Millennium Challenge Corporation

Agency Financial Report

Fiscal Year 2010

REDUCING POVERTY THROUGH ECONOMIC 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) 2010.

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 Chief Financial Officers Act,(P.L. 101-576) as amended by the Reports Consolidation Act of 2000 (Pub. L. No 106-531), the Accountability of Tax Dollars Act (P.L. 107-289), and the Government Corporation 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 the fiscal year ending September 30, 2010 and provides management assurances required under the Federal Managers' Financial Integrity Act (P.L. 97-255).

MCC will prepare and submit its FY 2010 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 4, 2011.

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

Front Cover: *Young students in front of an MCC-funded schoolhouse. It is one of hundreds that is being renovated or built through Ghana's $547 million compact. Investment in education enhances future earnings and employment opportunities for students and contributes to overall economic growth and poverty reduction.*

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Message from the Millennium Challenge Corporation's

Chief Executive Officer

I am pleased to present the Millennium Challenge Corporation's (MCC) 2010 Agency Financial Report. MCC's mission of reducing poverty through economic growth reflects the development priorities at the heart of President Obama's new U.S. Global Development Policy. Economic growth is the fundamental force that has the potential to transform the developing world and eradicate poverty. Advancing this policy means partnering with and empowering countries committed to taking responsibility for their own development. We recognize that U.S. development investments can have maximum impact in partner countries that establish high standards of good governance, accountability and transparency.

MCC's experiences and approach inform many aspects of the President's new policy because we invest in economic growth, promote country-led development, demand accountability and transparency, and focus on results. As the policy is implemented, MCC will continue to share what we have learned, including through our emphasis on rigorous evidence-based evaluations to drive policy decisions and ensure aid effectiveness.

MCC is committed to prudent financial management, accountability, and transparency. The purpose of this Agency Financial Report is to communicate comprehensively and reliably our financial and related activities. This year, we received a qualified opinion on our FY 2010 financial statements that also affected our FY 2009 opinion. The qualification was limited to the accuracy of our accruals for expenses not paid or invoiced until the subsequent period. Internally, we assess the vulnerability of our programs and systems through the Federal Managers' Financial Integrity Act (FMFIA). I certify with reasonable assurance, except as noted below, that MCC's accounting systems and internal controls comply with the provisions of OMB Circular A-123, Management Responsibility for Internal Control; and Sections 2 (Internal and Administrative Controls) and 4 (Financial Systems) of FMFIA.

As a result of an external audit and subsequent internal review, MCC acknowledges a material weakness in the lack of administrative controls related to a privacy program as previously administered. We have developed and are executing a comprehensive corrective action plan that includes the implementation of a privacy policy, general and specialized privacy training programs, as well as procedures should there be a breach of the protections related to personally identifiable information (PII). In addition, MCC will conduct a comprehensive systems and data inventory to determine the full extent of MCC's PII inventory. MCC also has in place rigorous approaches to protect data within our systems, including:

encryption of data on mobile devices, two-factor authentication for remote access, network traffic monitoring, a documented information security incident handling and response capability, secure file transfer technology, and an effective awareness training program. This Report also outlines measures we are undertaking to improve other internal financial, administrative, and technological support that are essential to accomplishing our mission.

Results are at the center of all that we do at MCC. We have a fiduciary responsibility to the American people and the United States Congress to ensure that the $7.5 billion MCC is investing in our partner countries worldwide delivers tangible, meaningful results. To significantly expand the reach and sustainability of our investments, we are focused more than ever on forging creative partnerships with traditional and non-traditional actors—from the private sector to the not-for-profit philanthropic community—committed to aligning their interests with achieving the greatest possible development impact. This integrated vision for development defined MCC's work during fiscal year 2010 and will continue to guide us as we pursue the policies and procedures necessary to maximize our results performance. We invite key stakeholders—Members of Congress, the development community, the private sector, other U.S. Government agencies, and the American people—to follow our work, share their critical feedback, and hold us accountable to accelerate the progress we are making in the fight against global poverty. This is how MCC will learn, innovate, and lead by example as a key contributor to U.S. global development efforts.

Daniel W. Yohannes
Chief Executive Officer

Message from the Millennium Challenge Corporation's

Chief Financial Officer

I am pleased to present the 2010 financial statements of the Millennium Challenge Corporation (MCC). At MCC, we take our fiduciary responsibilities very seriously. So, while MCC is not subject to the requirements of the Chief Financial Officers Act, we choose to follow the professional standards it incorporates along with other good government reforms applicable to the Executive Branch. We believe this demonstrates our ongoing commitment to accountability and transparency to the American public.

These are exciting and busy times at MCC; we are currently overseeing the full scale implementation of compacts in 20 countries and the effective close out of compacts in Honduras and Cape Verde. During my first year as Vice President of Administration and Finance, I have made it a priority to improve our administrative and financial capabilities to meet MCC's expanding programmatic requirements. An example of this is the acquisition of an Administration and Finance Integrated Management System for which we are currently reviewing bids. With projected implementation by January 2012, this system will revamp our existing financial management system by integrating a complementary suite of corporate services, including finance, procurement, grant and human resource requirements. In 2010, we re-established the Senior Assessment Board to oversee MCC's internal control environment, including controls and processes to ensure compliance with pertinent financial and administrative statues and regulation. In addition, we launched the Enterprise Content Management initiative to develop strategies, methods, and tools to capture, manage, store, and deliver content management. Finally, we recently completed an independent verification and validation of the MCC Integrated Data Analysis System (MIDAS). In the year ahead we will actively address areas for improvement of both the MIDAS tool and related processes.

After five years of clean audit opinions, we received a narrow qualified opinion on our financial statements. The qualification and related material weakness, which also affected our FY 2009 opinion, related to the accuracy of accruals for work not paid or invoiced until the subsequent period. The circumstances of the qualification occurred late in the audit cycle and we were unable to satisfy our auditors that the accruals for FY 2009 and FY 2010 were accurate. The FY 2010 *Independent Auditor's Report* cites two additional material weaknesses related to MCC's controls over Millennium Challenge Accounts' activities and the reporting of advance payments. We will be addressing all of these issues aggressively and comprehensively in the coming months by implementing changes in policies and procedures, enhancing reporting structures, and improving communication with our partner countries.

MCC's achievements in 2010, and the continued progress we plan for 2011, are not possible without the exemplary dedication of our committed staff and partner countries. Their work is inspiring and transformational. Ultimately, it is through the successful implementation of our programs that we achieve the results of sustainable poverty reduction through economic growth.

VBWassmer

Victoria Baecher Wassmer
Vice President, Administration and Finance

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MCC tackles systemic poverty around the world with smart, innovative, long term assistance to developing countries through programs that enhance America's standing and help stimulate economic growth.

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
2010	1,105
TOTAL	9,523

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 MCC 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 17 independent and transparent policy indicators in three broad policy areas of MCC's statute—*Ruling Justly*, *Investing in People*, and *Encouraging 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 assist countries to become compact eligible by enabling these countries to demonstrate their commitment, through threshold program reforms, to the three categories: ruling justly, investing in people, and economic freedom. New threshold programs will continue to support a country's commitment to reforms in the three broad policy areas, but they will no longer be designed primarily to improve a country's indicator scores within a two to three-year period. This adjustment maintains the policy focus while directly addressing a critical finding of the threshold program review—while policy indicators are useful proxies for comparing peer countries' performance in a range of policy areas to determine compact eligibility, they are not a satisfactory means of measuring program impact, and movements in indicator scores cannot be directly attributed to threshold program interventions.

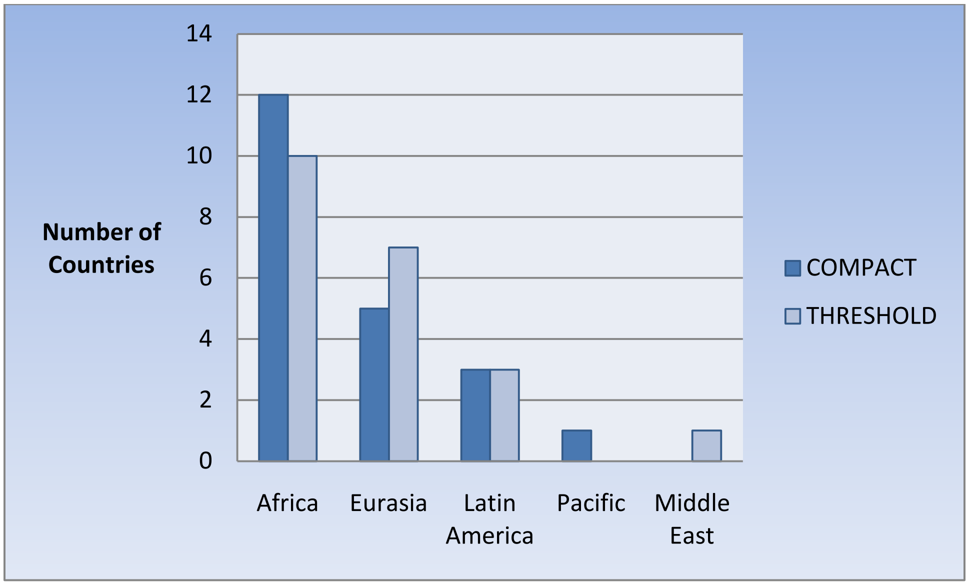
Since its inception in 2004, MCC's total commitment to fighting poverty worldwide has resulted in 21 compact agreements signed with 12 countries in Africa, three in Latin America, five in Eurasia, and one in the Pacific, totaling over $7.6 billion. In September 2010, the Republic of Philippines became the latest country to sign a compact agreement with MCC. In addition, MCC has a total of 23 threshold programs in 21 countries, including MCC's first Stage II threshold program, totaling nearly $512 million.

Almost two years into the Obama Administration, MCC continues to make significant contributions to the Administration's foreign policy priorities, including promoting national security through elevating development and supporting new aid initiatives such as food security and fiscal transparency. MCC was also an important contributor to the NSC/NEC-led Presidential Study Directive (PSD) on Global Development Policy. MCC's emphasis on good governance, country ownership, and accountability for results lays the groundwork for sustainable development progress well beyond the United Nations 2015 Millennium Development Goals.

In FY 2010, MCC made significant progress in the development assistance arena in several sector activities including agriculture, roads, and irrigation. The agency has continued to expand its role as a leader in the global development arena with its specific mission to support long-term investments in poor countries committed to their own development. The recent Presidential Policy Directive on Global Development emphasizes sustainable economic growth, good governance, accountability for development progress, greater selectivity in where and how the U.S. works globally, country ownership, and rigorous standards for monitoring and evaluation, all of which are integral components of the MCC model.

Exhibit 1 shows the FY 2010 worldwide participation in MCC programs.

Exhibit 1: Worldwide Participants in MCC Programs (FY 2010)



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 commitment 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:

1) Infrastructure improvements for roads, ports and pipelines;
2) Agribusiness development projects;
3) Water supply and sanitation projects;
4) Skills training and health clinics; and
5) Community services such as schools.

In September 2010, MCC successfully closed out its first compact, signed in June 2005 with Honduras, which invested in a broad range of constraints to economic growth in the agriculture sector, including:

- Assisting farmers with technical training;
- Providing farmers with access to credit; and
- Building farm-to-market roads.

The compact also rehabilitated the primary national highway that connects Honduras with international markets, providing better access to markets, education, and healthcare. MCC funds helped improve approximately **500 kilometers of rural roads,** as well as over **170 kilometers of the CA-5 highway** and nearby secondary roads throughout Honduras. As a result of the MCC assistance, more than **7,000 farmers have been trained** under the Farmer Training and Development Activity, with over **6,000 of those farmers increasing their production of crops and earning $2,000 per hectare or more**, demonstrating they have substantially adopted the new techniques needed to continue to generate higher.

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)*[1]

	MCC COMPACT REGIONS						
COUNTRY	Africa	Eurasia	Latin America	Pacific	Signing	Entry Into Force	Closed Dates
Madagascar	109.8				4/18/2005	7/27/2005	8/31/2009
Cape Verde	110.0				7/4/2005	10/17/2005	10/17/2010
Benin	307.3				2/22/2006	10/6/2006	
Ghana	547.0				8/1/2006	2/16/2007	
Mali	460.8				11/13/2006	9/17/2007	
Mozambique	506.9				7/13/2007	9/22/2008	
Lesotho	362.6				7/23/2007	9/17/2008	
Morocco	697.5				8/31/2007	9/15/2008	
Tanzania	698.1				2/17/2008	9/15/2008	
Burkina Faso	480.9				7/14/2008	7/31/2009	
Namibia	304.5				7/28/2008	9/16/2009	
Senegal	540.0				9/16/2009	9/23/2010	
Georgia		395.3			9/12/2005	4/7/2006	
Armenia		235.7			3/27/2006	3/27/2006	
Mongolia		284.9			10/22/2007	9/17/2008	
Moldova		262.0			1/22/2010	9/1/2010	
Philippines		434.0			9/23/2010		
Honduras			215.0		6/13/2005	9/29/2005	9/29/2010
Nicaragua			175.0		7/14/2005	5/26/2006	
El Salvador			460.9		11/29/2006	9/20/2007	
Vanuatu				65.7	3/2/2006	4/28/2006	
Total	5,125.4	1,611.9	850.9	65.7			

[1] These levels reflect original compact amounts. De-obligated amounts are not included in these levels. Compact funding for the Philippines has yet to be obligated.

THRESHOLD PROGRAMS

In June 2010, MCC presented to its Board of Directors a conceptual re-design of the Threshold Program based on the results from a year-long review of the Threshold Program. The overall threshold program goal remains the same—assisting countries to become compact eligible by enabling countries to demonstrate their commitment, through threshold program reforms, to the three broad policy areas of MCC's statute—Ruling Justly, Investing in People, and Encouraging Economic Freedom.

New threshold programs will continue to support a country's commitment to reforms in the three broad policy areas, but they will no longer be designed primarily to improve a country's indicator scores within a two to three year period. This adjustment maintains the policy focus while directly addressing a critical finding of the threshold program review—while policy indicators are useful proxies for comparing peer countries' performance in a range of policy areas to determine compact eligibility, they are not a satisfactory means of measuring program impact, and movements in indicator scores cannot be directly attributed to threshold program interventions. 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)*[2]

MCC THRESHOLD COUNTRIES					SIGNING DATE						
	Africa	Eurasia	Latin America	Middle East	2005	2006	2007	2008	2009	2010	Completion Date
Burkina Faso	12.9				Jul 22						9/30/2008
Malawi	20.9				Sep 23						9/30/2008
Tanzania	11.2					May 03					12/30/2008
Zambia	22.7					May 22					2/28/2009
Kenya	12.7						Mar 23				
Uganda	10.4						Mar 29				12/31/2009
Sao Tome & Principe	8.7						Nov 09				
Niger	23.1							Mar 17			
Rwanda	24.7							Sep 24			
Liberia	15.0									Jul 6	
Albania		13.9				Apr 03					11/15/2008
Ukraine		45.0				Dec 04					12/31/2009
Moldova		24.7				Dec 15					2/28/2010
Kyrgyz Republic		16.0						Mar 14			6/30/2010
Albania II		15.7						Sep 29			
The Philippines		20.7				Jul 26					8/29/2009
Indonesia		55.0				Nov 17					
Timor-Leste		10.5								Sep 10	
Paraguay			34.6			May 8					8/31/2009
Paraguay II			30.0						Apr 13		
Guyana			6.7				Aug 23				2/23/2010
Peru			35.6					Jun 09			
Jordan				25.0		Oct 17					8/29/2009
Total	**162.3**	**201.5**	**106.9**	**25.0**	**2**	**9**	**4**	**5**	**1**	**2**	

Since its inception in 2004, MCC has signed 23 threshold agreements with 21 countries, totaling $512 million. 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. Five former threshold countries (Burkina Faso, Tanzania, Moldova, the Philippines, and Jordan) have signed an MCC compact, and another three threshold countries are in various stages of compact negotiations. In September of 2010, MCC signed its latest threshold program, a $10.5 million threshold program with the Government of Timor-Leste to reduce corruption by building a network of functioning and effective anti-corruption institutions and actors, as well as improve access to immunization services by creating a more capable and effective community health system.

[2] This level does not include $14 million in program administrative feeds transferred to USAID.

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), which receives funds appropriated by Congress. MCC is governed by a nine-member public-private Board of Directors (Board): the Secretary of State, the Secretary of the Treasury, the 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 serves as the Chair of the Board and the Secretary of the Treasury is the Vice Chair.

While MCC is not a Chief Financial Officers Act (CFO Act) agency, and is therefore not subject to the CFO Act, it chooses to adhere 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 with fewer than 300 Washington, DC employees distributed now among six departments: the Office of the CEO, the Office of the General Counsel, the Department of Policy and Evaluation, the Department of Congressional and Public Affairs, the Department of Compact Operations, and the Department of Administration and Finance. In FY 2010, MCC combined the Department of Compact Development and the Department of Compact Implementation into one Department of Compact Operations; consolidated economics and monitoring and evaluation staff in an enhanced Department of Policy and Evaluation; and established an Investment and Risk Management Division within the Office of the CEO. The refined organizational structure will provide greater emphasis on policy reform, risk management, and results.

The new Investment and Risk Management Division was created to give practical programmatic focus to the critical role in economic development of promoting sustainable growth, which builds on non-government partnerships, including with the private sector. This new division also will help focus MCC's commitment to greater innovation in financing structures and project content, in line with initiatives across the U.S. Government. Working actively with other agencies in the U.S. Government, countries, and external partners, the Investment and Risk Management Division will promote innovation in areas such as alternative energy, energy efficiency, adaptive technology, and access to capital in both new and existing compacts. **Exhibit 4** depicts MCC's organization structure.

Exhibit 4: The MCC Organizational Diagram

At the end of FY 2010, MCC employed 258 staff members at its Washington, DC offices and 33 staff members at overseas locations. 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 for FY 2011.

Exhibit 5: MCC Headquarters and Overseas Staffing Levels

Employees	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Authorized FTE	310	321	335	340	344
HQ Staff	257	274	247	258	285
Overseas Staff	10	21	35	33	42
Total	**267**	**295**	**282**	**291**	**327**

On July 22, 2010, Chief Executive Officer Daniel W. Yohannes announced MCC's strategic plan to more effectively achieve MCC's mission to reduce poverty through economic growth. This strategy is based on the following five key priorities:

- Renew focus on results by strengthening our economic analysis and monitoring of program outcomes to better capture and communicate results and to continually improve how we work.
- Increase MCC's use of new partnerships and new financing structures to leverage our work with the work of other organizations, non-traditional partners, and agencies. MCC will increase the emphasis placed on private sector participation in MCC programs and on the use of innovative program approaches.
- Emphasize effective policy reform at the macro and the sector levels to bolster the sustainability of MCC's investments. MCC will focus internal resources and leverage external expertise to support policy improvement in our partner countries and to integrate sector policy reform more effectively in project design.
- Strengthen MCC's focus on gender and social assessment which play a central role in reducing poverty by expanding the number of staff dedicated to gender integration and social issues.
- Improve organizational effectiveness to improve how it uses limited resources to achieve maximum effectiveness by realigning our structure to our business needs.

In FY 2010, MCC completed an Employee Viewpoint Survey which was used during senior management's strategic review of MCC and was integrated into the recent realignment described above. MCC is currently developing a comprehensible flexible work policy with a schedule for implementation by the end of calendar year 2010. MCC is implementing changes to its performance management process for FY 2011, including enhanced performance and competency criteria and a five-tier rating system that better reflects staff performance.

During FY 2010, MCC has made significant progress in the way it reports progress towards results externally and in the integration of results into portfolio management decisions. In FY 2010, MCC added two sectors to its reporting of performance against common indicators, increasing the number to five major sectors – agriculture and irrigation, property rights and land policy, roads, education and water and sanitation project results. Additionally, MCC has made its program performance data publicly available via an easily accessible and user-friendly results portal on its public website. On the White House's Open Government Initiative, MCC's results portfolio is highlighted. Both quantitative data and qualitative information are available through this comprehensive, one-stop resource.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Preliminary data suggest that many MCC projects are already demonstrating results, but MCC's results framework also establishes a more rigorous method for program performance, both in terms of attribution and significance. MCC is committed to conducting independent impact evaluations of its programs as an integral part of its focus on results. In order to fulfill MCC's commitment to tracking results all the way through high-level impacts on poverty and economic growth, monitoring and evaluation is integrated into all phases of compact operations – from compact development through implementation.

MCC is investing resources in program evaluations that meet the highest standards of rigor, and the information that is generated will be used as MCC, other donors, and our country partners make decisions about future investments.

MCC has already established itself as a leader within the foreign assistance community in its evaluation practices and is actively engaging others to use similarly rigorous approaches through venues such as the multi-lateral Network of Networks on Impact Evaluation (NONIE) and the International Initiative for Impact Evaluation (3ie). MCC's approach to impact evaluation is a critical part of its evidence-based approach to enhancing aid effectiveness, and goes far beyond that used by other foreign assistance agencies in a number of important ways:

- Independence: MCC projects will be evaluated by highly credible external evaluators;
- Scope: MCC has committed to contracting outside evaluators for the vast majority of its activities (the portfolio of evaluations will be made according to MCC strategy and reflect the fact that 100% coverage is probably neither practical nor cost-effective);
- Rigor: MCC projects will be evaluated in terms of their impact on local incomes – roughly half of MCC activities have integrated experimental or quasi-experimental designs, and most of the remaining activities will be evaluated using pre-post comparisons, supplemented by pre-investment benefit-costs analyses; and
- Transparency: MCC will document on its public website its overall impact evaluation strategy, and how that is reflected in each country's evaluation portfolio, as well as all reports and data generated by the independent evaluators. Although MCC reserves the right to comment on

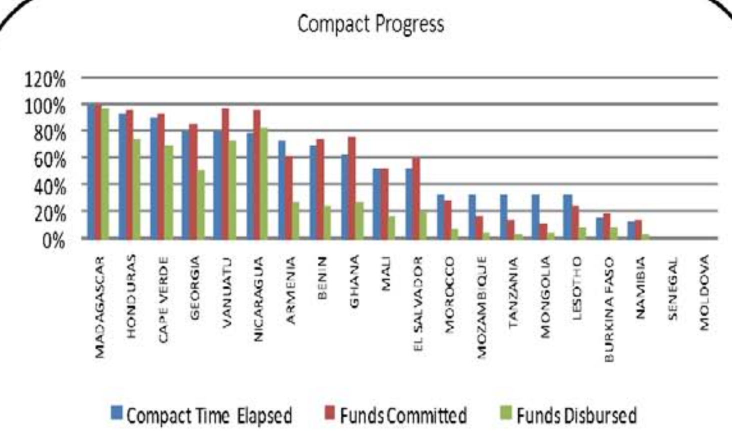
initial drafts, the independent evaluators have final decision on where they publish their results and what they publish.

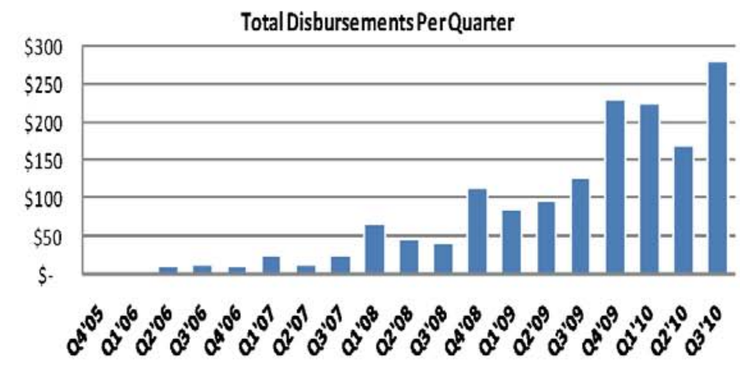
Not all of MCC's investments will demonstrate their full impacts by the end of a compact, but as opportunities to learn are identified, MCC will return to partner countries and conduct follow-up surveys to measure longer-term impact. MCC also knows that not all activities will generate the impacts that were originally projected but it has made a commitment to learn from its experience by documenting the actual results and using this information in its future economic analyses and investment decisions.

MCC PERFORMANCE RESULTS AT A GLANCE

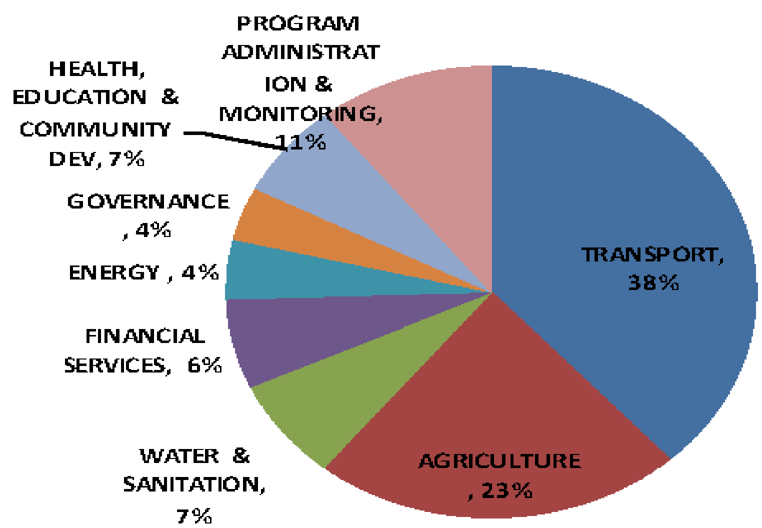
Program Results by Sector on Select Indicators

Sector	Indicator	Cumulative Target through FY10	Actual	Performance on Targets to Date	Countries Tracked
Roads	Value (US$) of signed contracts for road works	$753,000,000	$877,020,000	116%	Armenia, Burkina Faso, Cape Verde, El Salvador, Ghana, Georgia, Honduras, Mali, Mozambique, Nicaragua, Tanzania, Vanuatu
	Kilometers of roads under works contracts	1,450	1,762.73	122%	
	Kilometers of roads completed	450	737.83	164%	
Agriculture & Irrigation	Value (US$) of signed contracts for irrigation works	$160,000,000	$256,950,000	161%	Armenia, Burkina Faso, Cape Verde, El Salvador, Ghana, Georgia, Mali, Honduras, Madagascar, Morocco, Nicaragua
	Number of farmers trained	112,000	143,605	128%	
	Hectares under production	47,000	44,978	96%	
Water & Sanitation	Value (US$) of signed contracts for water and sanitation works	$63,000,000	$59,740,000	95%	El Salvador, Lesotho, Ghana, Georgia, Mozambique, Tanzania
Education	Value (US $) of signed contracts for construction and/or equipping of educational facilities	$30,000,000	$36,000,000	120%	Burkina Faso, El Salvador, Ghana, Morocco, Mongolia, Namibia
Land	Number of stakeholders trained	17,700	14,801	84%	Benin, Burkina Faso, Ghana, Lesotho, Mali, Madagascar, Mongolia, Mozambique, Nicaragua
	Urban parcels formalized	17,500	2454	14%	
	Rural hectares formalized	479,000	33,491	7%	





Compact Investments By Sector



Sector	Amounts in $ Millions
TRANSPORT (ROAD, WATER & AIR)	2,727
AGRICULTURE	1,611
WATER SUPPLY & SANITATION	514
FINANCIAL SERVICES	457
ENERGY	303
GOVERNANCE	272
HEALTH, EDUCATION & COMMUNITY DEV	479
PROGRAM ADMINISTRATION & MONITORING	763

Tracking Results of MCC Investments in Agriculture and Irrigation

	Feasibility and/or Detailed Design Includes EIAs, EMPs, and RAPs, as applicable (Months 0 to 24)	Construction / Capacity Building / Other Support to Farmers and Enterprises (Months 12 to 48)		Increasing Capacity and Resources Use (Months 24 to 60)	Growth in the Agricultural Sector (Months 48+)
	Process	**Process**	**Output**	**Outcome**	**Objective**
Progress indicators	1. Value of Irrigation Feasibility and/or Detailed Design Contracts Signed 2. Percent of Irrigation Feasibility and/or Detailed Design Contracts disbursed	3. Value of Irrigation Construction Contracts Signed 4. Percent of Irrigation Construction Contracts Disbursed	5. Number of Farmers Trained 6. Number of Enterprises Assisted 7. Hectares under Improved or New Irrigation	8. Hectares Under Production 9. Value of Agricultural and Rural Loans 10. Number of Farmers that Have Applied Improved Techniques 11. Number of Enterprises that Have Applied Improved Techniques	Increase in Agricultural Value-Added or Income
Totals	**$43.68 M in design contracts, 38.04% disbursed**	**$260 M contracts, 32.52% construction disbursed**	**146,589 farmers trained, 3,878 enterprises assisted, 4371.5 ha**	**82510.1 ha, $63.48 M loans, 20,625 farmers with new techniques, 30 enterprises with new techniques**	**Expected upon completion of works**
Currently implementing	**Armenia** ($4.5M, 76%) **Burkina Faso** ($5.86, 16%) Cape Verde (N/A) **Ghana** ($3.6M, 58%) **Georgia** ($1.16M, 59.4%) **Mali** ($8.96M, 39%) **Morocco** ($18.9M, 28%) **Nicaragua** ($0.7M, 100%)	**Armenia** ($96.8M, 31%) **Cape Verde** ($5.04M, 91%) **Mali** ($126.67M, 37.7%) **Morocco** ($31.49M, 7%)	**Armenia** (43,787 farmers, 185 ent) **Cape Verde** (549 farmers, 10.5ha) **El Salvador** (8205 farmers, 76 ent) **Georgia** (286 ent) **Ghana** (45472 farmers, 2543 ent) **Honduras** (7265 farmers, 464ent, 4361ha) **Madagascar*** (31,366 famers, 324 ent) **Mali** (1199 farmers) **Nicaragua** (8746 famers)	**Armenia** ($8.4M) **Cape Verde** ($.528M, 100 farmers) **El Salvador** (10,710.1 ha, $4.8M, 1655 farmers, 23ent) **Georgia** ($18.48M) **Ghana** (29,615ha, $15.6M, 6 ent) **Honduras** (19815 ha, $14.6M, 8232 famers) **Madagascar*** ($1.08M, 1892 famers, 1 ent) **Morocco** (9263 ha) **Nicaragua** (13,107ha, 8746 famers)	**Income increase attributable to MCC activities will be measured by impact evaluations** MCC investments in agriculture aim to raise incomes by increasing program participants' capacity, productivity, and access to markets and credit; strengthening management capabilities; and creating jobs in the agricultural sector.
Pending		Burkina Faso Mozambique	Burkina Faso Morocco Mozambique	Burkina Faso Mali Mozambique	

All program data are as of June 10, 2010. Data are preliminary and subject to adjustment. *These values represent a decline from values previously recorded due to the final reconciliation of performance data following termination of the Madagascar compact.

Understanding Progress Indicators – Agriculture and Irrigation Projects

MCC investments in agriculture and irrigation aim at increasing income and reducing poverty. This is done by providing technical assistance and training and increasing access to agricultural inputs, including water and credit, thereby expanding technical and physical capacity and improving resource use in the agriculture and agribusiness sectors. In turn, this is expected to lead to greater productivity and farm revenues. MCC interventions in agriculture often include irrigation activities, sometime on a large scale. Because expected results of irrigation activities precede those in agriculture, they are better tracked early in a project's implementation process. Agriculture activities also complement other MCA compact activities, such as the rehabilitation of rural roads and land tenure reform, tracked separately.

1. Value of Feasibility and/or Detailed Design Contracts Signed: Total value of all signed feasibility, design, and environmental contracts, including resettlement action plans, for agricultural irrigation investments.

2. Percent of Contracted Feasibility and/or Design Studies Disbursed: Total amount of all signed feasibility, design, and environmental contracts, including resettlement action plans, for agricultural irrigation investments disbursed divided by total value of all contracts awarded.

3. Value of Construction Contracts Signed: Total value of all signed construction contracts for agricultural irrigation investments.

4. Percent of Contracted Construction Works Disbursed: Total amount of all signed construction contracts for agricultural irrigation investments disbursed divided by total value of all contracts awarded.

5. Number of Farmers Trained: Total number of producers (farmers, ranchers, fishermen, and other primary sector producers) receiving technical assistance (developing business plans, accessing credit or finance, financial planning, training on production, use of new technologies, and linking to markets). Training or technical assistance are provided in a variety of ways, but with the purpose of improving individual farming skills and returns.

6. Number of Enterprises Assisted: Total number of farmers' associations, post-harvest or processing enterprises, water management entities, or agricultural export businesses receiving technical or financial assistance. This assistance includes support that aim at enterprise or association/cooperative functions, such as processing and other downstream techniques, and management, marketing, and accounting. In the case of training or assistance to farmer's association or cooperatives, individual farmers are not counted separately, but as one entity.

7. Hectares under Improved or New Irrigation: Total number of hectares served by existing or new irrigation infrastructure that are either rehabilitated or constructed with MCC funding.

8. Hectares under Production: Total number of hectares under agricultural production with MCC support, including irrigation systems, agricultural inputs, credits, or technical assistance.

9. Value of Agricultural and Rural Loans: Total value of agricultural and/or rural loan funds for on-farm, off-farm, and rural investments. Loans and credit can be extended to farmers and agribusinesses by financial institutions such as commercial banks, rural banks, non-bank financial institutions (MFIs), financial NGOs and input suppliers, or, in some cases, equity financing.

10. Number of Farmers that Have Applied Improved Techniques: Total number of farmers that are applying new production or managerial techniques introduced or supported by MCC, such as input use, cultural or production techniques, irrigation, post harvest treatment, and farm management techniques.

11. Number of Enterprises that Have Applied Improved Techniques: Total number of farmers' associations, post-harvest or processing enterprises, water management entities, or agricultural export businesses that are applying managerial or processing techniques introduced or supported by MCC. When a number of farmers are involved in an association or cooperative, they are not counted individually, but as one entity.

Increase in Agricultural Value-Added or Income: (*Increases in income will be confirmed by impact evaluations.*) Increase in value added of farms and/or agribusiness or in income of agricultural households that have received technical and/or financial support from the program. This will be calculated by comparing the participating household income or profits of the farm or business that was assisted against its baseline income or profits, or by comparing it with non-participating households, farms, and agribusinesses.

Tracking MCC's Road Project Results

	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	Output	Outcome
Progress Indicators	Value of signed contracts for feasibility, design, supervision, and program mgmt contracts	% disbursed for contracted studies km of roads under design	Value of signed contracts for road works	Kilometers (km) of roads under works contracts	% of contracted roads works disbursed	Kilometers (km) of roads completed	IRI: International Roughness Index (IRI)
Totals	$111.49 million in studies contracted	48.1% of contracted studies disbursed; 4941.5 km of roads under design	$1,192.98 million in works contracted	1,994.07 km of roads under works contracts	43.13% of contracted roads works disbursed	883.53 km of roads completed	IRI
Currently implementing	Armenia ($3.1M) Burkina Faso ($17.97M) Cape Verde* ($3.5M) El Salvador* ($12.96M) Georgia ($11.98M) Ghana ($5.3M) Honduras ($9.5M) Mali ($2.52M) Mongolia ($5.6M) Mozambique ($13.4M) Nicaragua ($6.9M) Tanzania ($13.7M) Vanuatu ($5.06M)	Armenia (90%; 892 km) Burkina Faso (11%, 536 km) Cape Verde (90.2%; 63.4 km) El Salvador (42.61%; 179.2 km) Georgia (86.1%; 220 km) Ghana (96%; 776.3 km) Honduras (62.8%; 673 km) Mali (68%, 81 km) Mongolia (17.7 km) Mozambique (13%, 491 km) Nicaragua (100%; 398.6 km) Tanzania* (25%; 464.3 km) Vanuatu (100%; 149 km)	Armenia*** ($4.7M) Cape Verde ($24.8M) El Salvador ($172.66M) Georgia ($165.4M) Ghana ($200.82M) Honduras ($179.4M) Mali ($34.8M) Mongolia ($43.8M) Nicaragua ($54.5M) Tanzania ($257.7M) Vanuatu* ($54.4M)	Armenia*** (24.5 km) Cape Verde (40.6 km) El Salvador (156.41 km) Georgia (220 km) Ghana (399.16 km) Honduras (673 km) Mali (81 km) Mongolia (176.4 km) Nicaragua (74 km) Vanuatu (149 km)	Armenia (100%) Cape Verde (100%) El Salvador (32.3%) Georgia (64.5%) Ghana (27%) Honduras (65.5%) Mali (53%) Nicaragua (100%) Tanzania (11.5%) Vanuatu (88.8%)	Armenia (24.5km) Cape Verde (40.6km) Georgia (54.4km) Honduras (598km) Mali (21.03km) Nicaragua (74 km) Vanuatu (71km)	Armenia (3.47 IRI) Cape Verde (2 IRI)
Pending implementation			Burkina Faso Mozambique	Burkina Faso Mozambique Tanzania	Burkina Faso Mozambique	Burkina Faso El Salvador Ghana Mozambique Tanzania	

All program data are as of June 10, 2010. Data are preliminary and subject to adjustment. *Additional studies associated with compacts have been funded by the governments in El Salvador and Tanzania, and by another donor in Cape Verde. **Design-Build contract, where the value of design work is included in the value of the works contract. Contract amount listed in first column is a supervision contract only.***Due to the operational hold on the roads project in the Armenia and Honduras compacts, MCC will no longer be funding additional works contracts that were previously reported. ^^Design numbers for Ghana have decreased due to a rescoping of the roads project

Understanding Roads Progress Indicators

MCC investments in roads are part of a variety of MCA compact projects. In **transportation** projects, roads rehabilitation and construction primarily aim to lower transport costs by reducing travel time and vehicle operating costs; improve access to public basic services such as health and education, particularly for the rural poor; and facilitate international and regional trade. In **agriculture** projects, roads primarily aim to link producers to markets for their goods and to inputs for their production year round. In some cases, roads are a part of **irrigation** projects to provide access to, from, and within irrigated areas.

Value of signed contracts for feasibility, design, supervision and program mgmt contracts: The value of all contracts that MCAs have signed with contractors to develop feasibility and/or design studies for systems of roads. If the value of the contract changes, the amount of the change (either + or -) should be reported in the quarter that the change occurred.

Percent disbursed for contracted studies: The aggregate amount disbursed divided by all signed contracts to develop feasibility and/or design studies for systems of roads. Denominator = Value of signed contracts for studies as defined above. Numerator = Amount of money disbursed on the signed contracts for roads studies. This is a proxy indicator for completion.

Value of signed contracts for road works: The value in US$ of all contracts that MCAs have signed with contractors for construction of new or rehabilitated roads. If the value of the contract changes, the amount of the change (either + or -) should be reported in the quarter that the change occurred. Cost sharing by others (e.g., co financing by other donors or government) should not be included.

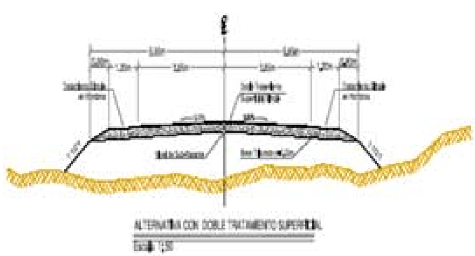
Kilometers (km) of roads under works contracts: The length of roads in kilometers under works contract for construction or rehabilitation. This may include building new roads or modifying existing roads.

Kilometers (km) of roads completed: The length of roads in kilometers on which construction or rehabilitation is complete.

Percent of contracted roads works disbursed: The aggregate amount disbursed divided by all signed contracts for construction of new or rehabilitated roads. Denominator = Value of signed contracts for roads works as defined above. Numerator = Amount of money disbursed on the signed contracts for roads works. This is a proxy indicator for physical completion of road works. However, since the numerator includes industry standard advance payments and mobilization fees, it does not correlate perfectly with physical progress.

Expected outcomes: MCC-funded roads projects are expected to reduce transportation costs, increase farm to market access, increase income, and/or reduce transportation time.

Road Success stories in Cape Verde, Nicaragua and Cape Verde. . .



MCA-Vanuatu: Sample design drawings for surface treatment upgrading work for a road in Vanuatu. 150km of roads have been designed in Vanuatu.

MCA-Nicaragua: The transportation project is supporting reconstruction and upgrading of this primary road connecting Nicaragua with Honduras. 68km of roads are under construction.

MCA-Cape Verde: Approximately 27 km of roads have been constructed in Cape Verde as part of the compact's Infrastructure Project.

Tracking MCC's Education Investments' Results*

Indicator Type	Construction & Institutional Strengthening (Months 0-36)	Improved access, quality, and relevance (Months 12-48)	Expected outcomes (Months 12-60)	Expected objectives‡ (Months 48+)
	Process	Output	Outcome	Objective
Progress Indicators	1. Value of signed contracts ($US) for MCC-supported educational facility construction / rehabilitation and/or equipping 2. Percent of contracted construction / rehabilitation / and/or equipping works for educational facilities disbursed 3. Legal, financial, and / or policy reforms adopted	4. Educational facilities constructed / rehabilitated and / or equipped through MCC-supported activities 5. Number of instructors trained or certified through MCC-supported activities	6. Number of students (any educational level) participating in MCC-supported education activities. 7. Additional primary / secondary / tertiary school female students enrolled in MCC-supported educational facilities	8. Primary / secondary / tertiary / vocational school graduates in MCC-supported educational facilities 9. Employed graduates of MCC-supported training programs
Totals	$50.2M in signed construction contracts, 22.7% disbursed	211 facilities built, 833 Instructors	59,611 students participating, 5,502 additional female students	Goal: Increased incomes from improved human capital and job market opportunities
Currently Implementing	Burkina Faso ($22.5M, 12.9%) El Salvador ($8.9M, 67.67%) Ghana ($18.3M, 13.6%) Mongolia ($.5M)	Burkina Faso (108 facilities) El Salvador (21 facilities, 425 instructors) Ghana (71 facilities) Mongolia (1 facility, 94 instructors) Morocco (314 instructors)	Burkina Faso (23,267 students, 1,871 additional females) El Salvador (12,878 students, 753 additional females) Ghana (17,585 students, 452 additional females) Morocco (5,881 students, 2426 additional females)	Burkina Faso 0 El Salvador 0 Mongolia 0 Morocco 0 Namibia 0 Ghana 0
Pending Implementation	Morocco Namibia	Namibia	Mongolia Namibia	

*All program data as of June 10, 2010. Data are preliminary and subject to adjustment. Indicators in this Results Framework may be added, removed , or modified as MCC's investments in education evolve over time.

‡ All MCC education programs have as their long-term end goal an increase in individual or household income and a corresponding decrease in poverty.

Understanding Education Progress Indicators

MCC currently has six (6) Compacts in implementation with education investments (excluding in-service, sector-specific training such as farmer field schools)* totaling over US$260 million. Investments in human capital through education and training are widely recognized as **critical for improving productivity and economic growth** and **reducing unemployment and poverty**. A well-educated citizenry also contributes to a country's freedom and stability, and the skills and learning of its workforce is a nation's most enduring and competitive asset.

1. Value of signed contracts for MCC-supported construction / rehabilitation / equipping: Value of signed contracts, in US Dollars, for educational facility construction or rehabilitation and/or equipping (e.g. information technology, desks and chairs, electricity and lighting, water systems, girls latrines, etc.).

2. Percent of contracted construction / rehabilitation / equipping works disbursed: Amount of signed educational facility construction, rehabilitation, and equipping works contracts disbursed divided by total of all educational facility construction / rehabilitation / and/or equipping contracts awarded.

3. Legal, financial, and / or policy reforms adopted: Number of reforms adopted by the public sector as defined in the Compact, Disbursement Agreement, or Program Implementation Agreement (PIA) that increase the education sector's capacity to improve access, quality, and /or relevance of education at any level, from primary to tertiary / vocational.

Primary education example:

4. Educational facilities constructed / rehabilitated and / or equipped through MCC-supported activities: Number of unique facilities constructed, rehabilitated, and / or equipped and as a result made fully functional according to standards stipulated in MCA activity definitions.

5. Number of instructors trained or certified through MCC-supported activities: Total number of unique classroom instructors who complete MCC-supported training and/or certification requirements focused on instructional quality as defined by the Compact training activity (e.g. training in improved pedagogical methods, delivering revised curricula, etc.)

6. Number of students (any educational level) participating in MCC-supported education activities: Cumulative number of unique students enrolled or participating in MCC-supported educational programs.

7. Additional primary / secondary / tertiary school female students enrolled in MCC-supported educational facilities: Additional female students enrolled by relevant target education level/grade in MCC-supported educational facilities.

Vocational education example:

8. Primary / secondary / tertiary / vocational school graduates in MCC-supported educational facilities: For MCC-supported educational facilities, expressed as the number of students graduating from the highest grade (year) for that educational level.

9. Employed graduates of MCC-supported training programs: Number of MCC-supported training program graduates employed in their field of study – as defined in the Compact's M&E Plan – within one year after graduation.

*MCC's education investments to date are most closely aligned with OECD Credit Reporting System Codes 11110, 11120, 11130, 11220, 11230, 11330, and 11420.

Tracking MCC's Property Rights and Land Property Project Results

* These activities may be implemented in this order but often overlap and extend throughout the compact period.

	Regulatory, Legal and Other Work	Public Outreach	Institutional Upgrading and Capacity Building	Clarification and Formalization of Land Rights	Expected Outcomes (up to 20 years)
Indicator Type	Output	Output	Output	Output	Outcome
Progress Indicators	Preparatory Studies Completed; Legal and Regulatory Reforms Adopted	Stakeholders Reached	Buildings Built or Rehabilitated; Equipment Purchased; Stakeholders Trained	Rural Hectares (Ha) mapped/formalized; Urban Parcels mapped/formalized	Effective Property Rights System
Totals	45 studies completed; 16 legal and regulatory reforms adopted	182,743 Stakeholders Reached	127 buildings built/rehabilitated; $12.3 million in equipment purchased; 14,983 stakeholders trained	1,054,966 rural hectares mapped; 33,524.69 rural hectares formalized; 2,454 urban parcels formalized	Reduced Transaction Costs Increased Tenure Security Improved Allocation of Land Increased Transactions and Investment in Land and Property Increased Land Productivity and Value
Currently implementing	**Benin** (16 studies; 0 reforms) **Burkina Faso** (5 studies; 8 reform) **Ghana** (5 studies; 2 reform) **Lesotho** (1 study; 0 reforms) **Madagascar** (8 studies; 4 reforms) **Mali** (0 studies; 2 reforms) **Mongolia** (6 studies; 0 reforms) **Mozambique** (0 study; 0 reforms) **Nicaragua** (4 studies; 0 reforms)	**Benin** (93,666) **Burkina Faso** (1,692) **Ghana** (4,794) **Lesotho** (720) **Mongolia** (12,761) **Mozambique** (75) **Nicaragua** (69,035)	**Benin** ($5.569m; 60 trained) **Ghana** (1 bldgs; $0.07mil; 128 trained) **Lesotho** ($0.040m) **Mali** (1 bldgs; $.05m) **Madagascar** (115 bldgs;$4.8 mil;12,216 trained)* **Mongolia** (894 trained) **Mozambique** (2 bldgs; $0.07 mil; 75 trained) **Nicaragua** (8 bldgs; $1.69 mil; 1,610 trained)	**Ghana** (4646 rural Ha mapped, 189.69 rural Ha formalized) **Madagascar** * (30,047 rural Ha mapped and formalized) **Mali** (1050 rural Ha mapped) **Mongolia** (988,334 rural Ha mapped) **Nicaragua** (30,889 rural Ha mapped; 3,288 rural Ha formalized; 2,454 urban parcels formalized)	
Pending Implementation	Senegal	Namibia Mali Senegal	Senegal Burkina Faso	Benin Lesotho Mozambique Namibia Senegal Burkina Faso	

All program data are as of June10, 2010. Data are preliminary and subject to adjustment. *These values represent a decline from values previously recorded due to the final reconciliation of performance data following termination of the Madagascar compact.

Understanding Property Rights and Land Policy Progress Indicators

MCC's Property Rights and Land Policy (PRLP) investments are designed to contribute to poverty reduction and economic growth by establishing secure and efficient access to land and property rights. PRLP support of legal and regulatory reforms, clarification and formalization of land and property rights, capacity building of national and local institutions, and land-related outreach and education are aimed at reducing transaction costs, increasing tenure security and improving access to land. This, in turn, will result in increased transactions and investment in land and property and higher land productivity and value.

Preparatory Studies Completed: Number of finished preparatory studies, including analyses of land administration institutional change, procedural improvement, technical specifications, and social assessments. Study depth and duration vary from compact to compact and typically include assessments and recommendations regarding: the legal/regulatory framework; landholding patterns; access to land for vulnerable groups; registration methodologies; land institutions; and land management plans.

Legal and Regulatory Reforms Adopted: Number of specific pieces of legislation or implementing regulations adopted by the compact country and attributable to compact support. To date, adopted reforms have focused on amendments to existing property and land laws, and on new land tenure laws.

Stakeholders Reached: Number of landholders, private sector and civil society representatives, and public officials reached through public outreach such as workshops and focus groups. Subject matters include land rights, access to land, land law, improvement to land institutions and procedures, land use planning, land markets, and other project-relevant topics.

Buildings Built or Rehabilitated: Number of buildings built or rehabilitated as part of MCC support land activities

Equipment Purchased: Value of equipment in US$ purchased for land, cadastral or registry offices, including IT equipment, office equipment, aerial or satellite imagery, software and geodetic equipment. This indicator also includes the value for rectification of imagery, installation of equipment, and production of a land information system.

Stakeholders Trained: Number of public officials, customary authorities, project beneficiaries and representatives of the private sector, receiving training or technical assistance regarding registration, surveying, conflict resolution, land allocation, land use planning, land legislation, land management or new technologies. The curricula, length, method and intensity of training programs vary from compact to compact and may include workshops, seminars, study trips, or courses.

Land Areas Mapped: Rural hectares and Urban land parcels mapped through field survey and/or use of orthophotography. The mapping process varies by project but may include clarification of property boundaries, demarcation, creation of cadastral records, verification of map by community stakeholders, and creation or updating of map-based land rights inventories and land use plans.

Land Rights Formalized: Rural and Urban land receiving formal recognition by the government of ownership and or use rights through certificates, titles, leases, or other recorder documentation; measured in terms of hectares in rural areas. The formalization process varies by project but can include the recordation or registration of a customary or informal right, as well as the regularization or adjudication of rights. Resolution or mediation of disputed rights is undertaken by local authorities, and more formal resolution of conflict is channeled to alternative dispute resolution mechanisms or courts.

MCA Benin: MCA signed partnership agreements with 54 communes where the Access to Land Project will fund land security and formalization activities. Public outreach ceremonies were held throughout the country to engage local authorities, inform beneficiaries, and publicize the upcoming activities

MCA Mongolia: MCA Mongolia's Peri-Urban Rangeland Project has reached out to over 7000 local officials and herders in all 42 project soum and districts. Over 600 herder groups comprised of over 2000 households applied to be part of MCA Mongolia's peri-urban rangeland leasing activity."

MCA Ghana: MiDA and the Survey Department check the construction of a base for a GPS antenna which will aid surveyors in accurately mapping land parcels.

Tracking MCC's Water and Sanitation (WS) Investments' Results*

	Feasibility and/or Detailed Design Includes EIAs, EMPs, and RAPs, as applicable (Months 6 to 24)	Construction / Persons Reached (Months 12 to 48)		Expected Outcomes (Months 24 to 60)	Expected Objectives (Months 48+)
Indicator Type	Process	Process	Output	Outcome	Objective
Progress Indicators	1. Value of Feasibility and/or Detailed Design Contracts Signed; 2. Percent of Contracted Feasibility and/or Design Studies Disbursed	3. Value of Construction Contracts Signed; 4. Percent of Contracted Construction Works Disbursed	5. Persons Trained in Hygiene and Sanitary Best Practices; 6. Water Points Constructed; 7. Sanitation Systems Constructed	8. Volume of Water Produced; 9. Access to Improved Water Supply; 10. Access to Improved Sanitation.	11. Water Consumption (Domestic/Commercial); 12. Incidence of Water-borne Diseases
Totals	$28.47M in design contracts, 22% disbursed	$69.82M in construction contracts, 37% disbursed	Expected upon completion of works	Expected upon completion of works	El Salvador 0 Lesotho 0 Tanzania 0 Mozambique 0 Georgia 0 Ghana 0
Currently implementing	El Salvador ($3.2M, 59.72%) Georgia ($.27M, 100%) Ghana ($1.5M, 33%) Tanzania ($1.9M, 95%) Mozambique ($21.6M, 8%)	El Salvador ($2.47M, 0%) Georgia ($54.32M, 41.46%) Ghana ($9.4, 11.5%M) Lesotho ($3.63M)	El Salvador (0 people, 0 water points, 0 sanitation) Georgia (0 people, 0 water points, 0 sanitation)	El Salvador (0 access, N/A sanitation) Georgia (0 access)	
Pending Implementation		Ghana Tanzania Mozambique	Ghana Lesotho Tanzania Mozambique	Ghana Lesotho Tanzania Mozambique	

*Indicators in this Results Framework may be added or removed as MCC's investments in WS evolve over time. All program data as of June 10, 2010. Data are preliminary and subject to adjustment.

Understanding Water and Sanitation Progress Indicators

MCC currently has 6 Compacts in implementation with water and sanitation (WS) investments totaling over $500 million. These investments focus on non-agricultural WS uses – that is, WS investments for human consumption and evacuation needs and some medium-scale business and industrial uses*. Investments in non-agricultural WS activities take two major forms: networked and non-networked. Networked investments normally focus on urban and peri-urban service delivery while non-networked investments normally focus on rural access. Desired outcomes include improved service access, capacity, & efficiency. Desired objectives include higher human productivity, which contributes to greater economic growth and reduced poverty.

General Definitions:

Water Investments: Networked water intake and storage infrastructure can include intake pipeline, pumping system, dams and reservoirs. Water distribution network can include primary mains, secondary mains, and tertiary networks that lead up to the neighborhood / unit. Non-networked water infrastructure include stand-alone water supply systems (e.g. boreholes, rain water harvesting systems, etc.).

Sanitation Investments: Networked sanitation infrastructure includes waste collection, treatment, and reuse. Waste collection can include in-unit facilities, such as toilets, to the actual sewer network carrying effluent to the treatment plant. Other possible network infrastructure are storm-water drainage networks and networks conveying water for reuse. Wastewater treatment can include the treatment, removal, and recycling facilities. Non-networked sanitation can include on-site disposal and other stand-alone systems (e.g. septic tanks, improved latrines, etc.)

1. Value of Feasibility and/or Detailed Design Contracts Signed: Value of all signed feasibility, design, and environmental contracts, including resettlement action plans, for water and sanitation investments.

MCA [Country sanitation example]:

2. Percent of Contracted Feasibility and/or Design Studies Disbursed: Amount of all signed feasibility, design, and environmental contracts, including resettlement action plans, for water and sanitation investments disbursed divided by total value of all contracts awarded.

3. Value of Construction Contracts Signed: Value of all signed construction contracts for water and sanitation investments.

4. Percent of Contracted Construction Works Disbursed: Amount of all signed construction contracts for water and sanitation investments disbursed divided by total value of all contracts awarded.

5. Persons Trained in Hygiene and Sanitary Best Practices: Number of persons who have completed training and have an understanding of hygiene and sanitary practices that block the fecal-oral transmission route.

6. Water Points constructed: Construction of non-networked, stand alone water supply systems such as: Protected dug well(s); tube-wells / boreholes; protected natural springs; rain water harvesting / catchment systems; and any standpipes or private connections (dwelling or yard) made from networked systems.

7. Sanitation Systems constructed: Construction of non-networked, stand-alone sanitation systems such as: Single pit latrines; ventilated improved pit latrines; septic tanks; and small scale sewerage schemes; and any private connections made from networked systems.

8. Volume of water produced: Total volume of water produced for the service area, i.e. leaving treatment works operated by the Utility and purchased treated water, if any.

MCA [Country sanitation example]:

9. Access to improved water supply: Number of households whose main source of drinking water is a private piped connection (into dwelling or yard), public tap/standpipe, tube-well / borehole, protected dug well, protected spring, or rainwater as a result of MCC investment(s).

10. Access to improved sanitation: Number of households who get access to and use an improved sanitation facility such as flush toilet to a piped sewer system, flush toilet to a septic tank, flush or pour flush toilet to a pit, composting toilet, ventilated improved pit latrine, or pit latrine with slab and cover as a result of MCC investment(s).

11. Water Consumption (Domestic / Commercial): Domestic water consumed at the household unit measured in liters per capita per day (lpcd) or Commercial water consumed at the business unit measured in cubic meters per month.

12. Incidence of Water-borne diseases: Average number of household members sick in last 2 weeks due to a water-borne illness.

*MCC investments to date are most closely aligned with the Organization for Economic Cooperation and Development Credit Reporting System Codes: 14010; 14020; 14030; & 14081. Additional activities can be added to this Results Framework in the future to correspond to MCC's developing investment portfolio. (http://www.oecd.org/dataoecd/38/57/41780789.pdf)

Financial Statements Highlights

While MCC is not a CFO Act agency, MCC chooses to adhere 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, 2010 and September 30, 2009.

For FY 2010, MCC received a qualified audit opinion from the Office of Inspector General (OIG) on its financial statements. Cotton & Company, LLP, MCC's external auditor, issued its Independent Auditor's Report that cites 3 material weaknesses: reporting of advance payments, compiling accruals in the proper reporting period, and monitoring controls over mission activities. The auditors did not report any instances of non-compliance, as required to report under the *Government Auditing Standards* and OMB Bulletin 07-04.

During Fiscal Years 2008 and 2009, Millennium Challenge Account partner countries entities (MCAs) reported vendor disbursements as expenses that should have been reported as advances for goods and services. MCAs also did not report to MCC any retention payments being withheld for services rendered during Fiscal Year 2009. Those amounts should have been accrued during Fiscal Year 2009 to capture those expenses when incurred. MCC is restating its Fiscal Year 2009 financial statements within this AFR to properly present the comparative balances with Fiscal Year 2010. The Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are all affected by this restatement. The original reported amount, effect of the restatement and the restated amount are all summarized in **Exhibit 18 – Financial Section.**

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, 2010, MCC reported total assets of $6.8 billion. At the end of FY 2010, MCC held $6.5 billion in unexpended appropriations, of which $5.6 billion has been obligated for MCC programs.

MCC's Fund Balance with Treasury constitutes the vast majority (97.1 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, 2010, MCC reported fixed assets of $5.9 million, composed mainly of leasehold improvements. The leasehold improvements are for enhancements made to lease office space at MCC headquarters in Washington, DC.

Liabilities and Net Position

As of September 30, 2010, MCC had approximately $223 million in liabilities, which were amounts owed to its vendors, contractors, trading partners, and employees. MCC's ratio of total assets to total liabilities as of September 30, 2010, was 96.7 to 1.

MCC's overall net position as of September 30, 2010, was $6.5 billion. During FY 2010, MCC's net position decreased by $171.1 million from September 30, 2009. During this period, MCC received $1.105 billion in appropriated funds, had $50 million in unobligated balances rescinded, and expended approximately $1.15 billion. 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. During FY 2010, MCC incurred $1.2 billion in net program costs. As of the end of FY 2010, MCC had cumulatively disbursed $191.1 million in advances to MCAs 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 $6.1 million as of September 30, 2010, and $4.9 million as of September 30, 2009. 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 Budgetary Resources section of the statements present the total budgetary resources available to MCC. The Status of Budgetary 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, 2010. For 2010, MCC had total budgetary resources of $1.8 billion. MCC's incurred obligations decreased by 14 percent ($900 million in FY 2010 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 $9.5 billion, including $1.105 billion in FY 2010 (see **Exhibit 6**).

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
2010	1,105,000
Total	**$9,523,700**

As of September 30, 2010, $451 million of MCC's realized resources represented the balance of apportioned funds available for obligation.

MCC classifies appropriations in six fund categories:

- **Administrative.** Funds appropriated by Congress and apportioned by OMB for the purpose of operating expenses.

  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 approved 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 approved by Congress and apportioned by OMB for audits of MCC operations and programs. The USAID OIG is responsible for conducting MCC audits.

During FY 2010, MCC incurred total obligations of approximately $897.5 million for all program fund categories. Total lifetime obligations incurred by MCC since its inception is approximately $8.4 billion (see Exhibit 7).

Exhibit 7: Obligations by Fund Category

Funds Category	FY 2010 Obligations (in millions)	Lifetime Obligations (in millions)
Administrative	93	465
Compacts (including CIF/Grants)	731	7,150
609(g)	14	107
Due Diligence	33.5	192
Threshold	24.5	511
Audit	3.5	16
Total	**$ 899.5**	**$8,441**

Exhibit 8 shows funds obligated for compacts and other non-threshold program grants, by country as of the end of FY 2010.

Exhibit 8: Compact Obligations

MCA/Country/Recipient	Total Compact Obligations (in millions)
Armenia	$235.70
Benin	$307.30
Burkina Faso	$478.90
Cape Verde	$110.00
El Salvador	$461.00
Georgia	$395.30
Ghana	$547.00
Honduras	$205.00
Lesotho	$362.60
Madagascar	$88.00
Mali	$460.80
Moldova	$262.00
Mongolia	$284.90
Morocco	$697.50
Mozambique	$506.90
Namibia	$304.50
Nicaragua	$113.60
Philippines	$25.20
Senegal	$540.00
Tanzania	$698.10
Vanuatu	$65.70
Other[3]	$0.10
Total	**$7,150.10**

Note: "Compact obligations" listed include CIF and grant funds under Section 609(g) and other provisions of the Millennium Challenge Act of 2003, as amended.

[3] In 2007, MCC awarded the Center for Strategic and International Studies a $100,000.00 grant to establish a Governance Center in Nairobi, Kenya to serve as an independent source of analysis, exchange, and policy recommendations on monitoring and curbing endemic corruption, especially in Kenya's health sector.

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. In FY 2010, MCC re-established a Senior Assessment Board SAB, which will be responsible for making recommendations to MCC's Vice Presidents and/or the Chief Executive Officer (CEO) on financial management and internal control matters. The SAB will oversee MCC's internal control environment, including controls and processes to ensure compliance with pertinent administrative and financial management statutes and regulations.

During the upcoming year, MCC will be revamping its financial management systems with a more integrated solution. The new Administration & Finance Integrated Financial System (AFIS) will integrate operational requirements of various divisions within the Department of Administration and Finance (Information Technology, Human Resources, Contract and Grant Management, and Finance). Currently, we expect the system to be deployed in FY 2012. The following sections present information on MCC's financial systems, controls, and compliance with key laws and regulations.

Management Assurances

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 and will continue this approach going forward.

The results of MCC's A-123 Appendix A assessment supports the CEO's statement 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 Appendix A. No material weaknesses were identified during the A-123 Appendix A assessment; however, MCC received a qualified opinion on its FY 2010 financial statement audit for expenses not recorded in the proper reporting period. MCC's assurance is made on the basis of its review of business processes related to internal controls over financial reporting, in addition to assurance statements provided by NBC.

The following MCC business processes were tested in FY 2010:

- Contracts & Grants Management Process
- Compact Management Process
- Travel Management Process
- Funds Management Process
- Financial Reporting Process
- Budget Formulation & Execution Process
- Personnel Salary & Benefits Process

- Inter-Agency Agreements Process

The A-123 Report on Internal Controls Report, issued in November 2010, summarizes the assessment work completed and provides recommendations for corrective actions to address internal control deficiencies around the processes noted above. MCC has made the following key improvements in FY 2010:

- Revision and reissuance of the financial management policies and procedures;
- Department of Administration and Finance (A&F) has developed a monthly reconciliation process that reconciles advances, accounts payable and undelivered orders balances and investigates any abnormal balances. In addition, A&F is continuing to investigate options to acquire increased system adjustments that will provide consistency to invoices, journal vouchers, and vendor numbering;
- MCC and NBC have continued to improve their communication in regards to proper documentation and maintenance off all transactions prior to entry into Oracle;
- MCC and MCAs have developed a reconciliation process on order to ensure all transactions occurring at the MCA level are documented in Oracle; and
- A&F has developed a procedure to review obligating documents and corresponding disbursements for all property, plant, and equipment assets.

During the FY 2010 review, MCC tested key internal controls by participating in the NBC testing of key controls that were relevant to MCC. For FY 2010, 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, in letters dated July 23, 2010 and October 1, 2010, 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.

United States Department of the Interior
NATIONAL BUSINESS CENTER
Denver, CO 80235

July 23, 2010

Dear: Mr. Dennis E. 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, 2009, through June 30, 2010.

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, 2010. After reviewing the nine control objectives, KPMG has qualified their opinion on one of the control objectives as follows:

> Control Objective 9 – Application Security
>
> KMPG inquired of NBC management and were informed that the NBC does not have the ability to routinely review the menus and functions that each functional access role grants access to in Oracle.

KMPG inquired of NBC management and were informed that the NBC has developed a custom process to perform a comparison of functions available to utilized responsibilities. The process performs a comparison from the production OFF instance to a patched test instance. The process is performed after completing the patches and/or upgrade to the patched test instance and before the patches are applied to production. At this time no differences have been found for utilized responsibilities/roles. If a difference should be found in the future, it will be reviewed to determine if it creates a Segregation of Duties (SOD) violation. The NBC has performed this proactive step to mitigate the risk created by Oracle in the modification of menus that are perpetuated through security patches and upgrades. The NBC takes a qualification seriously and is not aware of any situation during the audit period where this result has been used to misuse, defraud, or mishandle Federal funds.

We encourage discussion of this topic at the next Oracle User Group Meeting to explore further solutions or accept this solution as mitigation to the risk if funding to obtain and deploy a SOD tool is not realized.

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 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 2010 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, 2009, through June 30, 2010.

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 2010 A-123 Appendix A testing cycle, the NBC tested 32 key accounting and finance operations processes by completing 153 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, 2010, were operating effectively to safeguard data from waste, fraud, abuse, and destruction.

You will be receiving another memorandum from the NBC in early October 2010 providing management assurance for the period of July 1, 2009, through September 30, 2010 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

JWB:dnm

C: Mr. Dean N. Martin

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

October 1, 2010

Mr. Dennise Nolan
Millennium Challenge Corporation
875 15th ST NW
Washington, DC 20005

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, 2010, through September 30, 2010.

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, 2009, through June 30, 2010. 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, 2010, through September 30, 2010. 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, 2010, did not change for the period of July 1, 2010, through September 30, 2010. The description of controls in the FY 2010 SAS 70 examination report presents fairly the aspects of NBC controls that were in place as of September 30, 2010.

TAKE PRIDE IN AMERICA

Mr. Nolan
October 1, 2010
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, 2010. 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, 2010. As a result, the NBC continues to assert substantial compliance with financial accounting and reporting controls in place from July 1, 2010, through September 30, 2010.

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

JWB:dnm

C: Mr. Dean N. Martin

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 of 1982;
- Debt Collection Improvement Act of 1996;
- Improper Payments Information Act of 2002;
- Federal Information Security Management Act; and
- Privacy Act of 1974

PROMPT PAYMENT ACT OF 1982

The Prompt Payment Act, 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 2010, MCC's prompt payment performance improved to 99.99 percent, a 0.11 percent increase over FY 2009's 99.88 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 2010, 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 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 of 2002

In FY 2010, MCC made substantial progress in implementing 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:

- Completed our annual FISMA audit, confirming the closure of all prior FISMA Audit Recommendations;
- Completed a major revision and re-write of the MCCNet System Security Plan;
- Completed and documented the security controls on all external systems;
- Revised Security Awareness Training;
- Designed and Implemented a Public Key Infrastructure (PKI) system; and
- Revised the Information System Security Policy.

Privacy Act of 1974

In 2010, MCC acknowledges a material weakness in the lack of administrative controls related to a privacy program as previously administered. MCC has developed and is executing a comprehensive corrective action plan, including the implementation of a privacy policy, general and specialized privacy training programs, as well as procedures should there be a breach of the protections related to personally identifiable information (PII). MCC made significant progress in the development of the Privacy Program, including assigning ownership of the program to the Chief Information Officer with a new reporting relationship to the Chief Executive Officer. These major initiatives were elevated to the highest level of the organization to gain commitment to a compliant, more mature Privacy Program. This year, MCC completed the following major privacy activities:

- The Chief Information Officer (CIO) was designated to be the Chief Privacy Officer (CPO)
- Developed a Privacy Policy
- Developed a Breach Notification Policy
- Completed a review and gap analysis of the Privacy Program
- Improved technical controls on the public website (MCC.Gov) to be compliant with Privacy regulations
- Developed and delivered privacy program training in response to a material weakness

SUMMARY OF MATERIAL WEAKNESSES, NON-COMPLIANCE, AND CORRECTIVE ACTIONS

For FY 2010, MCC received 3 material weakness findings related to reporting advance payments, compiling accruals and monitoring controls over mission activities. MCC reviewed and commented on these audit findings and provided responses to the recommendations and corrective actions for the future. The recommendations and responses are summarized below.

1. Material Weakness: Reporting Advance Payments

MCC concurs with the OIG recommendation to "modify the Payment Request Form (PRF) to specifically identify requests for advance payments to vendors." In addition, A&F will work with the Office of the Inspector General (OIG) to modify the existing scope of semi-annual MCA audits to include audit procedures to verify the accuracy and completeness of amounts coded as advances on PRFs.

MCC also concurs with the OIG recommendation that MCC "provide training to Fiscal Agents and other in-country personnel to explain how to properly record each line of the PRF" and to ensure shared understanding of the necessity and importance of this practice. Through the Task Force mentioned earlier, MCC will ensure that the requirement for advance payments to vendors is clearly identified, appropriately recorded in the accounting system, and supported by documentation as part of the training for both MCC and MCA staff as needed.

2. Material Weakness: Compiling Accruals (Proper Reporting Period)

MCC concurs with the OIG recommendation to "revise and strengthen its process for determining accruals needed at year-end by establishing a comprehensive methodology and/or a standard process for obtaining, recording, and reporting year-end accruals which cover all MCAs and funds, and includes invoices and rendered services which have not been recorded in the year-end trial balance." MCC has already implemented a new year-end procedure and will build in further changes and necessary steps to ensure that both quarterly and year-end accruals are complete.

MCC extended its FY 2010 cut-off to 12 days for invoices received but not paid in response to accrual related issues raised in the FY 2009 audit. Based on the accrual-related issues raised in the FY 2010 audit, MCC's new procedure to develop quarterly and year-end accruals for financial statement reporting entailed working directly with the Fiscal Agents, Procurement Directors, and other staff at the MCAs to obtain quarterly and year-end accrual reporting for: (1) invoices received but not paid, (2) work completed but not billed, (3) retention payments, and (4) country-managed 609(g) agreements.

In addition, MCC will be recalculating its FY 2009 expense accrual using the methodology described above to correct any errors in the beginning balances on our FY 2010 financial statements. Finally, MCC will institute regular communication with MCA staff to ensure that accruals are comprehensive and reflect all activities that are occurring in country as part of compact implementation.

MCC also concurs with the recommendation to "establish consistent communication with NBC and the MCAs and establish a process to ensure a clear understanding of process and methodology developed." Through the Task Force mentioned earlier, MCC will ensure that the methodology for obtaining, recording, and reporting accruals is part of the training for both MCC and MCA staff, as needed.

MCC also concurs with the recommendation to "perform quality control procedures over amounts obtained and recorded to ensure that amounts posted are properly reviewed for reasonableness, accuracy, and completeness." A&F will work with the OIG to modify the existing scope of semi-annual MCA audits to include audit procedures to verify the accuracy and completeness of the data provided by the MCAs to calculate accruals. In conjunction with the semi-annual audits, A&F will also institute a process to sample MCA invoices and other documentation to verify the completeness and accuracy of accruals.

***3. Material Weakness:* Monitoring Controls over Mission Activities**

MCC concurs with the recommendation to "implement a process for coordinating with MCAs, audit firms, and the OIG to ensure all parties are adequately informed of the progress of all audits, and that the audits are completed in accordance with the compact." MCC has developed a reporting system to track the status of all MCA audits. As noted by the auditors, there has been considerable progress on eliminating the backlog of past due audits. MCC will continue its monitoring of the MCA audit program, and will work closely with the OIG to implement additional remedial actions or changes designed to improve the audit program.

In FY 2010, MCC implemented certain measures to improve timeliness of the MCA audit program; however, the full effect of these measures has not been realized. OIG's increase in staffing on the MCA audit program will also assist in alleviating a backlog in the audit report approvals process. MCC's Compliance Officer in conjunction with the Fiscal Accountability Directors in DCO will conduct monthly audit status meetings with OIG to ensure that issues related to the completion of MCA audits are addressed timely.

MCC also concurs with the recommendation to "establish and implement a process to ensure that MCAs prepare and make available for audit the status of advances to contractors, retention balances and data necessary for MCC to properly report its accruals." A&F will work with the OIG to modify the existing scope of semi-annual MCA audits to include audit procedures to verify the accuracy and completeness of the data provided by the MCAs to calculate advances, retention payments, and accruals.

MCC concurs with the recommendation to "establish and implement a process to ensure that all personnel responsible for QFRs understand how to submit accurately prepared and properly approved QFRs and Disbursement Requests in a timely manner." Through the Task Force mentioned earlier, MCC will review and revise existing processes to ensure that quarterly reporting requirements are met.

In addition, A&F has developed a QFR scorecard to track the status of all required QFRs for all funds. The scorecard will be distributed weekly to MCC senior management for follow-up actions on delinquent QFRs.

MCC also concurs with the recommendation to "establish and implement a process to ensure that funds are periodically reviewed to determine if MCAs should submit final QFRs to record deobligations for funds no longer needed." This recommendation has already been implemented. A&F performs a semi-annual review of all open obligations which includes all fund types. This process is outlined in the Financial Management Policies and Procedures for Authorizing and Recording Commitments and Obligations issued in September 2010.

MCC concurs with the recommendation to "implement a formal process for administering 609(g) funds in all countries not managed by MCC or MCA."
MCC has developed operating procedures regarding the management of 609(g) funds when the Fiscal Agent has not been selected and mobilized. These procedures will be formalized and incorporated in MCC's Financial Management Policies and Procedures.

MCC also concurs with the recommendation to "monitor on quarterly basis the cumulative obligation and disbursements of all countries that have received 609(g) funds and communicate with the MCAs to determine if there is still an immediate need to maintain excess 609(g) funds that have not been disbursed." Through our existing process, A&F performs a semi-annual review of all open obligations which includes all fund types, in addition to 609(g) funds. This is done in conjunction with DCO and our country partners. The process is outlined in the Financial Management Policies and Procedures for Authorizing and Recording Commitments and Obligations issued in September 2010.

MCC also concurs with the recommendation to "strengthen its Common Payment System (CPS) Signature Card process to include an MCC authorizing signature, effective and termination dates, and annual or other periodic review process for MCC, its financial service provider, and the MCAs to ensure that signature cards are kept on file for only active users of the CPS system." A&F, in coordination with DCO, will strengthen the CPS Signature Card process to include a MCC authorizing signature, effective and termination dates, and include at a minimum, a quarterly review of the CPS process and update the CPS manual to include the revised controls.

MCC concurs with the recommendation to "develop policies and procedures for Program Closure of Compacts that have been suspended or terminated to ensure that programs, activities, and assets are properly accounted for, and final disposition is reported to MCC." A&F and the DCO will review the existing *"Guidelines for the Program Closure of MCC Compacts"* to ensure that it is inclusive of policies and procedures for suspended and/or terminated compacts.

MCC also concurs with the recommendation to "establish guidelines for Fiscal Accountability Directors, Fiscal Agents, as well as personnel in the Division of Finance and MCC's financial services providers to make them fully aware of any restrictions to process payments made during a program or compact close-out period." A&F and DCO will review the existing *"Guidelines for the Program Closure of MCC Compacts"* to ensure that it is inclusive of policies and procedures related to budget authority and required authorizations for the expenditure of funds during and after the compact close-out period. The Guidelines will be communicated to all responsible parties.

Other Management Information, Initiatives, and Issues

- **Enterprise Content Management:** In FY 2010, MCC management launched this initiative to develop strategies, methods, and tools to capture, manage, store, preserve, and deliver content and documents related to its organizational and business processes.
- **The Administration and Finance Integrated Management System:** MCC is currently reviewing bids for this new system. With projected implementation by January 2012, this system will revamp our current financial management system by integrating the operational requirements of the Information Technology, Human Resources, Contracts and Grants Management, and Finance divisions.
- **The Senior Assessment Board** was re-established to oversee MCC's internal control environment, including controls and processes to ensure compliance with pertinent administrative and financial management statues and regulations
- **MCC Integrated Data Analysis System (MIDAS):** MCC recently completed an independent verification and validation of the system and will address areas for improvement during FY 2011.

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.

FINANCIAL SECTION

In accordance with the OMB Circular A-136, Financial Reporting Requirements, MCC is presenting its financial statements in the appropriate form and content for Fiscal Year 2010. The tables below outline the following financial statements:

- Balance Sheets
- Statements of Budgetary Resources
- Statements of Net Cost
- Statements of Changes in Net Position
- Audit the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2010 and 2009
- Notes to Financial Statements

BALANCE SHEETS

	FY 2010	RESTATED FY 2009
Assets		
Intra-Governmental		
Fund Balance with Treasury *(Note 2)*	**$6,554,088,712**	**$6,655,511,983**
Advances – Federal *(Note 5)*	8,778,900	6,474,444
Total Intra-Governmental	6,562,867,612	**6,661,986,427**
Accounts Receivable *(Note 3)*	49,408	90,363
General Property, Plant, and Equipment *(Note 4)*	5,857,213	6,953,153
Advances – Public *(Note 5)*	182,343,189	103,874,266
Total Assets	**$6,751,117,423**	**$6,772,904,210**
Liabilities		
Intra-Governmental		
Accounts Payable – Federal *(Note 1F)*	$5,055,266	$229,546
Contributions and Payroll Taxes Payable	476,667	467,304
Total Intra-Governmental	**5,531,933**	**696,850**
Federal Employee and Veteran Benefits Payable	12,444	35,751
Accounts Payable – Public *(Note 1F)*	208,104,353	65,665,061
Accrued Funded Payroll Liabilities	9,279,041	7,196,040
Total Liabilities	**$222,927,770**	**$73,593,702**
Net Position		
Unexpended Appropriations – Other Funds	$6,522,071,077	$6,694,361,386
Cumulative Results of Operations – Other Funds	6,118,576	4,949,121
Total Net Position	**$6,528,189,653**	**$6,699,310,507**
Total Liabilities and Net Position	**$6,751,117,423**	**$6,772,904,210**

The notes are an integral part of these financial statements.

Statements of Budgetary Resources

	FY 2010	RESTATED FY 2009
Budgetary Resources		
Unobligated Balance – Beginning of Period	$787,102,593	$962,304,024
Recoveries of Prior Years Obligations	4,045,794	1,029,114
Budget Authority:		
Appropriations *(Note 1C)*	1,105,000,000	875,000,000
Non expenditure Transfers, Net, Anticipated and Actual	(2,377,922)	(679,000)
Permanently Not Available	(50,000,000)	0
Total Budgetary Resources	**$1,843,770,465**	**$1,837,654,138**
Status of Budgetary Resources		
Obligations Incurred		
Direct	$899,566,345	$1,050,551,545
Unobligated Balance Available	451,137,424	56,176,028
Unobligated Balance Not Available	493,066,696	730,926,565
Total Status of Budgetary Resources	**$1,843,770,465**	**$1,837,654,138**
Change in Obligated Balance		
Obligated Balance, Net – as of October 1, 2009		
Unpaid Obligations, Brought Forward, October 1	$5,868,196,304	$5,583,344,174
Obligations Incurred	899,566,345	1,050,551,545
Gross Outlays	(1,154,208,950)	(764,670,301)
Recoveries of Prior Year Unpaid Obligations, Actual	(4,045,794)	(1,029,114)
Obligated Balance, Net – End of Period		
Unpaid obligations	$5,609,507,905	$5,868,196,304
Net Outlays		
Gross Outlays	$1,154,208,950	$764,670,301

The notes are an integral part of these financial statements.

STATEMENTS OF NET COSTS

Program	FY 2010	RESTATED FY 2009
Program Costs *(Note 7)*		
Compact		
Gross Costs	$1,020,176,345	$490,084,277
Less: Earned Revenue	0	0
Net Program Costs	1,020,176,345	490,084,277
609 (g) Programs		
Gross Costs	19,551,450	15,693,976
Less: Earned Revenue	0	0
Net Program Costs	19,551,450	15,693,976
Threshold Programs		
Gross Costs	58,985,525	120,372,199
Less: Earned Revenue	0	0
Net Program Costs	58,985,525	120,372,199
Due Diligence Programs		
Gross Costs	28,555,929	28,922,102
Less: Earned Revenue	0	0
Net Program Costs	28,555,929	28,922,102
Audit		
Gross Costs	3,517,852	3,792,544
Less: Earned Revenue	0	0
Net Program Costs	3,517,852	3,792,544
Administrative		
Gross Costs	95,580,731	91,746,536
Less: Earned Revenue	0	0
Net Program Costs	95,580,731	91,746,536
Program Costs – Net of All Programs	**$1,226,367,832**	**$750,611,635**
Net Costs of Operations	**$1,226,367,832**	**$750,611,635**

The notes are an integral part of these financial statements.

Statements of Changes in Net Position

	FY 2010	RESTATED FY 2009
Cumulative Results of Operations		
Beginning Balances	$4,949,121	$6,839,070
Adjustments		
Beginning Balance, as Adjusted	4,949,121	6,839,070
Budgetary Financing Sources		
Appropriations Used	$1,224,912,387	$746,726,904
Other Financing Sources		
Donations and Forfeitures of Property *(Note 1P)*	$269,513	$205,267
Imputed Financing	2,355,386	1,789,515
Total Financing Sources	1,277,537,287	748,721,686
Net Cost of Operations	(1,226,367,832)	(750,611,635)
Net Change	1,169,455	(1,889,949)
Cumulative Results of Operations	**$6,118,576**	**$4,949,121**
Unexpended Appropriations		
Beginning Balance	$6,694,361,386	$6,548,610,190
Adjustments		0
Correction of errors		18,157,101
Beginning Balance, as Adjusted	$6,694,361,386	$6,566,767,291
Budgetary Financing Sources		
Appropriations Received	$1,105,000,000	$875,000,000
Appropriations Transferred In/Out	(2,377,922)	(679,000)
Other adjustments	(50,000,000)	0
Appropriations Used	(1,124,912,387)	(746,726,904)
Total Budgetary Financing Sources	(172,290,309)	127,594,096
Total Unexpended Appropriations	$6,522,071,077	$6,694,361,386
Net Position	**$6,528,189,653**	**$6,699,310,507**

The notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS (AS OF SEPTEMBER 30, 2010)

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, (P.L. 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 $1.105 billion and $875 million in Fiscal Year 2010 and Fiscal Year 2009, 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. Accounts payable reported at the end of Fiscal Year 2010 were $208 million (non-Federal) and $5.1 million (Federal) and at the end of Fiscal Year 2009 were $65.7 million (non-Federal) and $230 thousand (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 Fiscal Year 2010 and Fiscal Year 2009.

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 sick 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.

J. Financing Sources

Per note 1C, 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 Fiscal Year 2010, MCC made retirement contributions of $104 thousand to CSRS, $2.8 million to FERS, and $1.1 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 fund. MCC received and deposited $377 thousand and $213 thousand in interest remittances as of September 30, 2010 and 2009, respectively.

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 Fiscal Year 2010 was $270 thousand and Fiscal Year 2009 was $205 thousand.

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 Fiscal Year 2010 and Fiscal Year 2009, MCC transferred budgetary authority of $25 million and $33 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 Fiscal Year 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, 2010 and 2009 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, 2010 (in thousands)	RESTATED September 30, 2009 (in thousands)
Fund Balances		
General Funds	$6,554,089	$6,655,512
Total	**$6,554,089**	**$6,655,512**

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

	September 30, 2010 (in thousands)	RESTATED September 30, 2009 (in thousands)
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$451,137	$56,176
Unavailable	493,067	730,927
Obligated Balance	$5,609,508	$5,868,196
Non-Budgetary FBWT	377	213
Total	**$6,554,089**	**$6,655,512**

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 Fiscal Year 2010 and Fiscal Year 2009 were approximately $49 thousand and $90 thousand, 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 Fiscal Years 2010 and 2009 was $10.9 million. Accumulated amortization was approximately $5.2 million and $4.0 million, respectively. The current book value is $5.7 million and $7.0 million for the periods ending September 30, 2010 and 2009, 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. For Fiscal Year 2010, equipment was valued at approximately $139 thousand. Accumulated depreciation was approximately $20 thousand for Fiscal Year 2010. MCC did not have any equipment assets for Fiscal Year 2009.

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. MCC reported $191.1 million ($8.8 million, Federal and $182.3 million, non-Federal) and $110.4 million ($6.5 million, Federal and $103.9 million, non-Federal) in advances as of September 30, 2010 and 2009, 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 1 corporate vehicle (through June 28, 2015) and for 18 office copier machines (through January 31, 2012) utilized in both buildings. The future lease payments due are depicted in **Exhibit 15** below.

Exhibit 15: Operating Leases

Future Lease Payments Due (in dollars)			
Fiscal Year	**Bowen**	**City Center**	**Total**
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	**$28,632,541**	**$9,817,586**	**$38,450,127**
Future Lease Payments Due (in dollars)			
Fiscal Year	**MCC Vehicle**	**MCC Copiers**	**Total**
FY 2011	10,980	55,821	66,801
FY 2012	10,980	55,821	66,801
FY 2013	10,980		10,980
FY 2014	10,980		10,980
FY 2015	8,235		8,235
Total Future Lease Payments	**$52,155**	**$111,642**	**$163,797**

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 2010 Total (in thousands)	RESTATED FY 2009 Total (in thousands)
Intra-Governmental	35	5	16,281	5,151	3,246	17,510	42,228	27,537
Public	1,017,189	19,547	43,407	23,467	272	80,258	1,184,140	723,075
Total - Program	**1,017,224**	**19,552**	**59,688**	**28,618**	**3,518**	**97,768**	**1,226,368**	**$750,612**

NOTE 8—UNDELIVERED ORDERS AT THE END OF THE PERIOD

Exhibit 17 presents Undelivered Orders, paid and unpaid, as of September 30, 2010 and 2009.

Exhibit 17: Undelivered Orders

Undelivered Orders	2010	RESTATED 2009
Administrative	$28,539,653	$27,268,537
Audit	1,031,296	1,131,689
609(g)	37,167,213	42,422,624
Due Diligence	65,060,507	60,123,947
Program	5,334,343,971	5,625,698,055
Threshold	111,935,476	148,518,787
Total	**$5,578,078,116**	**$5,905,163,639**

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 column for Fiscal Year 2009 and the Fiscal Year 2009 actual data reported in the Fiscal Year 2011 budget submission. Fiscal year 2010 actual data will be published within the 2012 Budget of the United States to be published in February 2011. No material differences were noted.

NOTE 10—RESTATEMENTS

During Fiscal Years 2008 and 2009, MCAs erroneously reported vendor disbursements as expenses that should have been reported as advances for goods and services. MCAs also did not report to MCC any retention payments being withheld for services rendered during Fiscal Year 2009. Those amounts should have been accrued during Fiscal Year 2009 to capture those expenses when incurred. This restatement is being presented in the Fiscal Year 2009 column of these comparative financial statements. The Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position are all affected by this restatement. The original reported amount, effect of the restatement and the restated amount are all summarized in **Exhibit 18** below.

MCC has developed a revised accrual methodology to communicate directly with each country to determine a more accurate estimate of the value of goods and services received; both invoiced and unbilled. MCC believes that direct communication with each MCA will allow for the proper treatment of expense accruals within the proper reporting period.

MCC has analyzed the issue surrounding the proper reporting of advances to vendors within country to perform services but reported to MCC as expenses. MCC is revising its Payment Request Form to ensure MCAs are accurately designating funds being disbursed to a vendor so that an advance or expense disbursed is recorded in the MCC financial system accurately. MCC will also be performing a reconciliation of those advances erroneously reported as an expense within each country to ensure the financial records within the MCC financial system is consistent with financial records within each country.

Exhibit 18: Restatement of Fiscal Year 2009 Financial Statement Material Amounts

	2009 Reported	Effect of Restatement	2009 Restated
Balance Sheet			
Advances to Others	$32,422,386	$71,451,880	$103,874,266
Total Assets	$6,701,452,329	$71,451,880	$6,772,904,210
Accounts Payable	$56,026,101	$9,638,960	$65,665,061
Total Liabilities	$63,954,742	$9,638,960	$73,593,702
Unexpended Appropriations – other funds	$6,632,548,466	$61,812,920	$6,694,361,386
Total Net Position	$6,637,497,587	$61,812,920	$6,699,310,507
Statement of Net Costs			
Compact – Gross Costs	$533,740,058	($43,655,781)	$490,084,277
Net Cost of Operations	$794,267,415	($43,655,781)	$750,611,635
Statement of Changes in Net Position			
Budgetary Financing Sources – Appropriations Used	$790,382,685	($43,655,781)	$746,726,904
Total Financing Sources	$792,377,466	($43,655,781)	$748,721,686
Net Cost of Operations	($794,267,415)	($43,655,781)	($750,611,635)
Corrections of Errors	(39)	$18,157,140	$18,157,101
Unexpended Appropriations – Beginning Balance, as adjusted	$6,548,610,151	$18,157,140	$6,566,767,290
Budgetary Financing Sources – Appropriations Used	($790,382,685)	$43,655,781	($746,726,904)
Total Budgetary Financing Resources	$83,938,315	$43,655,781	$127,594,096
Total Unexpended Appropriations	$6,632,548,466	$61,812,920	$6,694,361,386
Net Position	$6,637,497,587	$61,812,920	$6,699,310,507

NOTE 11—RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Exhibit 19 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 19: Reconciliation of Net Cost of Operations to Budget

Resources Used to Finance Activities		Program Costs	
Budgetary Resources Obligated			
Obligations Incurred	$899,566,345	**Gross Costs**	$1,226,367,832
Recoveries of prior year unpaid obligations	(4,045,794)		
Other financing resources	2,624,899		
Total resources used to finance activities	898,145,451		
Total resources used to finance items not part of the net cost of operations	326,986,011	**Less: Earned Revenue**	-
Total components of net cost of operations that will not require or generate resources	1,236,370		
Net Cost of Operations	**$1,226,367,832**	**Net Cost of Operations**	**$1,226,367,832**

OTHER ACCOMPANYING INFORMATION

MANAGEMENT CHALLENGES

Office of Inspector General

NOV 9 2010

Mr. Daniel Yohannes
Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005

Dear Mr. Yohannes:

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, 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 2010 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 A. Brown, the Assistant Inspector General for MCC.

Sincerely,

Donald A. Gambatesa

Donald A. Gambatesa
Inspector General

Enclosure

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

Millennium Challenge Corporation's
Most Serious Management and Performance Challenges
Fiscal Year 2010

The Office of Inspector General (OIG) has determined that the Millennium Challenge Corporation's (MCC) most serious management and performance challenges for fiscal year (FY) 2010 are in the following areas:

- Information technology (IT) management
- Financial management
- Threshold Program for compact eligibility
- Political instability resulting in placing on hold, suspending, terminating, or canceling planned compact activity

Information Technology Management

We first reported that MCC had management challenges in the IT area in FY 2008. This year OIG considers two new areas under IT management to be management challenges: (1) the privacy program and (2) project management. In prior years, OIG identified MCC's IT security as a management challenge. MCC has made significant improvements to strengthen its IT security and has taken final action on recommendations from prior years. OIG's FY 2010 audit of MCC's compliance with the Federal Information Security Management Act (FISMA) identified a serious weakness, and MCC has taken steps to reduce the overall risk to an acceptable level. Therefore, OIG does not consider MCC's IT security to be a management challenge for FY 2010, but we will continue to monitor MCC's progress.

- **Privacy Program.** Currently, laws and regulations are in place to address the protection of privacy. Violations of people's privacy by U.S. Government agencies can carry substantial penalties. A July 2010 audit found that MCC had not implemented key components of a privacy program for its IT systems to mitigate the risk of violations against key information technology privacy requirements. OIG made 18 recommendations to correct the extensive weaknesses—including a recommendation that MCC determine whether the privacy program should be reported as a material weakness pursuant to the Federal Managers' Financial Integrity Act of 1982. To date, however, management decisions have not been reached for two of the recommendations related to the placement of MCC's Chief Information Officer and Chief Privacy Officer within the organizational structure—two key positions. Because MCC has not reached management decisions for those recommendations and because of the extent of the weaknesses identified in the audit, MCC's privacy program continues to be a management challenge area.

IT Project Management. MCC has not implemented key project controls to meet costs, schedules, and performance goals for its IT projects. MCC spent over $6.9 million—

$200,000 more than planned—for a system scheduled to be implemented 2½ years ago that does not fully meet the needs of the organization. Since the IT Project Management weaknesses continue to exist, we have included this as a management challenge for FY 2010.

Financial Management

We first reported financial management as a management challenge in FY 2008. Despite including this as a management challenge in prior years, OIG issued unqualified opinions on MCC's Financial Statements. For FY 2010, OIG has issued qualified opinions on MCC's Financial Statements. Our FY 2010 report also included three material internal control weaknesses that resulted in MCC's FY 2009 expenses being materially understated and FY 2010 expenses being overstated.

Sound financial management is critical to providing reliable financial information, managing results, and ensuring operational integrity. Many of MCC's activities and expenses occur in the compact programs implemented by MCC's Millennium Challenge Accounts (MCA) overseas. MCC did not adequately monitor these organizations' ongoing activities or the financial information reported in its financial management system and eventually on its financial statements. Some examples of specific issues identified in recent audits are:

- MCA's audits do not address its compliance with MCC's financial reporting requirements.
- MCC's financial management system follows the guidance prescribed by the Federal Accounting Standards Board, whereas the MCAs follow Other Comprehensive Basis of Accounting. MCC has not addressed the issue of non-compatibility and its effects on its financial statements.
- MCAs are requesting disbursements from the National Business Center, MCC's service provider, as expenses instead of advance payments to the vendors. These advance payments are then improperly recorded as expenses by MCC, leading to overstating MCC's expenses and understating MCC's advances on its annual financial statements.
- MCC does not review the underlying documents for payments to vendors before payments are made by MCC or the National Business Center. Instead, MCC relies on approved payment request forms submitted by personnel of the MCA entity.

As a result, we are reporting the area of financial management as a serious challenge.

Threshold Programs for Compact Eligibility

This is the second year that we have included this as a management challenge. In 2009, OIG audited the Threshold Program and reported that 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 helping countries to become eligible.

Subsequently, MCC completed a review of its Threshold Program and developed and presented a new Threshold Program to its Board of Directors during 2010 for approval. The new program will continue to support a country's commitment to reforms in the three broad policy areas of ruling justly, investing in people, and encouraging economic freedom, but it will no longer be designed to boost a country's indicator scores within a 2- or 3-year period. Although MCC is working toward implementing its new program, we still consider the Threshold Program to be an ongoing management challenge.

Political Instability Resulting in Placing on Hold, Suspending, Terminating, or Canceling Planned Compact Activities

This is the second year we have included this as a challenge. In 2009, OIG reported that MCC had suspended, terminated, or canceled a total of $340 million in planned activities in 5 of the 19 compact countries because of political instability in and around those countries. MCC placed on hold, suspended, terminated, or canceled 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. According to MCC officials, this made the project unfeasible and resulted in the cancellation of a $188 million project.

Although MCC's planned compact activity was not impacted by any political instability during 2010 and thus did not place on hold, suspend, terminate, or cancel planned activities in any compact countries, this remains a very serious management challenge that will persist because of the nature of MCC's mission. According to MCC officials, MCC has established a set of policy indicators that a country must meet in order to become eligible for a compact, and MCC compacts require countries to seek to maintain and improve their performance on the policy areas measured by the indicators throughout the lifespan of the compact. However, because MCC operates in the dynamic environments of developing countries, and compacts are carried out over 5 years, this will be an ongoing management challenge.

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Memorandum

TO: Alvin A. Brown
Assistant Inspector General

FROM: Victoria B. Wassmer
Vice President, Administration and Finance

DATE: November 10, 2010

SUBJECT: Management Response to Statement by the Office of Inspector General (OIG) on the MCC's Most Serious Management and Performance Challenges Fiscal Year 2010

In its FY 2010 Statement of MCC's Most Serious Management and Performance Challenges, the OIG notes four items:

- Information technology (IT) management
- Financial Management
- Threshold Program for compact eligibility
- Political instability resulting in placing on hold, suspending, terminating, or canceling planned compact activity

MCC is pleased that OIG acknowledges the significant progress MCC has made in strengthening our IT security. With regard to the Privacy Program, MCC has established an aggressive action plan to finalize and publish a comprehensive Privacy Program, and close all agreed-upon audit recommendations by December 2010. MCC is also reviewing the current structure of its IT operations to realign functions and ensure that we institute best practice project management techniques for all future IT projects. In addition, MCC has conducted an Independent Verification and Validation (IV&V) assessment of the MCC Integrated Data Analysis System (MIDAS). The IV&V presented four options, which are currently under discussion, to maximize MCC's investment in the MIDAS tool going forward.

In September 2010, the MCC Board of Directors approved a conceptual redesign of the Threshold Program. New Threshold Programs will continue to support a country's commitment to policy reforms, but they will no longer be designed primarily to boost a country's indicator scores within a two to three year period. This adjustment maintains the program's policy focus while directly addressing a critical finding of the Threshold Program review. This review found that while policy indicators are useful proxies for comparing peer countries' performance in a range of policy areas to determine compact eligibility, they are not a satisfactory means of measuring program impact. MCC is currently working on the detail design and structure of the revised Threshold Program.

MCC agrees with the OIG's FY 2010 audit findings and recommendation related to the financial management and oversight of our partner countries. MCC acknowledges that issues raised in the FY 2010 audit will require better communication with our MCA counterparts, an increased understanding of the MCAs' activities and their effect on MCC's financial statements, additional training for both MCC and MCA staff, and improved financial reporting. MCC plans to establish a Task Force to review our current process, procedures, and reporting framework and develop recommendations to address the OIG's management challenges.

We agree with OIG's assessment that the unpredictable political environment in our partner countries will be an ongoing challenge for MCC management and the Board of Directors. MCC has established and utilized a policy and procedure to deal with political instability in partner countries that we believe effectively deals with these challenges as they arise. 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.

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 and Management Assurances. The FY 2010 Independent Auditor's report rendered a qualified opinion on MCC's financial statements and identified 3 material weaknesses. **Exhibit 20** provides a summary of the requirement for both the financial statement audit and management assurances.

Exhibit 20: Summary of Financial Statement Audit and Management Assurances

Fiscal Year 2010 Financial Statement Audit					
Audit Opinion	**Qualified**				
Restatement	**Yes – 2009 Comparative**				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Reporting Advance Payments	0	1	0	0	1
Compiling Accruals (Proper Reporting Periods)	0	1	0	0	1
Controls over MCA Activities	1	0	0	0	1
Total Material Weaknesses	**1**	**2**	**0**	**0**	**3**

Effectiveness of Internal Control over Financial Reporting					
Statement of Assurance	**Unqualified**				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Privacy Program	0	1	0	0	1
Total Material Weaknesses	**0**	**1**	**0**	**0**	**1**

Conformance with financial management system requirements					
Statement of Assurance	**Systems conform**				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
None cited	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**

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, 2010 AND 2009

AUDIT REPORT NO. M-000-11-001-C
November 15, 2010

WASHINGTON, DC

Office of Inspector General
for the Millennium Challenge Corporation

November 15, 2010

Mr. Daniel Yohannes
Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005-2221

Subject: Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Periods Ending September 30, 2010 and 2009
Report No. M-000-011-001-C

Dear Mr. Yohannes,

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, 2010. 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.*

The Independent Auditors expressed a qualified opinion on MCC's FY 2010 and 2009 Financial Statements. The report stated that the auditors discovered certain errors during the audits of the current year that resulted in understatements of previously reported advances as of September 30, 2009. Consequently, the financial statements as of September 30, 2009 were restated to reflect corrections to previously reported advances and the related effect on expenses.

The report also stated that MCC's process for compiling accruals was not comprehensive enough to record accruals for material amounts of current-year expenses not paid or invoiced until the subsequent period. While additional procedures were performed to compile such information for the FY 2010 statements, these procedures did not extend to FY 2009, which in the independent auditors' opinion, should have been included in accordance with accounting procedures generally accepted in the United States of America. FY 2009 expenses were understated by accrual amounts, and FY 2010 expenses were overstated by those same amounts.

In their opinion, except for the effects of insufficiently accruing for expenses reported in a subsequent period, as discussed in the preceding paragraph, MCC's financial statements for FY 2010 and FY 2009 present fairly, in all material respects, the financial position of MCC as of September 30, 2010 and 2009, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Cotton & Company , LLP reported the following deficiencies in MCC's internal control to be material weaknesses and the cause of qualified opinion:

1. Reporting Advance Payments.
2. Compiling Accruals (Proper Reporting Period).
3. Monitoring Controls over Millennium Challenge Accounts Activities.

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.

The auditors considered the following deficiencies in MCC's internal control to be significant deficiencies.

1. Reconciling Fund Balance with Treasury
2. Controls over Financial Reporting

The auditors did not note any instances of material non-compliance with laws and regulations.

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 were 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 15, 2010, 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 10, 2010.

Material Weaknesses

Reporting Advance Payments
We recommend that the MCC Division of Finance and Department of Compact Operations:

Recommendation No. 1: Modify the Payment Request Form (PRF) to specifically identify requests for advance payments to vendors.

Recommendation No. 2: Provide training to Fiscal Agents and other in-country personnel to explain how to properly record each line of the PRF based on supporting documents and how MCC financial statements are affected by MCA activities and transactions.

Compiling Accruals (Proper Reporting Period)
We recommend that MCC Division of Finance revise and strengthen its process for determining accruals required at yearend by implementing the following:

Recommendation No. 3: Establish a comprehensive methodology and/or standard process for obtaining, recording, and reporting yearend accruals which covers all MCAs and funds and include invoiced and rendered services which have not been recorded in the yearend trial balance.

Recommendation No. 4: Establish consistent communication with NBC and the MCAs for understanding the process and methodology developed.

Recommendation No. 5: Perform quality control procedures over amounts obtained and recorded. Review the amounts posted for reasonableness, accuracy, and completeness.

Monitor Controls over MCAs Activities

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

Performance of Timely and Complete MCA Audits
Recommendation No. 6: Implement a process for coordinating with MCAs, audit firms, and the OIG to ensure all parties are adequately informed of the progress of all audits to ensure that MCA audits are completed in accordance with the compact.

Recommendation No. 7: Establish and implement a process to ensure that MCAs prepare and make available for audit the status of advances to contractors, retention balances and data necessary for MCC to properly report its accruals.

Improper and Untimely Quarterly Reporting
We recommend that MCC Management and Department of Compact Operations:

Recommendation No. 8: Establish and implement a process to ensure that all personnel responsible for QFRs to guide them to submit accurately prepared and properly approved QFRs and Disbursement Requests in a timely manner.

Recommendation No. 9: Establish and implement a process to ensure that funds are periodically reviewed to determine if MCAs should submit final QFRs to record deobligations for funds no longer needed.

Inadequate Oversight of 609(g)-Funded Transactions

Recommendation No. 10: We recommend that MCC Department of Compact Operations coordinate with appropriate management levels to implement a formal process for administering 609(g) funds in all countries not managed by either MCC or an MCA.

Recommendation No. 11: We recommend that MCC Department of Compact Operations, in coordination with the Division of Finance monitor on a quarterly basis the cumulative obligation and disbursements of all countries that have received 609(g) funds and communicate with the MCAs to determine if there is still an immediate need to maintain excess 609(g) funds that have not been disbursed. The input from MCC Department of Compact Operations must be documented. Deobligate 609(g) funds that are no longer considered an immediate need to the MCA/Partnering Country.

Recommendation No. 12: We recommend that MCC Department of Compact Operations strengthen its CPS Signature Card process to include a MCC authorizing signature, effective and termination dates, to include an annual or other periodic review process between MCC, its financial service provider, and the MCAs to ensure that signature cards are kept on file for only active users of its CPS payment requesting system.

Inadequate Processing of Closed Programs:
We recommend that the MCC management and Department of Compact Operations:

Recommendation No. 13: Develop policies and procedures for Program Closure of Compacts that have been suspended or terminated to ensure that programs, activities, and assets are properly accounted for, and final disposition is reported to MCC.

Recommendation No. 14: Establish guidelines for Fiscal Accountability Directors, Fiscal Agents, as well as personnel in the Division of Finance and MCC's financial services provider to make them fully aware of any restrictions to process payments made during a program or compact close-out period.

Significant Deficiencies

Reconciling Fund Balance with Treasury
Recommendation No. 15: We recommend that the MCC Division of Finance continue to follow USAID's progress toward elimination of cash balance differences between USAID and Treasury and timely clearing of suspense account items in order to monitor MCC's risk of potential misstatements.

Control over Financial Reporting:
We recommend that the MCC Division of Finance:

Recommendation No. 16: Strengthen its quality reviews over financial statements to validate that information presented is accurate, complete, and complies with accounting standards and reporting guidance.

Recommendation No. 17: Establish quality control procedures to document during the review process any discrepancies, errors, and other anomalies that have occurred to provide an audit trail of issues that may require on-top adjustments.

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 been reached on all 17 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 at (202) 216-6962, if you have any questions concerning this report.

Sincerely,

Alvin A. Brown
Assistant Inspector General
Millennium Challenge Corporation

TABLE OF CONTENTS

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Inspector General
United States Agency for International Development

Board of Directors
Millennium Challenge Corporation

INDEPENDENT AUDITOR'S REPORT

We have audited the Balance Sheets of the Millennium Challenge Corporation (MCC) as of September 30, 2010 and 2009, 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 audits.

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) audit guidance. These standards require that we plan and perform the audits 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.

As more fully described in Note 10 to the above-referenced statements, we discovered certain errors during our audits of the current year that resulted in understatements of previously reported advances as of September 30, 2009. Accordingly, the Balance Sheet as of September 30, 2009, and related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the year then ended have been restated to reflect corrections to previously reported advances and the related effect on expenses.

In addition, MCC's process for compiling accruals was not comprehensive enough to record accruals for material amounts of current-year expenses not paid or invoiced until the subsequent period. While additional procedures were performed to compile such information for the FY 2010 statements, these procedures did not extend to FY 2009, which, in our opinion, should have been included in accordance with accounting principles generally accepted in the

United States of America. FY 2009 expenses were understated by accrual amounts, and FY 2010 expenses were overstated by those same amounts.

In our opinion, except for the effects of insufficiently accruing for expenses reported in a subsequent period, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of MCC as of September 30, 2010 and 2009, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis (MD&A) and Other Accompanying Information sections is not required as part of the basic financial statements. 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 audits. 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 15, 2010, 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 15, 2010
Alexandria, Virginia

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Board of Directors
Millennium Challenge Corporation

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

We have audited the Balance Sheets of the Millennium Challenge Corporation (MCC) as of September 30, 2010 and 2009, 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 15, 2010. 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) audit guidance.

In planning and performing our audits of MCC's financial statements as of and for the years ended September 30, 2010 and 2009, in accordance with auditing standards generally accepted in the United States of America, we considered MCC's internal control over financial reporting (internal control) as a basis for designing our auditing 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 MCC's internal control. Accordingly, we do not express an opinion on the effectiveness of MCC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis.

We consider the following deficiencies in MCC's internal control to be material weaknesses.

3. **Reporting Advance Payments.** MCC improperly recorded advance payments as expenses and therefore did not perform appropriate liquidation procedures. These errors resulted in expenses being overstated by material amounts in the current and prior fiscal years. As a result, Fiscal Year (FY) 2009 financial statements were restated.

4. **Compiling Accruals (Proper Reporting Period).** MCC's process for compiling accruals was not comprehensive enough to sufficiently accrue for material amounts of current-year expenses that were not paid or invoiced until the subsequent period. While additional procedures were performed to compile such information for the FY 2010 statements, these procedures did not extend to FY 2009. This caused FY 2009 statements to be understated by accrual amounts, and FY 2010 statements to be overstated by those same amounts.

5. **Monitoring Controls over MCA Activities.** MCC lacks sufficient controls over mission activities to ensure timely and accurate reporting of transactions and balances. We noted untimely completion of Millennium Challenge Account (MCA) audits, inadequate oversight of 609(g) funds, untimely quarterly reporting, and inadequate processing of closed programs. The combination of these weaknesses increases MCC's risk of inaccurate, incomplete, and untimely reporting of MCA activities.

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.

We consider the following deficiencies in MCC's internal control to be significant deficiencies.

6. Reconciling Fund Balance with Treasury

7. Controls over Financial Reporting

MATERIAL WEAKNESSES

1. REPORTING ADVANCE PAYMENTS

MCA coded prepayments to vendors as expenses instead of as advances. During our tests of controls over 87 expense transactions recorded in MCC's general ledger as of June 30, 2010, we identified three MCAs that submitted a total of seven invoices for "expense" payments to vendors rather than correctly reporting them as "advance" payments for future expenses. These seven transactions totaled $40 million. We expanded audit tests to include all MCAs to identify other such instances. Results of those tests revealed that MCAs submitted $216 million in advance payments to vendors since FY 2008. Of this, $60 million has been liquidated based on services provided to date.

Advance payments from MCAs are to be reported by an indication on the Payment Request Form (PRF) with a project and activity code of "NA NA." Related liquidations of those advances are to be reported quarterly on the Quarterly Financial Report (QFR). MCAs are aware that these payments are advances; supporting invoices clearly indicate "pre-payment/advance," and MCAs track such information in their own accounting records. It appears, however, that MCAs code payments as regular expenses on PRFs, because specific project and activity codes were known at the time of the advance, and payments were sent directly to vendors versus MCA's permitted account. This practice was started when the Common Payment System (CPS) was instituted, and payments could be submitted directly to vendors. Before this, all funds were provided to MCAs as an advance.

Improper recording of advance payments and lack of appropriate liquidation caused expenses to be overstated by $18 million, $53 million, and $83 million in FYs 2008, 2009, and 2010, respectively. To correct these errors, MCC has restated its FY 2009 financial statements for the effects of both FY 2008 and 2009 and made appropriate adjustments to the FY 2010 financial statements.

Recommendation. We recommend that the MCC Division of Finance and Department of Compact Operations:

- Consider modifying the PRF to specifically identify requests for advance payments to vendors.

- Provide training to Fiscal Agents and other in-country personnel to explain how to properly record each line of the PRF based on supporting document and how MCC financial statements are affected by MCA activities and transactions.

2. COMPILING ACCRUALS (PROPER REPORTING PERIOD)

MCC's process for compiling accruals was not comprehensive enough to sufficiently accrue for significant current year expenses. As a result, expenses for goods and services received and performed were not recorded in the proper period. This is a repeat finding from previous-year audits, which cited that MCC's accrual processes were not sufficient to identify and compute amounts owed, but not paid, in the appropriate period. In FY 2010, MCC continued its process of contacting its vendor, National Business Center (NBC), for a listing of invoices and payment requests received but not paid, and requested that the information include the first 12 days of FY 2011.

During our review of accruals recorded at yearend, we noted that some payment requests made on or before October 12, 2010 were not accrued, and other significant payments were requested within a few days of October 12, 2010. We determined that these payments were for FY 2010 services. Based on our sample testing, we identified unrecorded accruals for FY 2010 expenses reported in FY 2011 that resulted in understated expenses for compact funds of $11 million in known amounts and $873,000 in likely amounts. In addition, our review noted that accruals were not recorded for anticipated expenses incurred but not yet invoiced, payments made to U.S. vendors, 609(g) and Compact Implementation Funds (CIF), compact funds for two MCAs, and liquidations of advances for two additional MCAs.

Also, MCC retained amounts withheld from vendor payments on large construction-type contracts in its compact countries. MCC was unaware of these retained amounts being held and the need to record them as expenses incurred in the year of retention. Because these retained fees were incurred at the time of invoicing, but not paid until a later date, an accrual must be recorded to match the expense with the period in which it was incurred. With respect to retained fees that should have been accrued for invoices received as of September 30, 2010, we noted that expenses were understated by $26 million in FY 2010. The FY 2009 amount accrued should have been $9 million.

Statements of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government* (Paragraphs 22 and 23), states:

> *…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.*

Further, OMB Circular A-136, *Form and Content of the Performance and Accountability Report (PAR)*, *Balance Sheet,* Section III.3.4, *Liabilities,* states that:

> *…liabilities shall be recognized when they are incurred regardless of whether they are covered by available budgetary resources.*

In the FY 2009 audit report, we recommended that MCC ensure that all countries, types of funding, and programs be considered when recording accruals. We further recommended that MCC communicate procedures to MCAs to require 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. No such communication was made to the MCAs.

Upon notification of such material omissions and auditor adjustments, MCC made additional inquiries to obtain better data and adjusted the FY 2010 statements for an additional $95 million. Based on these adjustments, it was noted that amounts were not accrued for FY 2009 in the same fashion. As a result, FY 2009 expenses were understated, and FY 2010 expenses overstated for work performed in FY 2009 but not reported or accrued in the FY 2009 statements. For this reason, we qualified our opinions on both fiscal years.

Recommendation. We recommend that MCC Division of Finance revise and strengthen its process for determining accruals needed at yearend by implementing the following:

- Establish a comprehensive methodology and/or standard process for obtaining yearend accruals which covers all MCAs and funds. Ensure that accruals include invoiced and rendered services which have not been recorded in the yearend trial balance.

- Establish consistent communication with NBC and the MCAs to ensure a clear understanding of the process and methodology developed.

- Perform quality control procedures over amounts obtained and recorded to ensure that amounts posted are properly reviewed for reasonableness, accuracy, and completeness.

- Ensure that current and prior year financial statements are fairly stated as it relates to accruals recorded.

3. Monitoring Controls over MCA Activities

Most activities and expenses occurred in the Compact and Threshold programs. As such, controls in the mission countries must be adequately designed and operating effectively. Also, MCC must be actively monitoring controls to gain sufficient assurance over activities taking place and reliance of financial information being reported.

While we identified improvements related to complete and timely submission of documentation from the missions and accurate reporting of re-disbursements on quarterly financial reports, weaknesses continued through untimely performance and lack of monitoring of MCA audits. This was identified in the prior-year report and is discussed under Item A, below.

We also identified other weaknesses related to mission activities regarding:

- Improper and Untimely Quarterly Reporting (Item B, below)
- Inadequate Oversight of 609(g)-fund Transactions (Item C, below)
- Inadequate Processing of Closed Programs (Item D, below)

The combination of these weaknesses increases MCC's risk of inaccurate, incomplete, and untimely reporting of MCA activities. Each area is detailed below.

A. Untimely Performance of MCA Audits

This is a repeat finding from the prior year. Audits of controls, transactions, and balances of MCA entities were not completed, submitted to the Office of Inspector General (OIG), or issued in a timely manner. While we identified some improvements in the monitoring of these audits by management, the results of untimely completion remain.

As a major component of internal control over the MCAs, MCC required audits to be conducted on a semiannual basis for the six months ending December and June of each year. Audit results give MCC some assurance over the effectiveness and accuracy of MCA controls and transactions, because supporting documentation for transactions reported are not reviewed or maintained by MCC or its service provider. Instead, MCC relied on approved advance, disbursement, and payment request documents submitted by MCA personnel.

We inquired of MCC management and the OIG as to the status of MCA audits. The status of audits for the 6 months ending December 31, 2009, is summarized below. Audit reports were due by March 31, 2010.

Of 18 MCAs that had entered into force and were due for audit:

- Three audit reports are past due.

- One audit report was rejected by the OIG due to concerns over audit procedures.

- The audit period for one MCA was extended and will be combined with the June 2010 audit.

- Five audit reports were submitted to the OIG and are currently under review. Only one of these reports was submitted timely, others were submitted in July and August.

- Eight audit reports were issued by the OIG (all were issued in June, August, and September 2010, after the March 31 due date). Only three of these reports were initially submitted to the OIG by the March 31 due date.

The status of audits for the 6 months ending June 30, 2010, in which audit reports were due by September 30, 2010, are summarized below.

Of 17 MCAs that had entered into force and were due for audit:

- Nine audit reports are past due.

- Five audits were extended and will be included in the December 2010 audit. Extensions relate to delayed start of current period audits, untimely procurements, and issues with auditors.

- Three audit reports were submitted to the OIG and are under review. Two were received by the September 30 due date, and one was received on October 1.

- No audits have been issued as final by the OIG as of September 30.

Outstanding audit reports for the period ending June 30, 2010, which cover two quarters of FY 2010 activity, will now be received well after the current fiscal period, and will not be useful in MCC's assessment or assurance of MCA's FY 2010 activities.

Audit reports 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. OIG comments, which can delay audit report issuance, have related 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 MCA auditors.

OIG's *Guidelines or Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities* (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… are performed in a timely manner;…* (§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)…* (§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).

Lack of accurate and timely audit processing (including procurement, execution, and submission of reports) increases MCC's risk of not knowing, in a timely manner, the effectiveness and accuracy of MCA activities in regards to costs incurred, transactions recorded, and existence of underlying support.

Recommendation. We recommend that the MCC Department of Compact Operations and Division of Finance:

- Continue to actively monitor the MCA audit process, from procurement and start of the audit through issuance of the audit report to ensure timely completion and sufficient time for OIG review and MCC consideration of any impact on its financial reporting.

- Continue active communication with MCAs, audit firms, and the OIG to ensure all parties are adequately informed of the progress of all audits.

- Ensure that MCAs and respective auditor firms understand the importance of timely and complete audits and how they affect MCC's assessment and reliance of overall MCA controls.

B. Improper and Untimely Quarterly Reporting

MCAs did not submit QFRs and Disbursement Requests properly or in a timely manner. We reviewed QFRs for all funds from a sample of 5 of MCC's 18 active MCAs and noted the following:

- FY 2010 Quarterly Disbursement Requests and QFRs were not received for:
  - MCA-Benin's CIF (last reporting was FY 2006).
  - MCA-Namibia's 609(g) funds (last reporting was FY 2009).

- MCA-Burkina Faso did not submit Disbursement Requests in a timely manner for its 609(g), CIF, and Compact funds during FY 2010.

- MCA-Lesotho submitted its Compact fund Disbursement Requests without formal signatures of appropriate MCA personnel, including the Fiscal Agent who assists in its preparation. Instead, MCA personnel waited until all documents were vetted, revised and resubmitted, and approved by MCC before submitting a request to the MCA Board for formal approval, which is not the standard process.

- MCA-Lesotho's Resident Country Director did not formally or timely document his approval of quarterly submissions.

- MCA-Mongolia and MCA-Namibia submitted some FY 2010 quarterly reports with incorrect Compact or CIF numbers.

We also noted during our review of Compact and CIF funds for MCA-Burkina Faso, which are administered by United States Agency for International Development (USAID), that QFRs were not submitted to MCC in a timely manner for all of FY 2010. Upon notification by the auditors, the QFRs were requested, and liquidations against this advance were posted in the amount of $11.8 million.

MCC's Financial Management Policies and Procedures (FMPP) on Compact Management (as updated in A&F-2007-77.2 received during FY 2010 audit) states the following:

> *The Accountable Entity is required to submit a QFR at least every fiscal quarter even if no additional cash is to be requested. In addition, separate QFRs are due for 609(g) funds and for funds provided under other mechanisms (e.g. Compacts) when both are disbursed in the same period. QFRs are due to MCC twenty (20) calendar days prior to end of the quarter (§5.3).*
>
> *The Disbursement Request, which is completed by the Accountable Entity team and Fiscal Agent, details the requested budgeting authority to cover the projected disbursements made through CPS during the next quarter (§5.4).*

FMPP further details responsibilities of the Accountable Entity Designated Officials and Fiscal Agents to jointly prepare and submit QFRs and Disbursement Requests to Transaction Team Leadership (§6.5; 6.7).

MCAs did not submit final QFRs to report final disbursement amounts when fund use was completed. This precludes MCC from properly and timely deobligating any unneeded funds. Untimely receipt of QFRs and Disbursement Requests, including those not properly approved, increases the risk to MCC that current-year transactions and accruals are inaccurate or incomplete.

Recommendation. We recommend that MCC management and Department of Compact Operations:

- Ensure that all personnel responsible for QFRs adhere to requirements to submit accurately prepared and properly approved QFRs and Disbursement Requests in a timely manner.

- Ensure that funds are periodically reviewed to determine if MCAs should submit final QFRs to record deobligations for funds no longer needed.

C. Inadequate Oversight of 609(g)-Fund Transactions

MCC's original intent was to manage 609(g) funds provided for countries and ultimately have oversight of all transactions and underlying support until an MCA was established, and a Compact was issued and entered into force. Processes have evolved, and MCC has allowed some countries with only an established Millennium Challenge Unit (MCU), rather than an MCA, to manage their own 609(g) funds, referred to as "country managed."

This new process did not always include MCC involvement and/or review of underlying invoices for reported expenses for MCAs. Thus, MCC management did not review these transactions until they were included in the agency's annual financial statement audit, because MCA audits do not occur without an MCA in place.

We identified other matters during our review of policies and procedures over 609(g) funds:

- Controls over approvals of vendor invoices and related payments for country-managed funds were established, but were not adequately or formally documented or shared with relevant personnel.
- Countries with the ability to approve their own invoices did not clearly document those approvals and authorizations to pay.
- The Fiscal Accountability Director and Assistant Chief Financial Officer (CFO) did not document their approvals of PRF submitted by in-country persons for vendor payments via CPS.
- Names and signatures on PRFs submitted for two sampled items did not match MCC CPS Signature Cards on file for the country.
- Sampled CPS Signature Cards did not have effective dates or MCC signatures ensuring card validity before being sent to NBC.

In addition, during our review of balances as of March 31, 2010, we identified several countries with active compacts that had 609(g) balances for which disbursements had not been made for one or more fiscal years. MCC Compact personnel did not adequately review aged obligations for countries with 609(g) funds to determine if "an immediate need" still existed. At yearend, we noted disbursement activity for some funds, while others were deobligated.

FMPP, Section 210, *Policies and Procedures on Authorizing and Recording Commitments and* Obligations, states:

> *MCC ensures that obligated funds are de-obligated when an obligating or authorizing official determines that the funds are no longer needed. … At the end of each quarter, MCC's DCFO initiates and coordinates a 1311 Review of Open Obligations for…609(g) and audit funds to identify and de-obligate any excess or unneeded balances. … In addition to the quarterly review of open obligations led by the DCFO, authorizing and obligating officials are required to routinely monitor and review unexpended obligated balances for which they are responsible to ensure that balances are de-obligated when no longer needed* (§6.2, *Review and De-Obligation of Unliquidated Obligations;* §5.2 in draft FMPP of same name).

Government Accountability Office's (GAO) *Internal Control Standards for the Federal Government*, GAO/AIMD-00-21.3.1 (11/90), states:

> *Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations.*

The MCC Fiscal Accountability Director for one country documented a cursory set of desk procedures for entities for which funds are country-managed. This procedures document was not, however, vetted through any formal process, and it was not a shared document, thereby preventing other Fiscal Accountability Directors from using the same procedures for the same or similar processes.

The failure to have a prescribed set of procedures for 609(g) administration creates the risk that each country will be managed by a different set of guidelines, and that sufficient controls may not be in place to ensure proper approval and request of vendor invoices and payments and accurate reporting of transactions to MCC.

Recommendation. We recommend that MCC Department of Compact Operations coordinate with appropriate management levels to implement a formal process for administering 609(g) funds in all countries not managed by either MCC or an MCA.

We further recommend that MCC Department of Compact Operations, in coordination with the Division of Finance:

- Monitor on at least a quarterly basis obligations and disbursements of all countries that received 609(g) funds and communicate with the MCAs to determine if immediate needs still exist to maintain excess 609(g) funds that have not been disbursed within a period of 9 months or more and deobligate 609(g) funds no longer considered an immediate need to the MCA/Partnering Country.

- Strengthen its CPS Signature Card process to include an MCC authorizing signature, effective and termination dates, and annual or other periodic review process for MCC, its financial service provider, and the MCAs to ensure that signature cards are kept on file for only active users of the CPS system.

D. Inadequate Processing of Closed Programs

MCC did not have a comprehensive close-out process for its compacts and other programs, specifically those terminated or suspended. MCA-Madagascar was formally terminated August 31, 2009, after which MCC Fiscal Accountability worked with MCA Fiscal Agents to determine a timeline for the audit and for processing payments. During our review of this program that ended in August 2009, we noted the following during the “wind-up” period:

- The audit performed in-country did not encompass the entire compact activity period or any period involving wind-up activities. The last audit covered the period January 1 to September 30, 2009, whereas wind-up activities were not scheduled to end until December 3, 2009.

- The detailed cash management plan did not allow for administrative wind-up activities that might occur after the December 3, 2009, period, and it did it not mention the provision for payment to the auditor for the final audit period or final payments to the Fiscal and Procurement Agents.

- The detailed cash management plan did not provide for balances remaining on MCC's general ledger for outstanding advances and undelivered order balances.

- QFRs were not submitted for MCA-Madagascar since August 14, 2009.

- Budget authority was appropriately established and approved for the period ending December 3, 2009, although three PRFs were submitted to NBC for payment after this date.

MCC's *Guidelines for the Program Closure of Millennium Challenge Compacts*, effective September 8, 2009, do not provide for terminated or suspended programs, instead stating that specific guidelines can be applied to any of the closed programs. The final disbursement period should be extended to include an additional 60 days to ensure that valid invoices received after the Closure Period can be submitted and paid, and, if the spending authority is not sufficient to cover expenses after that period, then additional spending authority must be requested and approved (§5.7.3, Spending Authority for Final Disbursement Period, and §5.7.5, Cash Flow Management). When all disbursements have been made during the specified Closure Period, the final QFR should be submitted to report actual expenditures. Due to timing of the Closure Period and audit end dates, special arrangements should be made for final payment to the audit firm (§5.10.4, Final Financial Audit).

Finally, MCC's *Financial Management Policies and Procedures for Compact Management*, as well as its instructions for submitting QFRs, discusses requirements for submitting QFRs for each quarter that funds are maintained for a compact, whether activity has occurred or not, until a final QFR is submitted (A&F-2007-77.2, §5.3).

As a result of not having and/or adhering to comprehensive close-out procedures:

- Payments were processed after budgeted authority expired.

- MCC Division of Finance was unable to determine if expenses needed to be accrued or liquidations posted, because it did not have interim and final QFRs.

- MCC is at risk for funds being used for expenses that would not be considered allowable under a fully documented Compact Closure Plan.

Recommendation. We recommend that MCC management and Department of Compact Operations:

- Develop policies and procedures for Program Closure of Compacts that have been suspended or terminated to ensure that programs, activities, and assets are properly accounted for, and final disposition is reported to MCC.

- Ensure that Fiscal Accountability Directors, Fiscal Agents, as well as personnel in the Division of Finance and MCC's financial services provider are fully aware of any restrictions to process payments made during a program or compact close-out period.

SIGNIFICANT DEFICIENCIES

4. Reconciling Fund Balance with Treasury

USAID administers the Threshold Program for MCC, and Phoenix is the accounting system of record. Many of USAID's cash balances at Treasury for individual appropriations are different from cash balances in the accounting system for those appropriations. During the review of internal controls, we noted that USAID was granted a waiver from Treasury to temporarily post transactions to the suspense account. USAID has not, however, complied with Treasury's requirement that transactions be taken out of the suspense account and accurately posted within 60 days. Balances in the USAID suspense account are significant and are not cleared and recorded to the correct appropriation in a timely fashion. USAID's suspense aging report includes amounts from prior fiscal years.

The Treasury Financial Manual (TFM), *Preparing FMS 224*, Paragraph 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.*

Paragraph 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.*

USAID cash balances recorded in Phoenix do not tie to balances reported by Treasury. These differences are caused by prior-year mistakes when USAID recorded outlays in a different appropriation than Treasury did and by timing differences. The existence of old transactions that have not been cleared from the suspense account is caused by a lack of monitoring in prior years and an ongoing difficulty with matching incoming and outgoing suspense transactions. Untimely reconciliation of balances in the suspense account presents a risk of potential misstatements to the Fund Balance with Treasury line item.

Recommendation. We recommend that the MCC Division of Finance continue to follow USAID's progress toward elimination of cash balance differences between USAID and Treasury and timely clearing of suspense account items in order to monitor MCC's risk of potential misstatements.

5. Controls over Financial Reporting

This is a repeat finding from prior-year audits. MCC needs to continue to strengthen its quality control procedures over financial information presented to ensure accuracy and completeness. In addition, these quality control procedures should be adhered to ensure the “quality” of information over the “timeliness” of information. Although MCC has improved its review process, with documentation of its review by the Assistant CFO and the Deputy CFO, review procedures are still insufficient, and a process does not exist for documenting and correcting errors in a timely manner. As a result, adjustments are not being made promptly, and an audit trail does not exist to identify these issues.

We noted the following deficiencies in the preparation and review of quarterly and yearend financial statements:

- There was a $30 million overstatement in the second-quarter trial balance as the result of a posting error to the Appropriations Received account. MCC stated that is knew about this material misstatement, but submitted the resulting statements to OMB and its auditor without correction or notification.

- An on-top adjustment from the prior-year audit was omitted from budgetary accounts, resulting in understated recoveries of prior-year obligations. MCC failed to account for all prior-year adjustments to ensure proper balances in the current year when preparing its second-quarter statements.

- Although not material in nature, we identified differences in comparing proprietary expenses and budgetary expended authority in the second and third quarters, respectively.

- The manual nature of the Excel spreadsheet used to prepare the financial statements lends itself to human error and extensive posting and tracking of adjustments. In addition, one person is responsible for preparing the spreadsheet, and quality control procedures do not include a review and agreement of information in the trial balance to the notes.

- In an effort to meet due dates and submit timely statements and notes, MCC did not complete its established quality control process before submitting draft yearend statements and notes. This process involves reviewing notes and other financial information in the financial statement package for accuracy and consistency with financial statement and trial balance information. We identified mathematical errors, incorrect prior-year balances, and inconsistent information.

- MCC lacks sufficient communication with the MCAs to ensure that they understand the impact of their transactions on MCC’s financial statements and provide information that is complete, accurate, and sufficient for MCC’s accrual reporting.

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.

Recommendation. We recommend that the MCC Division of Finance:

- Continue to strengthen its quality control reviews over financial statements to ensure that information presented is accurate, complete, and complies with accounting standards and reporting guidance.

- Establish quality control procedures to document during the review process any discrepancies, errors, and other anomalies that have occurred to provide an audit trail of issues that may require on-top adjustments.

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

MCC's management comments to recommendations are in the appendix to this report. We did not audit MCC's response and, accordingly, we provide no opinion on it.

This report is intended solely for the information and use of USAID, MCC management, and 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

Colette Y. Wilson

November 15, 2010
Alexandria, Virginia

APPENDIX
MANAGEMENT COMMENTS

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Memorandum

Date: November 12, 2010

To: Alvin A. Brown
Assistant Inspector General
Millennium Challenge Corporation

From: Victoria B. Wassmer, Vice President
Millennium Challenge Corporation
Department of Administration and Finance

Subject: Management Response to Draft Independent Auditor's Report on MCC's Financial Statements for Fiscal Years Ended September 30, 2010 and 2009.

We have received the subject draft report and note that the independent auditors, Cotton & Company, LLP, have issued a narrow qualified opinion on our principal financial statements. The qualification and related material weakness, which also affected our FY 2009 opinion, primarily relates to the accuracy of accruals for work not paid or invoiced until the subsequent period.

We at the Millennium Challenge Corporation (MCC) take our fiduciary responsibilities very seriously. Our team has been moving aggressively to ensure accountability, effective stewardship and transparency regarding the resources entrusted to MCC. Our goal is to provide sound financial management, financial reporting and internal control systems that will help ensure successful implementation of programs for sustainable poverty reduction through economic growth. We initiated a variety of aggressive actions in FY 2010 to address internal controls and other issues.

Now, in addition, MCC management is currently organizing a Task Force to quickly and effectively address the material weaknesses raised in the FY 2010 audit. The joint Task Force of the Department of Administration and Finance (A&F) and the Department of Compact Operations (DCO) will be working with key stakeholders, including Millennium Challenge Account (MCA) country entities, to:

(1) Analyze and revise current processes, procedures, and reporting related to the financial management and oversight of our partner countries' activities for accuracy, consistency, and shared agreement on how and why we need to address issues arising in large part from the different cash and accrual methods used by MCAs and MCC, respectively, and

(2) Develop and provide training to implement detailed corrective action plans with milestone dates to implement Task Force recommendations.

Any questions may be addressed to Mr. Dennis Nolan, Deputy Chief Financial Officer, or to me.

MCC management also offers these responses to the five areas of audit recommendations made by the Assistant Inspector General, Millennium Challenge Corporation.

1. Material Weakness: Reporting Advance Payments

MCC concurs with the OIG recommendation to "modify the Payment Request Form (PRF) to specifically identify requests for advance payments to vendors." In addition, A&F will work with the Office of the Inspector General (OIG) to modify the existing scope of semi-annual MCA audits to include audit procedures to verify the accuracy and completeness of amounts coded as advances on PRFs.

MCC also concurs with the OIG recommendation that MCC "provide training to Fiscal Agents and other in-country personnel to explain how to properly record each line of the PRF" and to ensure shared understanding of the necessity and importance." Through the Task Force mentioned earlier, MCC will ensure the requirement for advance payments to vendors be clearly identified, appropriately recorded in the accounting system and supported by documentation as part of the training for both MCC and MCA staff as needed.

2. Material Weakness: Compiling Accruals (Proper Reporting Period)

MCC concurs with the OIG recommendation to "revise and strengthen its process for determining accruals needed at year-end by establishing a comprehensive methodology and/or standard process for obtaining, recording and reporting year-end accruals which cover all MCAs and funds and include invoiced and rendered services which have not been recorded in the year-end trial balance." MCC has already implemented a new year-end procedure and will build in further changes and necessary steps to ensure that both quarterly and year-end accruals are complete.

MCC extended its FY 2010 cut-off to 12 days for invoices received but not paid in response to accrual related issues raised in the FY 2009 audit. Based on the accrual-related issues raised in the FY 2010 audit, MCC's new procedure to develop quarterly and year-end accruals for financial statement reporting entailed working directly with the Fiscal Agents, Procurement Directors, and other staff at the MCAs to obtain quarterly and year-end accrual reporting for: (1) invoices received but not paid, (2) work completed but not billed, (3) retention payments, and (4) country-managed 609(g) agreements.

In addition, MCC will be recalculating our FY 2009 expense accrual using the methodology described above to correct any errors in the beginning balances on our FY 2010 financial statements. Finally, MCC will institute regular communication with MCA staff to ensure that accruals are comprehensive, and reflect all activities that are occurring in country as part of compact implementation.

MCC also concurs with the recommendation to "establish consistent communication with NBC and the MCAs and establish a process to ensure a clear understanding of process and methodology developed." Through the Task Force mentioned earlier, MCC will ensure that the methodology for obtaining, recording, and reporting accruals is part of the training for both MCC and MCA staff as needed.

MCC also concurs with the recommendation to "perform quality control procedures over amounts obtained and recorded to ensure that amounts posted are properly reviewed for reasonableness, accuracy, and completeness." A&F also will work with the OIG to modify the existing scope of semi-annual MCA audits to include audit procedures to verify the accuracy and completeness of the data provided by the MCAs to calculate accruals. In conjunction with the semi-annual audits, A&F will also institute a process to sample MCA invoices and other documentation to verify the completeness and accuracy of accruals.

3. Material Weakness: **Monitoring Controls over Mission Activities**

MCC concurs with the recommendation to "implement a process for coordinating with MCAs, audit firms, and the OIG to ensure all parties are adequately informed of the progress of all audits, and that the audits are completed in accordance with the compact." MCC has developed a reporting system to track the status of all MCA audits. As noted by our auditors, there has been considerable progress on eliminating the backlog of past due audits. MCC will continue its monitoring of the MCA audit program, and will work closely with the OIG to implement additional remedial actions or changes designed to improve the audit program.

In FY 2010 MCC implemented certain measures to improve timeliness of the MCA audit program; however, their full effect has not been realized. OIG's increase in staffing on the MCA audit program will also assist in alleviating a backlog in the audit report approvals process. MCC's Compliance Officer in conjunction with the Fiscal Accountability Directors in DCO will conduct monthly audit status meetings with OIG to ensure that issues related to the completion of MCA audits are addressed timely.

MCC also concurs with the recommendation to "establish and implement a process to ensure that MCAs prepare and make available for audit the status of advances to contractors, retention balances and data necessary for MCC to properly report its accruals." A&F will work with the OIG to modify the existing scope of semi-annual MCA audits to include audit procedures to verify the accuracy and completeness of the data provided by the MCAs to calculate advances, retention payments, and accruals.

MCC also concurs with the recommendation to "establish and implement a process to ensure that all personnel responsible for QFRs understand how to submit accurately prepared and properly approved QFRs and Disbursement Requests in a timely manner." Through the Task Force mentioned earlier, MCC will review and revise existing processes to ensure that quarterly reporting requirements are met.

In addition, A&F has developed a QFR scorecard to track the status of all required QFRs for all funds. The scorecard will be distributed weekly to MCC senior management for follow-up actions on delinquent QFRs.

MCC also concurs with the recommendation to "establish and implement a process to ensure that funds are periodically reviewed to determine if MCAs should submit final QFRs to record deobligations for funds no longer needed." This recommendation has already been implemented. A&F performs a semi-annual review of all open obligations which includes all fund types. This process is outlined in the Financial Management Policies and Procedures for Authorizing and Recording Commitments and Obligations issued in September 2010.

MCC also concurs with the recommendation to "implement a formal process for administering 609(g) funds in all countries not managed by MCC or MCA."
MCC has developed operating procedures regarding the management of 609(g) funds when the Fiscal Agent has not been selected and mobilized. These procedures will be formalized and incorporated in MCC's Financial Management Policies and Procedures.

MCC also concurs with the recommendation to "monitor on quarterly basis the cumulative obligation and disbursements of all countries that have received 609(g) funds and communicate with the MCAs to determine if there is still an immediate need to maintain excess 609(g) funds that have not been disbursed." This recommendation has already been implemented. A&F performs a semi-annual review of all open obligations which includes all fund types. This process is outlined in the Financial Management Policies and Procedures for Authorizing and Recording Commitments and Obligations issued in September 2010.

MCC also concurs with the recommendation to "strengthen its Common Payment System (CPS) Signature Card process to include an MCC authorizing signature, effective and termination dates, and annual or other periodic review process for MCC, its financial service provider, and the MCAs to ensure that signature cards are kept on file for only active users of the CPS system." A&F, in coordination with DCO, will strengthen the CPS Signature Card process to include a MCC authorizing signature, effective and termination dates, and include at a minimum, a quarterly review of the CPS process and update the CPS manual to include the revised controls.

MCC also concurs with the recommendation to "develop policies and procedures for Program Closure of Compacts that have been suspended or terminated to ensure that programs, activities, and assets are properly accounted for, and final disposition is reported to MCC." A&F and the DCO will review the existing *"Guidelines for the Program Closure of MCC Compacts"* to ensure that it is inclusive of policies and procedures for suspended and/or terminated compacts.

MCC also concurs with the recommendation to "establish guidelines for Fiscal Accountability Directors, Fiscal Agents, as well as personnel in the Division of Finance and MCC's financial services providers to make them fully aware of any restrictions to process payments made during a program or compact close-out period." A&F and the DCO will review the existing *"Guidelines for the Program Closure of MCC Compacts"* to ensure that it is inclusive of policies and procedures related to budget authority and required authorizations for the expenditure of funds during and after the compact close-out period. The Guidelines will be communicated to all responsible parties.

1. Significant Deficiency: Reporting Fund Balance with Treasury

MCC concurs with the recommendation to "continue to follow USAID's progress toward elimination of cash balance differences between USAID and Treasury and timely clearing of suspense account items in order to monitor MCC's risk of potential misstatements." A&F will continue to inquire each quarter (in conjunction with USAIDs preparation and delivery of MCC Threshold trial balances) of USAID's progress towards elimination of cash balance differences between USAID and Treasury and timely clearing of suspense account items in order to monitor MCC's risk of potential misstatements.

USAID Response: USAID has control over current transactions but was not able to eliminate the backlog of old differences. USAID expects that the improvements we made in our systems for controlling cash, especially for DHHS, and suspense will enable us to keep current transactions under control for 2011 and give us time to clear up a substantial portion of our old differences.

2. Significant Deficiency: Controls Over Financial Reporting

MCC concurs with the recommendation to "continue to strengthen its quality control reviews over financial statements to ensure that information presented is accurate, complete, and complies with accounting standards and reporting guidance." MCC implemented a further refinement to its quality control reviews over financial reporting--the Division of Finance Budget Officer and staff now review the Trial Balances and the Statement of Budgetary Resources. This additional layer of review compliments the reviews being conducted by the Division of Finance management team.

MCC also concurs with the recommendation to "establish quality control procedures to document during the review process any discrepancies, errors, and other anomalies that have occurred to provide an audit trail of issues that may require on-top adjustments." The errors noted in the audit report stemmed from a miscommunication regarding an FY 2009 Financial Statement Audit adjustment processed during the FY 2009 annual close process. The miscommunication resulted in the need for an "on-top "adjustment to the final financial statements. In order to alleviate scenarios like this in the future MCC will request auditors timely submit adjustments using the MCC Journal Voucher template. MCC will continue to improve its quality control procedures by developing and adding an additional Excel spreadsheet worksheet to its financial statements workbook to be used to document systematic issues that may require "on-top" adjustments be made.

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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, 2010 and 2009, 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 15, 2010. 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) audit guidance.

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 audit guidance. We caution that noncompliance may have occurred and may not have been detected by these tests, and that such testing may not be sufficient for other purposes.

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 audit guidance. 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.

This report is intended solely for the information and use of United States Agency for International Development (USAID), MCC management, and 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

November 15, 2010
Alexandria, Virginia

Appendix A

Following is the disposition of prior year (2009) findings, recommendations, and MCC Management's action.

Finding:

1. Control over Mission Activities and Support – Repeat Material Weakness

Status: Overall finding still exists in FY 2010, although some of the components were closed. Finding was a material weakness in FY 2009, and is again in FY 2010.

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.

Status: Open.

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 be readily available and promptly submitted for inspection when requested.

Status: Closed

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.

Status: Closed.

2. Quality Control over Financial Reporting (Repeat Significant Deficiency)

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.

Status: Open.

- 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.

Status: Closed.

3. Controls over Payroll Processes

3.1 Untimely and Incomplete Processing of Separated Employees

Status: Closed.

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

Status: Closed.

3.3 Lack of Support for Employee Selected Benefit Deductions

Status: Closed.

4. Proper Reporting Period (FY 2009 Significant Deficiently, FY 2010 Material Weakness)

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.

Status: Open.

- 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.

Status: Open.

- 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.

Status: Open.

- 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.

STATUS: Closed.

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.

Status: Open.

- 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. *Open*

Status: Open.

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 17 recommendations included in this report and our evaluation of those comments.

Recommendation No. 1
MCC concurs with the recommendation to modify Payment Request Form (PFR) to identify requests for advance payments to vendors.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 2
MCC concurs with the recommendation to provide training to Fiscal Agents and other in-country personnel to explain how to properly record each line of the PRF.

Auditor Evaluation:
We conclude that management has adequately addressed this recommendation, and acknowledge that a management decision has been reached.

Compiling Accruals (Proper Reporting Period)

Recommendation No. 3 MCC concurs with this recommendation to establish a comprehensive methodology and/or standard process for obtaining, recording, and reporting yearend accruals which covers all MCAs and funds and include invoiced and rendered services which have not been recorded in the yearend trial balance.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 4
MCC concurs with this recommendation to establish consistent communication with NBC and the MCAs for understanding the process and methodology developed.

. Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 5
MCC agrees with the recommendation to perform quality control procedures over amounts obtained and recorded to ensure that amounts posted are properly reviewed for reasonableness, accuracy, and completeness.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Monitor Controls over MCAs Activities

Recommendation No. 6
MCC agrees with the recommendation to implement a process for coordinating with MCAs, audit firms, and the OIG to ensure all parties are adequately informed of the progress of all audits, and that the audits are completed in accordance with the compact.

Auditor Evaluation:
We conclude that management has addressed this issue, and acknowledge that a management decision has been reached and final action taken.

Recommendation No. 7
MCC concurs with the recommendation to establish and implement a process to ensure that MCAs prepare and make available for audit the status of advances to contractors, retention balances and data necessary for MCC to properly report its accruals.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 8
MCC concurs with the recommendation to establish and implement a process to ensure that all personnel responsible for QFRs understand how to submit accurately prepared and properly approved QFRs and Disbursement Requests in a timely manner.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 9
MCC agrees with the recommendation to establish and implement a process to ensure that funds are periodically reviewed to determine if MCAs should submit final QFRs to record deobligations for funds no longer needed.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 10
MCC concurs with the recommendation to implement a formal process for administering 609(g) funds in all countries not managed by either MCC or an MCA.

Auditor Evaluation:
MCC has developed operating procedures regarding the management of 609(g) funds when the Fiscal Agent has not been selected and mobilized. MCC will formalized and incorporate in MCC's Financial Management Policies and Procedures. We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 11
MCC concurs with this recommendation. A&F currently performs a semi-annual review of all open obligations on a quarterly basis which includes all fund types. This process is outlined in the Financial Management Policies and Procedures for Authorizing and Recording Commitments and Obligations issued in September 2010.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 12
MCC agrees with the recommendation to strengthen its CPS Signature Card process. A&F, in coordination with DCO, will strengthen the CPS Signature Card process.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 13
MCC agrees to develop policies and procedures for Program Closure of Compacts that have been suspended or terminated to ensure that programs, activities, and assets are properly accounted for, and final disposition is reported to MCC.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 14
MCC concurs with this recommendation to establish guidelines for Fiscal Accountability Directors, Fiscal Agents, as well as personnel in the Division of Finance and MCC's financial services provider to make them fully aware of any

restrictions to process payments made during a program or compact close-out period.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Significant Deficiencies

Recommendation No. 15
MCC concurs with the recommendation to continue to follow USAID's progress toward elimination of cash balance differences between USAID and Treasury and timely clearing of suspense account items in order to monitor MCC's risk of potential misstatements.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 16
MCC concurs with the recommendation to continue to strengthen its quality reviews over financial statements to ensure that information presented is accurate, complete, and complies with accounting standards and reporting guidance.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 17 MCC also concurs with the recommendation to establish quality control procedures to document during the review process any discrepancies, errors, and other anomalies that have occurred to provide an audit trail of issues that may require on-top adjustments.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

FINANCIAL SECTION

In accordance with the OMB Circular A-136, Financial Reporting Requirements, MCC is presenting its financial statements in the appropriate form and content for Fiscal Year 2010. The tables below outline the following financial statements:

- Balance Sheets
- Statements of Budgetary Resources
- Statements of Net Cost
- Statements of Changes in Net Position
- Audit the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2010 and 2009
- Notes to Financial Statements

BALANCE SHEETS

	FY 2010	RESTATED FY 2009
Assets		
Intra-Governmental		
Fund Balance with Treasury *(Note 2)*	**$6,554,088,712**	**$6,655,511,983**
Advances – Federal *(Note 5)*	8,778,900	6,474,444
Total Intra-Governmental	6,562,867,612	**6,661,986,427**
Accounts Receivable *(Note 3)*	49,408	90,363
General Property, Plant, and Equipment *(Note 4)*	5,857,213	6,953,153
Advances – Public *(Note 5)*	182,343,189	103,874,266
Total Assets	**$6,751,117,423**	**$6,772,904,210**
Liabilities		
Intra-Governmental		
Accounts Payable – Federal *(Note 1F)*	$5,055,266	$229,546
Contributions and Payroll Taxes Payable	476,667	467,304
Total Intra-Governmental	**5,531,933**	**696,850**
Federal Employee and Veteran Benefits Payable	12,444	35,751
Accounts Payable – Public *(Note 1F)*	208,104,353	65,665,061
Accrued Funded Payroll Liabilities	9,279,041	7,196,040
Total Liabilities	**$222,927,770**	**$73,593,702**
Net Position		
Unexpended Appropriations – Other Funds	$6,522,071,077	$6,694,361,386
Cumulative Results of Operations – Other Funds	6,118,576	4,949,121
Total Net Position	**$6,528,189,653**	**$6,699,310,507**
Total Liabilities and Net Position	**$6,751,117,423**	**$6,772,904,210**

The notes are an integral part of these financial statements.

STATEMENTS OF BUDGETARY RESOURCES

	FY 2010	RESTATED FY 2009
Budgetary Resources		
Unobligated Balance – Beginning of Period	$787,102,593	$962,304,024
Recoveries of Prior Years Obligations	4,045,794	1,029,114
Budget Authority:		
Appropriations *(Note 1C)*	1,105,000,000	875,000,000
Non expenditure Transfers, Net, Anticipated and Actual	(2,377,922)	(679,000)
Permanently Not Available	(50,000,000)	0
Total Budgetary Resources	**$1,843,770,465**	**$1,837,654,138**
Status of Budgetary Resources		
Obligations Incurred		
Direct	$899,566,345	$1,050,551,545
Unobligated Balance Available	451,137,424	56,176,028
Unobligated Balance Not Available	493,066,696	730,926,565
Total Status of Budgetary Resources	**$1,843,770,465**	**$1,837,654,138**
Change in Obligated Balance		
Obligated Balance, Net – as of October 1, 2009		
Unpaid Obligations, Brought Forward, October 1	$5,868,196,304	$5,583,344,174
Obligations Incurred	899,566,345	1,050,551,545
Gross Outlays	(1,154,208,950)	(764,670,301)
Recoveries of Prior Year Unpaid Obligations, Actual	(4,045,794)	(1,029,114)
Obligated Balance, Net – End of Period		
Unpaid obligations	$5,609,507,905	$5,868,196,304
Net Outlays		
Gross Outlays	$1,154,208,950	$764,670,301

The notes are an integral part of these financial statements.

STATEMENTS OF NET COSTS

Program	FY 2010	RESTATED FY 2009
Program Costs *(Note 7)*		
Compact		
Gross Costs	$1,020,176,345	$490,084,277
Less: Earned Revenue	0	0
Net Program Costs	1,020,176,345	490,084,277
609 (g) Programs		
Gross Costs	19,551,450	15,693,976
Less: Earned Revenue	0	0
Net Program Costs	19,551,450	15,693,976
Threshold Programs		
Gross Costs	58,985,525	120,372,199
Less: Earned Revenue	0	0
Net Program Costs	58,985,525	120,372,199
Due Diligence Programs		
Gross Costs	28,555,929	28,922,102
Less: Earned Revenue	0	0
Net Program Costs	28,555,929	28,922,102
Audit		
Gross Costs	3,517,852	3,792,544
Less: Earned Revenue	0	0
Net Program Costs	3,517,852	3,792,544
Administrative		
Gross Costs	95,580,731	91,746,536
Less: Earned Revenue	0	0
Net Program Costs	95,580,731	91,746,536
Program Costs – Net of All Programs	**$1,226,367,832**	**$750,611,635**
Net Costs of Operations	**$1,226,367,832**	**$750,611,635**

The notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN NET POSITION

	FY 2010	RESTATED FY 2009
Cumulative Results of Operations		
Beginning Balances	$4,949,121	$6,839,070
Adjustments		
Beginning Balance, as Adjusted	4,949,121	6,839,070
Budgetary Financing Sources		
Appropriations Used	$1,224,912,387	$746,726,904
Other Financing Sources		
Donations and Forfeitures of Property *(Note 1P)*	$269,513	$205,267
Imputed Financing	2,355,386	1,789,515
Total Financing Sources	1,277,537,287	748,721,686
Net Cost of Operations	(1,226,367,832)	(750,611,635)
Net Change	1,169,455	(1,889,949)
Cumulative Results of Operations	**$6,118,576**	**$4,949,121**
Unexpended Appropriations		
Beginning Balance	$6,694,361,386	$6,548,610,190
Adjustments		0
Correction of errors		18,157,101
Beginning Balance, as Adjusted	$6,694,361,386	$6,566,767,291
Budgetary Financing Sources		
Appropriations Received	$1,105,000,000	$875,000,000
Appropriations Transferred In/Out	(2,377,922)	(679,000)
Other adjustments	(50,000,000)	0
Appropriations Used	(1,124,912,387)	(746,726,904)
Total Budgetary Financing Sources	(172,290,309)	127,594,096
Total Unexpended Appropriations	$6,522,071,077	$6,694,361,386
Net Position	**$6,528,189,653**	**$6,699,310,507**

The notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS (AS OF SEPTEMBER 30, 2010)

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 $1.105 billion and $875 million in Fiscal Year 2010 and Fiscal Year 2009, 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. Accounts payable reported at the end of Fiscal Year 2010 were $208 million (non-Federal) and $5.1 million (Federal) and at the end of Fiscal Year 2009 were $65.7 million (non-Federal) and $230 thousand (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 Fiscal Year 2010 and Fiscal Year 2009.

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 sick 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.

J. Financing Sources

Per note 1C, 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 Fiscal Year 2010, MCC made retirement contributions of $104 thousand to CSRS, $2.8 million to FERS, and $1.1 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 $377 thousand and $213 thousand in interest remittances as of September 30, 2010 and 2009, respectively.

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 Fiscal Year 2010 was $270 thousand and Fiscal Year 2009 was $205 thousand.

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 Fiscal Year 2010 and Fiscal Year 2009, MCC transferred budgetary authority of $25 million and $33 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 Fiscal Year 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, 2010 and 2009 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, 2010 (in thousands)	RESTATED September 30, 2009 (in thousands)
Fund Balances		
General Funds	$6,554,089	$6,655,512
Total	**$6,554,089**	**$6,655,512**

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

	September 30, 2010 (in thousands)	RESTATED September 30, 2009 (in thousands)
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$451,137	$56,176
Unavailable	493,067	730,927
Obligated Balance	$5,609,508	$5,868,196
Non-Budgetary FBWT	377	213
Total	**$6,554,089**	**$6,655,512**

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 Fiscal Year 2010 and Fiscal Year 2009 were approximately $49 thousand and $90 thousand, 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 Fiscal Years 2010 and 2009 was $10.9 million. Accumulated amortization was approximately $5.2 million and $4.0 million, respectively. The current book value is $5.7 million and $7.0 million for the periods ending September 30, 2010 and 2009, 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. For Fiscal Year 2010, equipment was valued at approximately $139 thousand. Accumulated depreciation was approximately $20 thousand for Fiscal Year 2010. MCC did not have any equipment assets for Fiscal Year 2009.

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. MCC reported $191.1 million ($8.8 million, Federal and $182.3 million, non Federal) and $110.4 million ($6.5 million, Federal and $103.9 million, non-Federal) in advances as of September 30, 2010 and 2009, 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 June 28, 2015) and for eighteen (18) office copier machines (through January 31, 2012) utilized in both buildings. The future lease payments due are depicted in **Exhibit 15** below.

Exhibit 15: Operating Leases

Future Lease Payments Due (in dollars)			
Fiscal Year	**Bowen**	**City Center**	**Total**
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	**$28,632,541**	**$9,817,586**	**$38,450,127**
Future Lease Payments Due (in dollars)			
Fiscal Year	**MCC Vehicle**	**MCC Copiers**	**Total**
FY 2011	10,980	55,821	66,801
FY 2012	10,980	55,821	66,801
FY 2013	10,980		10,980
FY 2014	10,980		10,980
FY 2015	8,235		8,235
Total Future Lease Payments	**$52,155**	**$111,642**	**$163,797**

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 2010 Total (in thousands)	RESTATED FY 2009 Total (in thousands)
Intra-Governmental	35	5	16,281	5,151	3,246	17,510	42,228	27,537
Public	1,017,189	19,547	43,407	23,467	272	80,258	1,184,140	723,075
Total - Program	**1,017,224**	**19,552**	**59,688**	**28,618**	**3,518**	**97,768**	**1,226,368**	**$750,612**

NOTE 8—UNDELIVERED ORDERS AT THE END OF THE PERIOD

Exhibit 17 presents Undelivered Orders, paid and unpaid, as of September 30, 2010 and 2009.

Exhibit 17: Undelivered Orders

Undelivered Orders	2010	RESTATED 2009
Administrative	$28,539,653	$27,268,537
Audit	1,031,296	1,131,689
609(g)	37,167,213	42,422,624
Due Diligence	65,060,507	60,123,947
Program	5,334,343,971	5,625,698,055
Threshold	111,935,476	148,518,787
Total	**$5,578,078,116**	**$5,905,163,639**

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 column for Fiscal Year 2009 and the Fiscal Year 2009 actual data reported in the Fiscal Year 2011 budget submission. Fiscal year 2010 actual data will be published within the 2012 Budget of the United States to be published in February 2011. No material differences were noted.

NOTE 10—RESTATEMENTS

During Fiscal Years 2008 and 2009, MCA's erroneously reported vendor disbursements as expenses that should have been reported as advances for goods and services. MCA's also did not report to MCC any retention payments being withheld for services rendered during Fiscal Year 2009. Those amounts should have been accrued during Fiscal Year 2009 to capture those expenses when incurred. This restatement is being presented in the Fiscal Year 2009 column of these comparative financial statements. The Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position are all affected by this restatement. The original reported amount, effect of the restatement and the restated amount are all summarized in **Exhibit 18** below.

MCC has developed a revised accrual methodology to communicate directly with each country to determine a more accurate estimate of the value of goods and services received; both invoiced and unbilled. MCC believes that direct communication with each MCA will allow for the proper treatment of expense accruals within the proper reporting period.

MCC has analyzed the issue surrounding the proper reporting of advances to vendors within country to perform services but reported to MCC as expenses. MCC is revising its Payment Request Form to ensure MCA's are accurately designating funds being disbursed to a vendor so that an advance or expense disbursed is recorded in the MCC financial system accurately. MCC will also be performing a reconciliation of those advances erroneously reported as an expense within each country to ensure the financial records within the MCC financial system is consistent with financial records within each country.

Exhibit 18: Restatement of Fiscal Year 2009 Financial Statement Material Amounts

	2009 Reported	Effect of Restatement	2009 Restated
Balance Sheet			
Advances to Others	$32,422,386	$71,451,880	$103,874,266
Total Assets	$6,701,452,329	$71,451,880	$6,772,904,210
Accounts Payable	$56,026,101	$9,638,960	$65,665,061
Total Liabilities	$63,954,742	$9,638,960	$73,593,702
Unexpended Appropriations – other funds	$6,632,548,466	$61,812,920	$6,694,361,386
Total Net Position	$6,637,497,587	$61,812,920	$6,699,310,507
Statement of Net Costs			
Compact – Gross Costs	$533,740,058	($43,655,781)	$490,084,277
Net Cost of Operations	$794,267,415	($43,655,781)	$750,611,635

Statement of Changes in Net Position			
Budgetary Financing Sources – Appropriations Used	$790,382,685	($43,655,781)	$746,726,904
Total Financing Sources	$792,377,466	($43,655,781)	$748,721,686
Net Cost of Operations	($794,267,415)	($43,655,781)	($750,611,635)
Corrections of Errors	(39)	$18,157,140	$18,157,101
Unexpended Appropriations – Beginning Balance, as adjusted	$6,548,610,151	$18,157,140	$6,566,767,290
Budgetary Financing Sources – Appropriations Used	($790,382,685)	$43,655,781	($746,726,904)
Total Budgetary Financing Resources	$83,938,315	$43,655,781	$127,594,096
Total Unexpended Appropriations	$6,632,548,466	$61,812,920	$6,694,361,386
Net Position	$6,637,497,587	$61,812,920	$6,699,310,507

NOTE 11—RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Exhibit 19 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 19: Reconciliation of Net Cost of Operations to Budget

Resources Used to Finance Activities		Program Costs	
Budgetary Resources Obligated			
Obligations Incurred	$899,566,345	**Gross Costs**	$1,226,367,832
Recoveries of prior year unpaid obligations	(4,045,794)		
Other financing resources	2,624,899		
Total resources used to finance activities	898,145,451		
Total resources used to finance items not part of the net cost of operations	326,986,011	**Less: Earned Revenue**	-
Total components of net cost of operations that will not require or generate resources	1,236,370		
Net Cost of Operations	**$1,226,367,832**	**Net Cost of Operations**	**$1,226,367,832**