Millennium Challenge Corporation

Agency Financial Report

Fiscal Year 2009

ROAD TO PROSPERITY & GROWTH

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Foreword

The Millennium Challenge Corporation (MCC) has chosen to produce an alternative to the consolidated Performance Accountability Report called the Agency Financial Report (AFR) for Fiscal Year (FY) 2009.

The MCC AFR is prepared in accordance with policies prescribed by the Office of Management and Budget (OMB) in its circulars A-11, Part 6, Section 230 and A-136, and also satisfies the requirements of the CFO Act, as amended by the Reports Consolidation Act of 2000 (Pub. L. No 106-531), the ATDA (Pub. L. No 107-289), and the Government Corporations Control Act (31 U.S.C. § 9101 et seq.). It presents an overview of the Financial and Performance results of the Millennium Challenge Corporation for fiscal year ending September 30, 2009 and provides management assurances required under the Federal Managers Financial Integrity Act (FMFIA) of 1982 (Pub. L. No. 97-255).

MCC will prepare and submit its FY 2009 Annual Performance Report with its Congressional Budget Justification in accordance with the above policies and it will be available on MCC's public website at www.mcc.gov no later than February 4th, 2010.

The MCC AFR contains the following:

- Messages from MCC Chief Executive Officer and Chief Financial Officer
- Management's Discussion and Analysis
- Financial Section
- Other Accompanying Information

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Message from the Millennium Challenge Corporation's

Acting Chief Executive Officer

I am pleased to present the Millennium Challenge Corporation's (MCC) 2009 Annual Financial Report. Since its creation in 2004, MCC has reached many milestones in the foreign assistance arena and is recognized as an innovative United States Government agency that contributes effectively to country-led and results-focused development aid around the world. MCC builds institutional capacity through "smart aid" programs with partner countries that practice good governance, fight corruption, invest in healthcare and education, and promote competitiveness through country-determined investments in such priority areas as infrastructure and agriculture. In 2009, MCC continued to demonstrate a serious commitment to fight poverty and promote economic growth in partner countries, while providing prudent stewardship of the resources received from the United States Congress.

By the end of fiscal year 2009, MCC signed 19 compacts and 21 threshold agreements, committing over $7 billion to worldwide poverty reduction through results-driven programs built on measureable and transparent objectives. MCC development programs have trained more than 87,000 farmers to boost productivity and food security, and more than 1,100 kilometers of roads are under construction to facilitate access to markets, schools, and health clinics.

I am also pleased to report that MCC, once again, received an unqualified audit opinion on its financial statements from the independent audit firm of Cotton and Company, LLP. Furthermore, I certify with reasonable assurance that MCC's accounting systems and internal controls are in compliance with the provisions of OMB Circular A-123, Management Responsibility for Internal Control; the Federal Financial Management Improvement Act; and Sections 2 (Internal and Administrative Controls) and 4 (Financial Systems) of the Federal Managers' Financial Integrity Act.

Going forward, MCC will continue to build on its results to date and to reinforce its mission to reduce global poverty through economic growth in sustainable ways that makes a meaningful difference in the lives of the world's poor.

Darius Mans

Darius Mans
Acting Chief Executive Officer

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Message from the Millennium Challenge Corporation's Chief Financial Officer

I am pleased to report that the Millennium Challenge Corporation (MCC) received a clean audit opinion on its financial statements from the Office of Inspector General once again this year.

As a small U.S. Government corporation, MCC is not subject to the requirements of the *Chief Financial Officers Act*. Yet, we choose to follow the professional standards it incorporates along with other good government reforms applicable to the executive branch.

As MCC has matured and evolved in fulfilling our mission as an innovative and results-driven American resource in the fight against global poverty, we have worked effectively to match our administrative and financial capabilities to the task. We developed a new security policy and redesigned all network security controls, bringing MCC's systems into full compliance with federal laws, reducing system-wide risks, and producing a safer, more stable and capable computing platform to support MCC's business goals. In addition, we continued the development of the *MCC Integrated Data Analysis System (MIDAS)* to improve financial reporting and further integrate programmatic, performance, and financial information. *MIDAS* has already improved the timeliness and use of financial and performance data to manage program costs and support decision-making. During FY 2010, we will explore options for further integration of our financial management system, and we will establish the policy, framework, and identify the tools for a comprehensive document management program.

The FY 2009 *Independent Auditor's Report* cites only one material weakness in MCC's controls over mission activities and support. This report also identifies four significant deficiencies. MCC agrees with all the proposed recommendations to address these issues. Six of the FY 2009 audit recommendations, involve financial management issues with MCC's oversight of its compact and threshold programs. MCC plans to work closely with our development partners, in compact countries and at USAID, to develop action plans to address and resolve these findings during the current fiscal year. During FY 2009, MCC also resolved 26 open items from the FY *2008 Federal Information Management Security Act (FISMA)* audit, including items that dated back to the FY 2005 *FISMA* audit. The FY 2008 audit findings necessitated major capital outlays to correct system security issues. By contrast, the FY 2009 *FISMA* audit included relatively minor compliance items, such as changes to security plans, procedures, and policies. MCC already closed two of the FY 2009 findings and developed a plan and schedule to close the remaining 20 items by April 2010.

MCC's achievements in FY 2009 and the continued progress we plan for FY 2010 will provide the financial, administrative, and technology support essential for successful program development and implementation. This is fundamental to achieving real results toward MCC's goal of sustainable poverty reduction through growth for the benefit of the world's poor.

Michael Casella
Acting Vice President, Administration and Finance

LIST OF ACRONYMS

A&F	Department of Administration and Finance
CIF	Compact Implementation Fund
CISO	Chief Information Security Office
CPS	Common Payment System
CSRS	Civil Service Retirement System
DCIA	Debt Collection Improvement Act
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security management Act
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
IPIA	Improper Payments Information Act
ITS	International Treasury System
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MIDAS	MCC Integrated Data Analysis System
NBC	National Business Center
OIG	Office of Inspector General
OMB	Office of Management and Budget
RRT	Results Reporting Tables
SAS	Statement of Auditing Standards
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SNC	Statement of Net Cost
TSP	Thrift Savings Plan
USAID	United States Agency for International Development

CONTENTS

Systemic poverty adversely affects the lives of millions around the world, and MCC addresses this global challenge with smart, innovative, long term bi-lateral assistance through programs that enhance America's standing and help stimulate a healthy world economy in which our country can prosper.

MCC Appropriations at a glance (in millions)

Fiscal Year	Annual Funding
2004	994
2005	1,488
2006	1,752
2007	1,752
2008	1,557
2009	875
TOTAL	8,418

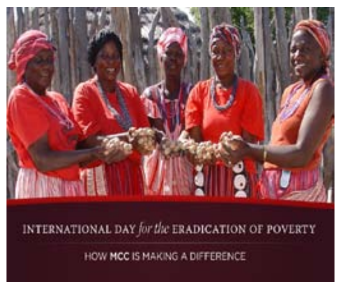
Management Discussion and Analysis

Our Mission and Programs

The Millennium Challenge Corporation (MCC) is a United States Government entity whose mission is to reduce poverty through economic growth in developing countries that create and maintain sound policy environments. MCC is based on the principle that aid is most effective when it reinforces good governance, economic freedom, and investments in people. MCC partners with developing countries that take responsibility for their development needs and accept the highest standard of accountability for those dollars.

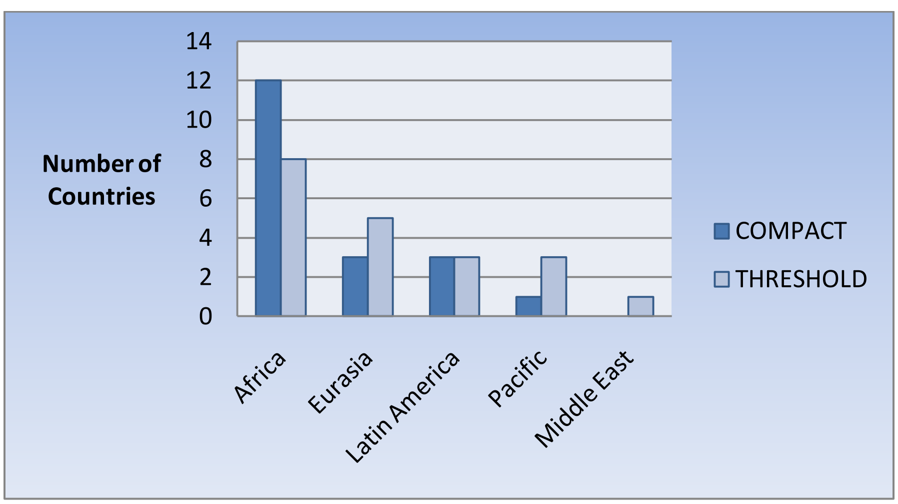
MCC selects countries that are eligible for a Millennium Challenge Compact, a multi-year agreement between MCC and an eligible country, to fund specific programs targeted at reducing poverty and stimulating sustainable economic growth. To become eligible to receive a compact, MCC evaluates a country's performance on seventeen (17) independent and transparent policy indicators in three categories: ruling justly, investing in people, and economic freedom. Countries that have demonstrated significant improvement in policy indicators but do not qualify for a compact grant may be eligible for threshold program assistance. Threshold programs are smaller grants designed to help improve a country's performance on specific indicators.

Since its inception in 2004, the MCC's total commitment to fighting poverty worldwide has resulted in 19 compact agreements signed with 12 countries in Africa, three in Latin America, three in Eurasia, and one in the Pacific, totaling over $6.8 billion. Senegal is the latest country to sign a compact agreement with MCC in September 2009. In addition, MCC has a total of 21 threshold programs, including MCC's first Stage II threshold program, totaling an additional $470 million.



In FY 2009, MCC made significant progress across several sector activities such as: agriculture, roads, and irrigation and has continued to expand its presence in the international foreign aid arena. **Exhibit 1** shows the FY 2009 worldwide participation in MCC programs.

Exhibit 1: Worldwide Participants in MCC Programs



COMPACT PROGRAMS

A compact is a multi-year grant agreement between MCC and an eligible country to fund specific programs aimed at reducing poverty by stimulating economic growth. It is a mutual promise between the United States Government and a partner country, each with specific responsibilities to fulfill. After compact signing, “entry into force” is the point at which funds are obligated and implementation of the compact program begins. Examples of potential compact programs are:

- Community services such as schools;
- Skills training and health clinics;
- Infrastructure improvements for roads, ports and pipelines; and
- Agribusiness development projects.

Exhibit 2 shows an historic distribution of MCC compact funds by region and country from FY 2005 to the present.

Exhibit 2: Historic Distribution of MCC Compacts Funds *(in millions)*

MCC COMPACT REGIONS						
COUNTRY	Africa	Eurasia	Latin America	Pacific	Signing	Entry Into Force
Madagascar	109.8				April 18, 2005	July 27, 2005
Cape Verde	110.0				July 4, 2005	October 17, 2005
Benin	307.3				February 22, 2006	October 6, 2006
Ghana	547.0				August 1, 2006	February 16, 2007
Mali	460.8				November 13, 2006	September 17, 2007
Mozambique	506.9				July 13, 2007	September 22, 2008
Lesotho	362.6				July 23, 2007	September 17, 2008
Morocco	697.5				August 31, 2007	September 15, 2008
Tanzania	698.1				February 17, 2008	September 15, 2008
Burkina Faso	480.9				July 14, 2008	July 31, 2009
Namibia	304.5				July 28, 2008	September 16, 2009
Senegal	540.0				September 16, 2009	
Georgia		395.3			September 12, 2005	April 7, 2006
Armenia		235.7			March 27, 2006	March 27, 2006
Mongolia		284.9			October 22, 2007	September 17, 2008
Honduras			215.0		June 13, 2005	September 29, 2005
Nicaragua			175.0		July 14, 2005	May 26, 2006
El Salvador			460.9		November 29, 2006	September 20, 2007
Vanuatu				65.7	March 2, 2006	April 28, 2006
Total	**5,125.4**	**915.9**	**850.9**	**65.7**		

MCC has committed over 75 percent of its compact grants to projects in 12 African nations. These countries are already experiencing the impact of our programs through the improvements noted in communities where MCC projects are unfolding. In Ghana, MCC funded the construction and rehabilitation of schools in 30 districts, providing students and teachers with safe structures, potable water, latrines, and furniture. In Morocco, MCC funded the construction of landing sites for boats that will increase incomes for approximately 25,000 of Morocco's poor. In Benin, MCC invested $36 million to establish a comprehensive property registry, critical for poverty reduction.

THRESHOLD PROGRAMS

MCC's Threshold Program assists countries to address policy weaknesses and to push them over the "threshold" to compact eligibility. Eligible countries must demonstrate significant commitment to improve policy performance on the 17 indicators that MCC uses to select partners for compact funding. Threshold programs generally last two to three years. Occasionally, a second, or "Stage II," threshold program may be approved and is designed for countries whose eligibility for a threshold program has expired but have yet to meet the compact eligibility criteria, or a country that has successfully implemented a threshold program and continues to pursue a policy reform agenda. MCC's authorizing legislation allows the use of up to ten percent of appropriated funding for the threshold program.

Exhibit 3 provides a list of current threshold countries, the date of the signed grant agreement, and the amount of the grant.

Exhibit 3: Current MCC Threshold Programs *(in millions)*

MCC THRESHOLD COUNTRIES					SIGNING DATE				
	Africa	Eurasia	Latin America	Pacific	2005	2006	2007	2008	2009
Burkina Faso	12.9				Jul 22				
Malawi	20.9				Sep 23				
Tanzania	11.2					May 03			
Zambia	22.7					May 22			
Kenya	12.7						Mar 23		
Uganda	10.4						Mar 29		
Sao Tome & Principe	8.7						Nov 09		
Niger	23.1							Mar 17	
Rwanda	24.7							Sep 24	
Albania		13.9				Apr 03			
Ukraine		45.0				Dec 04			
Moldova		24.7				Dec 15			
Kyrgyz Republic		16.0						Mar 14	
Albania II		15.7						Sep 29	
Paraguay			34.6			May 08			
Paraguay II			30.0						Apr 13
Guyana			6.7				Aug 23		
Peru			35.6					Jun 09	
The Philippines				20.7		Jul 26			
Indonesia				55.0		Nov 17			
Jordan				25.0		Oct 17			
Total	**147.3**	**115.3**	**106.9**	**100.7**	**2**	**9**	**4**	**5**	**1**

Since inception in 2004, MCC has signed 21 threshold agreements with 19 countries, totaling $470.2 million. About two-thirds of this funding has targeted the *Control of Corruption* and the *Rule of Law* indicators. The United States Agency for International Development (USAID) is the primary implementation partner in all but one of the threshold programs; the United States Department of Treasury and the Department of Justice also are involved in the implementation of threshold programs. Two former threshold countries (Burkina Faso and Tanzania) have signed an MCC compact, and another six threshold countries are in various stages of compact negotiations. In December 2008, Liberia was selected as a threshold country and is currently in the process of developing its threshold program, and Timor-Leste was reselected as a threshold country.

Results in Brief

Peru

To improve delivery of health systems in Peru, the Ministry of Health and the Regional Health Directorates entered into an agreement to define responsibilities of the national immunization program at the central and regional levels. Through the MCC threshold program, offices have been established in 11 regions and the program is reaching out to educate both local and regional governments about threshold activities.

Kenya

The Public Procurement Oversight Authority launched an online portal for advertising Kenyan opportunities for 16 procurement entities, thereby helping increase transparency and fight corruption. Full implementation of e-procurement under the MCC Threshold Program in Kenya will build upon this initial effort by expanding the limited capacity of the government to support advertising of all tender opportunities, and to receive bids online.

Albania

As part of its first threshold program with MCC, Albania's e-procurement system (EPS) was transferred to the Government of Albania, and the prime minister committed to using EPS for all procurements in 2009. The EPS met its target of completing 2.5 percent of all procurements in 2008. Use of the system continues to increase. EPS saves an estimated 15 percent of its budget due, in part, to increased competition.

Whether it is for improving delivery of health systems in Peru, increasing transparency and fighting corruption in procurement processes in Kenya, or implementing e-procurement systems in Albania, MCC is striving to help countries meet compact eligibility criteria through the pursuit of policy reform.

GOVERNANCE AND STRUCTURE

Led by a Chief Executive Officer (CEO) appointed by the President, MCC is responsible for the stewardship of the Millennium Challenge Account (MCA) that receives funds appropriated by Congress. MCC is governed by a public-private Board of Directors (Board) comprised of the Secretary of State, Secretary of the Treasury, U.S. Trade Representative, the USAID Administrator, MCC's CEO, and four individuals from the private sector who are appointed by the President with the advice and consent of the U.S. Senate. The Secretary of State is the Chair of the Board and the Secretary of the Treasury is the Vice Chair.

While MCC is not a Chief Financial Officers (CFO) Act agency, and is therefore not subject to the CFO Act of 1990, it adheres to the requirements and principles applicable to such agencies and prepares an annual Agency Financial Report (AFR) in accordance with Office of Management and Budget (OMB) requirements and guidance.

MCC is a small organization limited to 300 Washington, DC employees distributed among seven departments: the Office of the CEO, the Office of the General Counsel, the Department of Policy and International Relations, the Department of Congressional and Public Affairs, the Department of Compact Development, the Department of Compact Implementation, and the Department of Administration and Finance. **Exhibit 4** depicts MCC's organization structure.

Exhibit 4: The MCC Organizational Diagram

At the end of FY 2009, MCC employed 282 staff members at its Washington, DC offices and 35 staff members at overseas locations. MCC has been successful in attracting top candidates from the public and private sectors and has maintained an organizational structure with a high percentage of senior staff and a low percentage of administrative support personnel.

During the intense period of compact development and implementation start-up, MCC contracts with external consultants for limited engagements. MCC also uses contractors for oversight, supervision, monitoring, and evaluation assistance. As MCC continues to increase its presence in the foreign assistance arena its staffing levels need to keep pace with the growing demands of compact and threshold programs. **Exhibit 5** details MCC historical and projected staffing needs.

Exhibit 5: MCC Headquarters and Overseas Staffing Levels

Employees	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Authorized FTE	310	321	336	342	379
HQ Staff	257	274	247	285	314
Overseas Staff	10	21	35	38	42
Total	**267**	**295**	**282**	**323**	**356**

In July 2009, MCC launched the MCC 2015 Conference, an organizational review intended to examine its achievements, strengths and weaknesses. In this review, MCC staff and management looked toward the future, challenging themselves to identify the most effective ways to achieve MCC's mission of reducing poverty through economic growth. The organizational review is a careful process of reflecting on MCC's many accomplishments, developing and documenting a common view of MCC's constraints, confronting those issues that encumber MCC's forward progress, and taking necessary actions.

The MCC 2015 Conference challenged its participants to reaffirm their belief in and desire to maintain MCC's mission of generating economic growth to reduce poverty. Similarly, the group soundly affirmed the need to uphold MCC's three core principles: policies matter, ownership matters, and results matter. This initiative will continue during the weeks and months ahead.

FINANCIAL PERFORMANCE AND ANALYSIS

FINANCIAL STATEMENTS HIGHLIGHTS

For FY 2009, MCC received an unqualified or "clean" audit opinion from the Office of Inspector General (OIG) on its financial statements. Cotton & Company, LLP, MCC's independent auditor, issued its *Independent Auditor's Report* that cites one (1) material weakness in MCC's controls over mission activities and support. In addition, the auditors did not disclose any instances of non-compliance, as required to report under *Government Auditing Standards* and OMB Bulletin 07-04.

While MCC is not a CFO Act agency, MCC adheres to the requirements and principles imposed upon such agencies by the CFO Act, the Government Management Reform Act of 1994, and other pertinent laws and regulations. As such, MCC prepares annual financial statements for audit and presentation to OMB and other stakeholders. MCC's comparative financial statements present MCC's financial position and its changes during the reporting period, its cost of operations, and its budgetary resources and their status for the fiscal years ending September 30, 2009 and September 30, 2008.

BALANCE SHEETS

The balance sheets present amounts of future economic benefits owned or managed by MCC (assets), amounts owed by MCC (liabilities), and amounts that constitute the difference (net position).

ASSETS AND UNEXPENDED APPROPRIATIONS

As of September 30, 2009, MCC reported total assets of $6.7 billion, an increase of $100 million from September 30, 2008. This increase is primarily the result of funds appropriated by Congress that had not been expended as of the end of the year. At fiscal year-end, MCC held $6.6 billion in unexpended appropriations, of which $5.9 billion has been obligated for MCC programs.

MCC's Fund Balance with Treasury constitutes the vast majority (99.3 percent) of total assets. Because MCC neither owns any of its facilities or other real property nor has any capital leases for office space or its information technology (IT) equipment, MCC has very few capital assets in relation to total assets. The capitalization thresholds are $200,000 for IT equipment and $50,000 for other fixed assets. As of September 30, 2009, MCC reported fixed assets of $6.95 million, composed solely of leasehold improvements. The leasehold improvements are for enhancements made to leased office space at MCC headquarters in Washington, DC.

LIABILITIES AND NET POSITION

As of September 30, 2009, MCC had approximately $64 million in liabilities, which were amounts owed to its vendors, contractors, trading partners, and employees. MCC's ratio of assets to liabilities as of September 30, 2009, was 105 to 1, which represented a decrease from the 2008 ratio of 156 to 1.

MCC's overall net position as of September 30, 2009, was $6.6 billion. During FY 2009, MCC's net position increased by $82 million (1 percent) from September 30, 2008. During this period, MCC received $875 million in appropriated funds and expended approximately $765 million. The available appropriations that are reflected in MCC's positive net position represent the resources necessary to fund future Compacts and are indicative of a lag between appropriation, commitment, and expenditure of Compact funds.

STATEMENTS OF NET COST

The Statements of Net Cost are designed to show separately the components of the net cost of MCC's operations for the period.

PROGRAM COSTS

During FY 2009, MCC incurred $794 million in net program costs. As of the end of FY 2009, MCC had cumulatively disbursed $38.9 million in advances to MCA (Millennium Challenge Account) accountable entities and other Federal Government agencies.

STATEMENTS OF CHANGES IN NET POSITION

The Statements of Changes in Net Position report the change in net position during the reporting period. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. Cumulative Results of Operations amounted to $4.9 million as of September 30, 2009, and $6.8 million as of September 30, 2008. This balance is the cumulative difference, for all previous fiscal years through 2009, between funds available to MCC from all financing sources and the net costs of MCC.

STATEMENTS OF BUDGETARY RESOURCES

The Statements of Budgetary Resources and related disclosures provide information about how budgetary resources were made available and their status at the end of the period. The Resources section of the statements present the total budgetary resources available to MCC. The Status of Resources section of the statements displays information about the status of budgetary resources at the end of the period. The total amount displayed for the status of budgetary resources equals the total budgetary resources available to MCC as of September 30, 2009. For 2009, MCC had total budgetary resources of $1.8 billion. MCC's incurred obligations decreased by 62 percent ($2.8 billion in FY 2008 to $1.05 billion in FY 2009).

The following section provides additional details pertaining to MCC's use of the funds appropriated by Congress.

STATUS AND USE OF FUNDS

MCC's programs and activities are funded by Congress through annual no-year appropriations. Since its establishment, MCC has received total funding of more than $8.4 billion, including $875 million in FY 2009 (see **Exhibit 6**).

As of September 30, 2009, $56 million of MCC's realized resources represented the balance of apportioned funds available for obligation. While MCC receives no-year funding, OMB apportions, per congressional limits, the amount of funds that MCC may obligate for administrative purposes. Administrative costs include personnel salaries and benefits, leases, rentals, travel, and other miscellaneous expenses. For FY 2009, OMB apportioned $95 million for MCC to use for administrative purposes. During FY 2009, MCC obligated approximately $88.5 million in Administrative Funds, or 93.2 percent of the total amount apportioned by OMB.

Exhibit 6: Annual Funding by Fiscal Year

Fiscal Year	Annual Funding (in thousands)
2004	$ 994,000
2005	1,488,100
2006	1,752,300
2007	1,752,300
2008	1,557,000
2009	875,000
Total	**$8,418,700**

MCC classifies appropriations in six fund categories:

- **Administrative.** Funds appropriated by Congress and apportioned by OMB for the purpose of operating expenses.
- **Millennium Challenge Compact.** Funds approved by Congress, apportioned by OMB, and obligated by MCC to cover compacts between MCC and partner countries.
    - **Compact Implementation Fund (CIF).** Funds approved by Congress and apportioned by OMB. CIF funds represent a portion of the funds agreed to in a compact and are made available at the time of compact signing for the purposes of speeding implementation between compact signing and entry into force. MCC uses authority provided in section 609(g) of its authorizing legislation to provide these funds to a partner country.
    - **Grants.** Funds apportioned by OMB for grants and cooperative agreements.
- **609(g).** Funds approved by Congress and apportioned by OMB to fund contracts or grants for the purpose of facilitating the development and/or implementation of a compact between MCC and a partner country.
- **Due Diligence.** Funds apportioned by OMB and used by MCC to cover costs associated with assessing compact proposals developed by eligible countries and providing compact implementation oversight.
- **Threshold.** Funds appropriated by Congress, apportioned by OMB, and used by MCC to assist countries in meeting selection criteria for MCA eligibility. Such countries are considered "on the threshold" of qualifying for eligibility for an MCC Compact.
- **Audit.** Funds appropriated by Congress and apportioned by OMB for audits of MCC operations and programs. The USAID OIG is responsible for conducting MCC audits.

During FY 2009, MCC incurred total obligations of approximately $1.05 billion for all program fund categories. Total lifetime obligations incurred by MCC since inception are approximately $7.5 billion. As noted in **Exhibit 7**, Administrative Funds represent a small proportion of the total funds provided by Congress, while in FY 2009 about 92 percent of MCC's obligations were for program operations. Should MCC not obligate the total amount of Administrative Funds apportioned by OMB during the budget year, the excess (unobligated) amount is no longer available for administrative purposes but "rolls over" and is subsequently available for program purposes.

Exhibit 7: Obligations by Fund Category

Funds Category	FY 2009 Obligations (in thousands)	Lifetime Obligations (in thousands)
Administrative	$ 88,536	$371,897
Compacts (including CIF/Grants)	855,042	6,423,094
609(g)	32,767	92,441
Due Diligence	40,249	157,339
Threshold	31.214	486,293
Audit	2,744	12,871
Total	**$ 1,050,552**	**$7,543,935**

Exhibit 8 shows funds obligated for compacts by country as of the end of FY 2009.

Exhibit 8: Compact Obligations

MCA/ Country	Total Compact Obligations (in thousands)
Armenia	$ 235,650
Benin	307,298
Burkina Faso	480,944
Cape Verde	110,079
El Salvador	460,940
Georgia	395,300
Ghana	547,009
Honduras	215,000
Kenya	100
Lesotho	362,551
Madagascar	109,773
Mali	460,811
Mongolia	284,911
Morocco	697,500
Mozambique	506,924
Namibia	304,478
Nicaragua	175,000
Senegal	5,000
Tanzania	698,136
Vanuatu	65,690
Total	**$6,423,094**

Note: Compact obligations listed are inclusive of CIF and grant funds per Section 609(g) of the Millennium Challenge Act of 2003, as amended.

FINANCIAL MANAGEMENT SYSTEMS, INTERNAL CONTROLS, AND COMPLIANCE WITH LAWS AND REGULATIONS

The National Business Center (NBC) is MCC's financial management shared services provider for financial and payroll systems. MCC is responsible for overseeing NBC and ensuring that financial systems and internal controls are in place to fulfill legislated and regulatory financial management requirements. The following sections present information on MCC's financial systems, controls, and compliance with key laws and regulations.

MANAGEMENT ASSURANCES

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996

The Federal Financial Management Improvement Act (FFMIA) requires Federal agencies to implement and maintain financial management systems that are in substantial compliance with (1) federal financial management systems requirements, (2) federal accounting standards, and (3) the United States Standard General Ledger at the transaction level. Because MCC uses NBC for financial management and reporting services, MCC relies upon NBC's evaluations of its financial management systems and its determinations of compliance with FFMIA. NBC issued letters dated July 14, 2009 and October 1, 2009 stating that its auditor, KPMG, found no weaknesses or significant deficiencies in evaluating NBC's financial systems during the Statement of Auditing Standards No. 70 (SAS 70) review. **Exhibit 9** below displays these letters.

Exhibit 9: National Business Center SAS-70 Letters

United States Department of the Interior
NATIONAL BUSINESS CENTER
Washington, DC 20240

July 14, 2009

Mr. Dennis E. Nolan
Deputy Vice President, Department of
Administration and Finance
Millennium Challenge Corporation
875 Fifteenth Street, NW
Washington, DC 20005

Dear Mr. Nolan:

The purpose of this letter is to provide you with information on the annual Statement of Auditing Standards No. 70 (SAS 70) report for the Oracle Federal Financial System hosted by the National Business Center (NBC) for your agency. This report includes an opinion from KPMG LLP, our third party independent auditor who conducted the review, regarding the adequacy of general information technology controls for your Oracle application in support of your assurances over financial reporting. This information and resulting assurance covers the period of July 1, 2008, through June 30, 2009.

The opinion from KPMG states that the description of controls presents fairly in all material respects the relevant aspects of the NBC's controls placed in operation as of June 30, 2009. After reviewing the nine control objectives, KPMG has qualified their opinion on one of the control objectives as follows:

> Control Objective 9 – Application Security
>
> KPMG concluded the NBC does not have appropriate tools and mechanisms to ensure that access is appropriately assigned and remains commensurate with job responsibilities.

The NBC has concurred with the finding and will pursue acquiring an audit tool that prevents segregation of duty violations. The NBC takes a qualification seriously and will take immediate action, as appropriate, to mitigate and/or resolve the concern. The NBC is not aware of any situation during the audit period where this functionality has been used to misuse, defraud, or mishandle Federal funds.

A copy of the report has been provided for your reference. Please note that KPMG has labeled the SAS 70 report as "Sensitive but Unclassified." This means that the distribution of the report is limited. This report is intended solely for use by management of the NBC, our customers, and the

TAKE PRIDE IN AMERICA

Mr. Dennis E. Nolan Page 2

independent auditors of our customers. We appreciate your adherence to this document classification and the minimal distribution of this report.

For those customers where the NBC also processes your financial transactions, we have conducted the FY 2009 assessment of internal controls over financial reporting in conformity with the requirements of OMB Circular A-123, Appendix A, and according to the guidance contained in the Chief Financial Officer's Council (CFOC) Implementation Guide for OMB A-123. Our testing covers the period of July 1, 2008, through June 30, 2009.

The NBC evaluated internal controls at the process level by documenting key financial reporting processes, identifying key controls, understanding and assessing the control design and any associated risks, and developing a detailed testing strategy and schedule of tests. We then tested internal controls at the transaction level for accounting operations based upon the guidelines established in the GAO Financial Audit Manual (FAM), including testing of all key controls and identification of control gaps and compensating controls. As part of testing at the transaction level, we used a random selection methodology that ensured transactions for each client were included for every applicable test conducted. During the FY 2009 A-123 Appendix A testing cycle, the NBC tested 32 key accounting and finance operations processes by completing 120 transaction level tests for all customers.

The results of our testing indicated that no material weaknesses or significant deficiencies were uncovered and that processes and controls in place as of June 30, 2009, were operating effectively to safeguard data from waste, fraud, abuse, and destruction.

You will be receiving another memorandum from the NBC in early October 2009 providing management assurance for the period of July 1, 2009, through September 30, 2009 regarding system and internal controls to complete the annual audit process.

If you have any questions concerning this information, please do not hesitate to contact Dean Martin, NBC Audit Liaison Officer, on (303) 969-5195.

Sincerely,

James W. Beall, CPA
Chief Financial Officer, National Business Center
Associate Director, Financial Management and Budget Directorate

Attachment

cc: Dean Martin, NBC Audit Liaison Officer

United States Department of the Interior
NATIONAL BUSINESS CENTER
Washington, DC 20240

October 1, 2009

Mr. Dennis E. Nolan
Deputy Vice President, Department of
Administration and Finance
Millennium Challenge Corporation
875 Fifteenth Street, NW
Washington, DC 20005

Dear Mr. Nolan:

The purpose of this letter is to provide assurance that the Oracle Federal Financial (OFF) application controls remained unchanged for the period July 1, 2009, through September 30, 2009.

You were previously notified that KPMG LLP examined the description of the OFF application controls at the Department of the Interior, National Business Center (NBC). The results of their review and analysis were provided in a Statement of Auditing Standards (SAS) 70 examination report covering the period July 1, 2008, through June 30, 2009. A copy of the report was provided to you under separate cover.

The SAS 70 review was conducted for the purpose of expressing an opinion as to whether (1) NBC's description of the Oracle application controls presents fairly in all material respects the aspects of the NBC controls that may be relevant to a user organization's internal control, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description if those controls were complied with satisfactorily; and (3) such controls had been placed in operation as of June 30, 2009. KPMG also performed testing procedures designed to determine the effectiveness of the specified controls in meeting control objectives specified by the NBC.

This letter provides representations and assurances related to Oracle application controls at the NBC for the period July 1, 2009, through September 30, 2009. This time period was not covered by the SAS 70 examination report previously provided. To the best of our knowledge and belief, there have been no subsequent events that would have a significant effect on user organizations that have not been disclosed to you. The controls that have been placed in operation as of June 30, 2009, did not change for the period of July 1, 2009, through September 30, 2009. The description of controls in the FY 2009 SAS 70 examination report presents fairly the aspects of NBC controls that were in place as of September 30, 2009.

TAKE PRIDE® IN AMERICA

Mr. Dennis E. Nolan Page 2 of 2

The NBC also conducted an assessment of the effectiveness of internal control over financial reporting for customers where the NBC processes your financial transactions, which includes safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of Appendix A of OMB Circular A-123 and the CFO Council's Implementation Guide dated July 31, 2005, as implemented by the Department. The assessment focused on the specific NBC financial business processes such as financial reporting, revenue management, funds management, human capital management, and procurement in place as of June 30, 2009. As of that date, the NBC noted no material or significant deficiencies verified through A-123 Appendix A testing. Thus, the NBC asserted that internal controls over financial reporting were suitably designed and operating effectively. The procedures and management controls for processing financial transactions have not changed since June 30, 2009. As a result, the NBC continues to assert substantial compliance with financial accounting and reporting controls in place from July 1, 2009, through September 30, 2009.

If you have any questions on this assurance statement, please contact Dean Martin, NBC Audit Liaison, on 303-969-5195.

Sincerely,

James W. Beall, CPA
Chief Financial Officer, National Business Center
Associate Director, Financial Management and Budget Directorate

cc: Dean Martin, NBC Audit Liaison Officer

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982 AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires agencies to issue an annual statement of assurance to the President and Congress on its internal controls. OMB Circular A-123 provides the guidance (including additional requirements and a methodology) for agency management to comply with FMFIA. Although OMB has determined that MCC is not required to implement the full requirements of A-123, MCC seeks to follow internal controls best practices by implementing a modified approach to its internal controls reviews. In lieu of full annual A-123 reviews, MCC implemented a plan to conduct reviews over the course of two years—fiscal years 2009 and 2010—and will continue this approach going forward.

The results of MCC's A-123 assessment support the CEO to conclude with reasonable assurance that MCC's internal controls over financial reporting are in compliance with the provisions of FMFIA, Section 2, and OMB Circular A-123. No material weaknesses were discovered during the A-123 assessment; however, one material weakness was discovered during the annual financial statement audit. MCC will be addressing significant A-123 internal control deficiencies, specifically in controls over compact and threshold mission activities that may create internal control weaknesses in future operations. MCC's assurance is made on the basis of its review of internal controls over financial reporting, in addition to assurance statements provided by NBC.

FY 2009: MCC has made continued progress in addressing FY 2008 internal control deficiencies during FY 2009. MCC established a working group to revise compact quarterly reporting requirements and related approval process. The Division of Finance has also increased its involvement in reviewing Quarterly Financial Reports (QFR) to ensure overall accuracy and completeness. MCC is fully utilizing the Department of Treasury International Treasury System (ITS), designed to make disbursements directly to foreign vendors in either U.S. or foreign currency. This limits cash balances at the MCA's permitted bank account. In addition, MCC implemented the MCC Integrated Data and Analysis System (MIDAS) to assist with the quarterly reporting and performance tracking process.

MCC engaged the services of an outside contractor to develop a business process, control documentation, and recommendations to further improve its internal controls. As part of this process, the MCC's Department of Administration and Finance (A&F) reviewed and updated its Financial Management Policies and Procedures and process flow documentation.

Additionally, A&F established greater oversight over controls by establishing formal mechanisms for resolving information technology system issues; developed a plan to meet Federal Information Security Management Act of 2002 (FISMA) compliance requirements; established an MCC-wide employee training program focusing on security awareness; and decentralized budgets to MCC departments.

During the FY 2008 review, MCC tested key internal controls by participating in the NBC testing of key controls that were relevant to MCC. For FY 2009, MCC did not directly test NBC's controls, but rather validated that the controls identified last year still meet the organization's objectives. NBC provided assurance to MCC that its auditor, KPMG, found no weaknesses or significant deficiencies in evaluating NBC's financial systems during the SAS 70 review. NBC also provided assurance that its processes and controls in place between October 1, 2008 and September 30, 2009 were adequate and effective to safeguard data from waste, fraud, abuse, and destruction and that the auditors found no material weaknesses or significant deficiencies in those processes or controls.

The following MCC business processes were tested in FY 2009:

- Contract and grants management process
- Fund management process
- Financial reporting process
- Budget formulation process

MCC has received recommendations for these processes and will work to correct the deficiencies noted in the report. MCC will continue to improve its internal controls environment during FY 2010 by:

- Strengthening the working groups that revise compact quarterly reporting requirements and related approval processes;
- Continued monitoring of the implementation of MIDAS to improve the quarterly MCA reporting and performance tracking processes, while also supporting the centralized

collection and storage of agency-wide financial and performance information in an electronic warehouse where staff are able to access it readily to conduct current and historical queries and develop financial and performance reports as needed; and

- Conducting (through an independent contractor) a comprehensive internal controls review.

COMPLIANCE WITH LAWS AND REGULATIONS

In addition to complying with FMFIA and OMB Circular A-123 requirements, MCC's management is also responsible for ensuring MCC's compliance with other relevant financial management laws and regulations. Principal among these are:

- Prompt Payment Act;
- Debt Collection Improvement Act of 1996;
- Improper Payments Information Act of 2002; and
- Federal Information Security Management Act.

PROMPT PAYMENT ACT

The Prompt Payment Act (Public Law 100-496), as amended, requires Federal agencies to pay vendors transacting business with them in a timely manner. With certain exceptions, the Prompt Payment Act requires agencies to make payments within 30 days of the later of (1) receipt of properly prepared invoices or (2) the receipt of goods or services. For amounts owed and not paid within the specified payment period, agencies are required to pay interest on the amount owed at a rate established by the Department of the Treasury.

An agency's performance under the Prompt Payment Act for any given period is most often measured by the percentage of payments made within the specified timeframes out of all payments subject to the Prompt Payment Act's provisions. In FY 2009, MCC's prompt payment performance improved to 99.88 percent, a 0.5 percent increase over FY 2008's 99.32 percent.

DEBT COLLECTION IMPROVEMENT ACT OF 1996 (DCIA)

In 1996, Congress passed the DCIA in response to steady increases in the amount of delinquent debt owed to the government. Under the DCIA, all Federal agencies must refer past due, legally enforceable, non-tax debts that are more than 180 days delinquent to the Department of the Treasury's Financial Management Service (FMS) for collection through the Treasury Offset Program. A debt is considered delinquent if it is 180 days past due and is legally enforceable. A debt is legally enforceable if there has been a final agency decision that the debt, in the amount stated, is due and there are no legal bars to collection action.

During FY 2009, MCC referred no debts to the FMS for collection.

Improper Payments Information Act of 2002

An improper payment is any payment that should not have been made or was made in an incorrect amount. Congress passed the Improper Payments Information Act of 2002 (Public Law 107-300) that requires agencies to review annually all programs and activities to identify those that are susceptible to improper payments, estimate the annual improper payments in susceptible programs and activities, and report the result of their improper payment reduction plans and activities. OMB Memorandum 03-13 defines a program as susceptible to improper payments if it has annual improper payments that exceed both 2.5 percent and $10 million of program spending. MCC considers its improper payment risk to be below the OMB ceiling.

Federal Information Security Management Act (2009)

In FY 2009, MCC's Chief Information Office made substantial progress in the development of new security policy and implementation of new information security controls. These major initiatives were undertaken at significant expense and with the ultimate goal of improving the security of MCC's information technology infrastructure and ensuring compliance with FISMA. This year MCC completed the following major initiatives:

- Developed new information security policy that is compliant with the National Institute of Standards in Technology (NIST) and OMB requirements;
- Implemented two-factor authentication;
- Implemented Federal Desktop Core Configuration Controls;
- Encrypted all mobile devices;
- Developed and deployed a new standard desktop software image;
- Completed the Certification and Accreditation of the MCC Net General Support System;
- Developed and delivered new security awareness training;

- Deployed new, secure, and standard hardware and software to all MCC personnel;
- Deployed new, secure, and encrypted hardware and software and conducted training overseas on new security systems and technologies in 18 countries; and
- Designed and implemented new technologies to facilitate secure communications such as the Citrix remote access system and the MCC Secure File Transfer system.

Summary of Material Weaknesses, Non-Compliance, and Corrective Actions

For FY 2009, MCC received one material weakness finding related to control over mission activities and support. MCC reviewed and commented on its audit finding and provided current status and corrective actions for the future. The section below summarizes the audit finding and MCC's corrective action plan.

Control over Mission Activities and Support (material weakness)

<u>Recommendation No. 1: Untimely Performance and Lack of Monitoring of MCA Audits</u>

We recommend that the MCC Department of Compact Implementation and Division of Finance:

- Strengthen the monitoring of the MCA audit process, from submission of the audit plan through issuance of the audit report to ensure timely completion and sufficient time for OIG review, prior to issuing the report to MCC for management comment.
- Increase communication among the MCA's, the audit firms, and the OIG to ensure all parties are adequately informed of the progress of all audits in a timely manner. Ensure that MCA's understand the impact of these audits and how they affect MCC's assessment of overall controls and its financial statement audit.

<u>Management Response</u>

MCC agrees with the recommendations. MCC's Fiscal Accountability (FA) Directors will work with audit firms, MCA's, and the OIG to ensure the timely completion and issuance of audit reports in the future. MCC has established a comprehensive audit tracking table to monitor the status of all MCA audits going forward, follow-up with MCA's to ensure timely completion, and provide notifications to the OIG on any issues or delays. MCC will stress to the MCA's the importance of timely audits as a part of MCC's overall system of strong internal controls.

Recommendation No. 2: Lack of Adequate Documentation to Support Transactions

We recommend that MCC management, in coordination with USAID, establish effective and periodic communication with MCA and threshold mission personnel, to emphasize the need for proper documentation to be maintained in the MCA files, and that these documents are readily available and promptly submitted for inspection when requested.

Management Response

MCC agrees with the recommendation. MCC's FA Directors will work with MCA's to ensure that documentation to support transactions is in good order and readily available. With regard to threshold missions, MCC plans to meet with USAID management to discuss the lack of response from the missions and determine what steps both MCC and USAID can take to avoid this issue for future audits.

Recommendation No. 3: Improper Reporting of Re-disbursements

We recommend that MCC Department of Compact Implementation and Division of Finance:

- Develop training for MCA Fiscal Agents to ensure proper reporting of re-disbursements on the QFR's to ensure the MCA is only requesting advances for immediate funding needs.
- Develop a tracking mechanism to monitor prepayments and to ensure that MCC and NBC personnel are properly reviewing the quarterly submitted QFR's for proper reporting of both the projected needs for advancement of funds and actual re-disbursements of previously advanced funds.

Management Response

MCC agrees with the recommendations. MCC has developed a report to monitor prepayments and will work with NBC to ensure that the first in/first-out method is followed when liquidating MCA advances. In addition, the FA Directors will provide training as needed to ensure that the MCA's provide accurate reporting of re-disbursements in their quarterly reporting submissions to MCC. MCC wishes to note that with the implementation of the Common Payment System (CPS), the use of advances is now limited to payment of MCA salaries and small dollar items. CPS makes payments directly to vendors via the U.S. Treasury, eliminating the need for large dollar advances to MCA bank accounts.

Limitations of Financial Statements

The principal financial statements have been prepared to report the financial position and results of MCC's operations pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of MCC in accordance with Generally Accepted Accounting Principles for Federal entities and the formats promulgated by OMB and prescribed by the Federal Accounting Standards Advisory Board, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the understanding that they have been prepared for a component of the U.S. Government, a sovereign entity.

PERFORMANCE SUMMARY – FY 2009

In accordance with the Government Performance Results Act of 1993 (GPRA), the Board approved MCC's Strategic Plan on November 8, 2005 covering FY 2006 to FY 2011. The Strategic Plan defines MCC's mission, which is *to reduce poverty by supporting sustainable, transformative economic growth in developing countries that create and maintain sound policy environments.*

The Strategic Plan defines four strategic goals for MCC:

- **Strategic Goal #1.** Achieve sustainable, transformative development.
- **Strategic Goal #2.** Support development of a sound policy environment for economic growth and poverty reduction in the developing world.
- **Strategic Goal #3.** Advance international development assistance practice by continually improving MCC's operational effectiveness.
- **Strategic Goal #4.** Build MCC's capabilities to achieve its primary strategic goals.

FY 2009 Improvements to the Performance Framework

In FY 2009, MCC continued measuring for results under the same four strategic goals, but further refined its objectives and indicators.

Exhibit 10: Performance Objectives

Strategic Goal #1

- Generate economic growth and reduce poverty in compact countries
- Achieve sustainability of successful projects in compact countries
- Improve compact countries capacity to meet basic human needs
- Improve country GDP growth
- Decrease percentage of the population living on less than $1 or $2 a day
- Improve compact eligible and threshold countries average country credit ratings
- Improve target percentage of compacts target met on time
- Improve the number of Conditions Precedents met on time

Strategic Goal #2

- Improve policy performance in ruling justly
- Improve policy performance on investing in people
- Improve policy performance in economic freedom

Strategic Goal #3

- Enhance MCA model recognition and support in the international community
- Enhance MCC country partnership

Strategic Goals #4

- Minimize the administrative costs of developing and implementing MCC compacts compared to the total value of compacts
- Address and close Inspector General recommendations within agreed upon timeframes
- Achiieve high level of staff effectiveness and satisfaction.

The updates to the objectives (1) reflect a closer alignment to MCC's four strategic goals; (2) are more directly attributable to MCC, or within MCC's control to achieve; and (3) are measureable and achievable within the fiscal year. For example, the objectives of Strategic Goal #1 measure the inputs and outputs across compact program sectors—roads, irrigation, agriculture, and rural development. This new approach simplifies the data collection process so that performance data can be readily obtained, measured, analyzed, and reported.

Details of MCC's performance results will be provided in the Annual Performance Report (APR), which will be available on the agency Web site at www.mcc.gov on February 4, 2010.

How MCC Measures Performance

MCC starts tracking performance on processes and outputs at the beginning of a compact's term and then continues to track high level outcomes and impacts at the end of the compact term, to concretely assess how compact activities have affected poverty and economic growth.

As a Federal agency, MCC is committed to the principles of performance measurement mandated under GPRA and applies this same focus to results for its compact programming. MCC monitors progress towards compact results on a regular basis using performance indicators that are specific to its Monitoring & Evaluation (M&E) Plan. The M&E Plan specifies indicators at all levels so that progress towards final results can be tracked at every step.

MCC measures **the inputs and outputs, processes, and outcomes across a compact's core sectors**.

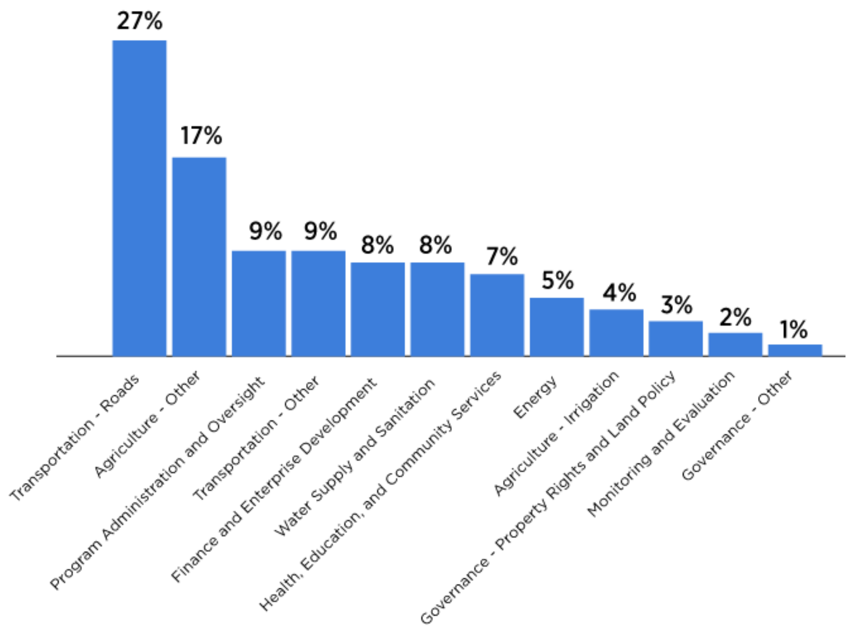
By FY 2009 quarter 3, MCC met all of its targets except for projects in roads (kilometers contracted) and irrigation (contracts awarded), for which data is still being compiled.

CORE SECTORS RESULTS FY 2009 QUARTER 3

Sector	Measure	Target	Results
Agriculture	*Loan Value*	*$14.6 – 17.8M*	*Met*
	Farmers Trained	*59K – 73K*	*Met*
Roads	*Contract Value*	*$377 – 461M*	*Met*
	Kilometers Contracted	*1,182 – 1,445*	*Not Met**
Irrigation	*Contract Value*	*$80.5 - 98.3M*	*Not Met**

** Target not met as of FY 2009 Q3.*

Exhibit 11: MCC Sector Activities in FY 2009



The following are highlights of MCC's performance results for FY 2009 in three key sectors: agriculture, roads, and irrigation.

These three sectors (Transportation – Roads, Agriculture – Other, Agriculture – Irrigation) account for 48 percent of MCC's activities (see **Exhibit 11**) and their effect is most beneficial to our partner countries to build capacity and promote development.

<u>Agriculture Projects Results</u>: MCC exceeded the "number of farmers trained" target by training 87,677 farmers by the 2nd quarter of FY 2009. MCC also exceeded the "value of agricultural and rural loans" target by awarding $29 million in agricultural and rural loans.

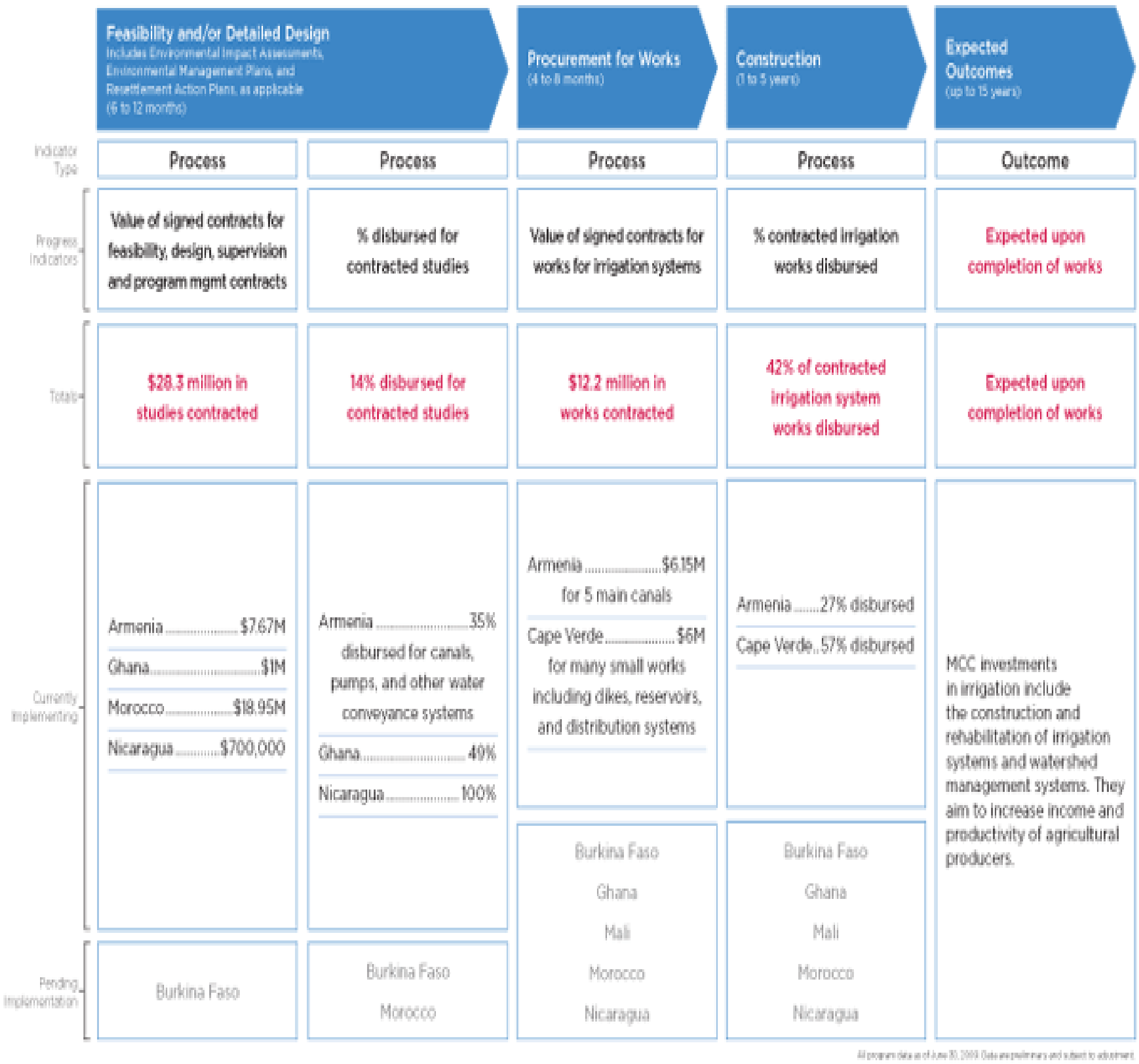
	Capacity Building of Farmers		Other Support to Farms & Agribusiness (irrigation, inputs, credit, and marketing support)		Growth in Agricultural Sector & Employment Generation
Indicator Type	Output	Output	Output	Output	Outcome
Progress Indicators	Number of farmers trained	Number of agribusinesses assisted	Value of agricultural and rural loans	Number of hectares under production with MCC support	Increase in income
Totals	87,677 farmers trained	1,284 agribusiness assisted	$29 million in agricultural and rural loans	12,236 hectares under production	Income increase attributable to MCC activities will be measured by impact evaluations
Currently Implementing	Armenia 25,582 Cape Verde 83 El Salvador 2,581 Ghana 14,702 Honduras 3,964 Madagascar* 35,123 Nicaragua 5,642	Armenia 100 El Salvador 22 Georgia 177 Ghana 238 Honduras 409 Madagascar* 338	Armenia $1.87 million Cape Verde** $.080 million Georgia $10 million Ghana $10.52 million Honduras $5.5 million Madagascar*** $1.08 million	El Salvador 991 hectares Honduras 6,000 hectares Nicaragua 5,245 hectares	MCC investments in agriculture aim to increase incomes by creating jobs in the agriculture sector; increasing farmers' capacity, productivity, and access to markets; improving access to credit; and strengthening agribusiness.
Pending Implementation	Mali Morocco Mozambique	Cape Verde Morocco Mozambique	Burkina Faso Mali	Armenia Burkina Faso Cape Verde Ghana Mali Morocco Mozambique	

All program data as of June 30, 2009. Data are preliminary and are subject to adjustment. *MCC's compact with Madagascar has been suspended. Final project numbers will become available around September 30, 2009. **Due to a corrected conversion rate this quarter, the number has been revised downward. ***The "value of loans" indicator for Madagascar includes both agricultural and non-agricultural rural loans.

<u>Roads Projects Results</u>: MCC seeks to help countries improve competitiveness and reduce obstacles in moving goods and products to markets. As of the 2nd quarter of FY 2009, MCC exceeded its target by signing over $462 million in contracts for road works; however, MCC had not achieved the target of kilometers of road works signed and under contract.

	Feasibility and/or Detailed Design Includes Environmental Impact Assessments, Environmental Management Plans, and Resettlement Action Plans, as applicable (12 to 36 months)		Procurement for Construction Contractors (6 to 9 months)		Construction (1 to 3 years)	Expected Outcomes (up to 15 years)	
Indicator Type	Process	Process	Process	Process	Process	Outcome	Outcome
Progress Indicators	Value of signed contracts for feasibility, design, supervision and program mgmt contracts	% disbursed for contracted studies	Value of signed contracts for road works	Kilometers (km) of roads under works contracts	% of contracted roads works disbursed	Kilometers (km) of roads completed	Expected upon completion of works
Totals	$60.6 million in studies contracted	46% of contracted studies disbursed; 3,609 km of roads under design	$462.9 million in works contracted	1,177 km of roads under works contracts	29% of contracted roads works disbursed	62.4 km of roads completed	Expected upon completion of works
Currently Implementing	Armenia .... $3.12M Cape Verde* .... $3.2M El Salvador .... $7.7M Georgia .... $10.2M Ghana .... $17.1M Honduras .... $9.4M Nicaragua .... $6.3M Tanzania .... $1.8M Vanuatu** $1.8M	Armenia .... 83% 89.2km Cape Verde.... 79% 62.2km El Salvador.... 16% 150km Georgia .... 53% 25.3km Ghana .... 32% 1,186km Honduras.... 47% 200km Nicaragua.... 79% 384km Tanzania* .... 363km Vanuatu** 57% 119km	Armenia*** .... $4.7M Cape Verde .... $22.7M El Salvador .... $26.5M Georgia .... $138.4M Ghana .... $42.2M Honduras .... $98.5M Mali .... $34.8M Nicaragua .... $41.1M Vanuatu** $54M	Armenia .... 24.5km Cape Verde .... 40km El Salvador.... 22.5km Georgia .... 217km Ghana .... 6km Honduras.... 599km Mali .... 81km Nicaragua.... 68km Vanuatu.... 119 km	Armenia .... 100% Cape Verde .... 73% El Salvador .... 10% Georgia .... 19% Ghana .... 10% Honduras .... 27% Mali .... 11% Nicaragua .... 51% Vanuatu 49%	Armenia... 24.5km Cape Verde.. 26.9km Vanuatu.... 49km	MCC investments in roads aim to reduce transportation costs, improve access to basic services, increase farm to market access and facilitate trade
Pending Implementation	Burkina Faso Mozambique	Burkina Faso Mozambique	Burkina Faso Mozambique Tanzania	Burkina Faso Mozambique Tanzania	Burkina Faso Mozambique Tanzania	Burkina Faso El Salvador Georgia Ghana Honduras Mozambique Nicaragua Tanzania	

<u>Irrigation Projects Results:</u> MCC's performance in this sector is constantly monitored and progress is still being compiled. MCC has $12.2 million in work contracted as of 2nd quarter FY 2009.



The composite tables above provide an overview of actual results in countries where compact and threshold agreements are being implemented. This new approach provides for greater transparency and better accountability of the work performed. MCC plans to provide similar types of reporting for education, sanitation, and other sectors in the following quarters when data becomes available. In addition, this data is available on the MCC Web site via user friendly spreadsheets that are updated on a quarterly basis. The achievement in these sectors satisfies the requirements for Strategic Goal #1.

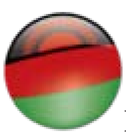
FY 2009 has seen major political difficulties among countries that were the first participants in MCC compact programs. Political instability in Madagascar led MCC to terminate its compact prematurely in March 2009. Disputes over manipulation of election results in Nicaragua raised significant concerns with MCC's Board; in June 2009, the Board suspended specific activities and withdrew funding for the remainder of the compact. Honduras and Armenia also have seen a loss of funding due to political tensions. All of these developments made it more difficult for MCC to attain the objectives under Strategic Goal #2. However, MCC continues to follow the principles that have produced much of its success in the development assistance arena: good policy performance, tangible results, and country ownership. To that end, control of corruption remains a significant priority for MCC. In partnership with MCC, countries such as Paraguay and Malawi continue to improve policies by enacting stronger anti-corruption laws, strengthening oversight institutions, opening up the public policy-making process to greater scrutiny, and increasing investigations and prosecutions focused on corruption offenses.

Overall, most of MCC's partner countries have improved their policy environment as measured by MCC performance indicators (details will be provided in the APR report in February 2010) and these highlighted measures enacted by our partner countries.

-  In October 2009, Benin National Assembly passed new modernized codes of procedures in commerce and administration; construction activities of nine new courthouses are underway for the $34 million **Access to Justice Project of the MCA-Benin Compact**. The revised codes are now in line with recommended African Law business practices.

-  Albania's new enhanced procurement mechanisms in both the public and private sector are making the process of doing business with the government more transparent. Business registrations (18,000) recorded in one year through the new **National Registration Center system** more than double the average of 7,357 per year.

-  In Burkina Faso, more than 17,000 students have been enrolled in schools funded by MCC's $12.9 million Threshold program. The program included the construction of more than 132 three-room schools in 10 of the country's poorest provinces, teacher training, the construction of houses for children and literacy education for the mothers of the children.

-  Malawi's $20.9 million Threshold program is helping fight corruption through the creation of effective legislation and strengthening the judiciary and independent media, and expanding civil society organization's oversight role.

-  At the beginning of FY 2009, Tanzania concluded a program that revealed more than 633 corruption related stories which led to formal investigations, administrative sanctions, and prosecutions.

MCC obtained these results because of several key measures implemented during the last fiscal year and continued in FY 2009.

MCC worked diligently in FY 2009 to fulfill the objectives of Strategic Goal # 3. During FY 2009, MCC teamed up with several international players to improve operational effectiveness. The organization's effort to enhance its MCA model recognition is gaining a broad range of support in the international community. In October 2009, MCC and the Ministry of Foreign Affairs (MFA) for the Government of Denmark signed a memorandum of understanding to increase cooperation between MCC and MFA. The agreement, which is available on www.mcc.gov, called for the parties to:

- Support collaboration and share early lessons, best practices, and operational tools on climate change and gender equality, and their integration into partner country program to achieve sustainable economic growth

- Identify opportunities for private sector and partner country program operation. They also will share analysis and information on programs that enhance their support for private sector development and on potential for complementary investments, particularly in the area of agribusiness.

- MCC and MFA will make available information on indicators used in assessing country performance and the methodology used for country eligibility.

- Seek to share their knowledge resources regarding impact evaluations strategies, methodologies, and studies.

In November 2009, MCC signed an agreement with Agence Française de Development to increase international development coordination between the two agencies and to make poverty reduction efforts more effective in Africa and throughout the developing world. It is also a signal of both agencies' commitments to the ideas in the Paris Declaration on Aid Effectiveness.

In December 2009, MCC signed an agreement with the United Nations World Food Program (WFP) to coordinate efforts of the two organizations to reduce poverty and improve food security. The agreement calls for the two organizations to build a framework to alleviate poverty and improve food security in three major areas:

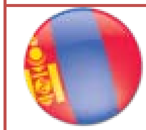
- Agricultural production, markets, and food security;
- Food security and poverty reduction policy; and
- Integration of gender policies, HIV/AIDS prevention in agricultural activities.

MCC has significantly enhanced its image with other major international organizations. In February 2009, the Senior Vice President of Oxfam America (an international relief and development organization) commented at a public forum on foreign assistance and economic development that “the change in orientation of development assistance brought by MCC will have a lasting impact on reducing poverty from the ground up.”

In March 2009, Transparency International – USA (TI – USA) welcomed MCC’s publication of its policy on Preventing, Detecting, and Remediating Fraud and Corruption in MCC Operations. TI – USA recognized MCC’s leadership within the development assistance community in articulating a comprehensive policy and calls for prompt implementation.

For additional information on MCA's and their operations, please see the Web links below.

MCA Online		
Country	**MCA**	**Web Link**
Armenia	MCA Armenia	www.mca.am
Benin	MCA Benin	www.mcabenin.bj
Burkina Faso	MCA Burkina Faso	www.mcc.gov
Cape Verde	MCA Cape Verde	www.mca.cv
El Salvador	MCA El Salvador	www.mca.gob.sv/fomilenio
Georgia	MCA Georgia	www.mcg.ge
Ghana	MCA Ghana	www.mida.gov.gh
Honduras	MCA Honduras	www.mcahonduras.hn
Lesotho	MCA Lesotho	www.mcc.gov
	MCA Madagascar	www.mcamadagascar.org

Madagascar		
 **Mali**	MCA Mali	www.mcamali.org
 **Mongolia**	MCA Mongolia	www.mca.mn
 **Morocco**	MCA Morocco	www.mcc.gov
 **Mozambique**	MCA Mozambique	www.mcc.gov
 **Nicaragua**	MCA Nicaragua	www.cuentamillenio.org.ni
 **Namibia**	MCA Namibia	www.mca.gov.na
 **Senegal**	MCA Senegal	www.mcc.gov
 **Tanzania**	MCA Tanzania	www.mca-t.go.tz
 **Vanuatu**	MCA Vanuatu	www.governmentofvanuatu.gov.vu/mca-vanuatu

FINANCIAL SECTION

In accordance with the OMB Circular A-136, Financial Reporting Requirements, MCC's financial statements are in the appropriate form and content for FY 2009. The tables below outline the following financial statements:

- Balance Sheets;
- Statements of Budgetary Resources;
- Statements of Net Cost;
- Statements of Changes in Net Position;
- Notes to Financial Statements; and
- Independent Auditor Reports of the MCC's Financial Statements, Internal Controls, and Compliance for the period ending September 30, 2009 and 2008.

BALANCE SHEETS

	FY 2009	FY 2008
Assets		
Intra-Governmental		
Fund Balance with Treasury *(Note 2)*	**$6,655,511,983**	**$6,546,857,481**
Advances *(Note 5)*	6,474,444	9,485,386
Total Intra-Governmental	**6,661,986,427**	**6,556,342,867**
Accounts Receivable, Net *(Note 3)*	90,363	54,672
General Property, Plant, and Equipment, Net *(Note 4)*	6,953,153	8,127,205
Advances *(Note 5)*	32,422,386	33,093,266
Total Assets	**$6,701,452,329**	**$6,597,618,010**
Liabilities		
Intra-Governmental		
Accounts Payable *(Note 1F)*	229,546	4,973
Contributions and Payroll Taxes Payable	467,304	376,093
Total Intra-Governmental	**696,850**	**381,066**
Federal Employee and Veteran Benefits Payable	35,751	0
Accounts Payable *(Note 1F)*	56,026,101	35,343,643
Accrued Funded Payroll Liabilities	7,196,040	6,444,041
Total Liabilities	**$63,954,742**	**$42,168,750**
Net Position		
Unexpended Appropriations – Other Funds	$6,632,548,466	$6,548,610,190
Cumulative Results of Operations – Other Funds	4,949,121	6,839,070
Total Net Position	**$6,637,497,587**	**$6,555,449,260**
Total Liabilities and Net Position	**$6,701,452,329**	**$6,597,618,010**

The notes are an integral part of these financial statements.

STATEMENTS OF BUDGETARY RESOURCES

	FY 2009	FY 2008
Budgetary Resources		
Unobligated Balance – Beginning of Period	$962,304,024	$2,256,142,503
Recoveries of Prior Years Obligations	1,029,114	504,898
Budget Authority:		
Appropriations	875,000,000	1,557,000,000
Nonexpenditure Transfers, Net, Anticipated and Actual	(679,000)	(10,810,404)
Permanently Not Available *(Note 8)*	0	(70,611,700)
Total Budgetary Resources	**$1,837,654,138**	**$3,732,225,297**
Status of Budgetary Resources		
Obligations Incurred		
Direct	$1,050,551,545	$2,769,921,274
Unobligated Balance Available	56,176,028	780,796,905
Unobligated Balance Not Available	730,926,565	181,507,118
Total Status of Budgetary Resources	**$1,837,654,138**	**$3,732,225,297**
Change in Obligated Balance		
Obligated Balance, Net – as of October 1, 2008		
Unpaid Obligations, Brought Forward, October 1	$5,583,344,174	$3,287,907,145
Obligations Incurred	1,050,551,545	2,769,921,274
Gross Outlays	(764,670,301)	(473,979,346)
Recoveries of Prior Year Unpaid Obligations, Actual	(1,029,114)	(504,898)
Obligated Balance, Net – End of Period		
Unpaid obligations	$5,868,196,304	$5,583,344,174
Net Outlays		
Gross Outlays	$764,670,301	$473,979,346

The notes are an integral part of these financial statements.

STATEMENTS OF NET COSTS

Program	FY 2009	FY 2008
Program Costs *(Note 7)*		
Compact		
Gross Costs	$533,740,058	$226,498,265
Less: Earned Revenue	0	0
Net Program Costs	533,740,058	226,498,265
609 (g) Programs		
Gross Costs	15,693,976	9,768,972
Less: Earned Revenue	0	0
Net Program Costs	15,693,976	9,768,972
Threshold Programs		
Gross Costs	120,372,199	118,903,902
Less: Earned Revenue	0	0
Net Program Costs	120,372,199	118,903,902
Due Diligence Programs		
Gross Costs	28,922,102	17,338,771
Less: Earned Revenue	0	0
Net Program Costs	28,922,102	17,338,771
Audit		
Gross Costs	3,792,544	2,304,181
Less: Earned Revenue	0	0
Net Program Costs	3,792,544	2,304,181
Administrative		
Gross Costs	91,746,536	85,782,157
Less: Earned Revenue	0	0
Net Program Costs	91,746,536	85,782,157
Program Costs – Net of All Programs	**$794,267,415**	**$460,596,248**
Net Costs of Operations	**$794,267,415**	**$460,596,248**

The notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN NET POSITION

	FY 2009	FY 2008
Cumulative Results of Operations		
Beginning Balances	$6,839,070	$7,395,351
Adjustments		(1,671,357)
Beginning Balance, as Adjusted	6,839,070	5,723,994
Budgetary Financing Sources		
Appropriations Used	$790,382,685	$460,060,774
Other Financing Sources		
Donations and Forfeitures of Property *(Note 1P)*	205,266	0
Imputed Financing	1,789,515	1,650,550
Total Financing Sources	792,377,466	461,711,324
Net Cost of Operations	(794,267,415)	(460,596,248)
Net Change	(1,889,949)	1,115,076
Cumulative Results of Operations	**$4,949,121**	**$6,839,070**
Unexpended Appropriations		
Beginning Balance	$6,548,610,190	$5,536,714,361
Adjustments	0	(3,621,292)
Correction of errors	(39)	0
Beginning Balance, as Adjusted	$6,548,610,151	$5,533,093,069
Budgetary Financing Sources		
Appropriations Received	$875,000,000	$1,557,000,000
Appropriations Transferred In/Out	(679,000)	(10,810,404)
Other adjustments *(Note 8)*	0	(70,611,700)
Appropriations Used	(790,382,685)	(460,060,774)
Total Budgetary Financing Sources	83,938,315	1,015,517,122
Total Unexpended Appropriations	**$6,632,548,466**	**$6,548,610,190**
Net Position	**$6,637,497,587**	**$6,555,449,260**

The notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS (AS OF SEPTEMBER 30, 2009)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements have been prepared to report the financial position, results of operations and budgetary resources for MCC as required by OMB Circular A-136, *Financial Reporting Requirements*, for form and content and in accordance with Section 613 of the Millennium Challenge Act of 2003, as amended, and the Government Corporation Control Act (31 U.S.C. §9106). These financial statements have been prepared from MCC's books and records and are presented in accordance with the applicable requirements of OMB, the Secretary of the Treasury, and the Government Management and Reform Act of 1994.

MCC's accounting policies conform to and are consistent with Generally Accepted Accounting Principles for the Federal Government, as promulgated by OMB and prescribed by the Federal Accounting Standards Advisory Board.

MCC's principle financial statements are:

- Balance Sheet;
- Statement of Net Cost;
- Statement of Budgetary Resources; and
- Statement of Changes in Net Position.

Financial statement footnotes are also included and considered an integral part of the financial statements.

B. REPORTING ENTITY

MCC was formed in January 2004 pursuant to the Millennium Challenge Act of 2003, as amended, (Public Law 108-199). MCC's mission is to reduce poverty by supporting sustainable, transformative economic growth in developing countries that create and maintain sound policy environments. Assistance is intended to provide economic growth and alleviate extreme poverty, strengthen good governance, encourage economic freedom, and promote investments in people.

C. BUDGETS AND BUDGETARY ACCOUNTING

MCC's programs and activities are funded through no-year appropriations. Such funds are available for obligation without fiscal year limitation and remain available until expended. MCC has attained total appropriations of $875 million and $1.557 billion in FY 2009 and FY 2008, respectively. OMB apportions MCC administrative funds on an annual basis pursuant to statutory limitations in the appropriations bill. In addition, MCC receives from OMB a separate apportionment of funds for administrative and audit oversight, compact programs, due diligence programs, 609(g) programs and threshold programs. MCC does not have any earmarked funds. Because of the no-year status of MCC appropriations, unobligated administrative, audit, and due diligence funds (apportioned on annual bases) are not returned to the Treasury; however, unobligated balances as of September 30 for these three categories of funds are transferred to the program fund category at the beginning of the subsequent fiscal year.

D. Basis of Accounting

Financial transactions are recorded on accrual and budgetary bases in accordance with pertinent federal accounting and financial reporting requirements. Under the accrual method of accounting, financing sources are recognized when used and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates MCC's compliance with legal constraints and controls over the use of Federal funds.

The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are prepared on the accrual basis. The Statement of Budgetary Resources is prepared in accordance with budgetary accounting rules.

E. Fund Balance with Treasury

MCC does not maintain cash in commercial bank accounts. Rather, MCC's funds are maintained in Treasury accounts. The Department of the Treasury processes all cash receipts and disbursements for MCC. The fund balances with Treasury represent no-year funds, which are maintained in appropriated funds that are available to pay current and future commitments.

F. Accounts Payable

MCC records as liabilities all amounts due to others as a direct result of transactions or events that have occurred. Accounts payable represent amounts due to Federal and non-Federal entities for goods and services received by MCC, but not paid at the end of the accounting period. In order to appropriately depict a comparable analysis of FY 2008 activity, MCC reclassified its Federal accounts payable balances separately from its non-Federal balances. Accounts payable reported at the end of FY 2009 were $56 million (non-Federal) and $230K (Federal) and at the end of FY 2008 were $35.3 million (non-Federal) and $5K (Federal).

G. Actuarial FECA Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to a job-related injury or occupational disease.

Claims incurred for benefits for MCC employees under FECA are administered by the Department of Labor (DOL) and later billed to MCC. MCC's actuarial liability for workers' compensation includes any costs incurred but unbilled as of year-end, as calculated by DOL, and is not funded by current appropriations.

MCC incurred no FECA liabilities during FY 2009 and FY 2008.

H. Accrued Annual Leave

The value of employees' unused annual leave at the end of each fiscal quarter is accrued as a liability. At the end of each fiscal quarter, the balance in the accrued annual leave account is adjusted to reflect current pay rates and leave balances. Annual leave is funded from current appropriations. Sick leave and other types of non-vested leave are expensed when used and, in accordance with Federal requirements, no accruals are recorded for unused leave.

I. Net Position

Net position is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations are funds appropriated by Congress to MCC that are still available for expenditure at the end of the fiscal year. Cumulative results of operations represent the net differences between financing sources and expenses since MCC's inception. MCC adjusted the FY 2009 beginning balance for unexpended appropriations by $39 to account for an error correction.

J. Financing Sources

Per note 1.C, MCC funds its program and operating expenses through no-year appropriations. Appropriations are recognized as an accrual-based financing source at the time they are used to pay program or administrative expenses, except for expenses to be funded by future appropriations.

K. Retirement Benefits

MCC's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by Public Law 99-335. Pursuant to this law, most U.S. Government employees hired after December 31, 1983, are covered by FERS and Social Security. Federal employees hired prior to January 1, 1984, were allowed to elect whether they desired to participate in FERS (with Social Security coverage) or remain in CSRS. For employees covered by CSRS, MCC contributes seven percent of their gross pay toward their retirement benefits. For those employees covered by FERS, MCC contributes 11 percent of their gross pay toward retirement. Employees are also allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under FERS, MCC contributes an automatic one percent of basic pay to TSP and matches employee contributions up to an additional four percent of pay, for a maximum MCC contribution amounting to five percent of pay. Employees under CSRS may participate in the TSP, but will not receive either MCC's automatic or matching contributions.

As of the end of FY 2009, MCC made retirement contributions of $116,000 to CSRS, $2.58 million to FERS, and $1.01 million to TSP.

L. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of financing sources and expenses during the reporting period. Actual results could differ from such estimates.

M. Contingencies

MCC can be a party to various routine administrative proceedings, legal actions, and claims brought by or against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against MCC. In the opinion of MCC's management and legal counsel, there are no proceedings, actions, or claims outstanding or threatened that would materially impact MCC's financial statements.

N. Judgment Fund

Certain legal matters to which MCC can be named as a party may be administered and, in some instances, litigated and paid by other Federal agencies. In general, amounts paid in excess of $2,500 for Federal Tort Claims Act settlements or awards pertaining to these litigations are funded from a special appropriation administered by the Department of the Treasury, called the Judgment Fund. Although the ultimate disposition of any potential Judgment Fund proceedings cannot be determined, management expects that any liability or expense that might ensue would not be material to MCC's financial statements.

O. Custodial Liabilities

Under current policy and procedures, MCC disburses funds for Compact and pre-Compact projects and activities upon the presentation of a valid invoice. However, under certain conditions, MCC will fund countries by advancing funds on an as-needed basis to cover basic needs. Such funds provided to the countries are required to be deposited in interest-bearing accounts, if legally feasible, until disbursed. The interest earned on these accounts is remitted to MCC by the MCA and is then returned to the Treasury's general funds. MCC received and deposited $213,000 and $1.61 million in interest remittances as of September 30, 2009 and 2008, respectively. This reduction of interest remittances is due to the full implementation of ITS with all MCC partner countries.

P. Donated Services

MCC may on occasion utilize donated services from other Federal agencies, individuals and private firms in the course of business operations. The approximate fair market value of donated services for September 30, 2009 was $205,266. MCC did not utilize donated services for FY 2008.

Q. Transfers with Other Federal Agencies

MCC is a party to allocation transfers with another Federal agency as a transferring entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays that are incurred by the child entity are charged to this allocation account, as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, apportionments are derived.

MCC allocates funds, as the parent, to USAID. In FY 2009 and FY 2008, MCC transferred budgetary authority of $33 million and $110 million, respectively, to USAID to administer Threshold and Compact programs. USAID receives these allocations as transfers-in and reports quarterly to MCC as the child. MCC also transfers an administrative fee to USAID for the purposes of administering the Threshold and Compact programs. Since FY 2008, these administrative fee transfers are not reported back to MCC.

NOTE 2—FUND BALANCE WITH TREASURY

The U.S. Treasury accounts for all U.S. Government cash on an overall consolidated basis. MCC is appropriated "general" funds only and maintains theses balances in the Fund Balance with Treasury. The general fund line items on the Balance Sheet for September 30, 2009 and 2008 consisted of the amounts presented in **Exhibit 13**. The status of the general fund balances is summarized by obligated, unobligated and Non-Budgetary fund balances in **Exhibit 14**.

Exhibit 13: Fund Balance with Treasury as of September 30

	September 30, 2009 (in thousands)	September 30, 2008 (in thousands)
Fund Balances		
General Funds	$6,655,512	$6,546,857
Total	**$6,655,512**	**$6,546,857**

Exhibit 14: Status of Fund Balance with Treasury as of September 30

	September 30, 2009 (in thousands)	September 30, 2008 (in thousands)
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$56,176	$782,006
Unavailable	730,927	181,507
Obligated Balance	$5,868,196	$5,583,344
Non-Budgetary FBWT	213	
Total	**$6,655,512**	**$6,546,857**

NOTE 3—ACCOUNTS RECEIVABLE, NET

Accounts receivable reflect overpayments of payroll, travel and other MCC current and former employee expenses. It also reflects substantiated disallowed MCA expenditures.

MCC does not record an allowance for doubtful accounts as these expenses are deemed wholly collectible. Total receivables as of the end of FY 2009 and FY 2008 were approximately $90,000 and $55,000, respectively.

NOTE 4—GENERAL PROPERTY, PLANT AND EQUIPMENT (PP&E), NET

MCC's PP&E costs are the associated leasehold improvements made to its leased office space. MCC has made significant leasehold improvements to its office space and amortizes the improvements based on the in-service (invoice) date of the improvement. Amortization on that in-service improvement is calculated on a quarterly basis. The cost of these improvements for both FY 2009 and FY 2008 was $10.9 million. Accumulated depreciation was approximately $4.0 million and $2.8 million, respectively. The current book value is $6.95 million and $8.1 million for the periods ending September 30, 2009 and 2008, respectively. The useful life of the improvements is based on the lease terms: ten years for the Bowen building lease and eight years for the City Center building lease.

MCC's capitalization threshold for all other general property, plant and equipment must have an original cost of $50,000 or more and an estimated useful life of five or more years. MCC's software capitalization threshold defines a capitalized asset that has an original cost of $200,000 or more and an estimated useful life of five years or more and the information technology infrastructure capitalization threshold defines a capitalized asset as having an original cost of $200,000 or more and an estimated useful life of three years or more. These Thresholds reduce MCC's administrative costs associated with accounting for PP&E, and result in increased operational efficiency.

NOTE 5—ADVANCES

Advances reflect amounts provided to Compact countries and other Federal agencies in accordance with formal Compacts or inter-agency agreements. In order to appropriately depict a comparable analysis of 2008 activity, MCC reclassified its Federal advances separately from its non-Federal balances. MCC reported $38.9 million ($6.5 million, Federal and $32.4 million, non-Federal) and $42.6 million ($9.5 million, Federal and $33.1 million, non-Federal) in advances as of September 30, 2009 and 2008, respectively.

NOTE 6—LEASES

MCC leases office space in two adjacent locations in Washington, D.C. These operating leases are on ten year (Bowen Building) and eight year (City Center Building) lease terms that terminate on May 25 and May 26, 2015, respectively. The Bowen building lease increases approximately one percent each year of the lease term. The City Center building lease increases at a fixed level every three years until the termination of the lease.

MCC also has short term leases for one (1) corporate vehicle (through May 31, 2010) and for eighteen (18) office copier machines (through January 31, 2012) utilized in both buildings. The future lease payments due are depicted in the **Exhibit 15** below.

Exhibit 15: Operating Leases

Future Lease Payments Due (in dollars)			
Fiscal Year	**Bowen**	**City Center**	**Total**
FY 2010	5,557,542	1,889,524	7,447,066
FY 2011	5,613,117	1,942,376	7,555,493
FY 2012	5,669,249	1,942,376	7,611,625
FY 2013	5,725,941	1,942,376	7,668,317
FY 2014	5,783,201	1,995,229	7,778,430
FY 2015	5,841,033	1,995,229	7,836,262
Total Future Lease Payments	**$34,190,083**	**$11,707,110**	**$45,897,193**
Future Lease Payments Due (in dollars)			
Fiscal Year	**MCC Vehicle**	**MCC Copiers**	**Total**
FY 2010	5,009	55,821	60,830
FY 2011	0	55,821	55,821
FY 2012	0	55,821	55,821
Total Future Lease Payments	**$5,009**	**$167,463**	**$172,472**

NOTE 7—INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

The Statement of Net Cost reports the MCC's gross cost less earned revenues to arrive at net cost of operations. Costs have been illustrated by MCC funded programs. **Exhibit 16** shows the value of exchange transactions between MCC and other Federal entities, as well as non-Federal entities. Intra-governmental costs relate to transactions between the MCC and other Federal entities. Public costs relate to transactions between the MCC and non-Federal entities. MCC does not have any exchange revenues.

Exhibit 16: Intra-governmental Costs and Exchange Revenue (in thousands)

	Compact	609(g)	Threshold	Due Diligence	Audit	Administrative	FY 2009 Total (in thousands)	FY 2008 Total (in thousands)
Intra-Governmental	16	-	5,683	6,601	2,022	14,512	28,834	19,089
Public	533,724	15,694	114,689	22,321	1,771	77,234	765,433	441,507
Total - Program	**$533,740**	**$15,694**	**$120,372**	**$28,922**	**$3,793**	**$91,746**	**$794,267**	**$460,596**

NOTE 8—ADJUSTMENTS TO BEGINNING BALANCE OF BUDGETARY RESOURCES

At the beginning of FY 2008, $12.6 million of amounts appropriated under the Foreign Operations, Export Financing and Related Programs Appropriations Act were rescinded. The rescission was part of the across-the-board rescission enacted for FY 2008. MCC was also subject to a mid-fiscal year 2008 rescission of $58 million. MCC was not subject to any rescissions in FY 2009.

NOTE 9—EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

MCC ensures that the information reported in its books is reflected within the Budget of the U.S. Government. Since MCC's financial statements are published before the President's Budget, this reconciliation is based on the Statement of Budgetary Resources for FY 2008 and the FY 2008 actual data reported in the President's 2010 budget submission. Fiscal year 2009 actual data will be published in February 2010 within the 2011 Budget of the United States. No material differences were noted.

NOTE 10—UNDELIVERED ORDERS AT THE END OF THE PERIOD

Exhibit 17 presents Undelivered Orders, paid and unpaid, as of September 30, 2009 and 2008.

Exhibit 17: Undelivered Orders

Undelivered Orders	2009	2008
Administrative	27,268,537	27,302,437
Audit	1,131,689	2,180,340
609(g)	42,422,624	25,349,832
Due Diligence	60,123,947	49,203,177
Program	5,563,885,135	5,242,750,204
Threshold	148,518,787	238,174,754
Total	**$5,843,350,719**	**$5,584,960,744**

NOTE 11—RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Exhibit 18 reconciles the resources available to MCC to finance operations with the net cost of operating MCC's programs. Some operating costs, such as depreciation, do not require direct financing sources. This exhibit illustrates the reconciliation of Net Cost of Operations to Budget.

Exhibit 18: Reconciliation of Net Cost of Operations to Budget

Resources Used to Finance Activities		Program Costs	
Budgetary Resources Obligated			
Obligations Incurred	1,050,551,545	**Gross Costs**	794,267,415
Recoveries of prior year unpaid obligations	(1,029,114)		
Other financing resources	1,994,782		
Total resources used to finance activities	1,051,517,213		
Total resources used to finance items not part of the net cost of operations	(258,466,266)	**Less: Earned Revenue**	-
Total components of net cost of operations that will not require or generate resources	1,216,468		
Net Cost of Operations	**$794,267,415**	**Net Cost of Operations**	**$794,267,415**

OFFICE OF INSPECTOR GENERAL/INDEPENDENT AUDITORS REPORT

OFFICE OF INSPECTOR GENERAL
For the Millennium Challenge Corporation

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S FINANCIAL STATEMENTS, INTERNAL CONTROLS, AND COMPLIANCE FOR THE PERIOD ENDING SEPTEMBER 30, 2009 AND 2008

AUDIT REPORT NO. M-000-10-001-C
November 16, 2009

WASHINGTON, DC

Office of Inspector General
for the Millennium Challenge Corporation

November 16, 2009

Darius Mans
Acting Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, N.W.
Washington, DC 20005-2221

Subject: Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2009 and 2008 Report No. M-000-10-001-C

Dear Mr. Mans,

Enclosed is the final report on the subject audit. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of Cotton & Company LLP to audit the financial statements of the Millennium Challenge Corporation (MCC) for the period ending September 30, 2009. The contract required that the audit be performed in accordance with United States Generally Accepted Government Auditing Standards, Office of Management and Budget (OMB) Bulletin 07-04 as amended, *Audit Requirements for Federal Financial Statements*, and the GAO/PCIE *Financial Audit Manual.*

In its audit of the MCC's financial statements for the period ending September 30, 2009 the auditors found:

- that the financial statements were fairly presented in conformity with U.S. Generally Accepted Accounting Principles,
- five significant deficiencies, one of which is considered a material weakness, in the internal controls over financial reporting and its operation, and
- no instances of material noncompliance with laws and regulations.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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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. Cotton & Company LLP reported the following internal control significant deficiencies:

1. Control over Mission Activities and Support (material weakness)
2. Quality Control over Financial Reporting
3. Controls over Payroll Processes
4. Proper Reporting Period
5. Fund Balance with Treasury Reconciliation

In carrying out its oversight responsibilities, the OIG reviewed Cotton & Company, LLP's report and related audit documentation. This review, as differentiated from an audit in accordance with U.S. Generally Accepted Government Auditing Standards was not intended to enable the OIG to express, and we do not express, opinions on MCC's financial statements, or internal control; or on MCC's compliance with applicable laws and regulations. Cotton & Company, LLP is responsible for the attached auditor's report, dated November 13, 2009, and the conclusions expressed in the report. However, our review disclosed no instances that Cotton & Company, LLP did not comply, in all material respects, with applicable standards.

To address the internal control deficiencies reported by Cotton & Company, LLP we made the following recommendations to MCC's management on November 09, 2009:

1. Controls over Mission Activities and Support (material weakness)

1.1 Untimely Performance and Lack of Monitoring of MCA Audits

Recommendations: We recommend that the MCC Department of Compact Implementation and Division of Finance:

- Strengthen the monitoring of the MCA audit process, from submission of the audit plan through issuance of the audit report to ensure timely completion and sufficient time for OIG review, prior to issuing the report to MCC for management comment.
- Increase communication between the MCAs, the audit firms, and the OIG to ensure all parties are adequately informed of the progress of all audits in a timely manner. Ensure that the MCAs understand the impact of these audits and how they affect MCC's assessment of overall controls and its financial statement audit.

1.2. Lack of Adequate Documentation to Support Transactions

Recommendation: We recommend that MCC management, in coordination with the U.S. Agency for International Development (USAID), establish effective and periodic communication with MCA and Threshold mission personnel, to emphasize the need for proper documentation to be maintained in the MCA files, and that these documents are readily available and promptly submitted for inspection when requested.

1.3 Improper Reporting of Re-disbursements

Recommendations: We recommend that MCC Department of Compact Implementation and Division of Finance:

- Develop training for MCA Fiscal Agents to ensure proper reporting of re-disbursements on the QFRs to ensure the MCA is only requesting advances for immediate funding needs.
- Develop a tracking mechanism to monitor prepayments and to ensure that MCC and NBC personnel are properly reviewing the quarterly submitted QFRs for proper reporting of both the projected needs for advancement of funds and actual re-disbursements of previously advanced funds.

2. QUALITY CONTROL OVER FINANCIAL REPORTING

Recommendations: We recommend that the MCC Division of Finance:

- Strengthen its quality control reviews over financial statements, notes, and other information presented, to ensure the information received is accurate, complete, and complies with accounting standards and reporting guidance.
- Increase communication with USAID to ensure information received has been reviewed and is reliable, in order for MCC to prepare complete and accurate financial statements in accordance with accounting standards and reporting guidance.

3. CONTROLS OVER PAYROLL PROCESSES

3.1 Untimely and Incomplete Processing of Separated Employees

Recommendations: We recommend that the MCC Division of HR:

- Ensure all HR personnel are aware of the requirement to document and retain the employee exit form in the OPF. In addition, direct HR personnel to obtain completed employee exit form from the Division of Security in a timely manner and document it properly in the employee's OPF.
- Direct HR personnel to follow up on all missing items when performing the OPF audits and completing the Purged OPF Check List.

- Develop and implement a process to monitor and ensure that HR and/or NBC personnel are completing leave audits as required and processing payments for amounts due to, or amounts owed by, separating employees on a timely basis.

3.2 Improper and/or Lack of Certification on the SF-52 and SF-50

Recommendations: We recommend that the MCC Division of HR:

- Review its current policies and procedures to ensure that proper authorization and approval of personnel actions are clearly documented on the required forms prior to processing.
- Direct HR personnel to adhere to the documented policies and procedures when preparing, reviewing, and approving personnel actions, to ensure reviews and approvals are properly documented.
- Provide the necessary training to responsible HR personnel to ensure that they are aware of the need for properly documenting reviews and approvals of personnel transactions.

3.3 Lack of Support for Employee Selected Benefit Deductions

Recommendations: We recommend that the MCC Division of HR:

- Establish a consistent tracking mechanism or other historical file for MCC employees to document all changes in employee benefits that are not documented using standard forms or Employee Express.
- Revise current policies and procedures to ensure that supporting documentation for all transactions processed by HR personnel on behalf of MCC employees are clearly documented either in the OPF or other historical file, and are readily available for examination.

4. Proper Reporting Period

Recommendations: We recommend that MCC Division of Finance:

- Continue to strengthen, and revise as necessary, policies and procedures for yearend accruals to ensure that all countries, types of funding, and programs are considered when recording estimates for future expenses, and that accruals are reasonably sufficient to cover anticipated costs.
- Establish and communicate procedures for the MCAs to require the submission of estimates or payment requests for current period expenses that have not, or will not be recorded until the subsequent year, for each fund type.
- Ensure that the accrual amount is adequately and reasonably calculated, clearly documented and supported, and properly reviewed for completeness and accuracy prior to and subsequently after posting to the GL.

5. FUND BALANCE WITH TREASURY (FBWT) RECONCILIATION

Recommendations: We recommend that the MCC Division of Finance:

- Inquire of USAID's procedures to resolve the issue of incomplete SF 224 reporting.
- Consider revisions to the Memorandum of Agreement (MOA) with USAID to require timely responses upon inquiry by MCC management regarding financial statement audit findings related to Threshold Program transactions.

In finalizing the report, we received and considered MCC's response to the draft audit report and the recommendations included therein. In its comments, MCC concurred with all of the recommendations. We acknowledge that management decisions have occurred for the audit recommendations. Please inform us when final action has been taken.

The OIG appreciates the cooperation and courtesies extended to our staff and to the staff of Cotton & Company, LLP during the audit. Please contact me or Richard J. Taylor, Director, Financial Audits Division, at (202) 216-6963, if you have any questions concerning this report.

Sincerely,

Alvin A. Brown /s/
Assistant Inspector General
Millennium Challenge Corporation

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INDEPENDENT AUDITOR'S REPORT

We have audited the Balance Sheets of the Millennium Challenge Corporation (MCC) as of September 30, 2009 and 2008, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the years then ended. These financial statements are the responsibility of MCC management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MCC as of September 30, 2009, and 2008, and its net costs, changes in net position, and budgetary resources for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis (MD&A) and other accompanying information are not required as part of MCC's basic financial statements. For MD&A, which is required by OMB Circular A-136, *Financial Reporting Requirements*, and the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 15, *Management's Discussion and Analysis*, we made certain inquiries of management and compared information for consistency with MCC's audited financial statements and against other knowledge we obtained during our audit. For other accompanying information, we compared information with the financial statements. On the basis of this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance. We did not audit the MD&A or other accompanying information and therefore express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued separate reports dated November 13, 2009, on our consideration of MCC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audits.

COTTON & COMPANY LLP

Colette Y. Wilson, CPA
Partner

November 13, 2009
Alexandria, Virginia

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United States Agency for International Development

Board of Directors
Millennium Challenge Corporation

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

We have audited the Balance Sheet of the Millennium Challenge Corporation (MCC), as of September 30, 2009 and 2008, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the years then ended. We have issued our report thereon dated November 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements.*

In planning and performing our audits, we considered MCC's internal control over financial reporting as a basis for designing audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MCC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MCC's internal control over financial reporting.

A control deficiency 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 misstatements in a timely manner. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements, that is more than inconsequential, will not be prevented or detected by the entity's internal control.

We noted five matters involving internal control and its operation that we consider to be significant deficiencies. These matters are listed below and are detailed in the report.

- Controls Over Mission Activities and Support
- Quality Control Over Financial Reporting
- Controls Over Payroll Processes
- Proper Reporting Period
- Fund Balance with Treasury Reconciliation

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider the significant deficiency related to Controls over Mission Activities and Support to be a material weakness as defined above.

CONTROLS OVER MISSION ACTIVITIES AND SUPPORT

The vast majority of activities and expenses occur in the Compact and Threshold programs. As such, controls in the mission countries should be adequately designed and operate effectively. In addition, MCC should be adequately monitoring those controls to gain assurance over the activities taking place and the resulting financial information being reported. During our audit, we noted areas of weakness related to the monitoring of audits, completion of those audits, control activities in the countries, and the ability to provide underlying support for transactions. These areas, which represent a lack of controls over activities and support, are detailed below.

Untimely Performance and Lack of Monitoring of MCA Audits

Audits of controls, transactions, and balances of Millennium Challenge Accountable Entities (MCA) are not completed and submitted to the Office of Inspector General (OIG) in a timely manner. In addition, MCC is not adequately monitoring the start and completion of these audits to ensure a timely submission of audit reports and notification of findings. This increases MCC's risk of not being informed of MCA activities that would affect the financial statements in a timely manner.

As a major component of internal control over the MCAs, MCC requires audits to be conducted on a semiannual basis for the six months ending December and June of each year. The results of the audits give MCC some assurance over the validity and accuracy of payments and advances that are processed for the MCAs and reported in its financial statements. This assurance is needed as invoices and other underlying supporting documentation for transactions are not reviewed or maintained by MCC or the National Business Center (NBC). Instead, MCC relies on approved request documents submitted by MCA personnel.

Based on our inquiries and review of the timing of audit planning documents and audit reports submitted by the MCA auditors, we concluded that MCC is not adequately monitoring the start and completion of the MCA audits. Details of our review for the 16 countries that had entered into force, as of June 30, 2009, follow.

For audits conducted for the six months ending December 31, 2008, in which audit reports were due by March 31, 2009, we noted the following:

- The OIG issued nine audit reports, of which seven were submitted between 28 and 45 days late.
- Four audit reports that have yet to be issued by the OIG, were also submitted after the due date; one in early June 2009, and three in July 2009.
- Audits were not conducted for two MCAs (Morocco and Mozambique) that entered into force in September 2008; the first audits were extended into the next audit period.

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- One audit (MCA Honduras) has not started due to failed procurements.

For audits conducted for the six months ending June 30, 2009, in which audit reports were due by September 30, 2009, we noted the following:

- Audit planning documents for eight audits were submitted and approved after June 30, 2009 (one in July, six in August, and one in September), and one has not been received (MCA Honduras is still experiencing procurement delays). Planning documents are required to be approved by the OIG prior to commencement and audit work should begin within the audit period to ensure effective testing of controls.

- Thirteen audit reports are currently past due; only one was submitted to the OIG by the due date and two were submitted in October. Outstanding audit reports include MCAs Morocco and Mozambique, which have now been in operation for one year since entering into force.

Outstanding audit reports for the period ending June 30, 2009, which cover two quarters of fiscal year (FY) 2009 activity, will now be received well after the current fiscal period, and would not be useful in MCC's assessment or assurance of FY 2009 activities. Some audits were delayed due to procurement issues, extended audit periods for MCAs that entered into force during an audit period, and the OIG's delayed issuance of final reports. However, audit reports that are not issued in a timely manner increase the risk that MCC will not be notified of potential inadequate controls and inaccurate financial information, which could have a material impact on MCC's financial statements. In addition, we noted that OIG comments on the audit reports relate to questionable amounts presented, clarification of audit findings, and lack of adherence to audit requirements and formatting of reports. Resolution of these comments is dependent on sufficient and timely responses from the MCA auditors.

Also during testing of internal controls we noted instances of Quarterly Financial Reports (QRF) being submitted after required deadlines and Payment Request Forms (PRF) that were not properly approved prior to requesting disbursement from MCC.

OIG's *Guidelines or Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities* (Guidelines; revised August 2007), states:

> *MCC standard audit provisions require that the Accountable Entity (hereafter referred to as MCA) ensures that an audit is contracted by MCA for itself at least annually in accordance with these Guidelines. The MCC may require more frequent audits than annually* (§1.5).
>
> *MCC responsibilities are to: 1) monitor and ensure that the required contracted audits of the MCA and all non-US governmental and nongovernmental covered providers expending more than $300 thousand in their fiscal year are performed in a timely manner; 2) ensure the audits are performed by auditors on the list of approved auditors; and 3) make sure proper action is taken to correct deficiencies identified by the auditors. ... The MCC is also responsible for ensuring that audit contract agreements between MCA and Covered Providers, subject to audit, and their independent auditors contain a standard statement of work that includes all the requirements of these Guidelines* (§1.8).
>
> *All required audits must be completed and the reports issued in accordance with the compact (no later than 90 days after the end of the audit period) or such other periods as Parties may agree in writing. Extensions must be requested by the MCA and the Covered Provider in advance of the*

audit due date. The approval of the extension will be coordinated and approved by the Office of the Inspector General on a case by case basis (§1.15).

The OIG must receive the audit report in accordance with the Compact, no later than 90 days after the first anniversary of the Entry into Force and no later than 90 days after the end of the audited period thereafter, or such other periods as the Parties may otherwise agree (§2.3).

Not closely monitoring the MCA audit process increases MCC's risk that MCAs are incurring costs and requesting advances that are potentially unallowable, incorrect, or not supported by underlying documentation. In addition, there is a risk that the MCAs do not have appropriate internal control structures in place that MCC can rely upon for approval of advance and payment requests.

Recommendations: We recommend that the MCC Department of Compact Implementation and Division of Finance:

- Strengthen the monitoring of the MCA audit process, from submission of the audit plan through issuance of the audit report to ensure timely completion and sufficient time for OIG review, prior to issuing the report to MCC for management comment.
- Increase communication between the MCAs, the audit firms, and the OIG to ensure all parties are adequately informed of the progress of all audits in a timely manner. Ensure that the MCAs understand the impact of these audits and how they affect MCC's assessment of overall controls and its financial statement audit.

Lack of Adequate Documentation to Support Transactions

MCA and Threshold missions did not provide or respond to our requests for supporting documentation in a timely manner for all expense and undelivered order sample items. Prior to yearend testing, we informed MCC that documentation would be requested from the MCA and Threshold missions for substantiation of yearend balances and that due to tight deadlines for the audit, responses would be required within five days. This detailed, written information was communicated to all MCA and Threshold mission points of contact.

Upon submission of the sample items, some countries responded in a timely manner, while others provided either incorrect, insufficient, or no documentation at all. MCC was advised of the lack of responses and in turn sent several emails to the countries and agency points of contact, in efforts to obtain the supporting documentation. Significant amounts remained unsupported at the conclusion of audit fieldwork.

The Government Accountability Office (GAO) *Standards of Internal Control*, states that:

Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. ... All documentation and records should be properly managed and maintained (page 15).

Documentation was not provided or was insufficient to support the following:

- Expenses for Compacts and Threshold transactions, in the amounts $995,737 and $2,269,864, respectively.

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- Undelivered Orders for Compact and Threshold balances, in the amounts of $620,217 and $5,665,222, respectively.

Lack of response and submission of underlying documentation by the MCA and Threshold missions weakens the oversight and monitoring of mission activities and increases the risk of MCC reporting inaccurate balances in its trial balance and financial reports.

Recommendation: We recommend that MCC management, in coordination with the U.S. Agency for International Development (USAID), establish effective and periodic communication with MCA and Threshold mission personnel, to emphasize the need for proper documentation to be maintained in the MCA files, and that these documents be readily available and promptly submitted for inspection when requested.

Improper Reporting of Re-disbursements

During a review of outstanding advances, we noted that re-disbursements for a compact and 609(g) funding were not applied to earlier, outstanding advances, and/or were not properly reported by the MCA. Details of our review at interim are as follows:

Vanuatu partially liquidated an April 2008 advance in April 2009, and had additional outstanding advances from FY 2008 that also had not been liquidated (one from June 2008, two from August 2008, and one from September 2008). These advances were not reported as disbursements on the MCA's Quarterly Financial Report (QFR) until April 2009; thus, the additional advances received after April 2008 may not have been needed.

Ghana's 609(g) disbursements for advances received in FYs 2008 and 2009 were not reported in a timely manner; they were reported on its June 2009 QFR. Funds were continually advanced on subsequent disbursement packages without discussion with the MCA as to why the amounts were not included on subsequent QFRs for proper re-disbursement recording in the general ledger (GL).

Volume 1, Part 6, *Other Fiscal Matters*, of the Treasury Financial Manual (TFM), states:

> *Advances to a recipient organization will be limited to the minimum amounts necessary for immediate disbursement needs and will be timed to be in accord only with the actual immediate cash requirements of the recipient organization in carrying out the purpose of an approved program or project. The timing and amount of cash advances will be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program costs and the proportionate share of any allowable indirect costs. (§2025)*

Monitoring and review procedures were not sufficient by MCC and NBC to ensure that aged advances were completely liquidated prior to issuing further advances and liquidating subsequent advances. In addition, MCAs that do not properly or timely report their actual re-disbursement amounts cause MCC's Congressional reporting to be inaccurate.

Recommendations: We recommend that MCC Department of Compact Implementation and Division of Finance:

- Develop training for MCA Fiscal Agents to ensure proper reporting of re-disbursements on the QFRs to ensure the MCA is only requesting advances for immediate funding needs.

- Develop a tracking mechanism to monitor prepayments and to ensure that MCC and NBC personnel are properly reviewing the quarterly submitted QFRs for proper reporting of both the projected needs for advancement of funds and actual re-disbursements of previously advanced funds.

QUALITY CONTROL OVER FINANCIAL REPORTING

MCC addressed the prior year recommendation to effectively coordinate with service providers to ensure timely receipt of yearend trial balance and adjustment information. However, quality control procedures performed on consolidated financial information presented in the Agency Financial Report (AFR) require additional improvement.

Yearend quality control reviews were not performed sufficiently to detect material misstatements and identify questionable and significant variances. Specifically, we noted the following:

- A $7.9 million overstatement in Upward Adjustments of Prior Year Undelivered Orders was reported in the initial yearend financial statements. The overstatement, which was not detected by MCC or USAID, was discovered upon our inquiry of the nearly $8 million increase in GL account 4881 for the Threshold program when the prior yearend balance was only $396,264. In response to our inquiry, USAID personnel noticed a posting error for both the third and fourth quarter amounts. Per their explanation, the deobligation and reobligation adjustments were based on cumulative amounts reported for the entire year, instead of amounts for just the related quarter. In addition, these amounts included adjustments for subobligations, which should not have been included, as these amounts are already recorded at the initial bilateral obligation level.

- USAID personnel also noted that similar errors were made to GL account 4871 for downward adjustments, resulting in a $432 thousand misstatement. These errors were corrected and adjustments were posted to the final trial balance for inclusion in the financial statements.

Additionally, detailed quality control reviews of consolidated financial information were not sufficient to ensure mathematical accuracy and presentation of comparable data between the trial balance, statements, and notes. During our review of the statements, notes, and information in the Management's Discussion and Analysis (MD&A) section, we noted the following:

- The presentation in the notes for Intra-governmental and Public costs, as well as Undelivered Orders, did not tie to amounts by program, as recorded in the trial balance. In addition, the total amount of costs did not tie to the Statement of Net Cost as it did for the prior year.

- The presentation of funding, by program, in the initial MD&A did not tie to amounts recorded in the trial balance.

- Current and prior year amounts were not consistent in terms of classification in line items and presentation of amounts as positive or negative.

- Mathematical errors, including some due to rounding, were noted not only in the initial AFR, but also in the revised version presented for audit.

- Performance information presented in initial and revised versions of the AFR was not clearly defined and amounts cited for targets were incorrect.

GAO *Standards of Internal Control*, states:

> *Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation (page 11).*

OMB Circular A-136, *Form and Content of Performance and Accountability Report (PAR)*, states:

> *Reporting entities should ensure that information in the financial statements is presented in accordance with GAAP for Federal entities and the requirements of this Circular….*
>
> *Preparation of the annual financial statement is the responsibility of agency management….*

Financial statements presented for audit are the responsibility of MCC. Without conducting or ensuring effective, detailed analyses and quality control reviews over consolidated financial information, MCC is at risk for presenting statements that are not comparative, accurate, or in compliance with applicable requirements and accounting standards.

Recommendations: We recommend that the MCC Division of Finance:

- Strengthen its quality control reviews over financial statements, notes, and other information presented, to ensure that information presented for audit is accurate, complete, and complies with accounting standards and reporting guidance.
- Increase communication with USAID to ensure information received has been reviewed and is reliable, in order for MCC to prepare complete and accurate financial statements in accordance with accounting standards and reporting guidance.

CONTROLS OVER PAYROLL PROCESSES

Untimely and Incomplete Processing of Separated Employees

Human Resource (HR) personnel are not proactive in obtaining the completed employee exit forms from the Division of Security, nor are they including copies of employee exit forms in the Official Personnel File (OPF). During our testing of 10 separated employees, we noted that employee exit forms were not properly documented in the OPF for all 10 employees sampled. MCC conducted OPF audits in which all sampled employees were included. When completing the Purged OPF Check List, it was simply documented that the employee exit form was not included in the OPF prior to being sent to storage or to the transferring employee's new agency.

In addition, we noted that for one separated employee, the lump sum payment for annual leave was not received until the 5th pay period after separation from MCC. MCC provided no explanation for the delay in performing the leave audit and processing the lump sum payment; normal processing time is two pay periods.

MCC's *Policy and Procedures on Employee Exit Procedures*, Section 5.2, states the following:

> *After the entire exit form is complete with signatures, the employee will meet with HR for an exit interview and final checkout…. The HR representative will witness the employee's final signature*

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on the MCC Exit Form, noting the return of all MCC property. The HR representative will retain a copy of the exit form, place it in the employee's historical personnel file, and provide the employee a copy…. After the employee has turned in their MCC badge to the Associate Director for Security, the form will be submitted to the HR division for their personnel file.

The *Purged OPF Check List* lists the documents to be included in the OPF:

Copy of Employee Exit Form – filed on left side.

GAO *Standards of Internal Control*, states:

Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded (page 15).

By not adhering to the process of completing and retaining the employee exit form, the risk increases that MCC employees may not return all required property before separating from the agency. In addition, the untimely processing and payment of amounts owed to its employees increases the agency's risk of retaining excessive liabilities or long-term receivables on its books for excessive periods of time.

Recommendations: We recommend that the MCC Division of HR:

- Ensure all HR personnel are aware of the requirement to document and retain the employee exit form in the OPF. In addition, direct HR personnel to obtain completed employee exit form from the Division of Security in a timely manner and document it properly in the employee's OPF.
- Direct HR personnel to follow up on all missing items when performing the OPF audits and completing the Purged OPF Check List.
- Develop and implement a process to monitor and ensure that HR and/or NBC personnel are completing leave audits as required and processing payments for amounts due to, or amounts owed by, separating employees on a timely basis.

Improper and/or Lack of Certification on the SF-52 and SF-50

During our testing of controls over personnel actions, we noted that HR personnel are not properly preparing and certifying the Standard Form (SF) 52, *Request for Personnel Action*, and the SF 50, *Notification of Personnel Action*. HR specialists are not certifying SF-52s in Part C-2 to show evidence of approval of the personnel action processed. In addition, they are not properly reviewing the SF-52s to ensure all necessary signatures are obtained to ensure the actions were properly requested and authorized prior to processing the action, nor are they signing the SF-52 as the preparing individual.

During testing of controls over 10 newly hired employees, we noted the following:

- Three SF-52s that were not signed or dated for approval
- One instance in which the SF-52 and SF-50 were prepared and certified by the same HR specialist

- Five SF-50s that were approved after the effective date of the personnel action

In addition, during testing controls over the processing of SF-52s for 45 employees, we noted:

- Twelve SF-52s did not have the signature of a Certification Officer in Part C-2
- Two instances in which the SF-52 and SF-50 were prepared and certified by the same HR specialist
- One SF-52 was not signed by the requesting and authorizing officials
- One SF-50 had an approval date that occurred before the requesting and authorizing dates

MCC's documented procedures for processing SF-52s state that the HR specialist should not sign the SF-50, and that SF-52s and SF-50s should not be released until all actions have been reviewed and approved.

U.S. Office of Personnel Management (OPM), *Guide to Processing Personnel Actions*, states:

> *No personnel action can be made effective prior to the date on which the appointing officer approved the action. That approval is documented by the appointing officer's pen and ink signature or by an authentication, approved by the Office of Personnel Management, in block 50 of the Standard Form 50, or in Part C-2 of the Standard Form 52. By approving an action, the appointing officer certifies that the action meets all legal and regulatory requirements and, in the case of appointments and position change actions, that the position to which the employee is being assigned has been established and properly classified* (§4b, *Effective Dates).*
>
> *As explained in paragraph 4b, most personnel actions must be approved by the appointing officer on or before their effective dates. An appointing officer is an individual in whom the power of appointment is vested by law or to whom it has been legally delegated. Only an appointing officer may sign and date the certification in Part C-2 of the Standard Form 52 or blocks 50 and 49 of the Standard Form 50 to approve an action* (§4c, *Approval of Personnel Actions)*

GAO *Standards of Internal Control*, states that:

> *Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets (page 14).*

Not adhering to procedures for preparing and approving personnel actions and establishing proper segregation of duties increases the risk that personnel actions may be processed that are not properly authorized or approved.

Recommendations: We recommend that the MCC Division of HR:

- Review its current policies and procedures to ensure that proper authorization and approval of personnel actions are clearly documented on the required forms prior to processing.

- Direct HR personnel to adhere to the documented policies and procedures when preparing, reviewing, and approving personnel actions, to ensure reviews and approvals are properly documented.

- Provide the necessary training to responsible HR personnel to ensure that they are aware of the need for properly documenting reviews and approvals of personnel transactions.

Lack of Support for Employee Selected Benefit Deductions

During testing of payroll and personnel transactions for 45 employees over two pay periods, we noted 14 instances in which documentation was not readily available or was not provided to support the amount deducted for Thrift Savings Plan (TSP) benefits. Of these 14 instances, we noted nine instances in which the deduction taken did not agree with the amount authorized by the employee.

GAO *Standards of Internal Control*, states:

> *Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. ... All documentation and records should be properly managed and maintained (page 15).*

OPM's *The Guide to Personnel Recordkeeping*, states in Chapter 3, *Filing Documents in the Personnel Folder*, states:

> *Records are filed in the Official Personnel Folder to document events in an individual's Federal employment history that have long-term consequences for the employee and for the Government. Care should be exercised in filing documents correctly to ensure all documents pertaining to an employee's rights and benefits are available in the personnel folder when needed.*

Instead of using the proper TSP form or accessing Employee Express, employees are emailing the HR specialist with the authorized amount to process for their TSP deduction. HR does not maintain in the OPF or in a centralized location, authorizations that are not documented using the standard form. For differences noted during the audit, the HR specialist could not readily produce the emails and had to search archived emails for the employee's authorization for the change in deduction amount.

Not using proper forms or maintaining a record of changes made to employee deductions increases the risk that incorrect deductions may be made for enrolled benefits.

Recommendations: We recommend that the MCC Division of HR:

- Establish a consistent tracking mechanism or other historical file for MCC employees to document all changes in employee benefits that are not documented using standard forms or Employee Express.

- Revise current policies and procedures to ensure that supporting documentation for all transactions processed by HR personnel on behalf of MCC employees are clearly documented either in the OPF or other historical file, and are readily available for examination.

PROPER REPORTING PERIOD

Expenses for goods and services received and performed were not recorded in the proper period. We noted FY 2008 transactions recorded in the current fiscal year for which accruals had not been posted. In addition, we noted FY 2009 accrual transactions recorded in the beginning of FY 2010 that were not estimated and recorded.

This is a repeat finding from the FY 2008 audit where MCC's accrual processes were not sufficient to identify and compute amounts owed, but not paid, in the appropriate period. MCC did make improvements to their yearend accrual processes by contacting NBC for a listing of FY 2009 invoices and payment requests received but not paid in the first nine days of FY 2010, and ensuring comprehensive coverage of all funds, interagency agreements, and vendor contracts. However, significant amounts still lacked appropriate accruals and were recorded in the wrong period. It was also noted that expenses were reported in the wrong period for Threshold program costs.

Statements of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, (pp. 22 and 23) requires "a liability is recognized when one party receives goods or services in return for a promise to provide money or other resources in the future… The expense is recognized in the period that the exchange occurs."

OMB Circular A-136, *Form and Content of the Performance and Accountability Report (PAR)*, *Balance Sheet,* Section II.4.3.4 *Liabilities,* states that "liabilities shall be recognized when they are incurred regardless of whether they are covered by available budgetary resources."

Unrecorded accruals for FY 2008 expenses reported in FY 2009 resulted in overstated expenses as follows:

- Compact and Compact Implementation funds in the amount of $1,902,313
- Administrative and Due Diligence funds in the amount of $2,249,188
- Threshold Program funds in the amount of $702,950

Unrecorded accruals for FY 2009 expenses reported in FY 2010 resulted in understated expenses as follows:

- Compact funds in the amount of $2,632,499
- Threshold Program funds in the amount of $22,568

By not accruing for expenses in the proper period, FY 2009 expenses were overstated by $2,199,384.

USAID also recorded an adjustment to the Threshold program accrual amounts, as a result of significant deficiencies noted in the accrual reporting system, which were calculated and posted to the GL.

Recommendations: We recommend that MCC Division of Finance:

- Continue to strengthen, and revise as necessary, policies and procedures for yearend accruals to ensure that all countries, types of funding, and programs are considered when recording estimates for future expenses, and that accruals are reasonably sufficient to cover anticipated costs.

- Establish and communicate procedures for the MCAs to require the submission of estimates or payment requests for current period expenses that have not, or will not be recorded until the subsequent year, for each fund type.
- Ensure that the accrual amount is adequately and reasonably calculated, clearly documented and supported, and properly reviewed for completeness and accuracy prior to and subsequently after posting to the GL.
- Ensure that USAID has procedures to resolve incorrect accruals and to make certain that quarterly and yearend amounts for the Threshold program are complete and accurate.

FUND BALANCE WITH TREASURY (FBWT) RECONCILIATION

USAID administers the Threshold Program for MCC, and Phoenix is the accounting system of record. During the review of internal controls, we noted that the monthly SF 224s, *Statement of Transactions*, which include mission transactions for MCC's Threshold Program, did not include all monthly cash disbursements and cash receipts recorded in Phoenix. Instead, only cash disbursements and cash receipts that are in agreement with those recorded and confirmed in Treasury's system are reported to avoid having differences reported back by Treasury on the SF-6652, *Statement of Differences* (SOD). In addition, quarterly cash adjustments are posted to the GL in order to agree the FBWT account balance to the cash balance reported by Treasury. At yearend, it was noted that the missions followed the same procedures in preparing the September SF 224s.

The Treasury Financial Manual (TFM), *Preparing FMS 224*, §3330 states:

> *Agencies prepare the monthly FMS 224 based on:*
> - *Vouchers paid or accomplished by [Regional Finance Centers (RFC)];*
> - *Intra-governmental Payments and Collections (IPAC) transactions accomplished;*
> - *Cash collections received for deposit on SF 215s [Deposit Ticket]; and*
> - *Electronic payments/deposits such as those processed through the Automated Standard Application for Payments (ASAP) System or the Fedwire Deposit System.*
>
> *Agencies also should report transactions recorded in their [GL] that are not associated with an SF 215, SF 5515 [Debit Voucher], IPAC, or vouchers paid or accomplished by RFCs in Section I of the FMS 224 only.*

§V, Subsection C, *Adjustments*, of Part 2-5100 states:

> *An agency may not arbitrarily adjust its FBWT account. Only after clearly establishing the causes of errors and properly documenting those errors, should an agency adjust its FBWT account balance.*

Improper reporting of FBWT to Treasury via the SF-224s bypasses the mandatory reconciliation and review process by Treasury, which in turn increases the risk of errors and misstatements ultimately being reported in the financial statements.

Recommendations: We recommend that the MCC Division of Finance:

- Inquire of USAID's procedures to resolve the issue of incomplete SF 224 reporting.

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- Consider revisions to the Memorandum of Agreement (MOA) with USAID to require timely responses upon inquiry by MCC management regarding financial statement audit findings related to Threshold Program transactions.

We noted certain matters involving internal control and its operation that we will report to MCC management in a separate letter.

This report is intended solely for the information and use of USAID, MCC management, others within MCC, OMB, and Congress. It is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

Colette Y. Wilson, CPA
Partner

November 13, 2009
Alexandria, Virginia

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Inspector General
United States Agency for International Development
Board of Directors
Millennium Challenge Corporation

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the Balance Sheets of the Millennium Challenge Corporation (MCC) as of September 30, 2009 and 2008, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the year then ended. We have issued our report thereon dated November 13, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*.

MCC management is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether MCC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 07-04. Providing an opinion on compliance with those provisions was not, however, an objective of our audits, and accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance that we are required to report under *Government Auditing Standards* and OMB Bulletin 07-04.

This report is intended solely for the information and use of United States Agency for International Development (USAID), MCC management, others within MCC and USAID, OMB, and Congress. It is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

Colette Y. Wilson, CPA
Partner

Colette Y. Wilson

November 13, 2009
Alexandria, Virginia

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Appendix A

Status of Prior Year Findings

Following is the disposition of prior year (2008) findings, recommendations, and MCC Management's action.

Finding:

1. Absence of quality controls over financial reporting (material weakness)

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Recommendation No. 1: We recommend that the Millennium Challenge Corporation management:

1.1. Perform detailed quality control reviews to ensure compliance with accounting standards and reporting guidance.

1.2. Review and revise written policies and procedures regarding the preparation of the financial statements and related footnote disclosures to ensure that all financial statement line items are reported accurately and properly supported, and that any adjustments are reviewed and approved before recording in the GL by NBC. Document the above processes to ensure that an audit trail is available for all line items and amounts reported.

1.3. Effectively coordinate with its service providers (USAID and NBC) to ensure timely and accurate receipt of final trial balance information sufficient to prepare complete financial statements in accordance with OMB Circular A-136.

Status:

While improvements were made in the coordination with its service providers MCC still needs to strengthen its detailed quality control reviews and ensure that documented policies are finalized and adhered to.

We consider this FY 2008 condition to be unresolved as of September 30, 2009.

Finding:

2. Authorization for personnel actions inconsistent with stated policies and procedures.

Recommendation No. 2: We recommend that the Millennium Challenge Corporation's management review and revise its process for requesting, authorizing, and certifying its personnel actions to ensure all actions are properly authorized, documented, and retained prior to the action being processed into the personnel database.

Appendix A

Status:

We consider this FY 2008 condition to be unresolved as of September 30, 2009, as similar findings are still noted by the auditors.

Finding

3. Transactions not recorded in the period they occurred

Recommendation No. 3: We recommend that the Millennium Challenge Corporation management develop and adhere to all policies and procedures related to quarterly and yearend reporting to ensure that all appropriate transactions are reviewed and a determination is made as to the amounts to accrue for the current period; and the accrual amount is properly prepared, clearly documented, and supported and that it is reviewed by both the service provider, NBC, and MCC for completeness and accuracy prior to and subsequently after posting to the GL.

Status:

While improvements were made to the methodology used to accrue for yearend expenses, significant amounts remained in the current year which related to the prior year.

We consider this FY 2008 condition to be unresolved as of September 30, 2009.

Finding

4. Lack of adequate review for accuracy and duplication prior to processing and recording transactions in General Ledger.

Recommendation No. 4: We recommend that the Millennium Challenge Corporation management:

4.1. Ensure that procedures for reviewing accruals and adjustments recorded by NBC are effectively performed to ensure each is valid and has been properly recorded.

4.2. Require documentation to support the entry of a JV to avoid duplication of the transactions. In addition, use of a consistent naming convention when entering JVs should be required to avoid duplication.

4.3. Ensure that PP&E reconciliations are effectively performed each quarter and that amortization schedules are accurate and complete.

Status:

We consider these FY 2008 conditions to be unresolved as of September 30, 2009

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Appendix B

Management Comments and Our Evaluation

We received and evaluated MCC's management comments to the recommendations made in this report. Management comments have been included in its entirety in Appendix C.

Based on MCC's comments, we acknowledge that management decisions have been reached on all of the recommendations. MCC should report to the OIG when final action has been taken on the recommendations. The following is a brief summary of MCC's management comments on the five recommendations included in this report and our evaluation of those comments.

Recommendation No. 1.1

MCC agrees with the recommendations. The MCC's Fiscal Accountability (FA) Directors will work with audit firms, MCAs and the OIG to ensure the timely completion and issuance of audit reports in the future. MCC has established a comprehensive audit tracking table to monitor the status of all MCA audits going forward, following up with MCAs to ensure timely completion, and providing notifications to the OIG on any issues or delays. MCC will stress to the MCAs the importance of timely audits as a part of MCC's overall system of strong internal controls.

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

Recommendation No. 1.2

MCC agrees with the recommendation. MCC's Fiscal Accountability (FA) Directors will work with the MCAs to ensure that documentation to support transactions is in good order and readily available. With regard to the Threshold missions, MCC plans to meet with USAID management to discuss the lack of response from the missions, and determine what steps both MCC and USAID can take to avoid this issue for future audits.

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

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Appendix B

Recommendation No. 1.3

MCC agrees with the recommendations. MCC has developed a report to monitor prepayments and will work with the National Business Center (NBC) to ensure that the first in/first-out method is followed when liquidating MCA advances. In addition, the FA Directors will provide training as needed to ensure that the MCAs provide accurate reporting of re-disbursements in their quarterly reporting submissions to MCC. MCC wishes to note that with the implementation of the Common Payment System (CPS), the use of advances is now limited to payment of MCA salaries and small dollar items. CPS makes payments directly to vendors via the US Treasury, eliminating the need for large dollar advances to MCA bank accounts.

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

Recommendation No. 2

MCC agrees with the recommendations. As noted in the audit report, MCC has made improvements in its quality control over financial report in FY 2009 (this item was a material weakness in FY 2008). In FY 2010, MCC will expand its review process to include quarterly fluctuation analysis of all materials accounts, review its reporting process to ensure that there is adequate time for an effective review process, and continue to coordinate with USAID on the timeliness and accuracy of financial data for the Threshold program.

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

Recommendation No. 3.1

MCC agrees with the finding and recommendations. MCC's Human Resources division will establish procedures and controls to ensure that employee exit forms leave audits, and other requirements are met and filed in the OPF. MCC's HR division is undergoing a project to document all policies and procedures (develop or update as necessary) to ensure we are compliant with all federal requirements. These policies will include procedures and metrics where necessary to ensure we are complying with the policies. This project is scheduled to be complete by the end of November 2009.

Appendix B

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

Recommendation No. 3.2

MCC agrees with recommendations. MCC's Human Resources division will establish procedures and controls to ensure proper personnel actions (SF-52/SF-50) documentation. MCC's HR division is undergoing a project to document all policies and procedures (develop or update as necessary) to ensure we are compliant with all federal requirements. These policies will include procedures and metrics where necessary to ensure we are complying with the policies. This project is scheduled to be complete by the end of November 2009

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

Recommendation No. 3.3

MCC agrees with the findings and recommendations. MCC's Human Resources Division will establish procedures and controls to ensure proper documentation of employee change requests. MCC will also discontinue the practice of accepting TSP changes via email. Employees will be required to use the appropriate form or Employee Express for changes to their TSP accounts. MCC's HR division is undergoing a project to document all policies and procedures (develop or update as necessary) to ensure we are compliant with all federal requirements. These policies will include procedures and metrics where necessary to ensure we are complying with the policies. Project is scheduled to be complete by the end of November 2009.

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

Recommendation No. 4

MCC agrees with the recommendations. MCC has implemented new formulation methodologies for its quarterly and year-end accruals that will ensure administrative; due diligence and program funds are accurately recorded. These new methodologies will be reflected in the update of MCC's financial management policy and procedures which will be released during the first quarter of FY 2010. MCC will meet with USAID management to discuss their procedures for ensuring that accruals reported as part of the quarterly reporting package to MCC are accurate and complete.

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

Recommendation No. 5

MCC agrees with the recommendations. MCC plans to meet with USAID management to discuss their plan of action to resolve this finding. MCC will update the MOU with USAID to require a copy of USAIDs consolidated monthly reconciliation for the fund balance with Treasury as part of their oversight Threshold reporting. MCC's ability to implement the recommendation with regard to USAID will be dependent on their agreement to the terms of the MO, and their timely completion of FBWT reconciliations in accordance with established Treasury guidelines.

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

Appendix C

MILLENNIUM CHALLENGE CORPORATION UNITED STATES OF AMERICA

Memorandum

TO: Alvin A. Brown
Assistant Inspector General

FROM: Michael Casella /s/
Acting Vice President, Administration and Finance

DATE: November 10, 2009

SUBJECT: Management Response to Draft Independent Auditor's Report on MCC's Financial Statements for Fiscal Years Ended September 30, 2009 and 2008, Respectively

We have received the subject draft report and are pleased to note that the independent auditors, Cotton & Company, LLP, are issuing an unqualified opinion on our principal financial statements:

Balance Sheet;
Statement of Net Cost;
Statement of Changes in Net Position; and
Statement of Budgetary Resources

The Millennium Challenge Corporation's (MCC) management recognizes the importance of accountability, effective stewardship and public disclosures related to the resources entrusted to it. Our goal is to achieve and maintain excellence in our financial management, financial reporting and internal control systems. Accordingly, we will implement the recommendations as soon as possible to strengthen our systems of internal control and lend further credibility to our financial statements and overall financial operations.

We wish to recognize and thank you, your team, and Cotton & Company for working closely with us during the audit process. Any questions may be addressed to Mr. Dennis Nolan, Deputy Chief Financial Officer, or to me.

Following are our management decisions and responses to Cotton & Company's audit recommendations.

Appendix C

Material Weakness: Controls over Mission Activities and Support

Recommendation No. 1: Untimely Performance and Lack of Monitoring of MCA Audits

We recommend that the MCC Department of Compact Implementation and Division of Finance:

- Strengthen the monitoring of the MCA audit process, from submission of the audit plan through issuance of the audit report to ensure timely completion and sufficient time for OIG review, prior to issuing the report to MCC for management comment.

- Increase communication between the MCAs, the audit firms, and the OIG to ensure all parties are adequately informed of the progress of all audits in a timely manner. Ensure that the MCAs understand the impact of these audits and how they affect MCC's assessment of overall controls and its financial statement audit.

Management Response

MCC agrees with the recommendations. The MCC's Fiscal Accountability (FA) Directors will work with audit firms, MCAs and the OIG to ensure the timely completion and issuance of audit reports in the future. MCC has established a comprehensive audit tracking table to monitor the status of all MCA audits going forward, following up with MCAs to ensure timely completion, and providing notifications to the OIG on any issues or delays. MCC will stress to the MCAs the importance of timely audits as a part of MCC's overall system of strong internal controls.

Recommendation No 2

We recommend that MCC management, in coordination with the U.S. Agency for International Development (USAID), establish effective and periodic communication with MCA and Threshold mission personnel, to emphasize the need for proper documentation to be maintained in the MCA files, and that these documents are readily available and promptly submitted for inspection when requested.

Management Response

MCC agrees with the recommendation. MCC's Fiscal Accountability (FA) Directors will work with the MCAs to ensure that documentation to support transactions is in good order and readily available. With regard to the Threshold missions, MCC plans to meet with USAID management to discuss the lack of response from the missions, and determine what steps both MCC and USAID can take to avoid this issue for future audits.

Appendix C

Recommendation No 3

We recommend that MCC Department of Compact Implementation and Division of Finance:

- Develop training for MCA Fiscal Agents to ensure proper reporting of re-disbursements on the QFRs to ensure the MCA is only requesting advances for immediate funding needs.

- Develop a tracking mechanism to monitor prepayments and to ensure that MCC and NBC personnel are properly reviewing the quarterly submitted QFRs for proper reporting of both the projected needs for advancement of funds and actual re-disbursements of previously advanced funds.

Management Response

MCC agrees with the recommendations. MCC has developed a report to monitor prepayments and will work with the National Business Center (NBC) to ensure that the first in/first-out method is followed when liquidating MCA advances. In addition, the FA Directors will provide training as needed to ensure that the MCAs provide accurate reporting of re-disbursements in their quarterly reporting submissions to MCC. MCC wishes to note that with the implementation of the Common Payment System (CPS), the use of advances is now limited to payment of MCA salaries and small dollar items. CPS makes payments directly to vendors via the US Treasury, eliminating the need for large dollar advances to MCA bank accounts.

Significant Deficiency 1: Quality Control Over Financial Reporting

We recommend that the MCC Division of Finance:

- Strengthen its quality control reviews over financial statements, notes, and other information presented, to ensure the information received is accurate, complete, and complies with accounting standards and reporting guidance.

- Increase communication with USAID to ensure information received has been reviewed and is reliable, in order for MCC to prepare complete and accurate financial statements in accordance with accounting standards and reporting guidance.

Management Response

MCC agrees with the recommendations. As noted in the audit report, MCC has made improvements in its quality control over financial report in FY 2009 (this item was a material weakness in FY 2008). In FY 2010, MCC will expand its review process to include quarterly fluctuation analysis of all materials accounts, review its reporting process to ensure that there is

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adequate time for an effective review process, and continue to coordinate with USAID on the timeliness and accuracy of financial data for the Threshold program.

Significant Deficiency 2: Controls Over Payroll Process

Recommendation No. 1: Untimely and Incomplete Processing of Separated Employees

We recommend that the MCC Division of HR:

- Ensure all HR personnel are aware of the requirement to document and retain the employee exit form in the OPF. In addition, direct HR personnel to obtain completed employee exit form from the Division of Security in a timely manner and document it properly in the employee's OPF.

- Direct HR personnel to follow up on all missing items when performing the OPF audits and completing the Purged OPF Check List.

- Develop and implement a process to monitor and ensure that HR and/or NBC personnel are completing leave audits as required and processing payments for amounts due to, or amounts owed by, separating employees on a timely basis.

Management Response

MCC agrees with the finding and recommendations. MCC's Human Resources division will establish procedures and controls to ensure that employee exit forms leave audits, and other requirements are met and filed in the OPF. MCC's HR division is undergoing a project to document all policies and procedures (develop or update as necessary) to ensure we are compliant with all federal requirements. These policies will include procedures and metrics where necessary to ensure we are complying with the policies. This project is scheduled to be complete by the end of November 2009.

Recommendation No 2: Improper and/or lack of certification on the SF-52/SF-50

We recommend that the MCC Division of HR:

- Review its current policies and procedures to ensure that proper authorization and approval of personnel actions are clearly documented on the required forms prior to processing.

- Direct HR personnel to adhere to the documented policies and procedures when preparing, reviewing, and approving personnel actions, to ensure reviews and approvals are properly documented.

- Provide the necessary training to responsible HR personnel to ensure that they are aware of the need for properly documenting reviews and approvals of personnel transactions.

Management Response

MCC agrees with recommendations. MCC's Human Resources division will establish procedures and controls to ensure proper personnel actions (SF-52/SF-50) documentation. MCC's HR division is undergoing a project to document all policies and procedures (develop or update as necessary) to ensure we are compliant with all federal requirements. These policies will include procedures and metrics where necessary to ensure we are complying with the policies. This project is scheduled to be complete by the end of November 2009.

Recommendation No 3: Lack of support for employee selected benefit deductions

We recommend that the MCC Division of HR:

- Establish a consistent tracking mechanism or other historical file for MCC employees to document all changes in employee benefits that are not documented using standard forms or Employee Express.

- Revise current policies and procedures to ensure that supporting documentation for all transactions processed by HR personnel on behalf of MCC employees are clearly documented either in the OPF or other historical file, and are readily available for examination.

Management Response

MCC agrees with the findings and recommendations. MCC's Human Resources Division will establish procedures and controls to ensure proper documentation of employee change requests. MCC will also discontinue the practice of accepting TSP changes via email. Employees will be required to use the appropriate form or Employee Express for changes to their TSP accounts. MCC's HR division is undergoing a project to document all policies and procedures (develop or update as necessary) to ensure we are compliant with all federal requirements. These policies will include procedures and metrics where necessary to ensure we are complying with the policies. Project is scheduled to be complete by the end of November 2009.

Significant Deficiency 3: Proper Reporting Period

We recommend that MCC Division of Finance:

- Continue to strengthen, and revise as necessary, policies and procedures for yearend accruals to ensure that all countries, types of funding, and programs are considered when recording estimates for future expenses, and that accruals are reasonably sufficient to cover anticipated costs.

Appendix C

- Establish and communicate procedures for the MCAs to require the submission of estimates or payment requests for current period expenses that have not, or will not be recorded until the subsequent year, for each fund type.

- Ensure that the accrual amount is adequately and reasonably calculated, clearly documented and supported, and properly reviewed for completeness and accuracy prior to and subsequently after posting to the GL.

- Ensure that USAID has procedures to resolve incorrect accruals and to make certain that quarterly and yearend amounts for the Threshold program are complete and accurate

Management Response

MCC agrees with the recommendations. MCC has implemented new formulation methodologies for its quarterly and year-end accruals that will ensure administrative; due diligence and program funds are accurately recorded. These new methodologies will be reflected in the update of MCC's financial management policy and procedures which will be released during the first quarter of FY 2010. MCC will meet with USAID management to discuss their procedures for ensuring that accruals reported as part of the quarterly reporting package to MCC are accurate and complete.

Significant Deficiency No 4: Fund Balance with Treasury (FBWT) Reconciliation

We recommend that the MCC Division of Finance:

- Inquire of USAID's procedures to resolve the issue of incomplete SF 224 reporting.

- Consider revisions to the Memorandum of Agreement (MOA) with USAID to require timely responses upon inquiry by MCC management regarding financial statement audit findings related to Threshold Program transactions.

Management Response

MCC agrees with the recommendations. MCC plans to meet with USAID management to discuss their plan of action to resolve this finding. MCC will update the MOU with USAID to require a copy of USAID's consolidated monthly reconciliation for the fund balance with Treasury as part of our oversight Threshold reporting. MCC's ability to implement the recommendation with regard to USAID will be dependent on their agreement to the terms of the MO, and their timely completion of FBWT reconciliations s in accordance with established Treasury guidelines.

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FINANCIAL SECTION

In accordance with the OMB Circular A-136, Financial Reporting Requirements, MCC's financial statements are in the appropriate form and content for FY 2009. The tables below outline the following financial statements:

- Balance Sheets;
- Statements of Budgetary Resources;
- Statements of Net Cost;
- Statements of Changes in Net Position;
- Notes to Financial Statements; and
- Independent Auditor Reports of the MCC's Financial Statements, Internal Controls, and Compliance for the period ending September 30, 2009 and 2008.

BALANCE SHEETS

	FY 2009	FY 2008
Assets		
Intra-Governmental		
Fund Balance with Treasury *(Note 2)*	**$6,655,511,983**	**$6,546,857,481**
Advances *(Note 5)*	6,474,444	9,485,386
Total Intra-Governmental	**6,661,986,427**	**6,556,342,867**
Accounts Receivable, Net *(Note 3)*	90,363	54,672
General Property, Plant, and Equipment, Net *(Note 4)*	6,953,153	8,127,205
Advances *(Note 5)*	32,422,386	33,093,266
Total Assets	**$6,701,452,329**	**$6,597,618,010**
Liabilities		
Intra-Governmental		
Accounts Payable *(Note 1F)*	229,546	4,973
Contributions and Payroll Taxes Payable	467,304	376,093
Total Intra-Governmental	**696,850**	**381,066**
Federal Employee and Veteran Benefits Payable	35,751	0
Accounts Payable *(Note 1F)*	56,026,101	35,343,643
Accrued Funded Payroll Liabilities	7,196,040	6,444,041
Total Liabilities	**$63,954,742**	**$42,168,750**
Net Position		
Unexpended Appropriations – Other Funds	$6,632,548,466	$6,548,610,190
Cumulative Results of Operations – Other Funds	4,949,121	6,839,070
Total Net Position	**$6,637,497,587**	**$6,555,449,260**
Total Liabilities and Net Position	**$6,701,452,329**	**$6,597,618,010**

The notes are an integral part of these financial statements.

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STATEMENTS OF BUDGETARY RESOURCES

	FY 2009	FY 2008
Budgetary Resources		
Unobligated Balance – Beginning of Period	$962,304,024	$2,256,142,503
Recoveries of Prior Years Obligations	1,029,114	504,898
Budget Authority:		
Appropriations	875,000,000	1,557,000,000
Nonexpenditure Transfers, Net, Anticipated and Actual	(679,000)	(10,810,404)
Permanently Not Available *(Note 8)*	0	(70,611,700)
Total Budgetary Resources	**$1,837,654,138**	**$3,732,225,297**
Status of Budgetary Resources		
Obligations Incurred		
Direct	$1,050,551,545	$2,769,921,274
Unobligated Balance Available	56,176,028	780,796,905
Unobligated Balance Not Available	730,926,565	181,507,118
Total Status of Budgetary Resources	**$1,837,654,138**	**$3,732,225,297**
Change in Obligated Balance		
Obligated Balance, Net – as of October 1, 2008		
Unpaid Obligations, Brought Forward, October 1	$5,583,344,174	$3,287,907,145
Obligations Incurred	1,050,551,545	2,769,921,274
Gross Outlays	(764,670,301)	(473,979,346)
Recoveries of Prior Year Unpaid Obligations, Actual	(1,029,114)	(504,898)
Obligated Balance, Net – End of Period		
Unpaid obligations	$5,868,196,304	$5,583,344,174
Net Outlays		
Gross Outlays	$764,670,301	$473,979,346

The notes are an integral part of these financial statements.

Statements of Net Costs

Program	FY 2009	FY 2008
Program Costs *(Note 7)*		
Compact		
Gross Costs	$533,740,058	$226,498,265
Less: Earned Revenue	0	0
Net Program Costs	533,740,058	226,498,265
609 (g) Programs		
Gross Costs	15,693,976	9,768,972
Less: Earned Revenue	0	0
Net Program Costs	15,693,976	9,768,972
Threshold Programs		
Gross Costs	120,372,199	118,903,902
Less: Earned Revenue	0	0
Net Program Costs	120,372,199	118,903,902
Due Diligence Programs		
Gross Costs	28,922,102	17,338,771
Less: Earned Revenue	0	0
Net Program Costs	28,922,102	17,338,771
Audit		
Gross Costs	3,792,544	2,304,181
Less: Earned Revenue	0	0
Net Program Costs	3,792,544	2,304,181
Administrative		
Gross Costs	91,746,536	85,782,157
Less: Earned Revenue	0	0
Net Program Costs	91,746,536	85,782,157
Program Costs – Net of All Programs	**$794,267,415**	**$460,596,248**
Net Costs of Operations	**$794,267,415**	**$460,596,248**

The notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN NET POSITION

	FY 2009	FY 2008
Cumulative Results of Operations		
Beginning Balances	$6,839,070	$7,395,351
Adjustments		(1,671,357)
Beginning Balance, as Adjusted	6,839,070	5,723,994
Budgetary Financing Sources		
Appropriations Used	$790,382,685	$460,060,774
Other Financing Sources		
Donations and Forfeitures of Property *(Note 1P)*	205,266	0
Imputed Financing	1,789,515	1,650,550
Total Financing Sources	792,377,466	461,711,324
Net Cost of Operations	(794,267,415)	(460,596,248)
Net Change	(1,889,949)	1,115,076
Cumulative Results of Operations	**$4,949,121**	**$6,839,070**
Unexpended Appropriations		
Beginning Balance	$6,548,610,190	$5,536,714,361
Adjustments	0	(3,621,292)
Correction of errors	(39)	0
Beginning Balance, as Adjusted	$6,548,610,151	$5,533,093,069
Budgetary Financing Sources		
Appropriations Received	$875,000,000	$1,557,000,000
Appropriations Transferred In/Out	(679,000)	(10,810,404)
Other adjustments *(Note 8)*	0	(70,611,700)
Appropriations Used	(790,382,685)	(460,060,774)
Total Budgetary Financing Sources	83,938,315	1,015,517,122
Total Unexpended Appropriations	**$6,632,548,466**	**$6,548,610,190**
Net Position	**$6,637,497,587**	**$6,555,449,260**

The notes are an integral part of these financial statements.

Notes to Financial Statements (As of September 30, 2009)

Note 1—Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements have been prepared to report the financial position, results of operations and budgetary resources for MCC as required by OMB Circular A-136, *Financial Reporting Requirements,* for form and content and in accordance with Section 613 of the Millennium Challenge Act of 2003, as amended, and the Government Corporation Control Act (31 U.S.C. §9106). These financial statements have been prepared from MCC's books and records and are presented in accordance with the applicable requirements of OMB, the Secretary of the Treasury, and the Government Management and Reform Act of 1994.

MCC's accounting policies conform to and are consistent with Generally Accepted Accounting Principles for the Federal Government, as promulgated by OMB and prescribed by the Federal Accounting Standards Advisory Board.

MCC's principle financial statements are:

- Balance Sheet;
- Statement of Net Cost;
- Statement of Budgetary Resources; and
- Statement of Changes in Net Position.

Financial statement footnotes are also included and considered an integral part of the financial statements.

B. Reporting Entity

MCC was formed in January 2004 pursuant to the Millennium Challenge Act of 2003, as amended, (Public Law 108-199). MCC's mission is to reduce poverty by supporting sustainable, transformative economic growth in developing countries that create and maintain sound policy environments. Assistance is intended to provide economic growth and alleviate extreme poverty, strengthen good governance, encourage economic freedom, and promote investments in people.

C. Budgets and Budgetary Accounting

MCC's programs and activities are funded through no-year appropriations. Such funds are available for obligation without fiscal year limitation and remain available until expended. MCC has attained total appropriations of $875 million and $1.557 billion in FY 2009 and FY 2008, respectively. OMB apportions MCC administrative funds on an annual basis pursuant to statutory limitations in the appropriations bill. In addition, MCC receives from OMB a separate apportionment of funds for administrative and audit oversight, compact programs, due diligence programs, 609(g) programs and threshold programs. MCC does not have any earmarked funds. Because of the no-year status of MCC appropriations, unobligated administrative, audit, and due diligence funds (apportioned on annual bases) are not returned to the Treasury; however, unobligated balances as of September 30 for these three categories of funds are transferred to the program fund category at the beginning of the subsequent fiscal year.

D. Basis of Accounting

Financial transactions are recorded on accrual and budgetary bases in accordance with pertinent federal accounting and financial reporting requirements. Under the accrual method of accounting, financing sources are recognized when used and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates MCC's compliance with legal constraints and controls over the use of Federal funds.

The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are prepared on the accrual basis. The Statement of Budgetary Resources is prepared in accordance with budgetary accounting rules.

E. Fund Balance with Treasury

MCC does not maintain cash in commercial bank accounts. Rather, MCC's funds are maintained in Treasury accounts. The Department of the Treasury processes all cash receipts and disbursements for MCC. The fund balances with Treasury represent no-year funds, which are maintained in appropriated funds that are available to pay current and future commitments.

F. Accounts Payable

MCC records as liabilities all amounts due to others as a direct result of transactions or events that have occurred. Accounts payable represent amounts due to Federal and non-Federal entities for goods and services received by MCC, but not paid at the end of the accounting period. In order to appropriately depict a comparable analysis of FY 2008 activity, MCC reclassified its Federal accounts payable balances separately from its non-Federal balances. Accounts payable reported at the end of FY 2009 were $56 million (non-Federal) and $230K (Federal) and at the end of FY 2008 were $35.3 million (non-Federal) and $5K (Federal).

G. Actuarial FECA Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to a job-related injury or occupational disease.

Claims incurred for benefits for MCC employees under FECA are administered by the Department of Labor (DOL) and later billed to MCC. MCC's actuarial liability for workers' compensation includes any costs incurred but unbilled as of year-end, as calculated by DOL, and is not funded by current appropriations.

MCC incurred no FECA liabilities during FY 2009 and FY 2008.

H. Accrued Annual Leave

The value of employees' unused annual leave at the end of each fiscal quarter is accrued as a liability. At the end of each fiscal quarter, the balance in the accrued annual leave account is adjusted to reflect current pay rates and leave balances. Annual leave is funded from current appropriations. Sick leave and other types of non-vested leave are expensed when used and, in accordance with Federal requirements, no accruals are recorded for unused leave.

I. Net Position

Net position is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations are funds appropriated by Congress to MCC that are still available for expenditure at the end of the fiscal year. Cumulative results of operations represent the net differences between financing sources and expenses since MCC's inception. MCC adjusted the FY 2009 beginning balance for unexpended appropriations by $39 to account for an error correction.

J. Financing Sources

Per note 1.C, MCC funds its program and operating expenses through no-year appropriations. Appropriations are recognized as an accrual-based financing source at the time they are used to pay program or administrative expenses, except for expenses to be funded by future appropriations.

K. Retirement Benefits

MCC's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by Public Law 99-335. Pursuant to this law, most U.S. Government employees hired after December 31, 1983, are covered by FERS and Social Security. Federal employees hired prior to January 1, 1984, were allowed to elect whether they desired to participate in FERS (with Social Security coverage) or remain in CSRS. For employees covered by CSRS, MCC contributes seven percent of their gross pay toward their retirement benefits. For those employees covered by FERS, MCC contributes 11 percent of their gross pay toward retirement. Employees are also allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under FERS, MCC contributes an automatic one percent of basic pay to TSP and matches employee contributions up to an additional four percent of pay, for a maximum MCC contribution amounting to five percent of pay.

Employees under CSRS may participate in the TSP, but will not receive either MCC's automatic or matching contributions.

As of the end of FY 2009, MCC made retirement contributions of $116,000 to CSRS, $2.58 million to FERS, and $1.01 million to TSP.

L. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of financing sources and expenses during the reporting period. Actual results could differ from such estimates.

M. Contingencies

MCC can be a party to various routine administrative proceedings, legal actions, and claims brought by or against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against MCC. In the opinion of MCC's management and legal counsel, there are no proceedings, actions, or claims outstanding or threatened that would materially impact MCC's financial statements.

N. Judgment Fund

Certain legal matters to which MCC can be named as a party may be administered and, in some instances, litigated and paid by other Federal agencies. In general, amounts paid in excess of $2,500 for Federal Tort Claims Act settlements or awards pertaining to these litigations are funded from a special appropriation administered by the Department of the Treasury, called the Judgment Fund. Although the ultimate disposition of any potential Judgment Fund proceedings cannot be determined, management expects that any liability or expense that might ensue would not be material to MCC's financial statements.

O. Custodial Liabilities

Under current policy and procedures, MCC disburses funds for Compact and pre-Compact projects and activities upon the presentation of a valid invoice. However, under certain conditions, MCC will fund countries by advancing funds on an as-needed basis to cover basic needs. Such funds provided to the countries are required to be deposited in interest-bearing accounts, if legally feasible, until disbursed. The interest earned on these accounts is remitted to MCC by the MCA and is then returned to the Treasury's general funds. MCC received and deposited $213,000 and $1.61 million in interest remittances as of September 30, 2009 and 2008, respectively. This reduction of interest remittances is due to the full implementation of ITS with all MCC partner countries.

P. Donated Services

MCC may on occasion utilize donated services from other Federal agencies, individuals and private firms in the course of business operations. The approximate fair market value of donated services for September 30, 2009 was $205,266. MCC did not utilize donated services for FY 2008.

Q. Transfers with Other Federal Agencies

MCC is a party to allocation transfers with another Federal agency as a transferring entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays that are incurred by the child entity are charged to this allocation account, as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, apportionments are derived.

MCC allocates funds, as the parent, to USAID. In FY 2009 and FY 2008, MCC transferred budgetary authority of $33 million and $110 million, respectively, to USAID to administer Threshold and Compact programs. USAID receives these allocations as transfers-in and reports quarterly to MCC as the child. MCC also transfers an administrative fee to USAID for the purposes of administering the Threshold and Compact programs. Since FY 2008, these administrative fee transfers are not reported back to MCC.

Note 2—Fund Balance with Treasury

The U.S. Treasury accounts for all U.S. Government cash on an overall consolidated basis. MCC is appropriated "general" funds only and maintains theses balances in the Fund Balance with Treasury. The general fund line items on the Balance Sheet for September 30, 2009 and 2008 consisted of the amounts presented in **Exhibit 13**. The status of the general fund balances is summarized by obligated, unobligated and Non-Budgetary fund balances in **Exhibit 14**.

Exhibit 13: Fund Balance with Treasury as of September 30

	September 30, 2009 (in thousands)	September 30, 2008 (in thousands)
Fund Balances		
General Funds	$6,655,512	$6,546,857
Total	**$6,655,512**	**$6,546,857**

Exhibit 14: Status of Fund Balance with Treasury as of September 30

	September 30, 2009 (in thousands)	September 30, 2008 (in thousands)
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$56,176	$782,006
Unavailable	730,927	181,507
Obligated Balance	$5,868,196	$5,583,344
Non-Budgetary FBWT	213	
Total	**$6,655,512**	**$6,546,857**

Note 3—Accounts Receivable, Net

Accounts receivable reflect overpayments of payroll, travel and other MCC current and former employee expenses. It also reflects substantiated disallowed MCA expenditures. MCC does not record an allowance for doubtful accounts as these expenses are deemed wholly collectible. Total receivables as of the end of FY 2009 and FY 2008 were approximately $90,000 and $55,000, respectively.

Note 4—General Property, Plant and Equipment (PP&E), Net

MCC's PP&E costs are the associated leasehold improvements made to its leased office space. MCC has made significant leasehold improvements to its office space and amortizes the improvements based on the in-service (invoice) date of the improvement. Amortization on that in-service improvement is calculated on a quarterly basis. The cost of these improvements for both FY 2009 and FY 2008 was $10.9 million. Accumulated depreciation was approximately $4.0 million and $2.8 million, respectively. The current book value is $6.95 million and $8.1 million for the periods ending September 30, 2009 and 2008, respectively. The useful life of the improvements is based on the lease terms: ten years for the Bowen building lease and eight years for the City Center building lease.

MCC's capitalization threshold for all other general property, plant and equipment must have an original cost of $50,000 or more and an estimated useful life of five or more years. MCC's software capitalization threshold defines a capitalized asset that has an original cost of $200,000 or more and an estimated useful life of five years or more and the information technology infrastructure capitalization threshold defines a capitalized asset as having an original cost of $200,000 or more and an estimated useful life of three years or more. These Thresholds reduce MCC's administrative costs associated with accounting for PP&E, and result in increased operational efficiency.

Note 5—Advances

Advances reflect amounts provided to Compact countries and other Federal agencies in accordance with formal Compacts or inter-agency agreements. In order to appropriately depict a comparable analysis of 2008 activity, MCC reclassified its Federal advances separately from its non-Federal balances. MCC reported $38.9 million ($6.5 million, Federal and $32.4 million, non-Federal) and $42.6 million ($9.5 million, Federal and $33.1 million, non-Federal) in advances as of September 30, 2009 and 2008, respectively.

NOTE 6—LEASES

MCC leases office space in two adjacent locations in Washington, D.C. These operating leases are on ten year (Bowen Building) and eight year (City Center Building) lease terms that terminate on May 25 and May 26, 2015, respectively. The Bowen building lease increases approximately one percent each year of the lease term. The City Center building lease increases at a fixed level every three years until the termination of the lease.

MCC also has short term leases for one (1) corporate vehicle (through May 31, 2010) and for eighteen (18) office copier machines (through January 31, 2012) utilized in both buildings. The future lease payments due are depicted in the **Exhibit 15** below.

Exhibit 15: Operating Leases

Future Lease Payments Due (in dollars)			
Fiscal Year	**Bowen**	**City Center**	**Total**
FY 2010	5,557,542	1,889,524	7,447,066
FY 2011	5,613,117	1,942,376	7,555,493
FY 2012	5,669,249	1,942,376	7,611,625
FY 2013	5,725,941	1,942,376	7,668,317
FY 2014	5,783,201	1,995,229	7,778,430
FY 2015	5,841,033	1,995,229	7,836,262
Total Future Lease Payments	**$34,190,083**	**$11,707,110**	**$45,897,193**

Future Lease Payments Due (in dollars)			
Fiscal Year	**MCC Vehicle**	**MCC Copiers**	**Total**
FY 2010	5,009	55,821	60,830
FY 2011	0	55,821	55,821
FY 2012	0	55,821	55,821
Total Future Lease Payments	**$5,009**	**$167,463**	**$172,472**

NOTE 7—INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

The Statement of Net Cost reports the MCC's gross cost less earned revenues to arrive at net cost of operations. Costs have been illustrated by MCC funded programs. **Exhibit 16** shows the value of exchange transactions between MCC and other Federal entities, as well as non-Federal entities. Intra-governmental costs relate to transactions between the

MCC and other Federal entities. Public costs relate to transactions between the MCC and non-Federal entities. MCC does not have any exchange revenues.

Exhibit 16: Intra-governmental Costs and Exchange Revenue (in thousands)

	Compact	609(g)	Threshold	Due Diligence	Audit	Administrative	FY 2009 Total (in thousands)	FY 2008 Total (in thousands)
Intra-Governmental	16	-	5,683	6,601	2,022	14,512	28,834	19,089
Public	533,724	15,694	114,689	22,321	1,771	77,234	765,433	441,507
Total - Program	**$533,740**	**$15,694**	**$120,372**	**$28,922**	**$3,793**	**$91,746**	**$794,267**	**$460,596**

Note 8—Adjustments to Beginning Balance of Budgetary Resources

At the beginning of FY 2008, $12.6 million of amounts appropriated under the Foreign Operations, Export Financing and Related Programs Appropriations Act were rescinded. The rescission was part of the across-the-board rescission enacted for FY 2008. MCC was also subject to a mid-fiscal year 2008 rescission of $58 million. MCC was not subject to any rescissions in FY 2009.

Note 9—Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

MCC ensures that the information reported in its books is reflected within the Budget of the U.S. Government. Since MCC's financial statements are published before the President's Budget, this reconciliation is based on the Statement of Budgetary Resources for FY 2008 and the FY 2008 actual data reported in the President's 2010 budget submission. Fiscal year 2009 actual data will be published in February 2010 within the 2011 Budget of the United States. No material differences were noted.

Note 10—Undelivered Orders at the End of the Period

Exhibit 17 presents Undelivered Orders, paid and unpaid, as of September 30, 2009 and 2008.

Exhibit 17: Undelivered Orders

Undelivered Orders	2009	2008
Administrative	27,268,537	27,302,437
Audit	1,131,689	2,180,340
609(g)	42,422,624	25,349,832
Due Diligence	60,123,947	49,203,177
Program	5,563,885,135	5,242,750,204
Threshold	148,518,787	238,174,754
Total	**$5,843,350,719**	**$5,584,960,744**

NOTE 11—RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Exhibit 18 reconciles the resources available to MCC to finance operations with the net cost of operating MCC's programs. Some operating costs, such as depreciation, do not require direct financing sources. This exhibit illustrates the reconciliation of Net Cost of Operations to Budget.

Exhibit 18: Reconciliation of Net Cost of Operations to Budget

Resources Used to Finance Activities		Program Costs	
Budgetary Resources Obligated			
Obligations Incurred	1,050,551,545	**Gross Costs**	794,267,415
Recoveries of prior year unpaid obligations	(1,029,114)		
Other financing resources	1,994,782		
Total resources used to finance activities	1,051,517,213		
Total resources used to finance items not part of the net cost of operations	(258,466,266)	**Less: Earned Revenue**	-
Total components of net cost of operations that will not require or generate resources	1,216,468		
Net Cost of Operations	**$794,267,415**	**Net Cost of Operations**	**$794,267,415**

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Summary of Financial Statement Audit and Management Assurances

In accordance with the requirements of OMB Circular A-136, MCC is required to prepare a summary of its financial statement audit. The FY 2009 Independent Auditor's report cited one material weakness in MCC's controls over mission activities and support. MCC resolved its FY 2008 material weakness. **Exhibit 19** provides a summary of the status of MCC Financial Statement Audit Material Weaknesses.

Exhibit 19: Summary of Financial Statement Audit

Audit Opinion	**Unqualified**				
Restatement	**No**				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Quality Control Over Financial Reporting	1	-	1	-	0
Controls over Mission Activities and Support	0	1	-	-	1
Total Material Weaknesses	**1**	**1**	**1**	-	**1**

Office of Inspector General

Mr. Darius Mans
Acting Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005

November 16, 2009

Dear Mr. Mans:

The enclosed statement summarizes the Office of Inspector General's (OIG) conclusions on the most serious management and performance challenges facing the Millennium Challenge Corporation (MCC). Our decisions on which challenges to report were based primarily on audit, evaluation, or investigative work we have performed and additional analysis of MCC operations. More challenges may exist in areas that we have not yet reviewed, and other significant findings may result from further work.

The Reports Consolidation Act of 2000 (Public Law 106–531) requires that agency performance and accountability reports include a statement prepared by each agency's inspector general, summarizing the most serious management and performance challenges facing the agency and reporting the agency's progress in addressing those challenges. The enclosed statement will be included in MCC's fiscal year 2009 performance and accountability report or agency financial report.

We have discussed the management and performance challenges summarized in this statement with the responsible MCC officials. If you have any questions or wish to discuss the statement further, please contact me or Alvin Brown, the Assistant Inspector General for MCC.

Sincerely,

Donald A. Gambatesa /s/
Inspector General

Enclosure

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
www.usaid.gov/oig

Statement by the Office of Inspector General on the Millennium Challenge Corporation's Most Serious Management and Performance Challenges Fiscal Year 2009

The Office of Inspector General (OIG) has determined that the Millennium Challenge Corporation (MCC) faces management and performance challenges in the following areas:

- MCC Suspended, Terminated, and Canceled Planned Compact Activities
- Threshold Programs for Compact Eligibility
- Financial Management
- Information Technology Management

For fiscal year (FY) 2009, the Office of Inspector General (OIG) is reporting "MCC Suspended, Terminated, and Canceled Planned Compact Activities" and "Threshold Programs" as serious management and performance challenges for the first time. OIG initially reported challenges in the "Financial Management" and the "Information Technology Management" areas in FY 2008. While MCC has made some improvements in the areas of financial management and information technology management, both continue to represent serious management challenges for MCC.

We had reported "Implementation of Compacts" as a serious management challenge for MCC in FY 2008. At that time, MCC was experiencing serious management challenges due to the low rate of disbursements and the increasing costs associated with infrastructure projects. MCC has increased its rate of disbursements through the implementation of a new compact development process. As a result of these improvements, we have not included "Implementation of Compacts" as a serious management challenge for FY 2009. OIG will continue to monitor the implementation of compacts.

MCC Suspended, Terminated, and Canceled Planned Compact Activities

In 2009, MCC suspended, terminated, or canceled a total of $340 million in planned activities in 5 of the 19 compact countries because of political unrest in and around those countries. MCC has suspended or terminated activities because of the removal of democratically elected leaders (in two cases) and patterns of undemocratic actions involving the 2008 elections (in two other cases). As a result, activities totaling $152 million were terminated. In another case, a neighboring country would not allow the compact country to meet the compact requirements, which resulted in the cancellation of a $188 million project. During FY 2009, MCC has suspended, terminated, or canceled compact activities in the following countries:

- **Madagascar.** On March 17, 2009, Madagascar removed its democratically elected president from office. MCC's board determined that the nature of the actions taken represented a pattern of actions inconsistent with MCC's eligibility indicator for the

"Ruling Justly" category. As a result, MCC placed an operational hold on activities on March 20, 2009. The compact was terminated on August 31, 2009. As a result, MCC will deobligate $21 million to $23 million.

- **Honduras.** On June 28, 2009, Honduras removed its democratically elected president from office. The Government of Honduras (GOH) failed to address concerns regarding its commitment to democracy. MCC continued to assist the GOH with an agricultural irrigation project to maintain poverty reduction for the rural poor. In September 2009, the MCC board terminated a component of a rural roads rehabilitation project that had not yet begun, which resulted in a reduction of $11 million (approximately 5 percent) of the initial compact.

- **Nicaragua.** Because of a pattern of undemocratic actions involving elections in late 2008, MCC partially terminated its compact with Nicaragua. In February 2009, the MCC board voted to terminate funding for a property regularization project implemented by the Government of Nicaragua and for a major road rehabilitation activity that had not begun. MCC will complete the projects that were underway, including rehabilitation of roads that were already under contract and rural business development projects that have a direct impact on the rural poor. As a result of the termination, the total assistance was reduced by approximately $61 million (approximately 35 percent) of the initial compact of $175 million.

- **Armenia.** Because of a pattern of undemocratic actions involving elections in early 2008, MCC placed an operational hold on a rural roads rehabilitation project. The MCC board confirmed the operational hold in February 2009. MCC will continue the irrigated agriculture project to maintain poverty reduction for the rural poor. At this late stage in the compact, it will be impossible to restart the rural roads rehabilitation project. Accordingly, the initial compact amount of $235 million will be reduced by $59 million (approximately 25 percent).

- **Mongolia.** On April 27, 2009, the Government of Mongolia officially notified MCC of its need to cancel a rail project that had accounted for $188 million of the $285 million compact. The rail project was canceled because the Russian members of UBTZ, the joint Mongolian-Russian rail company, would not allow an audit of the company to proceed. Although MCC is considering alternative projects to fund in Mongolia, it has told the Government of Mongolia that there is no guarantee that all of the funds will remain in the compact.

The actions mentioned above represent very serious management challenges that will persist because of the nature of MCC's mission. MCC has established a set of indicators that a country must meet in order to become eligible for a compact. However, because MCC operates in the dynamic environments of developing countries, the political environment will be an ongoing management challenge as compacts are carried out over a 5-year period.

Threshold Programs for Compact Eligibility

As stated in our audit of the Threshold Program (M-009-003-P, April 29, 2009), MCC had provided about $440 million in funding for threshold programs to assist 12 countries to become compact eligible. However, we found no clear indication that the MCC Threshold Program was assisting countries in becoming compact eligible. For example:

- Eight of the 12 countries that will complete threshold programs as of the end of FY 2009 became compact eligible before completing their threshold programs (for those completed by the end of FY 2009). Three of the eight countries became eligible as early as 1 month before or after their threshold program started.

- Three of the 12 countries did not become compact eligible. Two of the three countries did not become eligible after completing their first threshold programs; instead, MCC approved another threshold agreement (stage II).

- One of the 12 countries received compact assistance about 11 months before its threshold program ended.

Some countries have also become compact eligible and received compacts without participating in the Threshold Program. MCC measured the program results by changes in the countries' "Control of Corruption" indicator scores, but the changes were not clearly attributable to MCC's efforts. MCC is reviewing the Threshold Program to determine whether the existing program can achieve the objective of helping countries become compact eligible.

Financial Management

For FY 2009—the sixth consecutive year—OIG has issued unqualified opinions on MCC's FY financial statements. Notwithstanding these unqualified opinions and the progress that MCC has made in establishing and maintaining financial management processes, MCC's quality control over quarterly and yearend financial reporting is not sufficient to enable it to detect errors and misstatements and to make corrections in a timely manner. MCC does not perform sufficiently detailed quality-control reviews over yearend MCC trial balances and financial statements submitted for review and audit.

The vast majority of MCC's activities and expenses occur in the compact and threshold programs. These programs are implemented by MCC's Millennium Challenge Account (MCA) entities and USAID's overseas missions. MCC did not adequately monitor these organizations' ongoing activities or the financial information being reported on its own financial statements. The MCA entities responsible for implementing the compact programs, as well as the USAID missions responsible for implementing MCC's threshold programs, did not respond adequately to requests for supporting documentation for expenses reported to MCC. During our audit, we noted the following weaknesses:

- **MCA Audits Lack Timely Completion and Monitoring.** Audits performed by independent auditors of the controls, transactions, and balances of MCA entities have not been completed and submitted to OIG in a timely manner. In addition, MCC has not monitored the start and completion of these audits adequately to ensure a timely submission of audit reports and notification of findings. This situation increases MCC's risk of not being informed of MCA entity activities that would affect timely preparation of financial statements.

  To ensure sufficient internal control over the MCA entities, MCC requires semiannual audits to be conducted for the 6-month periods ending in June and December of each year. The audit results assure MCC of the validity and accuracy of payments and advances that are processed for the MCA entities and reported in its financial statements. This assurance is needed because neither MCC nor its accounting service provider, the U.S. Department of Interior's National Business Center, reviews or maintains invoices and other underlying supporting documentation for transactions. Instead, MCC relies on approved request documents submitted by personnel of the MCA entity.

- **Transactions Lack Adequate Documentation.** MCA entities and threshold missions did not provide or respond to requests for supporting documentation in a timely manner for all expenses and undelivered orders. The audit team informed MCC that, prior to yearend testing, documentation would be requested from MCA entities and threshold missions to substantiate yearend balances and that responses would be required within 5 days to meet tight audit deadlines. This detailed written information was communicated to all points of contact for MCA entities and USAID threshold missions.

  Upon submission of the supporting documents, some MCA entities and threshold missions responded in a timely manner, but others provided incorrect or insufficient documentation or none at all. MCC was advised of the lack of responses and in turn sent several emails to MCA entities and threshold missions requesting their cooperation. However, significant numbers of transactions remained unsupported at the conclusion of audit fieldwork. These issues were raised, and recommendations made, in the audit of MCC's FY 2009 Financial Statements (M-000-010-001-C, November 16, 2009).

In conclusion, MCC officials commented that MCC will implement measures to improve quality control in accordance with OIG's recommendations.

Information Technology Management

Although MCC has made improvements to strengthen its information security program, it is still not fully compliant with the key components of the Federal Information Security Management Act of 2002 (FISMA). FISMA requires agencies to (1) develop, document, and implement agencywide information security programs to protect their information and information systems, including those provided or managed by another agency, contractor, or other source; (2) obtain an annual independent evaluation of information security programs and practices; and (3) assess compliance with the requirements of the act. Although MCC is making progress in complying with these requirements, weaknesses remain.

MCC developed and implemented a comprehensive plan that addressed all but one of the FY 2008 FISMA audit findings. However, the FY 2009 FISMA audit found several areas in which MCC needs to strengthen existing policies and develop procedures to fully comply with requirements of the National Institute of Standards and Technology and the Office of Management and Budget. MCC noted that it has a comprehensive plan to address all of the FY 2009 FISMA audit findings by April 2010.

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Memorandum

TO: Alvin A. Brown
Assistant Inspector General

FROM: Michael Casella /s/
Acting Vice President, Administration and Finance

DATE: November 13, 2009

SUBJECT: Management Response to Statement by the Office of Inspector General (OIG) on the MCC's Most Serious Management and Performance Challenges Fiscal Year 2009

We wish to thank the OIG for their recognition of the progress the MCC has made in its implementation of compacts and our efforts to increase the disbursement rates. In its FY 2009 Statement of MCC's Most Serious Management and Performance Challenges, the OIG notes four items:

- MCC Suspended, Terminated, and Canceled Planned Compact Activities
- Threshold Programs for Compact Eligibility
- Financial Management
- Information Technology Management

We agree with OIG's assessment that the unpredictable political environment in our partner countries will be an ongoing challenge for management and the MCC Board of Directors. One of MCC's founding principles is that aid is most effective when it reinforces good governance. MCC will continue to abide by this principle as we deal with current and future political challenges.

The Threshold program has a portfolio of 21 programs, several of which have recently concluded. Due to the varying breadth of activities, countries and implementers, we are reviewing the program, its intentions, and measures of success. A full report will be presented to the MCC Board in FY 2010.

We also agree with the OIG's FY 2009 audit findings and recommendations related to financial management. While MCC has received unqualified audit opinions since inception and has made great progress in establishing its financial management environment, we acknowledge that further improvement is needed.

In FY 2010, we will focus on increased quality control both internally, and with our implementing partners in compact countries and at USAID.

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SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

In accordance with the requirements of OMB Circular A-136, MCC is required to prepare a summary of its financial statement audit. The FY 2009 Independent Auditor's report cited one material weakness in MCC's controls over mission activities and support. MCC resolved its FY 2008 material weakness. **Exhibit 19** provides a summary of the status of MCC Financial Statement Audit Material Weaknesses.

Exhibit 19: Summary of Financial Statement Audit

Audit Opinion	**Unqualified**				
Restatement	**No**				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Quality Control Over Financial Reporting	1	-	1	-	0
Controls over Mission Activities and Support	0	1	-	-	1
Total Material Weaknesses	**1**	**1**	**1**	**-**	**1**