Mkt	0.00	0.00	0.00
Behavior Change SA5 Implementation	0.00	0.00	0.00
WSSA General Expenses	127,811.21	785.63	128,596.84
WSSA Contingency	0.00	0.00	0.00
Total	<u>528,091.01</u>	<u>550,523.74</u>	<u>1,078,614.75</u>

5. Program Administration (All amounts are expressed in US\$)

5.1. Program administration

	CFF (2018.07.27- 2023.03.31)	CF (2021.04.01- 2023.03.31)	CDF (2017.05.03- 2021.10.31)	Cumulative to 2023.03.31
HR Management	4,683,250.07	171,147.69	0.00	4,854,397.76
Office Premises Management	1,140,096.49	321,567.42	0.00	1,461,663.91
Office Equipment and Systems	960,345.07	681,506.80	0.00	1,641,851.87
Office Supplies and Materials	102,782.54	30,388.68	0.00	133,171.22
Telecommunications	141,354.79	29,355.21	0.00	170,710.00
Transportation	10,505.53	2,669.54	0.00	13,175.07
Media and Public Relations	86,648.80	98,815.74	0.00	185,464.54
Professional services	85,380.34	36,588.08	0.00	121,968.42
Program Admin Contingency	0.00	0.00	0.00	0.00
CDF Program administration expenses*	0.00	0.00	1,232,722.74	1,232,722.74
Total	<u>7,210,363.63</u>	<u>1,372,039.16</u>	<u>1,232,722.74</u>	<u>9,815,125.53</u>

* As of October 31, 2021, the budget of the Compact Development Fund (CDF) was closed with no outstanding fund balance. Program administration expenses funded by CDF were categorized per the former QuickBooks's chart of accounts.

5.2. Fiscal management

	CFF (2018.07.27- 2023.03.31)	CF (2021.04.01- 2023.03.31)	CDF (2017.05.03- 2021.10.31)*	Cumulative to 2023.03.31
Fiscal Agent fees	721,402.01	1,368,345.90	1,299,986.26	3,389,734.17
Total	<u>721,402.01</u>	<u>1,368,345.90</u>	<u>1,299,986.26</u>	<u>3,389,734.17</u>

* As of October 31, 2021, the budget of the Compact Development Fund (CDF) was closed with no outstanding fund balance.

5.3. Procurement management

	CFF (2018.07.27- 2023.03.31)	CF (2021.04.01- 2023.03.31)	CDF (2017.05.03- 2021.10.31)	Cumulative to 2023.03.31
Procurement Agent fees	540,264.00	1,741,601.20	992,441.00	3,274,306.20
Total	<u>540,264.00</u>	<u>1,741,601.20</u>	<u>992,441.00</u>	<u>3,274,306.20</u>

5.4. Audit

	CFF (2018.07.27- 2023.03.31)	CF (2021.04.01- 2023.03.31)	Cumulative to 2023.03.31
Audit fee	96,000.00	102,000.00	198,000.00
Total	<u>96,000.00</u>	<u>102,000.00</u>	<u>198,000.00</u>

6. Fund balance/reconciling items (All amounts are expressed in US\$)

	CFF (2018.07.27- 2023.03.31)	CF (2021.04.01- 2023.03.31)	Cumulative to 2023.03.31
Permitted Account (US\$)	102.64	273,951.73	274,054.37
Debit Card (US\$)	0.00	4,723.37	4,723.37
Permitted Account (MNT)	1,231.74	286.00	1,517.74
Cash in Transit (MNT)	0.00	1,084.11	1,084.11
Petty Cash Debit Card (MNT)	0.00	441.50	441.50
Fuel Debit Card (MNT)	0.00	179.84	179.84
Total	<u>1,334.38</u>	<u>280,666.55</u>	<u>282,000.93</u>

As of March 31, 2023, the total of US\$1,084.11 (equals 3,814,034.44 MNT) spent from the Fuel Debit Card and Petty Cash Debit Card but not allocated to any specific project activity was reported as Cash in Transit.

For CFF	Prior period (2018.07.27- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
Permitted Account (US\$)	51,538.21	(51,435.57)	102.64
Debit Card (US\$)	996.40	(996.40)	0.00
Permitted Account (MNT)	2,526.96	(1,295.22)	1,231.74
Cash in Transit (MNT)	867.26	(867.26)	0.00
Petty Cash Debit Card (MNT)	705.06	(705.06)	0.00
Fuel Debit Card (MNT)	123.48	(123.48)	0.00
Total	<u>56,757.37</u>	<u>(55,422.99)</u>	<u>1,334.38</u>

For CF	Prior period (2021.04.01- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
Permitted Account (US\$)	165,500.55	108,451.18	273,951.73
Debit Card (US\$)	0.00	4,723.37	4,723.37
Permitted Account (MNT)	425.54	(139.54)	286.00
Cash in Transit (MNT)	31.47	1,052.64	1,084.11
Petty Cash Debit Card (MNT)	0.00	441.50	441.50
Fuel Debit Card (MNT)	0.00	179.84	179.84
Total	<u>165,957.56</u>	<u>114,708.99</u>	<u>280,666.55</u>

7. Receivables/Advances (CF)

	Prior period (2021.04.01- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
Security deposits for office lease	0.00	53,521.15	53,521.15
Advance payment to MAPA INSAAT Ve TICARET AS (CF)	14,063,512.99	(866,631.16)	13,196,881.83
Total	<u>14,063,512.99</u>	<u>(813,110.01)</u>	<u>13,250,402.98</u>

The cumulative security deposits of MNT184,410,000 (equals to US\$53,521.15) for MCA-M's office lease were fully transferred to the Compact Funding at the period end of Mar 31, 2023, and there is no security deposit placed under the Compact Facilitation Funding source. A total advance payment of US\$866,631.16 was repaid to MAPA INSAAT Ve TICARET AS (contractor) under the Interim Payment Certificates (IPC) #12 and 13 as of Mar 31, 2023.

8. Payables/Retentions (CF)

	Prior period (2021.04.21- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
Retentions of MAPA INSAAT Ve TICARET AS	(228,597.19)	(3,017,892.46)	(3,246,489.65)
Retentions of Moncon Construction LLC	0.00	(8,789.27)	(8,789.27)
Retentions Erdene Drilling LLC	0.00	(70,321.50)	(70,321.50)
Payable to suppliers	(2,330.55)	(6,586.48)	(8,917.03)
Total	<u>(230,927.74)</u>	<u>(3,103,589.71)</u>	<u>(3,334,517.45)</u>

The total retention amounts of US\$3,246,489.65 relevant to MAPA INSAAT Ve TICARET AS (the contractor) for the IPC #01-#13 are to be released by Jan 18, 2025. The total retention amounts US\$8,789.27 of Moncon Construction LLC (the contractor) for the contract deliverables are to be released by Oct 20, 2023. The retention amount US\$70,321.54 of Erdene Drilling LLC (the sub-contractor) for the contract deliverable is to be released by Nov 4, 2024.

9. CFF - Water Sector Infrastructure (All amounts are expressed in US\$)

9.1 Downstream Wells Activity

	Prior period (2018.07.27- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
DWA Professional Service Expense	18,116,547.82	520,487.22	18,637,035.04
CP1-Groundwater Wells & Conveyance	27,936.38	10,440.00	38,376.38
CP2-AWPP and Scada Controls	61,977.25	0.00	61,977.25
Resettlement: Compensation	0.00	0.00	0.00
Resettlement: Admin Expenses	55,032.75	0.00	55,032.75
DWA Other General Expenses	0.00	0.00	0.00
DWA Contingency	0.00	0.00	0.00
Total	<u>18,261,494.20</u>	<u>530,927.22</u>	<u>18,792,421.42</u>

9.2 Wastewater Recycling Activity

	Prior period (2018.07.27- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
WRA Professional Service Expenses	29,053.13	0.00	29,053.13
Wastewater Recycling Plant	0.00	0.00	0.00
Convey System Moficiation CHPP ¾ w Scada	0.00	0.00	0.00
Resettlement	0.00	0.00	0.00
DWA Other General Expenses	0.00	0.00	0.00
DWA Contingency	0.00	0.00	0.00
Total	<u>29,053.13</u>	<u>0.00</u>	<u>29,053.13</u>

9.3 Water Sector Sustainability Activity

	Prior period (2018.07.27- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
Cost Recovery S-A-1	400,279.80	0.00	400,279.80
Ger Cost Contain SA2 Construction	0.00	0.00	0.00
Ger Cost Contain SA2 Data/Plan	0.00	0.00	0.00
Ger Cost Contain SA2 PMC	0.00	0.00	0.00
Ger Cost Contain SA2 Infra/Kiosk	0.00	0.00	0.00
Utility Ops SA3 Twin Facilitator	0.00	0.00	0.00
Utility Ops SA3 Twin Study Tours	0.00	0.00	0.00
Utility Ops SA3 Asset Management	0.00	0.00	0.00
Utility Ops SA3 Customer Data Management	0.00	0.00	0.00
Indust Treat/Pollution SA 4 Equipment	0.00	0.00	0.00
Indust Treat/Pollution SA 4 TA	0.00	0.00	0.00
Indust Treat/Pollution SA 4 Test	0.00	0.00	0.00
Behavior Change SA5 Design Eng Mkt	0.00	0.00	0.00
Behavior Change SA5 Implementation	0.00	0.00	0.00
WSSA General Expenses	127,811.21	0.00	127,811.21
Total	<u>528,091.01</u>	<u>0.00</u>	<u>528,091.01</u>

10. CFF – Program administration (All amounts are expressed in US\$)

10.1 Program administration

	Prior period (2018.07.27- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
HR Management	3,310,344.34	1,372,905.73	4,683,250.07
Office Premises Management	976,161.95	163,934.54	1,140,096.49
Office Equipment and Systems	882,318.42	78,026.65	960,345.07
Office Supplies and Materials	91,232.81	11,549.73	102,782.54
Telecommunications	96,044.13	45,310.66	141,354.79
Transportation	8,330.96	2,174.57	10,505.53
Media and Public Relations	81,419.62	5,229.18	86,648.80
Professional Service	80,175.76	5,204.58	85,380.34
Total	<u>5,526,027.99</u>	<u>1,684,335.64</u>	<u>7,210,363.63</u>

10.2 Fiscal Management

	Prior period (2018.07.27- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
Fiscal Agent fees	721,402.01	0.00	721,402.01
Total	<u>721,402.01</u>	<u>0.00</u>	<u>721,402.01</u>

10.3 Procurement management

	Prior period (2018.07.27- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
Procurement Agent fees	540,264.00	0.00	540,264.00
Total	<u>540,264.00</u>	<u>0.00</u>	<u>540,264.00</u>

10.4 Audit

	Prior period (2018.07.27- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
Audit fee	96,000.00	0.00	96,000.00
Total	<u>96,000.00</u>	<u>0.00</u>	<u>96,000.00</u>

11. CFF – Surplus /(Deficit) (All amounts are expressed in US\$)

<u>Period</u>	<u>Receipts from MCC</u>	<u>Costs incurred</u>	<u>Surplus/(Deficit)</u>
Apr-June 2022	1,075,418.27	1,012,999.46	62,418.81
Jul-Sep 2022*	356,272.30	440,306.25	(84,033.95)
Oct-Dec 2022	599,152.71	392,773.85	206,378.86
Jan-Mar 2023*	128,996.59	369,183.30	(240,186.71)
Total	<u>2,159,839.87</u>	<u>2,215,262.86</u>	<u>(55,422.99)</u>

*The period's excess cost over revenue is due to the availability of the Permitted Account balance at the beginning of the period.

12. CF - Water Sector Infrastructure (All amounts are expressed in US\$)

12.1 Downstream Wells

	<u>Prior period (2021.04.01- 2022.03.31)</u>	<u>Current period (2022.04.01- 2023.03.31)</u>	<u>Cumulative to 2023.03.31</u>
DWA Professional Service Expense	4,960,264.66	3,910,281.84	8,870,546.50
CP1-Groundwater Wells & Conveyance	0.00	656,118.90	656,118.90
CP2-AWPP and Scada Controls*	16,134,015.79	26,301,118.03	42,435,133.82
Resettlement:Compensation	430,193.67	1,103,601.84	1,533,795.51
Resettlement:Admin Expenses	0.00	18,010.68	18,010.68
DWA Other General Expenses	810.66	6,701.61	7,512.27
DWA Contingency	0.00	0.00	0.00
Total	<u>21,525,284.78</u>	<u>31,995,832.90</u>	<u>53,521,117.68</u>

* MAPA INSAAT Ve TICARET AS - Contract performance is secured under Performance guarantee issued by Golomt Bank for the guarantee amount US\$9,382,448.96 valid until Feb 2, 2026.

12.2 Wastewater Recycling

	<u>Prior period (2021.04.01- 2022.03.31)</u>	<u>Current period (2022.04.01- 2023.03.31)</u>	<u>Cumulative to 2023.03.31</u>
WRA Professional Service Expenses	2,665,706.05	2,859,730.20	5,525,436.25
Wastewater Recycling Plant	0.00	0.00	0.00
Convey System Moficiation CHPP ¾ w Scada	0.00	0.00	0.00
Resettlement	0.00	1,444.44	1,444.44
DWA Other General Expenses	767.76	2,962.93	3,730.69
Total	<u>2,666,473.81</u>	<u>2,864,137.57</u>	<u>5,530,611.38</u>

12.3 Water Sector Sustainability

	<u>Prior period (2021.04.01- 2022.03.31)</u>	<u>Current period (2022.04.01- 2023.03.31)</u>	<u>Cumulative to 2023.03.31</u>
Cost Recovery S-A-1	0.00	0.00	0.00
Ger Cost Contain SA2 Construction	0.00	0.00	0.00
Ger Cost Contain SA2 Data/Plan	0.00	0.00	0.00
Ger Cost Contain SA2 PMC	0.00	0.00	0.00
Ger Cost Contain SA2 Infra/Kiosk	0.00	369,993.00	369,993.00
Utility Ops SA3 Twin Facilitator	0.00	0.00	0.00
Utility Ops SA3 Twin Study Tours	0.00	0.00	0.00
Utility Ops SA3 Asset Management	0.00	0.00	0.00
Utility Ops SA3 Customer Data Management	0.00	0.00	0.00
Indust Treat/Pollution SA 4 Equipment	0.00	0.00	0.00
Indust Treat/Pollution SA 4 TA	0.00	98,446.51	98,446.51
Indust Treat/Pollution SA 4 Test	0.00	81,298.60	81,298.60
Behavior Change SA5 Design Eng Mkt	0.00	0.00	0.00

Behavior Change SA5 Implementation	0.00	0.00	0.00
WSSA General Expenses	349.20	436.43	785.63
WSSA Contingency	0.00	0.00	0.00
Total	<u>349.20</u>	<u>550,174.54</u>	<u>550,523.74</u>

13. CF - Program Administration (All amounts are expressed in US\$)

13.1 Program administration

	Prior period (2021.04.01- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
HR Management	0.00	171,147.69	171,147.69
Office Premises Management	1,468.66	320,098.76	321,567.42
Office Equipment and Systems	576,949.43	104,557.37	681,506.80
Office Supplies and Materials	502.64	29,886.04	30,388.68
Telecommunications	0.00	29,355.21	29,355.21
Transportation	0.00	2,669.54	2,669.54
Media and Public Relations	6,094.29	92,721.45	98,815.74
Professional Service	5.48	36,582.60	36,588.08
Total	<u>585,020.50</u>	<u>787,018.66</u>	<u>1,372,039.16</u>

13.2 Fiscal management

	Prior period (2021.04.01- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
Fiscal Agent fees	621,673.30	746,672.60	1,368,345.90
Total	<u>621,673.30</u>	<u>746,672.60</u>	<u>1,368,345.90</u>

13.3 Procurement management

	Prior period (2021.04.01- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
Procurement Agent fees	741,635.00	999,966.20	1,741,601.20
Total	<u>741,635.00</u>	<u>999,966.20</u>	<u>1,741,601.20</u>

13.4 Audit

	Prior period (2021.04.01- 2022.03.31)	Current period (2022.04.01- 2023.03.31)	Cumulative to 2023.03.31
Audit fee	0.00	102,000.00	102,000.00
Total	<u>0.00</u>	<u>102,000.00</u>	<u>102,000.00</u>

Notes to CDF Fund Accountability Statement

14. CDF fund

As of October 31, 2021, the budget of the Compact Development Fund (CDF) was closed with no outstanding fund balance. Thus, there was no activity for the current audit period.



BAKER TILLY DALAIVAN AUDIT

Audit assurance, property and business
valuation advisory services

Amarsanaa street-5, Bayangol district
Ulaanbaatar-16066, Mongolia
Phones:70005401, 70005404,70005405
Fax:+976-70005403
E-mail:info@btdalaivanaudit.mn
Web site: www.btdalaivanaudit.mn

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Board of Directors of MCA-Mongolia
Millennium Challenge Account-Mongolia
Floor 5, MPM Complex,
UNESCO Street, Sukhbaatar District,
Ulaanbaatar, Mongolia

Except as discussed in the following paragraphs, we have audited in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Fund Accountability Statement of MCA-Mongolia for the audit period from April 1, 2022 to March 31, 2023, and have issued our report on it dated September 20, 2023. We also reviewed the separate Cost-Sharing Schedule.

In Mongolia, we do not have a continuing education program that fully satisfies the requirement set forth in Chapter 4, paragraph 4.16 of *Government Auditing Standards*. However, our auditors must attend the 20 hours of continuing education and training from MICPA every year. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

We did not have an external Quality Control Review (QCR) by an unaffiliated audit organization, as required in Chapter 5, paragraph 5.60 of *Government Auditing Standards*, since no such program is offered by MICPA. We believe that the effect of this departure from *Government Auditing Standards* is not material because we participate in the Baker Tilly International worldwide internal quality control review program that requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices.

Internal Control over Financial Reporting (ICOFR)

In planning and performing our audit of the financial statements, we considered MCA-Mongolia's ICOFR (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MCA-Mongolia's internal control. Accordingly, we do not express an opinion on the effectiveness of MCA-Mongolia'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. A *significant deficiency* is a deficiency or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of audit findings and questioned costs as items that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MCA-Mongolia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

MCA-Mongolia's Response to Findings

MCA-Mongolia's response to the findings identified in our audit is described in the accompanying schedule of audit findings and questioned costs. MCA-Mongolia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Dalaivan Audit LLC

Baker Tilly Dalaivan Audit LLC

September 20, 2023

5. SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

5.1 Summary of audit findings and questioned costs

<i>Fund Accountability Statement and Questioned costs</i>	
We issued the Unmodified opinion on the Consolidated Fund Accountability Statement of MCA-Mongolia for the audit period from April 1, 2022 to March 31, 2023. Our audit has not identified any questioned costs on the Fund Accountability Statement for CFF for the audit period from April 1, 2022 to March 31, 2023 and Fund Accountability Statement for CF for the audit period from April 1, 2022 to March 31, 2023.	
<i>Internal control over Financial Reporting</i>	
Material weaknesses (a reasonable possibility that a material misstatement of FAS of MCA-Mongolia will not be prevented or detected on a timely basis)	No
Significant deficiency (less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of MCA-Mongolia)	2 identified
Immaterial deficiencies described in the Management Letter	No
<i>Compliance and Other Matters</i>	
Material noncompliance	No
Immaterial noncompliance described in the Management Letter	No

5.2 Audit findings on Internal control

5.2.1. Contractor Past Performance Report (CPPR) was not issued for some required contracts

Type: Significant deficiency

Condition

A total of thirteen contracts were sampled, and a test was carried out to ensure that the "Contractor past performance report/CPPR" was prepared in accordance with the Contract Administration Management Manual. Out of these, for five contracts, the report was completed by the time specified in the manual, and for three contracts, the deadline for the report has yet to reach. However, for the five contracts listed below, the issuance period of "contractor past performance report/CPPR" specified in the manual has passed but has not been completed yet.

Contractor name	Contract title/#	Contract type	Contract duration	Contract amount in US\$	Number of CPPR		
					required	draft	Final
Iron Vine Security, LLC	Assessment of MCA Office Information Technology Needs NatSec/Proc/007	Non-consulting service	Apr 11, 2019-Dec 31, 2022	578,237.40	5	0	0
AECOM Technical Services, Inc.	Detailed Design Firm for Downstream Wellfields NatSec/Proc/003	Consulting service	Apr 5, 2019-Apr 5, 2026	16,474,795.51	3	1	0
Tetra Tech, Inc.	Program Management Consultant (PMC) NatSec/Proc/004	Consulting service	Sep 2, 2019-Oct 2, 2026	29,995,460.00	2	0	1
MAPA INSAAT Ve TICARET AS	Construction Works of an Advanced Water Purification Plant and SCADA Controls (CP2) MCA-M/CF/DWA/W/01	Work	Aug 2, 2021-Jan 18, 2026	93,824,489.57	1	0	0
Fichtner Water & Transportation GmbH	MCAM/CF/WRA/CS/01 Consultant Services for Developing Detailed Design for Conveyance System and Modification Works at CHPP #3 & #4	Consulting service	Aug 4, 2021-Aug 4, 2025	3,263,800.00	1	1	0

Criteria

MCA-Mongolia CAMM 3.4.2 states that "A Contractor Past Performance Report (CPPR) shall be issued for Works Contract awarded for a total value of US\$5,000,000 or more, and Contract awarded for Consulting services, Supply of goods or Non-Consulting Services for a total value of US\$200,000 at least annually during the period of contract performance, and after the contract performance completed.

Cause

MCA-Mongolia's IT Manager could not review the contractor's performance and issue CPPR for Iron Vine as all activities other than training were completed by the contractor when she commenced her work in July 2021. For the design consultant AECOM, the detailed design, which is the primary responsibility of the contract, was completed in 2021, and the CPPR is planned to be carried out at the end of the contract, as it is currently monitoring the progress of the DWA construction work. For the contractors, AECOM and Tetra Tech, a preliminary CPPR has been made and sent to MCC for review, and a response is awaited.

Effect

There is a risk that the necessary information about the contractor's past performance will not be entered in the MCC database in a timely manner. Information about a contractor's past performance is important in deciding whether to re-cooperate with that contractor in the future.

Recommendation

It is recommended to issue a clear and evidence-based "Contractor Past Performance Report/CPPR" in accordance with MCA-Mongolia's Contract Administration Management Manual for work, consulting services, non-consulting services and supply of goods mentioned in the criteria.

Management response

MCA-Mongolia agrees with this finding. For Iron Vine, MCA-Mongolia's IT team will provide an evaluation of the training part of the contract. MCA-Mongolia's DWA team agreed to the audit recommendation and will issue a CPPR for the contractors, AECOM and TetraTech.

5.2.2 Absence of a Remediation Plan for the Internal Vulnerability Assessment

Type: Significant deficiency

Condition

It was noted that MCA Mongolia performed an internal vulnerability assessment on Feb 27, 2023, covering critical servers, including file servers, database servers, SAP application servers, etc. Further, we noted that the assessment resulted in the identification of four critical findings and around fourteen high risk findings among other medium and low risk findings.

It was not evident the management had reviewed these findings with their criticality and drawn up a remediation plan to resolve the same.

Criteria

An internal vulnerability assessment is a process of searching for vulnerabilities from within the business network covering critical components such as application servers, file servers, etc.

Cause

As of this year, we commenced inspections of vulnerable sites. Among the four critical risks identified, the one related to Vcenter Upgrade has been addressed through the upgrade process. However, during our assessment, we encountered a conflict between AD and SAP regarding the certificate version, necessitating further discussions with the MCC MIS Team. The MIS team conducted research and tests on the certificate, leading us to reconsider the upgrade. This cautious approach is due to the high risk of system failure associated with such changes, preventing us from proceeding immediately.

While the Director of the Administration holds a supervisory role to the IT team, the MCC MIS team manages and controls the technicality of detailed configurations and processes related to IT. We consistently engage in discussions with the MIS team regarding configuration and changes, ensuring that management is appropriately informed. Neglecting to inform management would be an oversight, as our collaboration with the MIS team is crucial.

The clause pertaining to vulnerability testing is included in the IT security policy, which was approved on June 7, 2023. According to the policy, critical and high-level vulnerabilities are required to be addressed within one day. Therefore, the perception of a lack of planning is inconsistent with our understanding, as we have incorporated this requirement into our security policy.

Effect

In the absence of a remediation plan, the network is vulnerable and may be exploited by malware or an attacker leading to data breaches or non-availability of critical IT services.

Recommendation

We recommend management consider immediately drafting a remediation plan for the identified vulnerabilities and perform follow-up testing to verify the effectiveness of the remediation.

Management response

MCA-Mongolia agrees with this finding. The implementation of vulnerability testing and the corresponding test planning activities have already commenced as outlined in the procedure. We have made progress in initiating these elements, and we will continue to carry out the necessary steps to ensure effective vulnerability testing. Therefore, this should not be considered a significant nonconformity. We will diligently work towards further improving the ongoing vulnerability testing efforts. Periodic vulnerability assessments will be conducted in accordance with the existing procedure. The recommended remediation plan from the audit will be further enhanced by incorporating additional details into the risk register. This includes incorporating management comments, an implementation timeline, and status updates to the register sheet.

6. REVIEW OF PRIOR AUDIT RECOMMENDATIONS

We followed up on the prior audit recommendations, and implementation status has been shown.

Recommendations	Implementation	Closed or repeated
Internal control related		
<p>1. The acceptance memo, which states review and receipt of the contractor's progress report, was not issued As specified in the MCA-Mongolia's CMM, the Acceptance Memo must be produced for the receipt of a satisfactory level of service in accordance with the terms of the contract, regardless of whether or not it has a payment schedule.</p>	<p>Fully implemented. No same instance was noted.</p>	<p>Closed</p>
<p>2. The quality and performance of the contract made by the administration department have not been concluded and documented Contracts for telephone, internet, office rent, car rental, cleaning service, and advertising have a short term and are automatically extended for one-year unless the parties propose to terminate the contract. MCA-Mongolia, before extending the contract, is necessary to review the quality of the contract performance and decide whether to extend it or not.</p>	<p>Fully implemented. No same instance was noted.</p>	<p>Closed</p>
<p>3. Absence of a Comprehensive Information Security Policy We recommend that management consider developing an organization-wide security policy that includes the following areas. The policy shall be reviewed on an annual basis to maintain its currency. - Information security policy statement; - Access control policy; - Backup policy; - Change management and release policy; -Information systems acquisition, development, and maintenance policy; - Human resources security policy; - Operations management policy; - Communication security policy; - Incident management policy; and - Compliance policy. We recommend that MCA-Mongolia follow a leading information practice framework such as ISO 27001 to develop a comprehensive policy.</p>	<p>Fully Implemented. An Information Technology and Security Procedure has been approved and included the recommended items.</p>	<p>Closed</p>
<p>4. Absence of a Formal Vulnerability Management Program We recommend management consider implementing a formal vulnerability management program, including regular internal, external, and independent vulnerability assessments. The vulnerability management program should also include processes and procedures to regularly</p>	<p>Fully Implemented. An Information Technology and Security Procedure has been approved and included the recommended items.</p>	<p>Closed</p>

review the system/application configurations and update the system hardening standards.		
<p>5. Absence of a Change Management Process</p> <p>We recommend management consider defining and implementing a suitable change management process/methodology to address the following types of change at a minimum:</p> <ul style="list-style-type: none"> - System acquisition, development, and maintenance; - Changes made to applications (e.g., application configuration, updates, upgrades); - Changes made to IT Infrastructure (e.g., network/hardware configurations, device hot-fixes). <p>The documentation should include identifying areas affected, testing procedures and their results, implementation plans, user acceptance testing, and roll-back plans. The records should also include the approvals obtained before implementation.</p>	<p>Fully Implemented.</p> <p>An Information Technology and Security Procedure has been approved and included the recommended items.</p>	<p>Closed</p>
<p>6. Absence of Backup Restoration Testing</p> <p>It is recommended that MCA-Mongolia adheres to the documented backup and restoration procedures.</p>	<p>Fully Implemented.</p> <p>It was noted that the backup restoration testing has been carried out as below:</p> <ul style="list-style-type: none"> - Active Directory on Feb 14, 2023; and - SAP on May 1, 2023. 	<p>Closed</p>
<p>7. Absence of Business Continuity and Disaster Recovery (BC/DR) Plans</p> <p>We recommend that MCA-Mongolia management considers developing a comprehensive IT BC/DP plan. A typical BC/DR Plan should primarily highlight the following:</p> <ul style="list-style-type: none"> - Risk Assessment of the IT systems and services that assists in finding the most important services/ applications that support the business - Risk ratings of all applications running in the organization together with the maximum acceptable downtimes, maximum acceptable loss of data, and single points of failures - Identified scenarios of service disruptions and detailed procedures and actions/systematic steps to be taken to return to normalcy - Test Plans and schedules and mechanisms to capture areas requiring further improvement for updating the BC/DR plan 	<p>Fully Implemented.</p> <p>Business Continuity/ Disaster Recovery plans has been drafted and sent to MCC IT team for review.</p>	<p>Closed</p>
Compliance related		
<p>1. The provisions of non-discrimination against employees do not include certain conditions</p> <p>"4.1. Equal Opportunities" section of the HR Manual is recommended to add a paragraph on non-discrimination by language, social background, marital status, wealth, views,</p>	<p>Fully implemented</p> <p>The change is made in Clause 4.1, Paragraph 1 of the HR Manual v.3</p>	<p>Closed</p>

trade union membership, pregnancy and childbirth, and non-discrimination based on language and social status between employees and future employees.		
<p>2. About Gender discrimination and its different regulation</p> <p>It is recommended to add "An employee who adopts a child (female, single father) is granted a maternity leave until the child reaches 60 days of age", (2) to remove "single father" from Article 10.4 "A female employee or a single father shall be entitled to the following child care breaks each day" and to make appropriate amendments.</p>	<p>Fully implemented</p> <p>The change is made in Clause 10.4, Paragraph 6; Paragraph 10 & 11 – Paternity leave of the HR Manual v.3</p>	Closed
<p>3. The amount of termination benefits is not in accordance with the revised Labor Law</p> <p>Under Article 82.1 of the revised Labor Law, it is recommended that the necessary changes be made to the relevant section of the HR Manual.</p>	<p>Fully implemented</p> <p>The change is made in Clause 11.3 of the HR Manual v.3.</p>	Closed
<p>4. Inadequate definition of "workplace" in the anti-sexual harassment policy</p> <p>It is recommended to add "when coming to work or returning from work; when handing over the work" in the definition of the "Workplace" condition of "Anti-sexual harassment policy" approved in Annex 2 of the HR Manual.</p>	<p>Fully implemented</p> <p>The change is made in Definitions, Annex II: Anti-Sexual Harassment Policy of the HR Manual v.3</p>	Closed
<p>5. "Grievance Procedure" does not meet the requirements of the revised Labor Law</p> <p>It is recommended that appropriate changes be made to the "Grievance Procedure" set out in Annex 16 of the HR Manual.</p>	<p>Fully implemented</p> <p>MCA-Mongolia addressed the recommendation through the HR manual update in June 2023.</p>	Closed
<p>6. The provision of the employment agreement about working overtime at no additional compensation is not in accordance with the revised Labor Law</p> <p>It is recommended to delete a paragraph of "The employee's duties as specified in Annex A may occasionally require work beyond the regular business day at no additional compensation" from Article 3.6 of the Employment Agreement template.</p>	<p>Fully implemented</p>	Closed
<p>7. The term of non-compete obligations specified in employment agreements is not in accordance with the revised Labor Law</p> <p>It is recommended to amend the text of "two (2) years after the termination of the agreement" to "one (1) year after the termination of the agreement" of Article 4.5.3 of the Employment agreement template of MCA-Mongolia.</p>	<p>Fully implemented</p> <p>The change is made in Clause 4.5.3 of the Employment Agreement Template</p>	Closed
<p>8. Compliance related: Missing work condition of each position on</p>	<p>Fully implemented</p>	Closed

<p>Employment agreement template- Repeated audit finding</p> <p>As defined in article 3.1.10 of Labor law and article 3.1.4 of Law on Labor safety and hygiene, working condition means a workplace or manufacturing surroundings factor which affects the working skill and health of the employee during employment solely or in a combined manner.</p> <p>Under the standard MNS 5080:2001 – “Occupational safety. Industrial hygiene. Working conditions, their classification, and factors. Assessment of working conditions”, the working condition is classified as normal and abnormal. The working condition shall be assessed, and its type shall be identified in accordance with the standard. After the working conditions of each position of MCA-Mongolia has been assessed and identified, the article on working condition shall be added to the employment agreement template.</p>	<p>The change is made in Clause 1.4 of the Employment Agreement template</p>	
<p>9. Compliance related: Discriminated approach to pay overtime compensation and add a clause on overtime pay to the employment agreement template - Repeated audit finding</p> <p>As stated in the HR Manual, overtime payments should be structured based on the provisions of the Labor Law of Mongolia. It is strongly preferred to compensate overtime by compensation leave instead of pay. It is highly recommended to insert a clause in the employment agreement on overtime pay in accordance with Labor law as well as the HR Manual, such as a clause that states, “if the employee has worked overtime, he/she is entitled to get a leave which equals to the worked overtime hours.”</p>	<p>Fully implemented. The change is made in Clause 7.4 of the HR Manual v.3.</p>	<p>Closed</p>
<p>10. Compliance related: the HR manual states that one month's salary is to be provided to the redundant employee in lieu of the notice period- Repeated audit finding</p> <p>We highly recommend deleting all paragraphs that state “ provide one (1) month salary in lieu of notice period”. It is non-compliant with Article 17 of Decree 33 Elaboration of some paragraphs and articles of the Labor law by the Supreme Court dated July 3, 2006, and shall be considered a procedural omission during the redundancy termination.</p>	<p>Fully implemented The change is made in Clause 15.4 of the HR Manual v.3</p>	<p>Closed</p>



BAKER TILLY DALAIVAN AUDIT

Audit assurance, property and business
valuation advisory services

Amarsanaa street-5, Bayangol district
Ulaanbaatar-16066, Mongolia
Phones:70005401, 70005404,70005405
Fax:+976-70005403
E-mail:info@btdalaivanaudit.mn
Web site: www.btdalaivanaudit.mn

INDEPENDENT ACCOUNTANT'S REVIEW REPORT ON THE COST-SHARING SCHEDULE

Board of Directors of MCA-Mongolia
Millennium Challenge Account-Mongolia
Floor 5, MPM Complex,
UNESCO Street, Sukhbaatar District,
Ulaanbaatar, Mongolia

We have reviewed the accompanying Cost-Sharing Schedule of MCA-Mongolia for the period from April 1, 2022 to March 31, 2023. A review includes primarily applying analytical procedures to financial data and making inquiries of MCA-Mongolia personnel. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion on the Cost-Sharing Schedule. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the Cost-Sharing Schedule in accordance with the basis of accounting described in the Notes to the Cost-Sharing Schedule and for designing, implementing, and maintaining internal control related to the provision of and accounting for cost-sharing contributions.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services (SSARS) issued by the American Institute of Certified Public Accountants (AICPA). Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the Cost-Sharing Schedule. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying Cost-Sharing Schedule in order for it to be in conformity with the basis of accounting used to prepare the Cost-Sharing Schedule.

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

Baker Tilly Dalaivan Audit LLC



Baker Tilly Dalaivan Audit LLC

September 20, 2023

7.1. Cost-Sharing Schedule of MCA-Mongolia for the period from April 1, 2022 to March 31, 2023 (Government contributions)

(All amounts are expressed in US\$)

	Budget	Prior period	Current Period Apr 1, 2022 to Mar 31, 2023	Cumulative to Mar 31, 2022	Questioned cost		Note #
					Ineligible	Unsupported	
CASH							
Water Sector Infrastructure	111,760,000.00	0.00	9,975,002.29	9,975,002.29			
Downstream Wells	0.00	0.00	0.00	0.00			
Wastewater Recycling	111,760,000.00	0.00	9,975,002.29	9,975,002.29			7.2
Water Sector Sustainability	0.00	0.00	0.00	0.00			
Total	111,760,000.00	0.00	9,975,002.29	9,975,002.29			

Attested by: Chief Executive Officer  E.Enkhgerel
 Acting Finance Director  M.Zul

Date: September 20, 2023

Date: September 20, 2023

7.2. Notes to the Cost-Sharing Schedule

Basis of presentation

The Cost-Sharing Schedule for the reporting period expressed the Government contributions and it has been prepared under the cash basis of accounting.

Government contribution stated in the Annual State Budget of Mongolia

According to the terms of the Compact, the Government committed to making a contribution of US\$111,760,000 over the Compact term toward meeting the Project objectives of the Compact.

Per the Annex III of the Program Implementation Agreement signed on March 5, 2019 by MCC and the Government of Mongolia, the Government contribution was reflected to be spent to finance the following main activities of Water Sector Infrastructure: (i) Downstream Wells Activity and (ii) Wastewater Recycling Activity. There was an initial contribution of US\$11.18 million allocated to the Government of Mongolia within the period of 2021, which was the first year of the Compact, and the amount included in approved Mongolia's State Budget 2021.

However, the actual contribution was postponed as MCA-Mongolia and MCC had agreed that the government contributions are to be spent for the next periods of the Compact under the following conditions. The matter was discussed by the Board of MCA-Mongolia in June 2021.

- To facilitate the smooth recording, reporting and monitoring of project financing, MCC and MCA-Mongolia agreed that the government financing will be used only for Wastewater Recycling Activity.
- To request the Government of Mongolia to restate the US\$ 11.18 million that had approved in Mongolia's State Budget 2021 into the Mongolia's State Budget 2022 under Appendix IV of the Program Implementation Agreement.

Internal control over the government contribution

MCA-Mongolia stated the detailed procedures for the government contribution payment in FAP. The following key controls are performed by MCA-Mongolia over the government contribution.

- Board approval on the annual disbursement projections for the government contribution
- Inclusion of the annual disbursement projections into the approved Annual State Budget of Mongolia
- Regular interim reviews and approvals by Program Management Consultant and Construction Supervisor (PMC), Fiscal Agent, and MCA-Mongolia (e.g., WRA Director, CEO) on the contractor's performance, payment cashflow schedules, interim payment certificates
- Government contribution payment reviews and approvals by Fiscal Agent and MCA-Mongolia (e.g., WRA Director, Finance Director, CEO)
- Annual confirmation of the government contribution payments between MCA-Mongolia and the Ministry of Finance

Breakdown of the government contribution payments

Period	Amount (US\$)	Purpose	Payer	Contractor
Apr 2022	13,640.84	WRA Design-Build: Independent TEP consultant service	MOF	Individual consultant
Jun 2022	6,481,329.60	WRA Design-Build: Advance payment	MOF	MCSP
Oct 2022	857,850.30	WRA Design-Build: Interim Payment Certificate -1	MOF	MCSP*
Nov 2022	728,242.71	WRA Design-Build: Interim Payment Certificate -2	MOF	MCSP*
Dec 2022	897,239.05	WRA Design-Build: Interim Payment Certificate -3	MOF	MCSP*
Jan 2023	701,389.51	WRA Design-Build: Interim Payment Certificate -4	MOF	MCSP*
Feb 2023	295,310.28	WRA Design-Build: Interim Payment Certificate -5	MOF	MCSP*
Total	9,975,002.29			

*MCSP-Contract performance is secured under Performance guarantee issued by Golomt Bank for the guarantee amount of US\$4,320,886.00 valid until Apr 30, 2026.

Outstanding advance as of Mar 31, 2023

Date	Vendor	Description	Amount in US\$
Jun 24, 2022	MCSP	WBS51202004000-WRP Design&Build	6,481,330.00**

** On May 17, 2022, Golomt Bank issued advance payment guarantee of US\$6,481,330.00 to MCSP. The advance payment guarantee is valid until July 31, 2024.

Outstanding retention as of Mar 31, 2023

Date	Vendor	Description	Amount in US\$	Valid until
Sep 22, 2022	MCSP	Retention - IPC#01	95,316.70	May 4, 2025
Nov 11, 2022	MCSP	Retention - IPC#02	80,915.86	May 4, 2025
Nov 15, 2022	MCSP	Retention - IPC#03	99,693.23	May 4, 2025
Jan 3, 2023	MCSP	Retention - IPC#04	77,932.17	May 4, 2025
Feb 8, 2023	MCSP	Retention - IPC#05	32,812.25	May 4, 2025
Total			386,670.21	