



Millennium Challenge Corporation

Reducing Poverty Through Growth

**OFFICE OF
INSPECTOR GENERAL
SEMIANNUAL REPORT TO CONGRESS**



APRIL 1, 2004 - SEPTEMBER 30, 2004

INSPECTOR GENERAL

HOTLINE

The Office of Inspector General (OIG) maintains a hotline to make it easy to report allegations of fraud, waste, abuse, mismanagement or misconduct in the programs and operations of the United States Agency for International Development (USAID), the Inter-American Foundation (IAF), the African Development Foundation (ADF), and the Millennium Challenge Corporation (MCC). USAID, IAF, ADF, and MCC employees, contractors, and program participants or the general public may report allegations directly to the OIG. The Inspector General Act of 1978 and other laws protect persons making hotline complaints. Submit complaints by email, telephone, or mail to:

Phone 1-202-712-1023
1-800-230-6539

Email ig.hotline@usaid.gov

Mail USAID OIG HOTLINE
P.O. BOX 657
Washington, DC 20044-0657



Individuals who contact the hotline are not required to identify themselves. However, the OIG encourages those who report allegations to identify themselves so they can be contacted if additional questions arise as OIG evaluates their allegations. Pursuant to the Inspector General Act of 1978, the Inspector General will not disclose the identity of an individual who provides information unless that individual consents or unless the Inspector General determines that such disclosure is unavoidable during the course of an investigation. You may request confidentiality when using the telephone or mail. Email complaints can not be kept confidential because electronic mail systems are not secure.

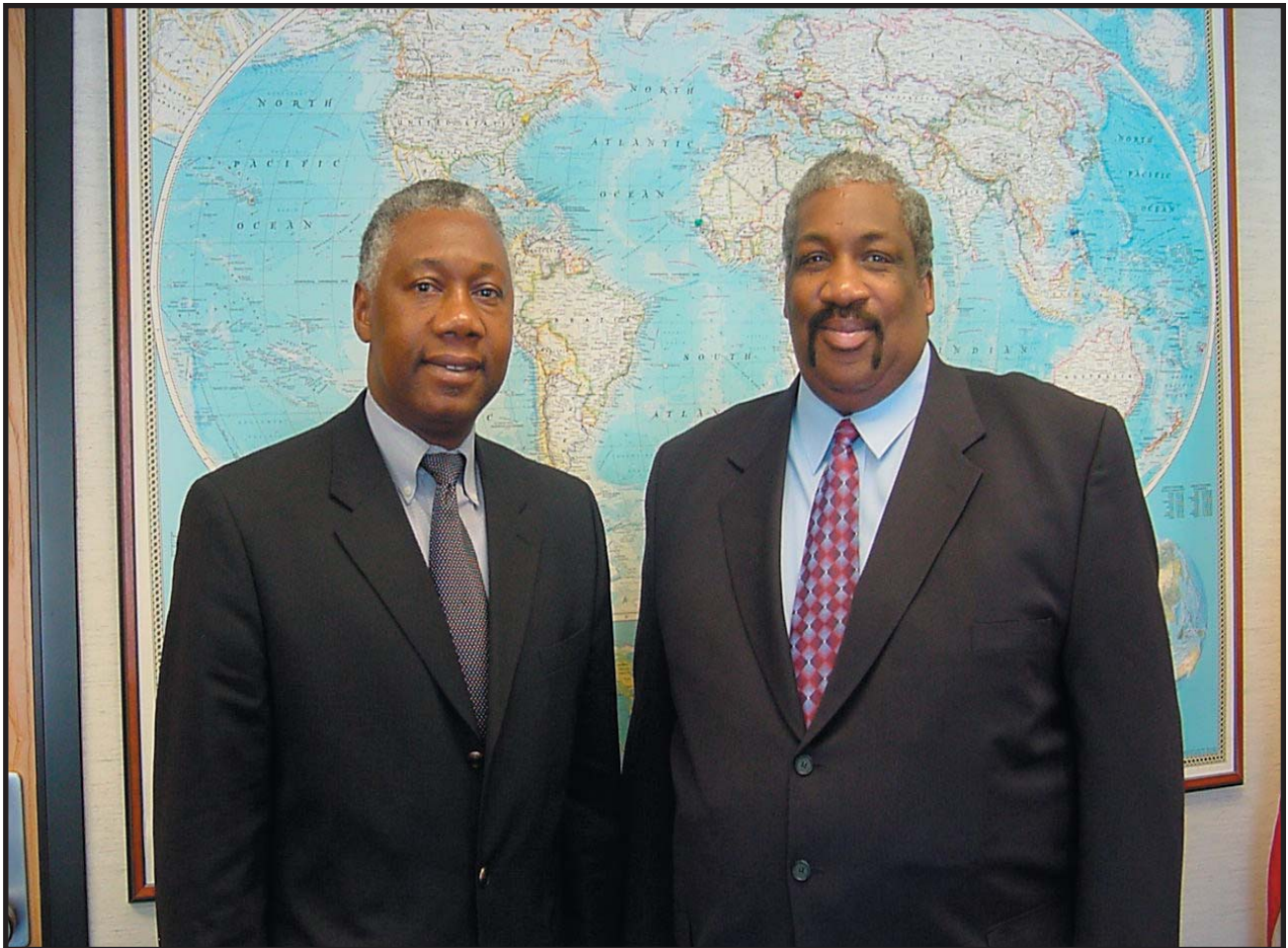


OIG HIGHLIGHTS

MILLENNIUM CHALLENGE CORPORATION

On January 23, 2004, Public Law 108-199 (The Consolidated Appropriations Act of 2004) was enacted, establishing the Millennium Challenge Corporation (MCC) and designating the USAID Inspector General as its Inspector General.

Considering the MCC's unique structure and operation and the substantial levels of development assistance it will administer, the OIG has established a separate Assistant Inspector General, the Assistant Inspector General for the Millennium Challenge Corporation (AIG/MCC), to coordinate the oversight of all OIG MCC activities. While the AIG/MCC has established performance and financial audit divisions, it will coordinate with the Assistant Inspector General for Investigations for investigative support and with the Assistant Inspector General for Audit for supplementary audit support.



Photograph of AIG/MCC Henry Barrett (left), appointed by former Inspector General Everett Mosley to coordinate the oversight of all OIG MCC activities.

OFFICE OF INSPECTOR GENERAL



Millennium Challenge Corporation

Reducing Poverty Through Growth

October 29, 2004

The Honorable Colin L. Powell, Chairman
The Honorable Paul V. Applegarth, CEO
Millennium Challenge Corporation
P. O. Box 12825
Arlington, VA 22219-2825

Dear Sirs:

I am pleased to present to you and the Congress of the United States our first independent report on the accomplishments of the Office of Inspector General for the six-month period ended September 30, 2004. This report is issued in compliance with the Inspector General Act of 1978, as amended.

During this period, and since the Corporation's inception in January 2004, we have taken several steps to carry out our responsibilities under the Consolidated Appropriations Act of 2004 (Public Law 108-199), which designated the USAID Inspector General to serve as the Inspector General for the Millennium Challenge Corporation.

Those steps include establishing a separate Assistant Inspector General within the USAID Office of Inspector General to coordinate oversight of the Corporation's activities; meeting with you and Corporation officers to establish a policy of early involvement and maximum communication; presenting a briefing to MCC staff on fraud awareness; issuing a review report on the Corporation's status in establishing its organizational structure and beginning its assistance programs, and an audit report on the Corporation's information security management; and initiating the development of a long-range audit strategy.

I appreciate the courtesy and assistance extended to my staff during our work with your organization. The OIG is committed to helping the Millennium Challenge Corporation achieve ultimate efficiency and effectiveness in its operations.

Sincerely,

James R. Ebbitt
Acting Inspector General

Acronyms

ADF	African Development Foundation
AIG/MCC	Assistant Inspector General/Millennium Challenge Corporation
CEO	Chief Executive Officer
Corporation	Millennium Challenge Corporation
DOI	Department of Interior
FISMA	Federal Information Security Management Act
GAO	Government Accountability Office
IAF	Inter-American Foundation
IG Act	Inspector General Act of 1978
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
NBC	National Business Center
OIG	Office of Inspector General
OMB	Office of Management and Budget
SAI	Supreme Audit Institution
USAID	United States Agency for International Development

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Reporting Requirements

The Inspector General Act of 1978, as amended, requires each Inspector General to submit semiannual reports to the Congress summarizing the activities of the Inspector General during the preceding six-month period. The required reporting areas, as prescribed under Section 5(a) of the Act, include the following:

Reporting Requirement	Location
Significant Problems, Abuses and Deficiencies	Nothing to Report
Recommendations for Corrective Actions	Page 9
Summary of Each Significant Report	Page 7 - 9
List of Audit Reports Issued	Appendix A Page 14
Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions Which Resulted	Appendix B Page 15

Executive Summary

This semiannual report presents the results of the Office of Inspector General's (OIG) activities and efforts with respect to the Millennium Challenge Corporation (MCC or Corporation) for the six-month period ended September 30, 2004.¹

During this semiannual reporting period, the Office of the Inspector General issued two reports with one recommendation. No investigations were initiated. Because of continued cooperation, the OIG and MCC management have reached a "management decision" on the one recommendation issued this period.

This report highlights three major areas of OIG involvement this reporting period. First, the enactment of Public Law 108-199 (The Consolidated Appropriations Act of 2004) on January 23, 2004, established the Millennium Challenge Corporation, to administer the Millennium Challenge Account.² The Act named the Inspector General (IG) of USAID as the IG for the new Corporation. Shortly after passage of the Act, the IG held meetings with the MCC Board Chairman and executives and named an Assistant Inspector General to oversee the auditing and investigative activities of the MCC.

The second area of emphasis is our early involvement in MCC activities to ensure effective oversight. This section articulates our approach and outlines our efforts in understanding the MCC and our extensive coordination efforts. These coordination efforts involve the Office of Management and Budget, and the Government Accountability Office.

Finally, we undertook several significant initiatives to support key MCC program and management functions. These support areas included corporate management and the control of corruption in the international environment. Within this area we highlight the two reports issued during this period, our efforts in arranging for the statutory financial statement audit, and our support of the MCC's initial assessment efforts in eligible countries.

¹ Although the official reporting period is the six-month period of April 1, 2004 to September 30, 2004, the OIG activities discussed herein cover the period from January 23, 2004, the date MCC was established by the Consolidated Appropriations Act of 2004.

² The Millennium Challenge Account (MCA) is the funding mechanism to provide assistance to countries that enter into a Millennium Challenge Compact with the United States pursuant to Part D, Title VI of the Consolidated Appropriations Act of 2004—the Millennium Challenge Act of 2003.

Overview

In addition to the MCC, the USAID Office of Inspector General (OIG) is responsible for providing audit and investigative services to the United States Agency for International Development (USAID), the African Development Foundation (ADF), and the Inter-American Foundation (IAF). Each of these agencies disburse and manage U.S. international development assistance.

Mission

The Inspector General Act of 1978 (IG Act), as amended, establishes OIGs as independent and objective units created to (1) conduct and supervise audits and investigations relating to the programs and operations of their respective establishments; (2) provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness and prevent and detect fraud and abuse in the establishment's programs; and (3) provide a means for keeping the head of the establishment and the Congress fully and currently informed about problems and deficiencies relating to the administration of the establishment's programs and operations and the necessity for and progress of corrective action.

Organization

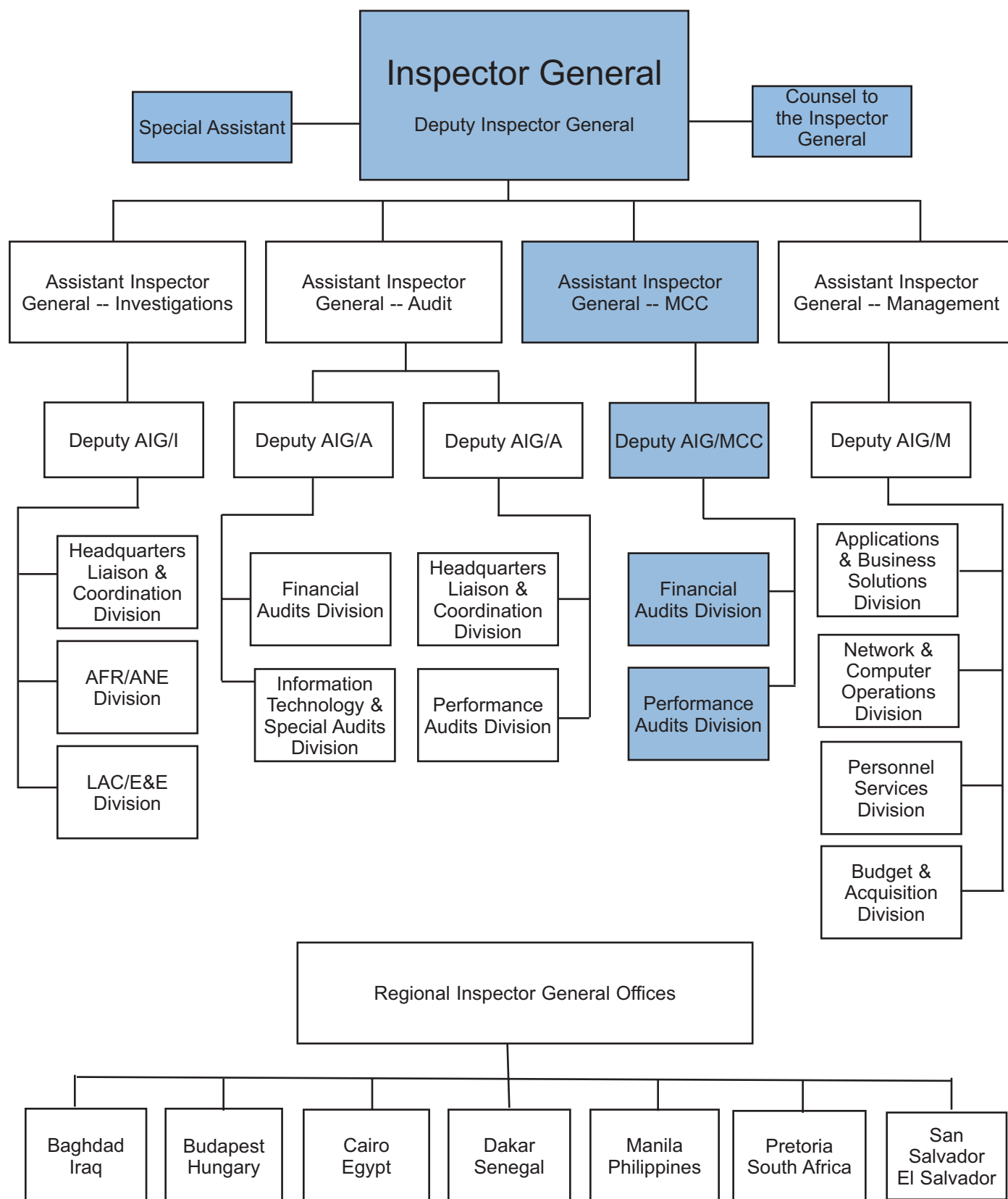
The OIG is organized into four areas of responsibility, with Assistant Inspectors General for each area: Investigations, Audit, MCC and Management. There are seven overseas field offices, each headed by a Regional Inspector General, located in Budapest, Hungary; Cairo, Egypt; Dakar, Senegal; Manila, Philippines; Pretoria, South Africa; San Salvador, El Salvador; and, since July 2003, Baghdad, Iraq. These regional offices maintain close working relationships with the USAID missions in their regions and their presence in the field enables auditors and investigators to carry out the OIG's responsibilities efficiently.

The position of Assistant Inspector General for the Millennium Challenge Corporation (AIG/MCC) was established on February 18, 2004. The Assistant Inspector General oversees a Deputy Assistant Inspector General, who in turn is responsible for a Financial Audits Division and a Performance Audits Division. As the Corporation continues to develop and expand its programs, the AIG/MCC plans to draw on support from the OIG's overseas and Washington offices as necessary in order to accomplish our oversight responsibilities. For example, the two reports issued this reporting period included support from the OIG's Washington audit offices, and the MCC's initial assessment work in Honduras included support from the OIG's San Salvador office. Finally, our fraud awareness briefing to the MCC personnel included presenters from our OIG Investigations unit.



Snapshot of AIG/MCC staff.

USAID Office of Inspector General



USAID Inspector General Assumes IG Responsibility for the Newly Created Millennium Challenge Corporation

On January 23, 2004, with the enactment of Public Law 108-199 (The Consolidated Appropriations Act of 2004), the Millennium Challenge Corporation was established. The Act provides about \$1 billion in initial funding for fiscal year 2004. The President has pledged to increase funding to \$5 billion a year starting in fiscal year 2006. The Act also designates the Inspector General of USAID to serve as the Inspector General for the Corporation and states that the Inspector General may conduct reviews, investigations and inspections of all aspects of MCC's operations and activities. In addition, the legislation states that in carrying out this responsibility, the Inspector General shall report to and be under the general supervision of the Corporation's Board of Directors.

The MCC is an independent government corporation designed to make maximum use of flexible authorities to optimize efficiency in contracting, program implementation and personnel. Managed by a Chief Executive Officer (CEO) appointed by the President and confirmed by the Senate, the MCC is overseen by a Board of Directors composed of the Secretary of State, the Secretary of Treasury, the U.S. Trade Representative, the Administrator of USAID, the CEO of the Corporation, and four members to be appointed by the President with the advice and consent of the Senate. Two of these four members were appointed on July 13, 2004. The Secretary of State serves as the Chairman of the Board.

The Board held its first meeting on February 2, 2004, at which time it approved the Corporation's bylaws. On May 5, 2004, the Senate confirmed the Corporation's CEO, and on May 6, 2004, the Board of Directors selected 16 countries eligible to submit proposals for MCC assistance under fiscal year 2004 funding.

Shortly after the MCC was established, the OIG met with the Board Chairman and interim Chief Executive Officer to introduce senior OIG staff responsible for providing IG oversight of the MCC, to discuss the OIG philosophy of working with management on a proactive basis, and to establish a general working relationship. Further, the OIG met on a number of occasions with the

Corporation's senior managers to learn more about the Corporation's start-up activities and preliminary financial and operational plans, and to discuss requirements for statutory audits of the Corporation's financial statements and information systems security program.

Finally, as the MCC more fully develops its program and operating concepts and procedures, the OIG will develop an audit strategy that will include the annual financial statement audit, oversight of contracted financial audits of implementing entities, information system security reviews, compliance with provisions of the Act, and reviews of program activities.³

Helping the Millennium Challenge Corporation Get Started and Become Successful

The role of the Office of the Inspector General includes reviewing the Corporation's programs and operations through audits, investigations, inspections and other initiatives to promote economy and efficiency, and to prevent and detect fraud, waste and abuse. Our primary goal is to help the Corporation become a viable and successful organization by encouraging constructive, systemic changes that will lead to improvements within the Corporation's programs and operations. To meet this goal, the AIG/MCC team will focus on determining whether the MCC:

- adequately measures performance and results;
- achieves the desired results at the lowest reasonable cost; and
- maintains a high level of organizational and employee integrity.

³ *Our planned audit strategy assumes that the country compacts will contain appropriate audit language relevant to the compact implementing agencies.*

Early OIG Involvement Ensures Good Oversight

The OIG has taken the approach that early involvement in MCC activities will help ensure good oversight. This approach to our responsibilities has proven to be successful with our other clients in Latin America and Eastern Europe. Shortly after the establishment of the MCC in January 2004, we met with the Board chairman where we introduced our senior management and discussed our operational preferences as being proactive and working with management to resolve issues early before they become challenges. Subsequently, we provided the Board chairman and the CEO with our fiscal year 2004 and 2005 audit plan and budgets, and we continue to encourage MCC's input to our audit plan.

As the MCC develops its program and operating concepts and procedures, we continue to work closely with the Corporation's executives and managers in order to enhance our knowledge of the MCC's programs and activities (including its administrative and accounting

processes), establish a framework for providing early feedback, and refine our audit plans.

In March 2004, the Corporation entered into Interagency Agreements with the Department of Interior's National Business Center (NBC) in Denver, Colorado for payroll management, accounting and financial statement preparation, and human resources management. The National Business Center is an organization within the Department of Interior that provides administrative services to the Department of Interior, as well as to other Federal agencies. The MCC plans to locate its accounting records primarily at the NBC and to interface with the NBC's systems electronically for disbursement authentication, as well as to receive financial reports and information, thereby establishing a paperless financial and administrative system in its headquarters.

In June 2004, the AIG/MCC and Deputy AIG/MCC accompanied the Corporation's Vice President for Administration and Finance, Controller, Contracting Officer and Director of Human Resources on a cognizance visit to the NBC. We made the visit in order to review



Photograph of AIG/MCC and MCC staff visiting the National Business Center in Denver.

the services that NBC will be providing, understand how these services will be provided, and establish a relationship with MCC and NBC staff in anticipation of future audit work.

Coordination with Other Government Units

In March 2002, President Bush called for a new compact for global development, defined by new accountability for both rich and poor nations alike, and proposed the establishment of the Millennium Challenge Account (MCA) to implement the compact. Greater contributions from developed nations must be linked to greater responsibility from developing nations. Because sound policies are an essential condition of development, the President announced that the MCA will be devoted to projects in nations that govern justly, invest in their people and encourage economic freedom.

The MCC was established to administer the MCA and was given broad flexibility to accomplish its mandate and seek to establish itself as a model organization that is transparent, embraces accountability and is results-oriented. Support of this unique development concept requires that we establish clear expectations and avoid duplication of effort with other government units that have oversight responsibilities. We have initiated extensive coordination efforts with the Office of Management and Budget (OMB) and the Government Accountability Office (GAO).

The Office of Management and Budget

To keep abreast of current OMB guidelines and expectations as they relate to MCC operations and to our audit work, the OIG maintains a working relationship with OMB. On April 26, 2004, at the request of the Inspector General, MCC and OIG staff met with OMB officials to obtain OMB's expectations of the Millennium Challenge Corporation regarding preparing and submitting financial statements. That meeting and subsequent OIG-MCC communications with OMB resulted in establishing an accelerated time frame for obtaining an audit of the Corporation's financial statements. Similar coordination efforts with OMB helped establish content and reporting requirements for the audit of the Corporation's information system security program.

The Government Accountability Office

The GAO, as the Congressional oversight agency, has the authority and responsibility to review Federal programs and to respond to special requests of the Congress. In May 2004, responding to a request by the Chairman of the Senate Foreign Relations Committee, the GAO initiated a review of the Millennium Challenge Corporation to find out (1) how the MCC is being managed, (2) how the MCC selects eligible countries and negotiates compacts, (3) how MCC assistance will be monitored and evaluated and (4) to what extent MCC funding will be coordinated with other donors.

In May 2004, the GAO held an entrance conference with USAID staff, including individuals from USAID's MCC Coordination Unit. AIG/MCC staff participated in that meeting to gain an understanding of GAO's review objectives to better coordinate our future audit and review activities and avoid potential duplication of effort. Subsequently, the AIG/MCC initiated a review of the MCC to determine its progress in achieving its planned organizational structure and beginning its assistance program. AIG/MCC staff met with the GAO review team in July and August 2004 to coordinate review activities and to discuss sharing of information.

Supporting Key Millennium Challenge Corporation Programs and Management Functions

Supporting Good Corporate Management

Recognizing the importance of sound financial management and accountability for resources, the AIG/MCC met with the Corporation early to plan statutory audits of its financial statements and information security program. Additionally, during this six-month reporting period, the AIG/MCC completed a review of MCC's progress in establishing itself and beginning its assistance programs. The AIG/MCC also completed the statutory audit of MCC's information security program and developed plans for the audit of the Corporation's fiscal year 2004 financial statements.

Review of the Millennium Challenge Corporation's Progress in Achieving Its Planned Organizational Structure and Beginning Its Assistance Programs as of August 31, 2004

The Office of Inspector General for the Millennium Challenge Corporation conducted a review of the Millennium Challenge Corporation (MCC) during August of 2004. The purpose of the review was to evaluate the progress MCC has made in achieving its planned organizational structure, developing its compact development process, and complying with the Millennium Challenge Act of 2003 and other applicable laws and regulations.

The review found that MCC had made significant progress in achieving its planned organizational structure, developing its compact development process, making progress towards complying with the Millennium Challenge Act of 2003 (Act)⁴ and assessing the applicability that other laws and regulations may have on its operations.

In achieving its planned organizational structure, MCC had established an organizational structure consisting of the Chief Executive Officer and eight Vice Presidencies. By December 2005, it planned to reach a full staffing level of 222 U.S. staff positions. As of August 31, 2004, MCC had already filled 57 of the planned staff positions by means of a combination of U.S. direct hires, personal service contractors, specialized contractors and detailees. MCC also planned for 20 of the U.S. staff positions to be located overseas, assisted by an unspecified number of Foreign Service National (FSN) personal service contractors, to provide an on-the-ground presence to oversee the activities in the compact countries. With only 222 plus employees MCC is aware of the challenge it faces in overseeing an assistance program expected to reach \$5 billion a year. It intends to contract for whatever support its core staff may need to maintain a proper level of oversight.

Regarding its compact development process, MCC's Board selected 16 countries as eligible to submit assistance proposals under fiscal year 2004 funding. MCC posted guidance to its website to assist the countries in

developing country proposals, made initial visits to the countries to invite the countries to submit proposals and explain MCC's guidelines and focus, and has generally stayed abreast of the countries' proposal development efforts through various communication channels as well as through follow-up visits. By the end of August 2004, MCC had received initial program proposals from three countries and concept papers from six additional countries. It expected to receive either proposals or concept papers from four additional countries by October 2004 and had not determined when the three remaining countries would send in their proposals. One of the issues that MCC is well aware of and will need to deal with going forward is its funds allocation process. MCC's fiscal year 2004 appropriation is about \$1 billion and early indications are that program proposals will come in for much more than that amount.

Regarding MCC's compliance with the Act and other applicable laws and regulations, MCC had taken the following actions among others to comply: established itself and a Board of Directors; identified candidate countries for fiscal years 2004 and 2005; selected eligible countries for fiscal year 2004; made proper notifications to Congress on its selections of candidate and eligible countries; met and consulted with appropriate congressional committees on the extent to which candidate countries met the eligibility criteria; held public meetings and has a plan to establish a program of up to \$40 million for threshold countries.⁵ The only matter we considered to be a possible exception in looking at MCC's compliance with the Act was that the pay rate for the services of the Board's public members did not include Washington D.C.-based locality pay. MCC agreed to review this matter and determine the applicability of Washington, D.C.-based locality pay to its Board members.

MCC also identified some other laws that it considered being partially or wholly exempt from because of being formed as a government corporation by Congress. The OIG and MCC are continuing to review these other laws to determine their applicability to MCC.

⁴ The Millennium Challenge Act of 2003 is Part D, Title VI of Public Law 108-199—The Consolidated Appropriations Act of 2004.

⁵ Threshold countries are ones that just missed being determined eligible to receive MCA assistance but demonstrate a commitment to improving policy reform.

Lastly, the MCC is currently following Federal regulations for procurement, travel, and personnel-related matters but plans to write its own policies and procedures for these areas to reflect the flexibility that it has under the Act. The review noted two instances involving payments of special benefits for which MCC did not maintain documentation to support the rationale for the payments and the amounts. This was brought to the attention of MCC officials, and they acknowledged that documentation should have been maintained to support the payments.

Our review was not an audit, and the report did not contain any recommendations.

(Report No. M-000-04-001-S)

Audit of MCC's Fiscal Year 2004 Financial Statements

The Millennium Challenge Corporation was designed to make maximum use of flexible authorities to optimize efficiencies in contracting, program implementation and personnel. The Government Corporation Control Act establishes the reporting requirements for wholly owned government corporations such as MCC.

The Government Corporation Control Act requires the head of a government corporation to submit an annual management report to the Congress no later than 180 days after the end of the government corporation's fiscal year. A government corporation's management report includes a set of audited financial statements and a statement on internal accounting and administrative control systems consistent with the requirements for government agency statements on internal accounting and administrative control systems under the Federal Managers' Financial Integrity Act. The Government Corporation Control Act requires that the financial statements be audited by the Inspector General of the corporation or an independent external auditor, as determined by the Inspector General.

The set of audited financial statements required of the MCC by the Government Corporation Control Act is different from those required of the government agencies by the Office of Management and Budget (OMB) guidance, "Form and Content for Agency Financial Statements." The MCC is required to prepare and submit a set of four principal financial statements: (1) Statement of Financial Position, (2) Statement of Operations, (3) Statement of Cash Flows, and (4) Statement of Budgetary Resources. Government agencies are required to prepare and submit a set of six principal statements: (1) Balance Sheet, (2) Statement of Net Cost, (3) Statement of Changes in

Net Position, (4) Statement of Budgetary Resources, (5) Statement of Financing, and (6) Statement of Custodial Activity, when applicable. OMB's guidance for government agencies also requires them to prepare and submit a set of audited financial statements to Congress no later than 45 days after the end of the government agency's fiscal year.

Given these differences in reporting requirements between government corporations versus government agencies, we have assisted the Corporation with determining the accounting standards it must follow and the financial statements it must submit. Additionally, given OMB's desire to have all government entities report their financial statements on the same schedule, we have coordinated with MCC and the OMB to establish an accelerated reporting date for those financial statements. We have issued a solicitation for proposals to contract with an independent external audit firm to audit the Corporation's fiscal year 2004 financial statements as required by the Government Corporation Control Act.

Audit Of Millennium Challenge Corporation's Compliance with the Provisions of the Federal Information Security Management Act of 2002

The Federal Information Security Management Act of 2002 (FISMA), Public Law 107 347, requires agencies to report annually on their information system security program to the Office of Management and Budget, Congressional committees, and the Government Accountability Office. The objective of this audit was to determine if the Millennium Challenge Corporation reported on its information security program in accordance with the requirements of the Office of Management and Budget's fiscal year 2004 reporting instructions for FISMA.

The Federal Information Security Management Act of 2002 states that:

Each agency shall develop, document, and implement an agency-wide information security program...to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source....

The MCC reported on its information security program in accordance with the Federal Information Security Management Act. However, the Corporation had not yet documented an information security program. Such a program would have included, among others, periodic risk assessments, policies and procedures to reduce risk, plans for providing information security and security awareness training, procedures for reporting incidents, and continuity of operations plan. Corporation officials explained that as a newly created organization, the Corporation had focused on establishing operations and that activities to define policies and procedures are still in process.

The report contained one recommendation for the Corporation to develop an information systems security program in accordance with FISMA. Management accepted the recommendation and has reported it to the Office of Management and Budget in MCC's fourth quarter Plan of Actions and Milestones.

(Report No. M-000-04-001-P)

Supporting Control of Corruption and Accountability

The OIG is committed to detecting and preventing fraud and misuse of government resources worldwide and to preserving and protecting MCC programs and employee integrity. To realize that commitment, the OIG has initiated activities to (1) enhance the awareness of MCC staff to potential fraud and (2) involve OIG in the process of achieving effective accountability over MCC resources.

MCC Participates in Annual Conference of International Consortium on Government Financial Management (ICGFM)

In April 2004, OIG staff attended the ICGFM annual conference in Miami, Florida. The ICGFM is an organization dedicated to working globally with governments, organizations, and individuals to improve financial management by providing opportunities for professional development and information exchange.

Representatives from approximately 30 countries participated in this year's conference. Speakers included the USAID Deputy Administrator and MCC's Managing Director for Fiscal Accountability.

USAID's Deputy Administrator addressed the challenges to development USAID faces as a result of corruption and what can be done about them. He discussed the Foreign Corrupt Practices Act and how it marked a fundamental change in thinking about corruption, which used to be a taboo subject but is now on the agenda of national, regional, and multinational policymaking bodies. The Deputy Administrator then talked about the establishment of the Millennium Challenge Corporation and how a country's position on corruption will be viewed as a major factor in determining eligibility for MCC funding.

MCC's Managing Director for Fiscal Accountability then gave a presentation on "Lessons in Development" and four lessons he had learned in working with a developing country emerging from difficult times; specifically:

1. How, given the right incentives, that government reformed previously deficient financial management processes.
2. How governments respond better to reform and change when such reforms and changes are based on a country's analysis of its peer countries and its own internal needs rather than being imposed by external sources.
3. How donors' contributions and assistance to counterpart developing countries can be mutually supportive when provided in partnership with their counterpart.
4. The importance of policy and the fact that a country's technical expertise, financial resources, and good intentions will only have a positive impact on peoples' lives if there are public policies in place that promote growth and provide opportunity to its citizens.

MCC's Managing Director emphasized how the Corporation embraces these four lessons. He discussed how the Corporation is built around the principles of incentives, country-driven development programs, working as a partner, being accountable for results, and the concept that public growth and opportunity-oriented policies are important.

Fraud Awareness Briefing

In July 2004, the OIG, represented by staff from the Assistant Inspector General for Investigations and the Assistant Inspector General for the Millennium Challenge Corporation, presented a briefing on fraud awareness to approximately 16 members of the Corporation.

MCC was advised of the mission of the Assistant Inspector General for Investigations (Investigations), which focuses on the preservation and protection of program and employee integrity relative to the activities of USAID, the MCC, the African Development Foundation, and the Inter-American Foundation. It is the responsibility of Investigations to (1) investigate allegations of fraud, waste, and abuse in programs and operations, giving priority to cases involving major fraud; (2) prevent fraud, waste, and abuse in programs; and (3) preserve and protect employee integrity by conducting and concluding investigations of employee integrity efficiently and expeditiously. Investigations employs both proactive and reactive strategies to carry out its mission.

Investigations' presentation to MCC staff was to increase their awareness of the potential for fraudulent activities and to enhance their alertness for indications of potential fraud in the activities that MCC will be funding. MCC was presented with specific examples of fraudulent

schemes uncovered during investigations involving USAID programs. Fraud indicators were described as clues or hints that a closer look should be made of an area or activity.

The presentation also elaborated on the OIG's work with Supreme Audit Institutions (SAIs) in foreign countries where USAID-funded activities are carried out. The SAIs are the principal government audit agencies in recipient countries and are often the only organizations that have a legal mandate to audit the accounts and operations of their governments.

The OIG offered to conduct additional fraud awareness training sessions as needed to alert MCC employees, contractors, grantees and partners to fraudulent schemes and practices. In addition, the OIG Hotline was introduced as the tool for reporting fraud, waste, and abuse.

The OIG also discussed the best use of its audit and investigative resources by deploying those resources to address the Corporation's most significant issues, thereby adding value to the Corporation and at the same time keeping the Corporation's stakeholders informed through the OIG reporting process. To decide on the best use of OIG resources, the OIG stated that it must keep abreast of the Corporation's activities. One of the ways the OIG will do so will be to bring the Corporation into the OIG's annual planning process to learn the Corporation's concerns and priorities.



Photograph on the OIG presenting its first fraud awareness briefing to staff of MCC.

OIG's Regional Inspector in Honduras Meets with MCC to Establish Relationship in Anticipation of Future Audit Assistance

As noted earlier, the AIG/MCC expects to draw on staff from the OIG's Washington and overseas field offices to accomplish its audit and oversight responsibilities for the MCC. In late August to early September, the OIG's Regional Inspector General in San Salvador traveled to Tegucigalpa, Honduras to meet with MCC senior Fiscal Accountability and Development Policy staff to accompany them on introductory meetings with senior officials from various Government of Honduras ministries, multilateral banks, and other institutions. The team visited the Ministry of Finance, Ministry of Public Works, Transport and Housing, Ministry of Agriculture, Ministry of Industry and Commerce, and the Honduran Social Investment Fund. The other organizations visited included the World Bank, the Central American Bank for Economic Integration, and the Inter-American Institute of Agricultural Cooperation.

The purpose of the meetings was to provide general information about the OIG's experience in auditing USAID funds in Honduras and the audit capability of Honduras' Supreme Audit Institution (the Honduran Government audit agency) and local public accounting firms. Discussions with the various ministries and organizations focused, in general terms, on financial management issues such as the government's implementation of its integrated financial management system and the physical flow of cash from the donor to the end-user. Also discussed was the organizations' use of internal and external audits. This introductory trip also provided the opportunity for both MCC staff and the OIG to meet key people in the various organizations.

A P P E N D I C E S

REPORTS ISSUED***April 1, 2004 through September 30, 2004***

<i>Report Number</i>	<i>Date of Report</i>	<i>Report Title</i>	<i>Amount of Findings (\$000s)</i>	<i>Type of Findings</i>
M-000-04-001-S	09/30/04	Review of the Millennium Challenge Corporation's Progress in Achieving Its Planned Organizational Structure and Beginning Its Assistance Programs as of August 31, 2004		
M-000-04-001-P	09/30/04	Audit Of Millennium Challenge Corporation's Compliance with the Provisions of the Federal Information Security Management Act of 2002		

OIG STATISTICAL SUMMARY

As of September 30, 2004

INVESTIGATIVE ACTIONS

NOTHING TO REPORT

Millennium Challenge Corporation
Office of Inspector General
1300 Pennsylvania Avenue, NW
Room 6.06D
Washington, DC 20523

THE SEMIANNUAL REPORT TO THE CONGRESS
IS AVAILABLE ON THE INTERNET AT
www.usaid.gov/oig/public/semiann/mcc1.htm