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**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF INSPECTOR GENERAL
FOR THE
MILLENNIUM CHALLENGE CORPORATION
SEMIANNUAL REPORT
TO THE CONGRESS**



October 1, 2007 - March 31, 2008



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Inspector General **HOTLINE**

OIG's Hotline makes it easy to report allegations of fraud, waste, abuse, mismanagement or misconduct in programs and operations of the USAID, USADF, IAF, and MCC. Employees, contractors, program participants and the general public may report allegations directly by e-mail, telephone, or mail to:

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MESSAGE FROM THE INSPECTOR GENERAL

I am pleased to present the *Semiannual Report to the Congress* for the 6-month period ending March 31, 2008. This report is issued in accordance with the requirements of the Inspector General Act of 1978, as amended, and specifically addresses our responsibilities for the Millennium Challenge Corporation (MCC).

MCC is an independent Government corporation, established in January 2004 to strengthen and expand the U.S. Government's foreign assistance programs with an innovative approach. That approach focuses on building partnerships with countries and on producing results to reduce poverty through economic growth. The activities of the corporation are based on the principle that aid is most effective when targeted to developing countries that have good governance and economic freedom and that invest in their people.

Overall, the Office of Inspector General (OIG) for MCC issued 10 audits over the past 6 months. In this semiannual report, we share the highlights of our work, as well as comprehensive statistics and data.

OIG is committed to assisting MCC with improving foreign assistance programs, which are an essential component of the administration's transformational diplomacy goals in the advancement of sustainable development and global interests.

We look forward to working with Congress, MCC, and our international partners to continue to improve the efficiency and effectiveness of U.S. foreign assistance programs.

Donald A. Gambatesa
Inspector General

EXECUTIVE SUMMARY

During this reporting period, OIG completed audits involving the following program areas:

Strategic Goal 1: Strengthen the economy, effectiveness, and efficiency of foreign assistance programs and operations

Under strategic goal 1, OIG focused on audits that involved MCC-funded initiatives in Africa, Asia, Eurasia, and Latin America, as well as oversight of MCC's financial accountability, internal controls, and procurement activities.

Audits conducted and significant findings and recommendations include the following:

- Audit of MCC's Financial Statements, Internal Controls, and Compliance for the Periods Ending September 30, 2007, and 2006. Although MCC financial statements were found to be presented fairly and in conformity with accounting principles, two material weaknesses and two instances of noncompliance were identified.
- Audit of MCC Programs in Madagascar. The goals or anticipated results of the compact in Madagascar are to increase incomes in rural areas by enhancing land security, increase competition in the financial sector, and increase investment in farms and other rural businesses. OIG identified several problems with oversight and performance reporting and made recommendations for improving oversight and guidance to field offices; revising performance targets; and issuing guidelines related to data collection, reporting, and testing for accuracy.
- Audit of Compliance with Procurement Requirements by MCC and Its Compact Countries. OIG found that MCC partially complied with contractor eligibility guidance. The audit report recommended several improvements related to the contractor vetting process, as well as a recommendation to analyze whether procurement operations manuals were cost-effective and beneficial to operations.

- Fund Accountability Statement Audit Activity. Audits of incurred costs were conducted for MCC-funded programs in Benin, Georgia, Honduras, Madagascar, Nicaragua, and Vanuatu. Except for Vanuatu, each audit contained an unqualified opinion.

Strategic Goal 2: Protect U.S. foreign assistance programs and operations from fraud, waste, and abuse

Audit activity under strategic goal 2 included MCC's use of purchase cards and its management of interagency agreements. Audits conducted and significant findings and recommendations include the following:

- Audit of MCC's Use of Purchase Cards. OIG conducted an audit to determine whether MCC had established controls and properly managed the use of its purchase cards and found that overall it had done so. However, OIG did identify several areas where MCC could improve its purchase card controls, such as obtaining waivers for State and local taxes on purchases and ensuring that staff training requirements are met.
- Audit of MCC's Management of Its Interagency Agreements. OIG is currently conducting an audit of MCC's overall management of its interagency agreements, including internal controls, roles and responsibilities, and training operations. The audit is reviewing MCC practices to ensure compliance with Governmentwide standards related to the management of interagency contracting.

Strategic Goal 3: Continually improve OIG functions and operations

Under strategic goal 3, OIG continues to improve its management information systems, having implemented a new Criminal Law Enforcement Records System during this reporting period.

This system will improve efficiencies by (1) allowing domestic and overseas users to access real-time information and to produce ad hoc reports; (2) automating case data for all administrative, civil, and criminal investigations; and (3) providing for possible future integration of systems.

SUMMARY OF RESULTS

Strategic Goal I:

Strengthen the economy, effectiveness, and efficiency of foreign assistance programs and operations

MCC programs are defined as high-risk because they are evolving quickly in foreign environments and are disbursing funds under the direction of local recipient organizations that have little or no experience managing funds in compliance with U.S. Government standards. The Inspector General for MCC has placed a high priority on compact programs¹ in order to have the greatest impact on strengthening MCC's foreign assistance programs in their early stages of implementation. Improvements to programs identified from early compact audits are often used as models to enhance effectiveness in other programs.

Some audits, such as the Financial Statement Audit required by the Government Performance and Results Act, provide accountability in the administration of U.S. taxpayer funded programs with the purpose of testing economy, effectiveness, and efficiency in MCC's operations.

Audit of MCC's Financial Statements, Internal Controls, and Compliance for the Periods Ending September 30, 2007, and 2006²

OIG conducted an audit of MCC's financial statements, internal controls, and compliance with law and regulations for the periods ending September 30, 2007, and 2006. The audit found that MCC's financial statements are presented fairly in all material respects, and in conformity with generally accepted U.S. Government accounting principles.

However, with respect to MCC's internal controls over financial reporting and its operations, the audit disclosed two matters that OIG considers to be significant

deficiencies, which are noted as material weaknesses: (1) MCC did not fully comply with the Federal Financial Management Improvement Act, and (2) it lacks written policies and procedures related to financial reporting, accountability, and document control.

Tests of compliance with certain laws, regulations, contracts, and grant agreements disclosed two instances in which MCC did not comply fully with Federal Financial Management Improvement Act or the Federal Information Security Management Act. Both were instances of material noncompliance.

Audit of MCC Programs in Madagascar

Madagascar was the first country to receive a compact, signing a 4-year, \$110 million agreement. The goal of the compact was to increase incomes in rural areas by enhancing land security, competition in the financial sector, and investment in farms and other rural businesses. The Government of Madagascar designated the Millennium Challenge Account (MCA)—Madagascar as the entity that would have the legal authority to oversee the implementation of the compact programs during the agreed-upon period.

To track the progress of each project, MCA-Madagascar and MCC prepared a monitoring and evaluation plan and a work plan to establish indicators, targets, and milestones by which they could compare the results and measure achievements.

1. A compact is a multiyear grant agreement between MCC and an eligible country to fund specific programs targeted at reducing poverty and stimulating economic growth.

2. Audit report number M-000-08-001-C, issued November 9, 2007.

The audit reached the following conclusions:

- MCC provided limited oversight to ensure that MCA-Madagascar and the four field offices visited by the audit team fully understood the importance of a consistent data collection methods and the definition of the project indicators in the monitoring and evaluation plan.
- Initial key activities in MCA-Madagascar's programs took longer to accomplish than originally anticipated. These delays now hinder MCA-Madagascar from achieving its performance milestones and targets.
- Reporting to MCA-Madagascar's stakeholders did not always provide complete and accurate information of the achieved results of the compact programs in Madagascar.

The report contained five recommendations to MCC to address the program implementation findings: (1) Develop guidelines that will enable the MCA staff to provide more oversight and guidance to its field offices; (2) reassess and revise targets for the finance project and document the new targets in a revised monitoring and evaluation plan by March 31, 2008; (3) issue guidelines that describe how the MCA office should document the collection of data, report the data, and verify project indicators to its field staff before the project implementation phase; (4) issue guidance on how the MCA offices should verify prior data before importing them into a new database system and how MCC staff should test the accuracy of the data during site visits; and (5) disclose the effective date of the information being used in reports to stakeholders.

(Audit Report No. M-000-08-001-P)

Audit of Compliance with Procurement Requirements by MCC and Its Compact Countries

The MCAs for Armenia, Ghana, and Honduras represent grants of approximately \$236 million, \$547 million, and \$215 million, respectively, to these countries to increase economic growth and reduce poverty. Many of these funds are expended by the MCAs on contracts for goods and services, and MCA procurement operations must function according to the requirements set forth by MCC. Compliance with MCC standards for determining eligibility to receive contract funds is an important safeguard in preventing fraud and corruption. Compliance also prevents funds from being awarded to contractors that have known ties to terrorist organizations. OIG conducted this audit to determine whether MCC and its compact countries complied with MCC procurement requirements.

The audit found that the three MCAs complied with selected key procurement provisions from MCC's program procurement guidelines by advertising bidding opportunities, issuing requests for proposals, conducting independent evaluation of the proposals, and documenting contracting actions. However, although each of the MCAs was aware of MCC contractor eligibility guidance, the MCAs only partially complied with the guidance. Also, at the time of audit, MCC did not have in place comprehensive written policies and procedures for the MCAs to determine contractor eligibility. As a result, MCC cannot be assured that the MCAs are awarding contracts only to eligible parties.



Photograph of the Armenia Road Project, which is in the process of procuring services to pave roads such as the local roads visited by OIG auditors.



Photograph of a road-paving project in Armenia that is in the early stages of procurement.

The report contained five recommendations, which included developing policies, procurement procedures, and other guidelines to improve adherence to and monitoring of the contractor vetting process. Another recommendation involved an analysis of whether procurement operations manuals provide benefit in terms of operational controls, user necessity, and succession planning and whether the documents should be required by MCA implementing entities.

(Audit Report No. M-000-008-02-P)

New Procedures for Managing Recommendations Arising from Financial Audits of Compacts

MCC and OIG established revised practices for issuing and resolving procedural recommendations arising from fund accountability statement audits. Using the new procedures, management decisions and final actions were reached on 18 outstanding recommendations.

MCC requires financial audits, or fund accountability statement audits, at least annually of all of its compact programs; however, most of the financial audits are conducted semiannually. These audits are conducted by local audit firms approved by OIG. OIG supervises the audits and issues the final audit with recommendations addressed to MCC. MCC must then obtain from the recipient country an action plan designed to correct the internal control and compliance deficiencies identified in the audit reports.

The results of these audits assist MCC in monitoring its assistance program. When an audit identifies questioned costs, OIG will recommend that MCC make a management decision on the questioned costs. For costs MCC determines to be unallowable, MCC must request and verify that the government of the recipient country return the funds to the MCC-funded program.

As of March 31, 2008, OIG had issued 15 fund accountability statement audit reports, 6 during this reporting period. All recommendations issued in fiscal year 2007 are closed, and \$21,835 in questioned costs has been resolved.

Fund Accountability Statement Audits

During the reporting period, audits of incurred costs were issued for MCC-funded programs in Benin, Georgia, Honduras, Madagascar, Nicaragua, and Vanuatu. Except for Vanuatu, each audit contained an unqualified opinion. OIG issued no recommendations in its audits of compacts with Honduras, Madagascar, and Vanuatu.

Benin

The latest audit covered incurred costs of \$1,678,694 of the \$307 million grant. The auditors identified two significant deficiencies, one of which is considered a material weakness in the internal control structure. In addition, the auditors identified multiple material instances of noncompliance. OIG issued two recommendations. MCC took final corrective action for one recommendation during the current reporting period. The other recommendation, related to noncompliance issues, remains outstanding.

(Audit Report No. M-000-08-004-N)

Georgia

The audit covered \$12,700,446 in incurred costs of a \$295.3 million compact. The audit contained one recommendation to address several findings regarding internal control deficiencies in the area of posting of transactions and accounting software.

(Audit Report No. M-000-08-001-N)

Nicaragua

OIG issued its second audit of the compact with Nicaragua on February 23, 2008, covering incurred costs of \$3,254,232 of a \$175 million compact. No material weaknesses were identified. The audit identified one internal control deficiency that was still outstanding at the close of the reporting period concerning the need for additional documentation.

(Audit Report No. M-000-08-006-N)

SUMMARY OF FUND ACCOUNTABILITY STATEMENT OPINIONS FOR 6 MONTHS ENDING MARCH 31, 2008

Country	Value of Compact/ Length of Compact	Date of Most Recent Audit	Auditor's Opinion
Georgia	\$295.3 million/5-year	October 18, 2007	Unqualified
Honduras	\$215 million/5-year	October 31, 2007	Unqualified
Madagascar	\$110 million/4-year	November 15, 2007	Unqualified
Benin	\$307 million/5-year	December 12, 2007	Unqualified
Vanuatu	\$69.65 million/5-year	January 7, 2008	Qualified ³
Nicaragua	\$175 million/5-year	February 22, 2008	Unqualified

3. This opinion was qualified because the audit firm did not meet two auditing standards which did not affect the audit report.

Strategic Goal 2:

Protect U.S. foreign assistance programs from fraud, waste, and abuse

Another OIG responsibility is to prevent and detect fraud and abuse in MCC programs and operations. Through the conduct of audits and investigations, as well as training and outreach, OIG identifies and addresses any vulnerabilities and integrity concerns that place MCC programs at risk. The following examples demonstrate how OIG reduces U.S. foreign assistance programs' exposure to fraud, waste, and abuse.

Audit of MCC's Use of Purchase Cards

OIG conducted an audit to determine whether the MCC established controls and properly managed the use of its purchase cards.

The audit noted that overall, MCC had established controls and properly managed the use of its purchase cards by publishing a purchase card program manual, assigning duties for the approving officials and cardholders, requiring all cardholders to record all purchases on a purchase card log, and requiring cardholders and approving officials to reconcile their monthly statements. However, OIG identified certain areas where MCC could improve its overall purchase card controls, such as by obtaining waivers for State and local sales tax on purchases and meeting staff training requirements. There were no recommendations in the report, as MCC had taken corrective action during the audit to resolve the issues identified by the auditors.

OIG Conducts Fraud Awareness Training and Financial Audit Briefings

As part of its proactive strategy, the OIG conducts fraud awareness training and financial audit briefings. The fraud awareness training alerts personnel to fraudulent schemes and practices so that they can prevent or reduce fraud in MCC programs and operations. In addition, the OIG promotes its hotline and advises attendees of methods and procedures to report potential fraud, waste, or abuse.

MCC's compacts, as well as various laws and regulations, define the types of costs that can be charged in support of its programs. To increase awareness and compliance with cost principles, OIG conducts financial management training for independent audit firms and others. The training provides a general overview of MCA and contractor cost principles, and audit requirements. It also provides examples of concepts such as allowability, allocability and reasonableness of costs.

The following table is a summary of fraud awareness and financial audit briefings conducted during this reporting period.

**FRAUD AWARENESS AND FINANCIAL AUDIT BRIEFINGS
CONDUCTED WORLDWIDE
AS OF MARCH 31, 2008**

Month	Location	Sessions	Attendees	Briefing*	Professional Affiliation
OCT	<i>Nothing to Report</i>				
NOV	<i>Nothing to Report</i>				
DEC	Bamako, Mali	1	37	FR	MCC Personnel
JAN	San Salvador, El Salvador	3	258	FR	MCC Personnel
FEB	Cotonou, Benin	1	100	FR	MCC Personnel
	Antananarivo, Madagascar	4	130	FR	MCC Personnel
MAR	Ulaanbaatar, Mongolia	1	40	FI and FR	Mongolia Institute of Certified Public Accountants MCA-Mongolia Fiscal Agent 8 Private Audit Firms MCA Personnel
	Ouagadougou, Burkina Faso	1	25	FI and FR	5 Private Audit Firms MCA Personnel
TOTAL		11	590		

* FI – Financial Audit Briefing

* FR – Fraud Awareness Briefing

Strategic Goal 3: Continually improve OIG functions and operations

Internal OIG readiness is essential in order to realize effective results in terms of OIG's commitment to strengthen the efficiency, economy, and effectiveness of MCC's programs and operations and to protect them from fraud, waste, and abuse. It requires constant attention to and improvement of OIG's infrastructure to provide an organizational foundation that reduces risk to OIG staff security, systems, and, ultimately, effectiveness. Critical management systems include those related to staff and organizational competency and performance and information management.

EMPLOYEE SECURITY

OIG Position Sensitivity and Risk Review

During this reporting period, OIG completed an internal review of position sensitivity and public trust risk level requirements for all U.S. direct hire positions. The objectives of the review was to (a) ensure compliance with Executive Order 12968, which requires that the number of employees eligible for access to classified information shall be kept to the minimum required for the conduct of agency functions; and (b) ensure compliance with 5 C.F.R. 731, which requires all competitive service positions to be designated at a risk level consistent with its potential for adverse impact to the integrity and efficiency of the service.

The review resulted in the identification of specific key positions requiring high-level security clearances and a significant reduction in the level of security clearance requirements for OIG positions overall. On April 1, 2008, the Inspector General formally approved OIG position sensitivity and public trust level designations as a result of this review, and action is being taken accordingly. Though the primary benefit of this review is the reduced risk of security infractions associated with a highly cleared workforce, personnel security cost reductions and more timely staff recruitment and placement are expected.

EFFICIENCY THROUGH AUTOMATION

Significant automation efforts undertaken to make the audit and investigative processes more efficient is described below.

Criminal Law Enforcement Records System (CLERS)

On March 1, 2008, OIG launched its paperless, computerized Criminal Law Enforcement Records System (CLERS), a Web-based case file management system used to store and process all case-related information and statistics in connection with OIG investigations. When fully operational, investigators will be afforded access to case data generated prior to the implementation of CLERS that may be relevant to ongoing investigations.

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**REPORTING
REQUIREMENTS**

FINANCIAL AUDIT REPORTS ISSUED October 1, 2007 through March 31, 2008

Report Number	Date of Report	Report Title	Amount of Findings (\$000s)	Type of Findings
		--PROGRAMS AND OPERATIONS--		
M-000-08-001-C	11/09/07	Audit of the MCC's Financial Statements Internal Controls, and Compliance for the Period Ending September 30, 2007 and 2008		
		--FOREIGN GOVERNMENT ENTITIES--		
M-000-08-001-N	10/18/2007	Audit of the MCC Resources Managed by the Millennium Challenge Georgia Fund, (MCG), under the Compact Agreement Between the MCC and the Government of Georgia for the Period from January 1, 2007 to June 30, 2007		
M-000-08-002-N	10/31/2007	Audit of the MCC Resources Managed by the Millennium Challenge Account -Honduras (MCA-Honduras) Under the Compact Agreement Between the MCC and the Government of Honduras for the Period from January 1, 2007 to June 30, 2007		
M-000-08-003-N	11/15/2007	Audit of the Millennium Challenge Corporation (MCC) Resources Managed by Millennium Challenge Account - Madagascar (MCA-Madagascar), Under the Compact Agreement between the MCC and the Government of Republic of Madagascar from January 1, 2007 to June 30, 2007		
M-000-08-004-N	12/12/2007	Audit of the Millennium Challenge Corporation (MCC) Resources Managed by Millennium Challenge Account - Benin (MCA-Benin), Under the Compact Agreement between the MCC and the Government of Republic of Benin from January 1, 2007 to June 30, 2007		
M-000-08-005-N	01/7/2008	Audit of the MCC Resources Managed by the Millennium Challenge Account-Vanuatu (MCA-Vanuatu), under the Compact Agreement Between the MCC and the Government of Vanuatu from April 28, 2006 to December 2006		
M-000-08-006-N	02/22/2008	Audit of the MCC Resources Managed by the Millennium Challenge Account-Nicaragua (MCA-Nicaragua), under the Compact Agreement Between the MCC and the Government of Nicaragua from January 1, 2007 to June 30, 2007		

BU--Better Use of Funds
 QC--Questioned Costs
 UN--Unsupported Costs
 Note: UN is part of QC

PERFORMANCE AUDIT REPORTS ISSUED
October 1, 2007 through March 31, 2008

<i>Report Number</i>	<i>Date of Report</i>	<i>Report Title</i>	<i>Amount of Finding (\$000s)</i>	<i>Type of Findings</i>
M-000-08-001-P	12/28/07	Audit of the MCC Programs in Madagascar		
M-000-08-002-P	03/03/08	Audit of Compliance with Procurement Requirements by the MCC and its Compact Countries		
M-000-08-002-P	03/27/08	Audit of the MCC's Use of Purchase Cards		

BU--Better Use of Funds
 QC--Questioned Costs
 UN--Unsupported Costs
 Note: UN is part of QC

MISCELLANEOUS AUDIT REPORTS ISSUED
October 1, 2007 through March 31, 2008

<i>Report Number</i>	<i>Date of Report</i>	<i>Report Title</i>	<i>Amount of Findings (\$000s)</i>	<i>Type of Findings</i>
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NOTHING TO REPORT

**AUDIT REPORTS OVER SIX MONTHS OLD
WITH NO MANAGEMENT DECISION
As of March 31, 2008**

<i>Report Number</i>	<i>Auditee</i>	<i>Issue Date</i>	<i>Current Recommendation Status</i>	<i>Desired Decision Target Date</i>
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NOTHING TO REPORT

**SIGNIFICANT AUDIT RECOMMENDATIONS
DESCRIBED IN PREVIOUS SEMIANNUAL
REPORTS WITHOUT FINAL ACTION
As of March 31, 2008**

<i>Report Number</i>	<i>Subject of Report</i>	<i>Recommendation Number</i>	<i>Issue Date</i>	<i>Management Decision Date</i>	<i>Final Action Target Date</i>
M-000-05-003-P	Audit of the Millennium Challenge Corporation's Compliance with Provisions of the Federal Information Security Management Act of 2002	3	06/20/05	9/28/07	6/08
		Re-opened for the second time			
		8		04/07	06/08
M-000-06-001-C	Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2005 and the Nine Month Period Ending September 30, 2004	5.2	12/06/05	12/06/05	10/10
M-000-06-001-S	Review of the Millennium Challenge Corporation's Progress in Achieving Its Planned Organizational Structure and Beginning Its Assistance Programs	3	05/16/06	05/16/06	05/08
		4		05/16/06	10/10
M-000-06-003-P	Audit of the MCC's Compliance with the Provisions of the Federal Information Security Management Act of 2002 for Fiscal Year 2006	1	09/29/06	09/29/06	9/08
M-000-07-001-P	Audit of the MCC's Due Diligence Review Process Leading to Compact Awards	1	03/02/07	3/2/2007	5/08
M-000-07-002-P	Audit of the MCC's Management of its Conditions Precedent in Its Compact Agreements	1	07/26/07	7/26/07	07/08
		2		7/26/07	07/08
		3		7/26/07	07/08
M-000-07-004-P	Audit of the MCC's Compliance with the Provisions of the Federal Information Security Management Act for Fiscal Year 2007	1	09/28/07	9/28/07	9/08
		2		9/28/07	5/08
		3		9/28/07	5/08

**REPORTS ISSUED WITH QUESTIONED
AND UNSUPPORTED COSTS
October 1, 2007 through March 31, 2008**

<i>Reports</i>	<i>Number of Audit Reports</i>	<i>Questioned Costs</i>	<i>Unsupported Costs*</i>
A. For which no management decision had been made as of October 1, 2007	0	\$ 21,835	\$7,083
B. Add: Reports issued October 1, 2007 through March 31, 2008	2	\$ 0	\$0
Subtotal		\$ 21,835	\$7,083
C. Less: Reports with a management decision made October 1, 2007 through March 31, 2008	0	\$ 21,835	\$7,083
i. Value of Recommendations Disallowed by Agency Officials	0	\$0	\$0
ii. Value of Recommendations Allowed by Agency Officials	0	\$ 21,835	\$7,083
D. For which no management decision had been made as of March 31, 2008	0	\$0	\$0

* Unsupported Costs are included in Questioned Costs, but are provided as additional information as required by the Inspector General Act Amendments of 1988 (P.L. 100-504).

**REPORTS ISSUED WITH RECOMMENDATIONS
THAT FUNDS BE PUT TO BETTER USE
October 1, 2007 through March 31, 2008**

<i>Reports</i>	<i>Number of Audit Reports</i>	<i>Dollar Value</i>
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NOTHING TO REPORT

**U.S. Agency for International Development
Office of Inspector General
for the
Millennium Challenge Corporation**
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The Semiannual Report to the Congress is available on the Internet at
www.usaid.gov/oig/public/semiann/mcc1.htm