MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

FY 2011

AGENCY FINANCIAL REPORT

Reducing Poverty Through Growth

Foreword

The Millennium Challenge Corporation (MCC) has chosen to produce the Agency Financial Report (AFR) for Fiscal Year (FY) 2011, an alternative to the consolidated Performance Accountability Report.

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. It 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 MCC for the fiscal year ending September 30, 2011 and provides management assurances required under the Federal Managers' Financial Integrity Act (P.L. 97-255).

MCC will prepare and submit its FY 2011 Annual Performance Report with its Congressional Budget Justification (CBJ) in accordance with the above policies. The CBJ will be available on MCC's public website at *www.mcc.gov* no later than February 4, 2012.

The MCC AFR contains the following:

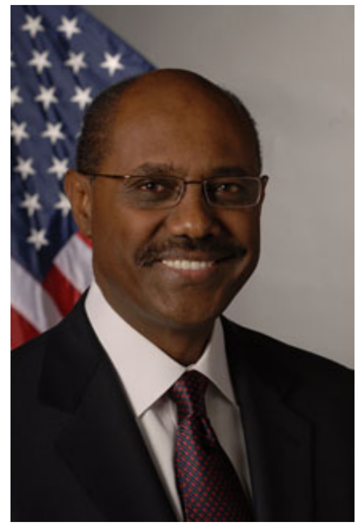
- Message from MCC Chief Executive Officer
- Management's Discussion and Analysis
- Message from MCC Chief Financial Officer and Financial Section
- Other Accompanying Information
- Office of the Inspector General/Independent Auditor's Report

Front Cover:
Children from the northern suburbs of Dar es Salaam, Tanzania, near a transmission main undergoing replacement work. This upgrade will enable the main to convey an increase of water from the MCC-funded expansion of the Lower Ruvu Water Treatment Plant. As a result, the citizens of Dar es Salaam will benefit from a more reliable source of potable water.

-Photo courtesy of Marc Tkach

Message from the Millennium Challenge Corporation's Chief Executive Officer

I am pleased to present the Millennium Challenge Corporation's (MCC) 2011 Agency Financial Report (AFR). More than a year after President Barack Obama's signing and announcement of his Presidential Policy Directive on Global Development, MCC continues to play a cutting-edge role in delivering on the key principles underlining this policy.



MCC is implementing the President's development policy by practicing key principles of aid effectiveness: economic growth as a pathway to self-sufficiency; selectivity; country-owned solutions; results; transparency; and accountability. MCC's mission of poverty reduction through economic growth is built on the belief that investments which raise incomes and incentivize good governance will accelerate the growth necessary to break the cycle of aid dependency. MCC is empowering a select and targeted group of partner countries to be more capable, accountable, and self-sufficient by investing in their homegrown strategies to raise the incomes of their poor. MCC's worldwide investments of over $8 billion are leading to the construction of roads, irrigation networks, water and sanitation systems, and air and seaports; increasing agricultural productivity; expanding access to education and health services; and unleashing the potential of entrepreneurs by improving land tenure, increasing access to credit, and removing constraints for small and medium-sized businesses.

Seven partner countries have completed compact programs—Honduras, Cape Verde, Nicaragua, Vanuatu, Georgia, Armenia, and Benin—and MCC is building a portfolio of lessons learned in the pursuit of measurable impact and improvements to future programs. In fact, MCC's results framework reflects a commitment to technically rigorous, systematic, and transparent methods of projecting, tracking, and evaluating the impacts of our programs. Coupled with transparency, this approach is the cornerstone of MCC's commitment to accountability and aid effectiveness.

MCC is committed to prudent financial management. The purpose of the AFR is to communicate comprehensively and reliably our financial and related activities. This year, we received an unqualified opinion on our FY 2011 financial statements. The independent auditor's report identified two material weaknesses, the first related to controls over MCC accrued expenses, retentions, and advances, and the second related to controls over financial reporting. Last year, MCC management implemented an aggressive action plan to directly tackle the issues related to accrued expenses that served as the basis for a qualification of our FY 2010 financial statements. Through the hard work of the Department of Administration and Finance, the Department of Compact Operations and our MCA partners, we have earned back our unqualified opinion and, in the coming year, we intend to continue to improve our processes. This year the audit report cited a new material weakness in the area of controls over financial reporting. We are focusing attention on auditor recommendations here as well.

The financial and performance information presented in this report is fundamentally complete and reliable as required by the Office of Management and Budget. Internally, we assess the vulnerability of our programs and systems through the Federal Managers' Financial Integrity Act (FMFIA). The annual assurance statement required by the FMFIA concludes that MCC can provide reasonable assurance that MCC's systems of management, accounting, and administrative controls, taken as a whole, meet the objectives.

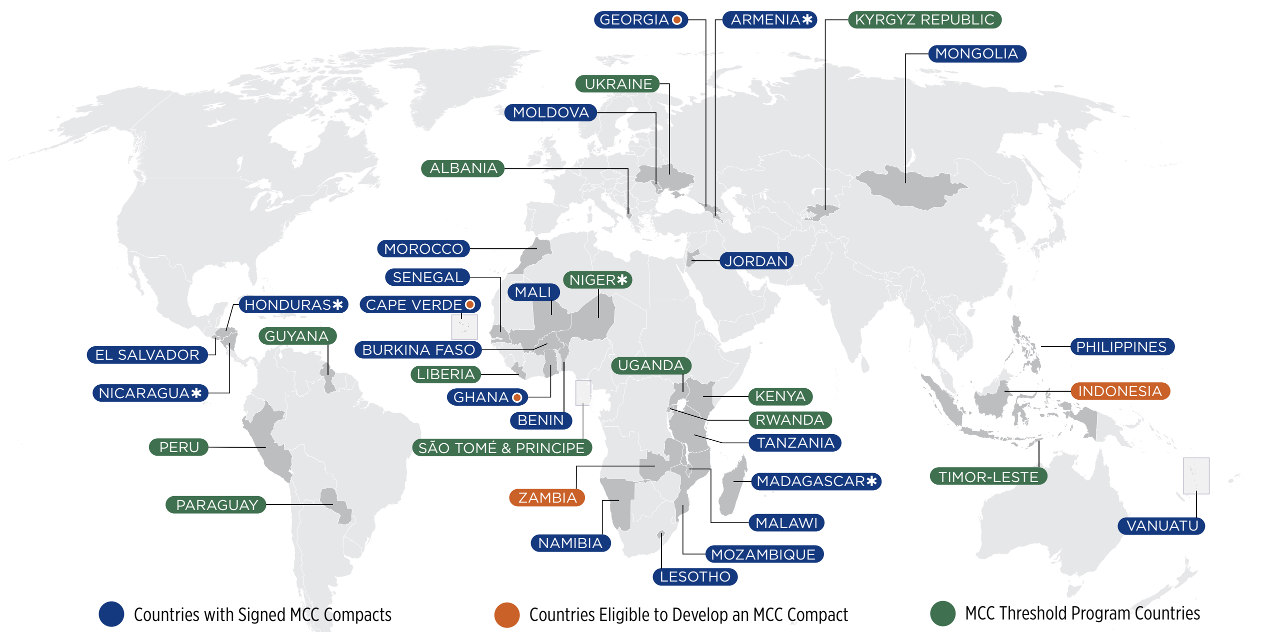
I certify with reasonable assurance that MCC's accounting systems and internal controls comply with the provisions of OMB Circular A-123, Management Responsibility for Internal Control and Sections 2 (Internal and Administrative Controls) and 4 (Financial Systems) of FMFIA.

MCC has selected the AFR as an alternative to the Performance Accountability Report (PAR). In addition to the audited financial statements, the AFR presents the results of the annual assessment of program leadership and stewardship of the resources and public funds entrusted to MCC, and it provides a comprehensive snapshot of the most important financial information related to the programs we manage. This financial report also includes a brief summary of performance information; however, MCC's Annual Performance Report will provide a more comprehensive account of performance.

I invite key stakeholders—Members of Congress, the private sector, other U.S. Government agencies, nongovernmental organizations, faith-based groups, think tanks, and the American people—to follow MCC's work, share critical feedback, and hold us accountable to accelerate the progress we are making in the fight against global poverty. This is how MCC will continue contributing effectively to U.S. global development efforts.

Daniel W. Yohannes
Chief Executive Officer
November 15, 2011

MCC Compact, Threshold Program and Eligible Countries



* MCC's Board of Directors put on hold, suspended or terminated a portion of assistance due to actions taken by the government that are inconsistent with MCC's eligibility criteria.
● Eligible to develop a subsequent compact.

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Management Discussion and Analysis

Our Mission and Programs

The Millennium Challenge Corporation (MCC) is a United States Government agency whose mission is to reduce poverty through economic growth in developing countries that create and maintain sound policy environments. MCC was created 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 an MCC 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 determine compact eligibility, MCC evaluates a country's performance on a set of 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 a significant commitment to meet the policy indicators but do not qualify for a compact 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 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 Appropriations at a glance ($ million)

Fiscal Year	Annual Funding
2004	$994
2005	$1,488
2006	$1,752
2007	$1,752
2008	$1,544
2009	$875
2010	$1,105
2011	$900
Total	**$10,410**

Since its inception in 2004, MCC's total commitment to fighting poverty worldwide has resulted in 23 compact agreements signed with 14 countries in Africa, three in Latin America, five in Eurasia, and one in the Pacific, totaling over $ 8.18 billion. In Fiscal Year 2011, Jordan and Malawi became the latest countries to sign a compact agreement with MCC. (In July 2011, MCC placed an operational hold on the Malawi Compact due to concerns related to Government of Malawi actions inconsistent with MCC principles promoting democratic governance.) In addition, MCC has sponsored a total of 23 threshold programs in 21 countries.

President Obama's Global Development Policy embodies a set of principles and practices at the core of MCC's model. The United States' approach recognizes broad-based economic growth as the primary foundation for sustained poverty reduction. It puts accountability at the center, focusing on good democratic governance among country partners, a commitment to country-led plans, and high standards of managing for results and transparency. MCC has eight years of experience putting these very principles into practice. MCC's rigorous and transparent approach to putting these principles into practice has placed it on the forefront of accountable and innovative development assistance, and makes it an integral part of the United States' new approach to global development.

MCC's mandate to reduce poverty through economic growth in poor, well-governed countries focuses MCC investments around the goal of increasing incomes sustainably for program beneficiaries by tackling the most critical barriers to economic growth and poverty reduction. Barriers to growth vary across countries, so MCC invests in the countries' own priorities and where returns will be highest in terms of increased incomes. With its country partners in the lead, MCC's portfolio has focused significantly on market-based solutions to food security, with over half of MCC investments in rural development and infrastructure that link producers to market opportunities. MCC country partners also prioritize investments in financial sector reform, health, education, or major infrastructure such as roads, energy, and water and sanitation as vital to addressing their constraints to growth and poverty reduction.

Exhibit 1. Worldwide Participants in MCC Programs (FY2011)

	Africa	Eurasia	Latin America	Pacific	Middle East	Grand Total
COMPACT	14	5	3	1	0	23
THRESHOLD	10	7	3	0	1	21
Total	**24**	**12**	**6**	**1**	**1**	**44**

Compact Programs

An MCC compact is a multi-year agreement between the MCC and a partner country to fund specific programs designed to reduce poverty and stimulate economic growth. Recognizing that sustainable development is best achieved by fostering country ownership, good policies, and investment in people, MCC provides selected eligible countries the opportunity to identify their own priorities for achieving economic growth and poverty reduction.

Every MCC compact reflects its country's specific priorities and details program objectives, implementation methods, and monitoring and evaluation strategies, while ensuring financial accountability, transparency, and fair and open procurement processes. To date, MCC has signed 23 development assistance compacts totaling over $8.18 billion. Summaries of MCC compacts are below.

Armenia

The $235.7 million MCC Compact with Armenia is focused on increasing economic performance in the agricultural sector. The compact consists of strategic investments in rural roads and irrigated agriculture to provide communities and rural residents with reduced transport costs and better access to jobs, markets and social services; and increase the productivity of 250,000 farmer households through improved water supply, higher yields, higher-value crops, and a more competitive agricultural sector. In June 2009, the MCC Board of Directors enacted a hold on funding for further road construction and rehabilitation under the compact as a result of Government of Armenia actions inconsistent with MCC principles promoting democratic governance. The Armenia compact officially closed September 29, 2011.

Benin

The $307 million MCC Compact with Benin aimed to increase investment and private sector activity in Benin. The compact is comprised of four projects: increasing access to land through more secure and useful land tenure; expanding access to financial services through grants given to micro, small, and medium enterprises; providing access to justice by bringing courts closer to rural populations; and improving access to markets by eliminating physical and procedural constraints currently hindering the flow of goods through the Port of Cotonou. The Benin compact officially closed October 6, 2011.

Burkina Faso

The $481 million MCC Compact with Burkina Faso will increase investment in rural productivity through improved land tenure security and land management; increase the volume and value of agricultural production through investments in water management and irrigation, technical assistance to farmers, and rural credit; increase opportunities for farmers to sell agricultural goods and livestock by rehabilitating rural and primary roads; and, as an extension of Burkina Faso's successful MCC Threshold Program, fund the construction of three classrooms each at 132 "girl-friendly" schools for grades four through six.

Cape Verde

The $110 million MCC Compact with Cape Verde helped Cape Verde achieve its national development goal of transforming its economy from aid-dependency to sustainable, private sector-led growth. The compact sought to increase rural incomes of the poor by increasing agricultural productivity, integrating internal markets, reducing transportation costs, and developing the private sector through greater private sector investment and financial sector reform. The compact was completed in October 2010; MCC's Board of Directors has selected Cape Verde as eligible to develop a proposal for a subsequent compact.

El Salvador

The $461 million MCC Compact with El Salvador seeks to improve the lives of Salvadorans through strategic investments in education, public services, enterprise development, and transportation infrastructure. The compact's Human Development Project is designed to increase employment opportunities for the region's poorest inhabitants and provide greater access to safe water and sanitation services.

Georgia

The $295.3 million MCC Compact with Georgia helped Georgians reduce poverty by renovating key regional infrastructure and improving the development of regional enterprises. The compact's infrastructure projects improved rural transportation and provided agricultural suppliers with technical assistance and opportunities to connect more easily with consumers and increase regional trade. The compact enhanced productivity in farms, agribusinesses and other enterprises that will increase jobs and rural income. In November 2008, MCC and the Government of Georgia signed a compact amendment providing up to $100 million in additional funds available to complete works in the Roads, Regional Infrastructure Development, and Energy Rehabilitation Activities under the original compact. The compact was completed in April 2011; MCC's Board of Directors has selected Georgia as eligible to develop a proposal for a subsequent compact.

Ghana

The $547 million MCC Compact with Ghana aims to reduce poverty by raising farmer incomes through private sector-led, agribusiness development. Specifically, MCC investments are designed to increase the production and productivity of high-value cash and food staple crops in some of Ghana's poorest regions and to enhance the competitiveness of Ghana's agricultural products in regional and international markets. MCC's Board of Directors has selected Ghana as eligible to develop a proposal for a subsequent compact.

Honduras

The $215 million MCC Compact with Honduras sought to reduce poverty by increasing farmer productivity and entrepreneurship and by reducing transportation costs between targeted production centers and national, regional and global markets. In September 2009, MCC's Board decided to partially terminate MCC's Compact, ceasing to fund the vehicle weight control activity and the portion of the farm to market roads activity corresponding to the construction and improvement of approximately 93 kilometers of rural roads. The termination is a result of actions by the government of Honduras that are inconsistent with MCC's eligibility criteria. Due to that partial termination, MCC has reduced the amount of funding available to Honduras from $215 million to $205 million. The compact closed out in September 2010.

Jordan

The $275 million MCC Compact with Jordan funds three integrated projects focused on improving water supply, wastewater collection, and wastewater treatment and reuse. These projects will improve water delivery, decrease costs of potable water, and upgrade in-home water systems. They will also increase the amount of wastewater collected for treatment and reduce the incidents of sewage overflow. Finally, the compact will increase the volume of treated water that is available as a substitute for freshwater for non-domestic uses.

Lesotho

The $363 million MCC Compact with Lesotho is expected to have an economy-wide impact, affecting the entire population of Lesotho. The compact seeks to increase water supplies for industrial and domestic use; alleviate the devastating affects of poor maternal health, HIV/AIDS, tuberculosis and other diseases by substantially strengthening the country's health care infrastructure and human resources for health capacity; and remove barriers to foreign and local private-sector investment.

Madagascar

The $110 million MCC Compact with Madagascar was designed to raise incomes by assisting the rural population transition from subsistence agriculture to a market-driven growth. The compact included three projects to help rural Malagasy secure formal property rights to land; access credit and protect savings; and receive training in agricultural production, management and marketing techniques. As of August 31, 2009, MCC terminated its Compact with Madagascar due to the military coup.

Malawi

The $350.7 million MCC compact with Malawi is a single-sector program focusing on activities that aim to revitalize Malawi's power sector. By reducing power outages and technical losses, enhancing the sustainability and efficiency of hydropower generation, and improving service to electricity consumers, the compact intends to reduce energy costs to enterprises and households; improve productivity in the agriculture, manufacturing and services sectors; and support the preservation and creation of employment opportunities in the economy. In July 2011, MCC placed an operational hold on the Malawi Compact due to concerns related to Government of Malawi actions inconsistent with MCC principles promoting democratic governance.

Mali

The $461 million MCC Compact with Mali seeks to increase the productivity of the agriculture sector and regional enterprises. The compact serves as a catalyst for sustainable economic growth and poverty reduction through key infrastructure investments that capitalize on two of Mali's major assets, the Bamako-Sénou International Airport, a gateway for regional and international trade; and the Niger River, a valuable source for irrigated agriculture.

Moldova

The $262 million MCC Compact with Moldova will improve irrigation infrastructure and management; increase the production and marketing of high value agricultural products; and rehabilitate part of the country's national road network. The highway is a key link for passenger travel and for internal commerce and trade; the repairs will reduce the time and cost to transport goods and services, and will reduce losses to the national economy resulting from deteriorated road conditions.

Mongolia

The $285 million MCC Compact with Mongolia seeks to increase economic activity by improving the ability of Mongolians to register and obtain clear titles to their land, expand vocational education in core technical skills, and focus on the health and well-being of the labor force by reducing non-communicable diseases and injuries. The compact is also promoting the introduction of alternative energy and energy-efficient products to the market economy and is constructing transportation infrastructure to accommodate heavy traffic into Mongolia's capital city.

Morocco

The $697.5 million MCC Compact with Morocco seeks to increase productivity and improve employment in high-potential sectors including investments in fruit tree productivity, small-scale fisheries, and artisan crafts. Investments in financial services will also support entrepreneurship, small business development, and market growth.

Mozambique

The $507 million MCC Compact with Mozambique seeks to increase the productive capacity of the population in selected districts with the intended impact of reducing the poverty rate, increasing household income and employment, and reducing chronic malnutrition. Compact programs aim to improve water systems, sanitation, access to markets, land tenure services, and agriculture in the targeted districts.

Namibia

The $304.5 million MCC Compact with Namibia will improve the quality of education and training for underserved populations and will capitalize on Namibia's comparative advantages, including large areas of semi-arid communal land suitable for livestock and diverse wildlife and landscapes ideal for eco-tourism. These projects are designed to increase opportunities in rural areas and increase incomes.

Nicaragua

The $175 million MCC Compact with Nicaragua was designed to support those living in the Leon and Chinandega region by significantly increasing incomes of rural farmers and entrepreneurs. The compact sought to reduce transportation costs, improve access to markets, strengthen property rights, increase investment, and raise incomes for farms and rural businesses. On July 3, 2009, MCC terminated funding under the compact in response to a pattern of actions by the Government of Nicaragua inconsistent with MCC's eligibility criteria. Funding was terminated for all activities in the Property Regularization Project and for activities in the Transportation Project, including upgrading a major stretch of the Pacific Corridor highway, which were not already under contract. Due to that partial termination, MCC has reduced the amount of funding available to Nicaragua from $175 million to $113million. The compact was closed out in May 2011.

Philippines

The $434 million MCC Compact with the Philippines includes funds to repair 220 kilometers of the country's Samar Road. This road will improve access to markets and services for farmers, fishers, and small businesses in some of the poorest provinces in the Philippines. The compact also includes funds to expand community development projects and to computerize and streamline business processes in the Bureau of Internal Revenue to bolster the effectiveness of revenue collection and reduce opportunities for corruption.

Senegal

MCC's five-year, $540 million compact with Senegal will reduce poverty and promote economic growth by unlocking the country's agricultural productivity, engaging in infrastructure projects to rehabilitate major national roads, and investing in strategic irrigation and water resources management.

Tanzania

The $698 million MCC Compact with Tanzania seeks to rehabilitate roads to connect communities with markets, schools, and health clinics, and promote the expansion of economic opportunities by reducing transport costs. The compact also funds water infrastructure improvements that will increase access to potable water and will mitigate the incidence of water-related disease, burdensome healthcare costs, and decreased workforce productivity.

Vanuatu

The $65.7 million MCC Compact with Vanuatu improved the country's poor road conditions by construction and sealing two national roads, the Efate Ring road and the Santo East Coast road. The compact benefitted poor, rural agricultural producers and the tourism industry by reducing transportation costs and improving road conditions. The compact was completed in April 2011.

For more information about MCC Compacts, please visit the MCC website at *www.mcc.gov*.

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[1]

As of September 31, 2011

MCC COMPACT REGIONS					KEY DATES		
Country	Africa	Eurasia	Latin America	Pacific	Signing	Entry Into Force	Closed Date
Madagascar	109.4				18-Apr-05	27-Jul-05	31-Aug-09
Cape Verde	110.1				4-Jul-05	17-Oct-05	17-Oct-10
Benin	307.3				22-Feb-06	6-Oct-06	6-Oct-11
Ghana	547.0				1-Aug-06	16-Feb-07	
Mali	460.8				13-Nov-06	17-Sep-07	
Mozambique	506.9				13-Jul-07	22-Sep-08	
Lesotho	362.6				23-Jul-07	17-Sep-08	
Morocco	697.5				31-Aug-07	15-Sep-08	
Tanzania	698.1				17-Feb-08	15-Sep-08	
Burkina Faso	480.9				14-Jul-08	31-Jul-09	
Namibia	304.5				28-Jul-08	16-Sep-09	
Senegal	540.0				16-Sep-09	23-Sep-10	
Malawi *	350.7				7-Apr-11		
Georgia		295.3			12-Sep-05	7-Apr-06	7-Apr-11
Armenia		235.7			27-Mar-06	27-Mar-06	29-Sep-11
Mongolia		284.9			22-Oct-07	17-Sep-08	
Moldova		262.0			22-Jan-10	1-Sep-10	
Philippines		434.0			23-Sep-10		
Jordan		275.1			25-Oct-10		
Honduras			215.0		13-Jun-05	29-Sep-05	29-Sep-10
Nicaragua			175.0		14-Jul-05	26-May-06	26-May-11
El Salvador			460.9		29-Nov-06	20-Sep-07	
Vanuatu				65.7	2-Mar-06	28-Apr-06	28-Apr-11
Total	**$5,475.8**	**$1,787.0**	**$850.9**	**$65.7**	**$23.0**	**$20.0**	**$8.0**

* In July 2011, MCC placed an operational hold on the Malawi Compact.

1. These levels reflect original compact amounts. De-obligated amounts are not included in these levels. Compact funding for Jordan and Malawi has yet to be obligated.

Threshold Programs

The objective of the Threshold Program is to assist a country in becoming compact eligible by supporting targeted policy and institutional reforms. MCC works with Threshold Program-eligible countries on these reforms through country-specific threshold programs. USAID has administered all but one of the first generation of threshold programs.

MCC's Threshold Program has expanded and strengthened the U.S. Government's dialogue with country partners and created an opportunity for MCC to support institutional reforms in countries, using the incentive of potential Compact-eligibility.

Next Generation Threshold Program Built on Lessons Learned

A review of the Threshold Program coupled with findings from several threshold program evaluations prompted MCC to revamp elements of the Program based upon lessons learned. The new Program will assist countries in reforming policies deemed constraints to economic growth and poverty reduction and address impediments to compact eligibility. MCC will no longer target performance on MCC eligibility indicators, but focus on broad areas of policy performance that the indicators measure (ruling justly, economic freedom, investing in people).

Countries selected for threshold programs must show commitment to carry out key reforms within the program lifetime. MCC will use the prospect of a compact to induce countries to implement reforms expeditiously.

New threshold programs will be developed from a disciplined process that begins with rigorous analyses of the constraints to economic growth and the policies/institutions which reinforce those constraints. Program designs will utilize a consultative process that engages government and nongovernmental stakeholders alike. Program designs will link proposed activities, screened for feasibility and cost-effectiveness, with projected program outputs, outcomes, and they will include robust monitoring and evaluation systems to measure impact.

MCC's primary partner in future programs will be the prospective partner country. In order for the new programs to be effective and sustainable, program development must be done in close partnership with country counterparts. MCC will play a lead role in program development and partner with USAID and other U.S. Government agencies in the program development process. Implementation partners will be selected based on program content.

Since its inception in 2004, MCC has signed 23 threshold agreements with 21 countries, totaling $ 495 million. The United States Agency for International Development (USAID) is the primary implementation partner in all but one of the ongoing threshold programs; the United States Department of Treasury and the Department of Justice also are involved in the implementation of threshold programs. Seventeen threshold programs have concluded; 5 are ongoing: Liberia, Paraguay II, Peru, Rwanda, and Timor-Leste. One program was suspended and subsequently reinstated (Niger). Two programs (Niger and Tunisia) are in development.

Of the 21 threshold program countries, 8 have been selected as compact eligible; 6 countries - Burkina Faso, Jordan, Moldova, the Philippines, Malawi, and Tanzania - have signed Compacts; 2 countries - Indonesia and Zambia - are in compact development. 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.

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 ($ millions)[1]

MCC THRESHOLD COUNTRIES					SIGNING DATE							
	Africa	Eurasia	Latin America	Middle East	2005	2006	2007	2008	2009	2010	2011	Complete Date
Burkina Faso	12.9				22-Jul							30-Sep-08
Malawi	20.9				23-Sep							30-Sep-08
Tanzania	11.2					3-May						30-Dec-08
Zambia	22.7					22-May						28-Feb-09
Kenya	12.7						23-Mar					31-Dec-10
Uganda	10.5						29-Mar					31-Dec-09
Sao Tome & Principe	7.4						9-Nov					15-Apr-11
Niger*	23.1							17-Mar				
Rwanda	24.7							24-Sep				
Liberia	15.1									6-Jul		
Albania		13.9				3-Apr						15-Nov-08
Ukraine		45				4-Dec						31-Dec-09
Moldova		24.7				15-Dec						28-Feb-10
Kyrgyz Rep		16						14-Mar				30-Jun-10
Albania II		15.7						29-Sep				31-Jul-11
Philippines		20.7				26-Jul						29-Aug-09
Indonesia		55				17-Nov						31-Dec-10
Timor-Leste		10.5								10-Sep		
Paraguay			34.6			8-May						31-Aug-09
Paraguay II			30.3						13-Apr			
Guyana			6.7				23-Aug					23-Feb-10
Peru			35.6					9-Jun				
Jordan				25		17-Oct						29-Aug-09
Total	**161.2**	**201.5**	**107.2**	**25**	**2**	**9**	**4**	**5**	**1**	**2**	**0**	

1. This level does not include $14 million in program administrative feeds transferred to USAID, and amounts are as of March 31, 2011.
* Suspended December 31, 2009; Reinstated June 2011 with new program development underway.

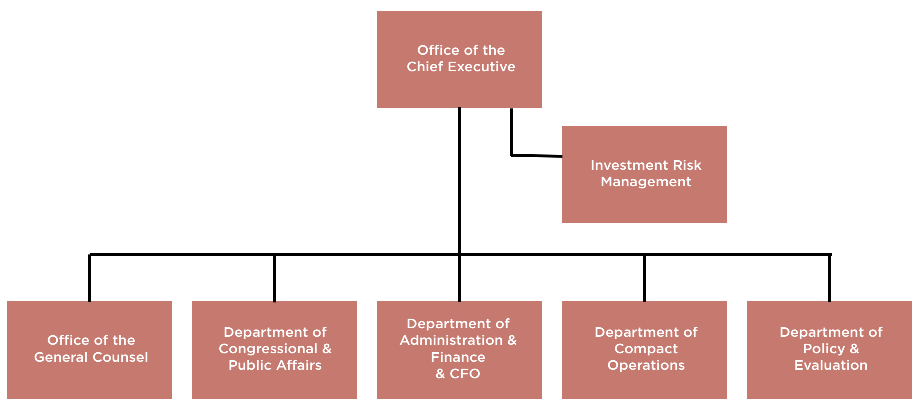
Governance and Structure

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 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 units: 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.

Exhibit 4. The MCC Organizational Structure



At the end of FY 2011, MCC employed 261 staff members at its Washington, DC offices and 40 staff members at overseas locations. MCC also uses contractors to assist in the oversight, supervision, monitoring, and evaluation of compact projects. 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 2012.

Exhibit 5: MCC Headquarters and Overseas Staffing Level

Employees	FY2008	FY2009	FY2010	FY2011	FY2012 Projected
HQ Staff	274	247	258	261	276
Overseas Staff	21	35	33	40	40
Total	**295**	**282**	**291**	**301**	**316**

*HQ staff is limited to 300 full time equivalent employees

MCC's strategic plan focuses on achieving 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 impact and 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 better incorporating gender integration and social issues in project design, implementation and evaluation.
- Improve organizational effectiveness to ensure MCC uses limited resources to achieve maximum effectiveness by realigning our structure to our business needs.

The FY 2011 Employee Viewpoint Survey results captured MCC employee views as of May 2011. The results showed a significant increase in MCC employees' favorable view of performance management-related areas and continued high favorable ratings in the areas of physical work environment, safety/security and employee/supervisor relationship. Although MCC saw improvements in some areas since last year's survey, the survey results overall reflected a downward trend in employee favorable ratings related to employee autonomy/control, effective operation within a matrixed operational structure, recruitment of skilled staff, employee recognition and training.

MCC's management team is implementing tools and processes to build on MCC's strengths and to address areas for improvement. Focus areas include increased mission awareness and staff engagement, talent management, recruitment and retention, work/life balance, employee recognition, and additional assessment of the matrix work structure in coordination with overall organizational effectiveness efforts.

During the past two years, MCC has taken significant steps to enhance our results management and reporting for accountability and learning, both externally and internally by systematically integrating performance and risk reporting into portfolio management decisions. During FY 2011, MCC incorporated enhanced performance and risk monitoring information into quarterly portfolio reviews by management. MCC management began incorporating assessments of compact risk—including financial, political, results, reputation, and other types of risks into quarterly portfolio reviews. A risk matrix approach prioritizes potential risks by their likelihood and impact. We also introduced a country-by-country Quarterly Results Report to capture the continuum of MCC results, including process, output and outcome indicators, as well as policy reforms. MCC has introduced a set of common indicators for external reporting across all MCC Compacts. MCC sector experts have developed these indicators to document sector level progress relevant to different project activity types. MCC's common indicators cover five major sectors—agriculture and irrigation, property rights and land policy, roads, education and water and sanitation. MCC makes its program performance data publicly available via an easily accessible and user-friendly results portal on its website *http://www.mcc.gov/pages/results*. Both quantitative data and qualitative information are available through this comprehensive, one-stop resource.

Performance Goals, Objectives, and results

In September 2011, a report was made to Congress on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2012. This report sets out the criteria and methodology to be applied in determining eligibility for FY 2012 MCA assistance.

Criteria and Methodology for FY2012

The MCC Board of Directors will base its selection of eligible countries on several factors including:

1. The country's overall performance in three broad policy categories—Ruling Justly, Encouraging Economic Freedom, and Investing in People;
2. MCC's opportunity to reduce poverty and generate economic growth in a country; and
3. The availability of funds to MCC.

Section 607 of the Millennium Challenge Act of 2003 requires that the Board's determination of eligibility be based "to the maximum extent possible, upon objective and quantifiable indicators of a country's demonstrated commitment" to the criteria set out in the Act.

For FY 2012, there will be two groups of candidate countries – low income countries ("LIC") and lower-middle income countries ("LMIC"). As outlined in the Report on Countries that are Candidates for Millennium Challenge Account Eligibility for Fiscal Year 2012 and Countries that would be Candidates but for Legal Prohibitions (August 2011), LIC candidates refer to those countries that have a per capita income equal to or less than $1,915 and are not ineligible to receive United States economic assistance under part I of the Foreign Assistance Act of 1961 by reason of the application of any provision of the Foreign Assistance Act or any other provision of law. LMIC candidates are those countries that have a per capita income between $1,916 and $3,975 and are not ineligible to receive United States economic assistance under the same stipulations.

Changes to the Criteria and Methodology for FY2012

MCC reviews all of its indicators annually to ensure the best measures are being used and, from time to time, recommends changes or refinements if MCC identifies better indicators or improved sources of data. MCC takes into account public comments received on the previous year's criteria and methodology and consults with a broad range of experts in the development community and within the U.S. Government. In assessing new indicators, MCC favors those that: (1) are developed by an independent third party; (2) utilize objective and high quality data that rely upon an analytically rigorous methodology; (3) are publicly available; (4) have broad country coverage; (5) are comparable across countries; (6) have a clear theoretical or empirical link to economic growth and poverty reduction; (7) are policy linked (i.e., measure factors that governments can influence within a two to three year horizon); and (8) have broad consistency in results from year to year. There have been numerous noteworthy improvements to data quality and availability as a result of MCC's application of the indicators and the regular dialogue MCC has established with the indicator institutions.

MCC also annually reviews the methodology used to evaluate country performance. Since FY 2004, the methodology has been that the Board considers whether a country performs above the median in relation to its peers on at least half of the indicators in each of the three policy categories and above the median on the Control of Corruption indicator. The Board may exercise discretion in evaluating and translating the indicators into a final list of eligible countries and, in this respect, the Board may also consider whether any adjustments should be made for data gaps, lags, trends or other weaknesses in particular indicators. Where necessary, the Board may also take into account other data and quantitative and qualitative information to determine whether a country performed satisfactorily in relation to its peers in a given category ("supplemental information"). Through this report, the Board publically affirms that it remains strongly committed to identifying countries for MCC eligibility that have demonstrated sound policies in each of the three policy categories.

For FY 2012, MCC will implement a number of changes that modify the overall evaluation of candidate country performance. While improvements to the selection criteria and methodology are critical, MCC is also mindful of the need to provide countries with a fairly stable set of policy criteria to meet, if MCC is to create significant incentives for reform. Therefore, for this year of transition, the Board of Directions will consider countries' performance based on two sets of criteria and methodologies in FY 2012: the status quo set of indicators and decisions rules, and a revised set. Both of these are outlined below. By encouraging the Board to consider how countries would have performed under the previous system, as well as how countries perform under the new system, MCC will provide a transition year that allows countries to learn how they are being measured, engage in dialogue with MCC about performance, and solicit feedback from the institutions that produce these indicators.

It is important to recognize that all of MCC's indicators have limitations, including these revised indicators. Over the next year, MCC intends to continue working with the indicator institutions to ensure the data and methodology are the best available.

1) Indicators

In FY 2012 the Board will use two sets of indicators to assess the policy performance of individual countries. These indicators are grouped under the three policy categories listed below. The changes to the revised indicators include one substitution in Ruling Justly; two additions in Economic Freedom; and three substitutions/additions in Investing in People. Specific definitions of the indicators and their sources may be found at *http://www.mcc.gov/pages/selection*.

Exhibit 6: New MCC Indicators

Ruling Justly	Economic Freedom	Investing in People
FY 2011		
1. Civil Liberties	1. Inflation	1. Public Expenditure on Health
2. Political Rights	2. Fiscal Policy	2. Public Expenditure on Primary Education
3. Voice and Accountability	3. Business Start-Up	3. Immunization Rates
4. Government Effectiveness	4. Trade Policy	4. Girls' Primary Education Completion
5. Rule of Law	5. Regulatory Quality	5. Natural Resource Management
6. Control of Corruption	6. Land Rights and Access	
Revised		
1. Civil Liberties	1. Inflation	1. Public Expenditure on Health
2. Political Rights	2. Fiscal Policy	2. Public Expenditure on Primary Education
3. Freedom of Information	3. Business Start-Up	3. Immunization Rates
4. Government Effectiveness	4. Trade Policy	4. Girls' Education:
5. Rule of Law	5. Regulatory Quality	5. Primary Education Completion (LICs)
6. Control of Corruption	6. Land Rights and Access	6. Secondary Education Enrolment (LMICs)
	7. Access to Credit	7. Child Health
	8. Gender in the Economy	8. Natural Resource Protection

2) Methodology

Similarly, in FY 2012 the Board will apply a status quo methodology, and a revised methodology to the respective indicator groupings. These are described below.

Status Quo

In making its determination of eligibility with respect to a particular candidate country, the Board will consider whether a country performs above the median in relation to its income level peers (LIC or LMIC) on at least three of the indicators in each of the Ruling Justly, Encouraging Economic Freedom, and Investing in People categories, and above the median on the Control of Corruption indicator. One exception to this methodology is that the median is not used for the Inflation indicator. Instead, to pass the Inflation indicator a country's inflation rate must be under an absolute threshold of 15 percent. The Board may also take into consideration whether a country performs substantially below the median on any indicator (i.e., below the 25th percentile) and has not taken appropriate measures to address this shortcoming.

Revised

In making its determination of eligibility with respect to a particular candidate country, the Board will consider whether a country performs above the median or absolute threshold on at least half of the indicators and at least one indicator per category, above the median on the Control of Corruption indicator, and above the absolute threshold on either the Civil Liberties or Political Rights indicators. Indicators with absolute thresholds in lieu of a median include a) Inflation, on which a country's inflation rate must be under a fixed ceiling of 15 percent; b) Immunization Rates (LMICs only), on which an LMIC must have immunization coverage above 90%; c) Political Rights, on which countries must score above 17 and d) Civil Liberties, on which countries must score above 25. The Board will also take into consideration whether a country performs substantially worse in any category (Ruling Justly, Investing in People, or Economic Freedoms) than they do on the overall scorecard. Further details on how this methodology differs from the status quo can be found at *http://www.mcc.gov/pages/selection*.

3) Other Considerations for the Board of Directors

Approach to Income Classification Transition

Each year a number of countries shift income groups, and some countries formerly classified as LICs suddenly face new, higher performance standards in the LMIC group. As a result, they typically perform worse relative to LMIC countries, than they did compared to other LIC countries, even if in absolute terms they maintained or improved their performance over the previous year. To address the challenges associated with sudden changes in performance standards for these countries, MCC has adopted an approach to income category transition whereby the Board may consider the indicator performance of countries that transitioned from the LIC to the LMIC category both relative to their LMIC peers as well as in comparison to the current fiscal year's LIC pool for a period of three years.

For more information on the new selection criteria and other MCC news please visit *http://www.mcc.gov/pages/selection*.

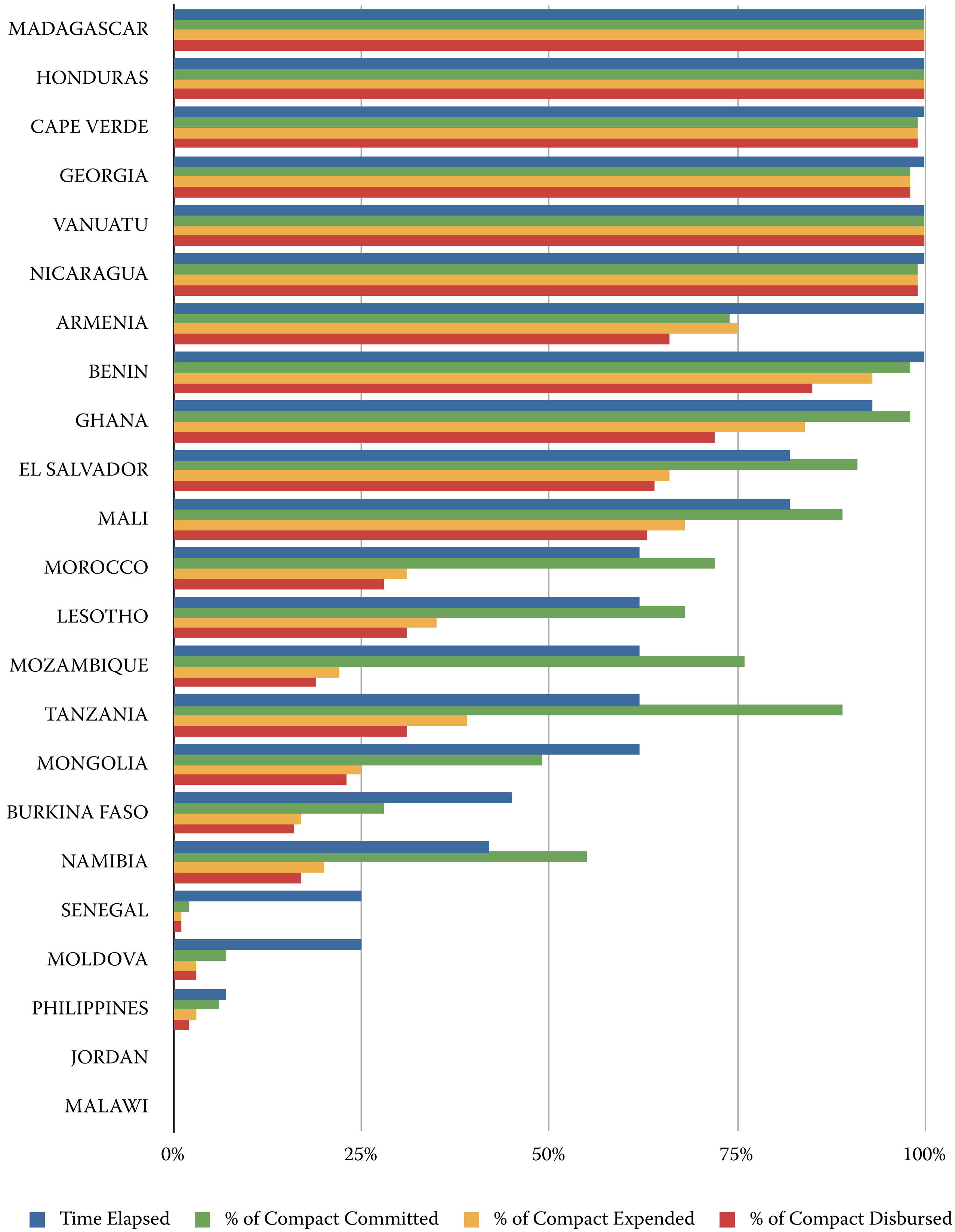
MCC Performance Results at a Glance

Program Results by Sector on Select Indicators

Sector	Indicator	Cumulative Target through FY11	Actual (as of June, 2011)	Performance on Targets to Date (June 2011)	Countries Tracked
Roads	Value (US$) of signed contracts for road works	$1,561,506,501	$1,553,700,000	100%	Armenia, Burkina Faso, Cape Verde, El Salvador, Ghana, Georgia, Honduras, Moldova, Mongolia, Mozambique, Nicaragua, Senegal, Tanzania, Vanuatu
	Kilometers of roads under works contracts	3,169	2,717	88%	
	Kilometers of roads completed	1,069	1,162.9	109%	
Agriculture & Irrigation	Hectares under new or improved irrigation**	83,439	9,047	11%	Armenia, Burkina Faso, Cape Verde, El Salvador, Ghana, Georgia, Mali, Honduras, Moldova, Madagascar, Morocco, Mozambique, Nicaragua, Senegal
	Value of agricultural and rural loans	$51,275,538	$74,100,000	145%	
	Number of farmers trained	196,536	1,888,846	961%	
	Hectares under production	131,357	146,170.1	111%	
Water & Sanitation	Value (US$) of signed contracts for water and sanitation works ++	$233,968,086	$141,800,000	61%	El Salvador, Lesotho, Ghana, Georgia, Mozambique, Tanzania
Education	Number of students participating	193,176	155,513	81%	Burkina Faso, El Salvador, Ghana, Morocco, Mongolia, Namibia
	Facilities completed	706.5	451	64%	
	Value (US$) of signed contracts for construction and/or equipping of educational facilities	$84,339,881	$89,530,000	106%	
Land	Number of stakeholders trained	25,760	18,600	72%	Benin, Burkina Faso, Ghana, Lesotho, Mali, Madagascar, Mongolia, Mozambique, Nicaragua, Senegal
	Urban parcels mapped	116,965	67,273	58%	
	Rural hectares formalized	419,724	353,205	84%	

***The target includes 69,000 for Armenia will be included in FY2012 post closure report.*
++The target includes $153K of re-scoped Mozambique water sector.

Compact Progress*

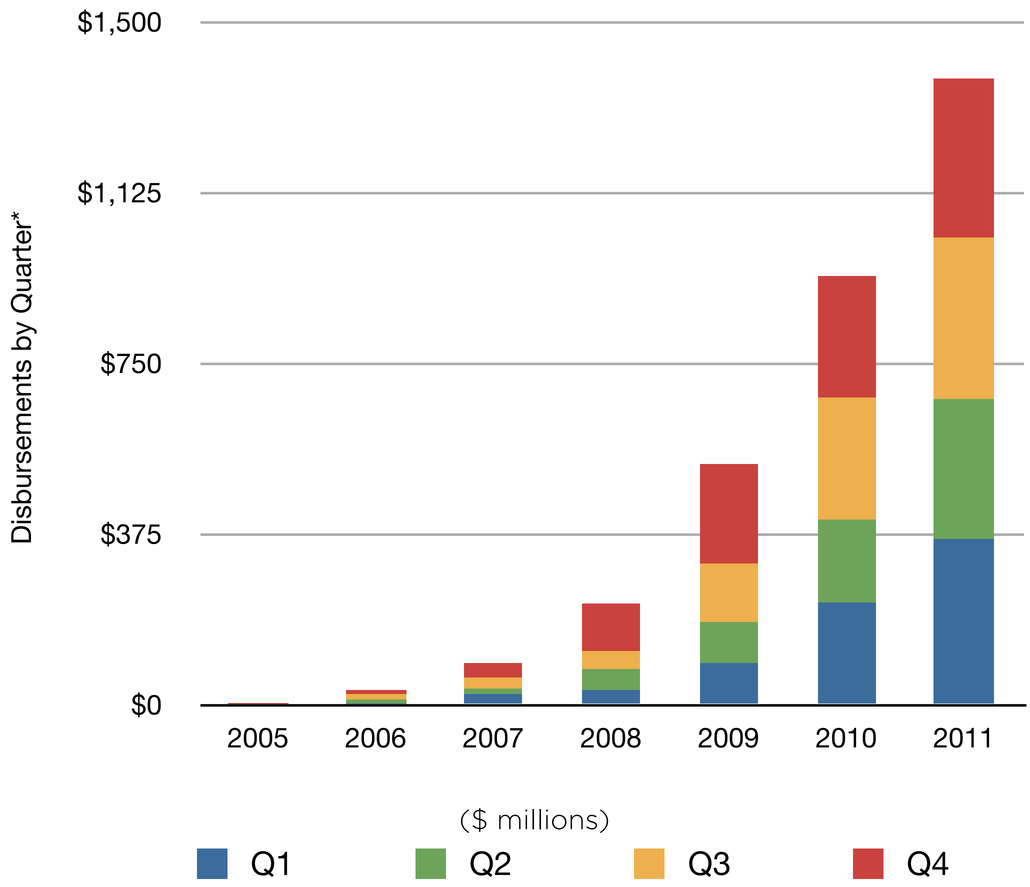


*As of September 30, 2011

Disbursements by Quarter*

($ millions)

FY	Q1	Q2	Q3	Q4	Grand Total
2005	0	0	0	$2.50	$2.50
2006	$1.76	$9.17	$11.61	$8.99	$31.53
2007	$22.94	$11.07	$24.24	$32.14	$90.39
2008	$32.04	$46.02	$39.09	$104.64	$221.79
2009	$91.23	$89.76	$128.41	$218.71	$528.11
2010	$224.37	$182.29	$267.86	$266.37	$940.89
2011	$363.62	$306.69	$355.29	$349.42	$1,375.02
Grand Total	**$735.96**	**$645.01**	**$826.49**	**$982.77**	**$3,190.23**

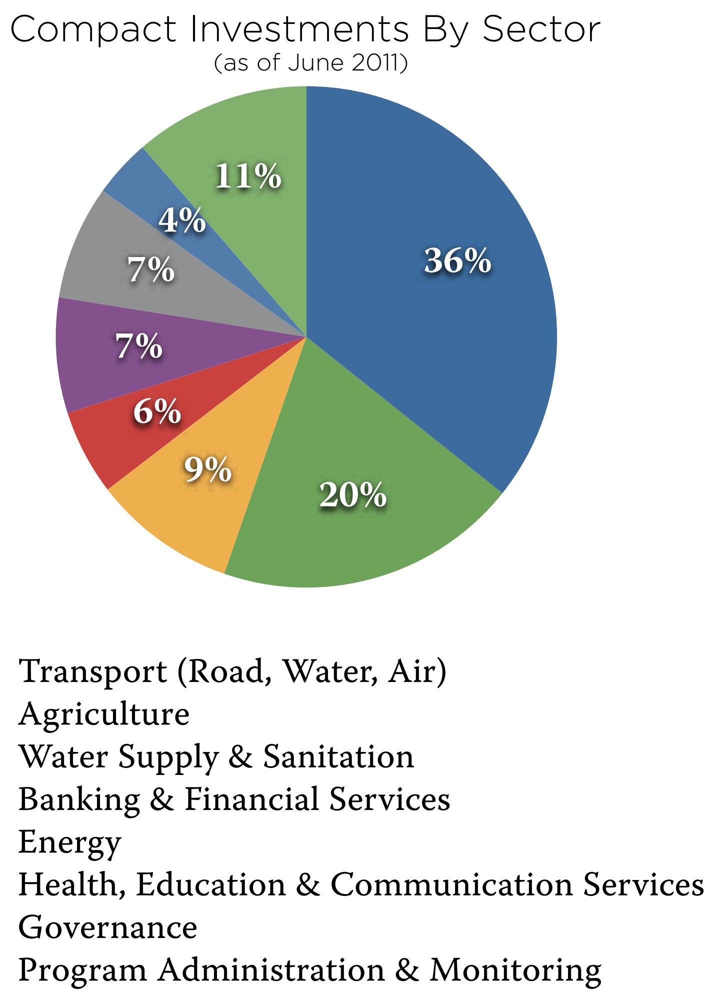


*As of September 30, 2011

Compact Investments by Sector

Agriculture	$1,604.3
Water Supply & Sanitation	$757.4
Banking & Financial Services	$451.1
Energy	$609.1
Health, Education & Communication Services	$603.4
Governance	$306.7
Program Administration & Monitoring	$929.1
Total*	**$8,184.0**

*Represents commitment on Compact signing (as of June 2011).



Results in Education

Indicator Type	Process	Output	Outcome	Objective
	Construction & Institutional Strengthening (Months 0-36)	Improved access, quality, and relevance (Months 12-48)	Expected outcomes (Months 12-60)	Expected objectives‡ (Months 48+)
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	**$89.6 M in signed construction contracts, 51.7% disbursed**	**451 facilities, 2,603 instructors**	**155,513 students participating, 31,400 additional female students**	**2,761 graduates of MCC-supported educational facilities**
Currently Implementing	**Burkina Faso** ($22.5 M, 67%) **El Salvador** ($10.2 M, 99.7%) **Ghana** ($18.7 M, 79%) **Mongolia** ($12.5 M, 9%) **Morocco** ($.2 M) **Namibia** ($25.5 M, 20.4%)	**Burkina Faso** (285 facilities, 557 instructors) **El Salvador** (22 facilities, 515 instructors) **Ghana** (143 facilities) **Mongolia** (1 facility, 272 instructors) **Morocco** (1,259 instructors)	**Burkina Faso** (31,335 students, 4,983 additional females) **El Salvador** (21,104 students, 1,644 additional females) **Ghana** (36,986 students, 651 additional females) **Morocco** (41,528 students, 24,122 additional females) **Namibia** (24,560 students)	**Burkina Faso** (1487 graduates) **El Salvador** (1274 graduates) **Mongolia** ( ) **Morocco** ( ) **Namibia** ( ) **Ghana** ( )
Pending Implementation		**Namibia**	**Mongolia**	

*All program data as of September 2011 and all financial data as of June 30, 2011. 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.
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.
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.

Results in Roads

	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	**$109.8 million in studies contracted**	**64.3% of contracted studies disbursed, 5,118.9 km of roads under design**	**$1,553.7 million in works contracted**	**2,717.3 km of roads under works contracts**	**58.1% of contracted roads works disbursed**	**1,162.9 km of roads completed**	**IRI**
Currently implementing	**Armenia** ($3.1 M) **Burkina Faso** ($8.3 M) **Cape Verde*** ($3.5 M) **El Salvador*** ($16.9 M) **Georgia** ($12.0 M) **Ghana** ($5.5 M) **Honduras** ($9.5 M) **Mongolia** ($6.1 M) **Mozambique** ($13.4 M) **Nicaragua** ($6.9 M) **Senegal** (2.4 M) **Tanzania** ($16.9 M) **Vanuatu** ($5.3 M)	**Armenia** (90%, 892 km) **Burkina Faso** (13%, 536 km) **Cape Verde** (90.2%, 63.4 km) **El Salvador** (73.4%, 196.1 km) **Georgia** (99%, 220.2 km) **Ghana** (100%, 775.8 km) **Honduras** (75.4%, 671.8 km) **Moldova** (93 km) **Mongolia** (26.4%, 20.9 km) **Mozambique** (30%, 253 km) **Nicaragua** (100%, 376 km) **Senegal** (23%, 406 km) **Tanzania*** (49%, 465 km) **Vanuatu** (100%, 149.7 km)	**Armenia***** ($4.7 M) **Cape Verde** ($24 M) **El Salvador** ($220.5 M) **Georgia** ($197.3 M) **Ghana** ($211.8 M) **Honduras** ($184.5 M) **Mali** ($42.9 M) **Mongolia** ($24.1 M) **Mozambique** (130.6 M) **Nicaragua** ($56.5 M) **Tanzania** ($402.1 M) **Vanuatu*** ($54.7 M)	**Armenia***** (24.5 km) **Cape Verde** (40.6 km) **El Salvador** (196.1 km) **Georgia** (220.2 km) **Ghana** (446 km) **Honduras** (671.8 km) **Mongolia** (176.4 km) **Mozambique** (253 km) **Nicaragua** (74 km) **Tanzania** (465 km) **Vanuatu** (149.7 km)	**Armenia** (100%) **Cape Verde** (100%) **El Salvador** (60.6%) **Georgia** (100%) **Ghana** (67.8%) **Honduras** (69.6%) **Mongolia** (32%) **Mozambique** (9.5%) **Nicaragua** (100%) **Tanzania** (22.5%) **Vanuatu** (96.6%)	**Armenia** (24.5 km) **Cape Verde** (40.6 km) **El Salvador** (43.8 km) **Georgia** (220.2 km) **Honduras** (610.1 km) **Nicaragua** (74 km) **Vanuatu** (149.7 km)	**Armenia** (3.5 IRI) **Cape Verde** (2.0 IRI) **Georgia** (1.5 IRI) **Nicaragua** (2.3 IRI) **Vanuatu** (3.0 IRI)
Pending Implementation			**Burkina Faso** **Moldova** **Senegal**	**Burkina Faso** **Moldova** **Senegal**	**Burkina Faso** **Moldova** **Senegal**	**Burkina Faso** **Ghana** **Mali** **Moldova** **Mozambique** **Senegal** **Tanzania**	

All program data are as of September 2011 and all financial data as of June 30, 2011. 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 management 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.

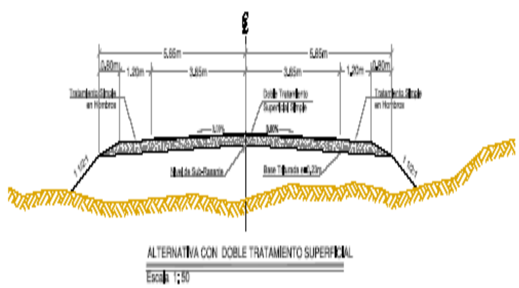
Kilometers (km) of roads under works contracts: The length of roads in kilometers under works contract for construction or rehabilitation. This may include building new roads or modifying existing roads.

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.

Results in Water and Sanitation*

Indicator Type	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+)
	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 & 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	$38.1 M in design contracts, 44.2% disbursed	$141.8 M in construction contracts, 79.5% disbursed	5,185 persons, 300 water points	1,448 households with improved water supply, 1,376 households with improved sanitation	
Currently implementing	**El Salvador** ($5.9 M, 69%) **Georgia** ($.27 M, 100%) **Ghana** ($1.6 M, 85%) **Tanzania** ($8.9 M, 48%) **Mozambique** ($21.4 M, 32%)	**El Salvador** (9.2 M, 58.3%) **Georgia** ($54.3 M, 94%) **Ghana** ($14.6 M, 60%) **Lesotho** ($16.1 M, 30%) **Tanzania** ($47.6 M, 20%)	**Mozambique** (3,840 persons, 150 water points) **Ghana** (87 persons, 150 water points) **El Salvador** (1,258 persons)	**El Salvador** (1,448 hh water, 1,376 hh sanitation)	**El Salvador** ( ) **Lesotho** ( ) **Tanzania** ( ) **Mozambique** ( ) **Ghana** ( )
Pending Implementation		**Mozambique**	**Georgia** **Lesotho** **Tanzania**	**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 are as of September 2011 and all financial data as of June 30, 2011. 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, rainwater 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.
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; rainwater 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.
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)

Results 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 &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	**$47.8 M in design contracts, 78.4% disbursed**	**$318.8 M contracts, 68.8% construction disbursed**	**188,846 farmers trained, 3,074 enterprises assisted, 9,047.4 ha**	**146,170.1 ha, $74.1M loans, 72,980 farmers with new techniques, 759 enterprises with new techniques**	**Expected upon completion of works**
Currently implementing	**Armenia** ($4.6 M, 93.4%) **Burkina Faso** ($5.9 M, 28.5%) **Ghana** ($5.2 M, 87.4%) **Georgia** ($1.2 M, 53.4%) **Mali** ($9.1 M, 67.6%) **Morocco** ($18.9 M, 100%) **Nicaragua** ($0.7 M, 100%) **Senegal** ($2.3 M, 26.5%)	**Armenia** ($106.7 M, 78.1%) **Cape Verde** ($5.2 M, 97%) **Ghana** ($14 M, 38%) **Mali** ($142.3 M, 78.1%) **Morocco** ($50.8 M, 29%)	**Armenia** (45,639 farmers, 227 ent) **Cape Verde** (553 farmers, 13.44 ha) **El Salvador** (14345 farmers, 143 ent) **Georgia** (291 ent) **Ghana** (64,708 farmers, 1,597 ent) **Honduras** (7,265 farmers, 464 ent, 4,844ha) **Madagascar*** (31,366 farmers, 324 ent) **Mali** (1,199 farmers, 4,190 ha) **Morocco** (12,167 farmers) **Mozambique** (9,765 farmers, 28 ent) **Nicaragua** (9,104 famers)	**Armenia** ($8.5 M, 21,741 farmers, 178 ent) **Cape Verde** ($.6 M, 106 farmers) **El Salvador** (17,415 ha, $10.2 M, 7,881 farmers, 47 ent) **Georgia** ($19.88 M) **Ghana** (45,729.1 ha, $16.7 M, 25,260 farmers, 533 ent) **Honduras** (20,204 ha, $17.1 M, 6,996 farmers) **Madagascar*** ($1.1 M, 1,892 farmers, 1 ent) **Mali** ($.02 M, 2,109 ha) **Morocco** (42,440 ha) **Mozambique** (2,374 ha) **Nicaragua** (18,008 ha, 9,104 farmers)	**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** **Senegal**	**Burkina Faso** **Moldova**	**Burkina Faso** **Moldova** **Senegal**	

All program data are as of September 2011 and all financial data as of June 30, 2011. 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.
12. **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.

Property Rights and Land 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	**65 studies completed; 56 legal and regulatory reforms adopted**	**201,334 stakeholders reached**	**138 buildings built/rehabilitated; $16.6 M in equipment purchased; 18,600 stakeholders trained**	**2,462,507.5 rural hectares mapped; 353,293 rural hectares formalized; 71,578 urban parcels mapped; 25,837 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** (7 studies, 40 reforms) **Ghana** (5 studies, 2 reforms) **Lesotho** (1 study, 3 reforms) **Madagascar** (8 studies, 4 reforms) **Mali** (0 studies, 2 reforms) **Mongolia** (8 studies, 4 reforms) **Mozambique** (16 studies, 1 reform) **Nicaragua** (4 studies, 0 reforms)	**Benin** (53,697 stakeholders) **Burkina Faso** (41,840 stakeholders) **Ghana** (4,796 stakeholders) **Lesotho** (5,235 stakeholders) **Mongolia** (26,666 stakeholders) **Mozambique** (75 stakeholders) **Nicaragua** (69,035 stakeholders)	**Benin** ($5.5 M, 60 trained) **Burkina Faso** ($2.2 M, 682 trained) **Ghana** (1 bldg, $.5 M, 427 trained) **Lesotho** ($.1 M, 675 trained) **Mali** (1 bldg, $.1 M) **Madagascar** (115 bldgs $4.8 M, 12,216 trained)* **Mongolia** (2 bldgs, $.8 M, 2,716 trained) **Mozambique** (11 bldgs, $.9 M, 214 trained) **Nicaragua** (8 bldgs, $1.7 M, 1,610 trained)	**Benin** (117,021 rural ha formalized) **Burkina Faso** (36,403 rural ha formalized) **Ghana** (3,807.5 rural ha mapped, 261.7 rural ha formalized) **Lesotho** (4,305 urban parcels mapped and formalized) **Madagascar*** (30,047 rural ha mapped and formalized) **Mali** (4,309 rural ha mapped) **Mozambique** (19,083 urban parcels formalized) **Mongolia** (2,393,455 rural ha mapped, 67,273 urban parcels mapped, 166,272 rural ha formalized) **Nicaragua** (30,889 rural ha mapped, 3,288 rural ha formalized, 2,449 urban parcels formalized)	
Pending Implementation	**Senegal**	**Namibia** **Mali** **Senegal**	**Senegal**	**Namibia** **Senegal**	

All program data are as of September 10, 2011 and all financial data as of June 30, 2011. 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.

Financial Statements Highlights

While MCC is not a Chief Financial Officers Act (CFO Act) agency, MCC chooses to adhere to the requirements and principles imposed 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, 2011 and September 30, 2010.

For FY 2011, MCC received an unqualified audit opinion on its financial statements from our independent auditor, Williams, Adley & Company, LLP. The Independent Auditor's Report cites two material weaknesses: controls over MCC accrued expenses, retentions, and advances need improvement and MCC's financial reporting process needs improvement. The report also identified two significant deficiencies: MCA required documentation, including audit reports, quarterly disbursement requests and compact closure plans are not submitted, reviewed, and/or approved in a timely manner and reconciling fund balances by USAID for the Threshold Program needs improvement. The auditors did not report any instances of non-compliance, as required to report under the Government Auditing Standards and OMB Bulletin 07-04.

Balance Sheet

The balance sheet presents 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, 2011, MCC reported total assets of $ 6.1 billion. At the end of FY 2011, MCC held $ 5.8 billion in unexpended appropriations, of which $ 4.6 billion has been obligated (but not disbursed) for MCC programs. In addition, MCC has signed agreements to obligate a further $ 615.5 million, subject to satisfaction of certain conditions.

MCC's Fund Balance with Treasury constitutes the vast majority (96.8 percent) of total assets. Other assets include Advances, Property, Plant and Equipment and Accounts Receivable. 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, 2011, MCC reported fixed assets of $ 4.6 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, 2011, MCC had approximately $ 310 million in liabilities, which were amounts owed to its grantees, vendors, contractors, trading partners, and employees. MCC's ratio of total assets to total liabilities as of September 30, 2011, was 95.1 to 1.

MCC's overall net position as of September 30, 2011, was $ 5.8 billion. During FY 2011, MCC's net position decreased by $ 760 million from September 30, 2010. During this period, MCC received $ 900 million in appropriated funds, had $ 1.8 million in unobligated balances rescinded, and expended approximately $1.6 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 the lag between appropriation, commitment, and expenditure of compact funds.

Statement of Net Cost

The Statement of Net Cost is designed to show separately the components of the net cost of MCC's operations for the period. During FY 2011, MCC incurred $ 1.7 billion in net program costs.

Statement of Changes in Net Position

The Statement of Changes in Net Position reports the change in net position during the reporting period. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. Cumulative Results of Operations amounted to $ 4.9 million as of September 30, 2011, and $ 6.1 million as of September 30, 2010. This balance is the cumulative difference, for all previous fiscal years through 2010, between funds available to MCC from all financing sources and the net costs of MCC.

Statement of Budgetary Resources

The Statement 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, 2011. For 2011, MCC had total budgetary resources of $ 1.8 billion. MCC's incurred obligations decreased by 35 percent ($ 582 million in FY 2011 from $ 900 million in FY 2010).

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 $10.4 billion, including $900 million in FY 2011 (see Exhibit 7).

As of September 30, 2011, $ 671 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.

Exhibit 7: Annual Funding

Fiscal Year	Annual Funding (in thousands)*
2004	$994,100
2005	1,488,000
2006	1,752,300
2007	1,752,300
2008	1,544,388
2009	875,000
2010	1,105,000
2011	900,000
Total	**$10,411,088**

*The annual appropriations do not include rescissions

- **Compact Implementation Fund (CIF)**. Funds approved by Congress and apportioned by OMB. CIF funds represent a portion of the funds agreed to in a compact and are made available at the time of compact signing for the purposes of speeding implementation between compact signing and entry into force. MCC uses authority provided in section 609(g) of its authorizing legislation to provide these funds to a partner country.

- **Grants.** Funds apportioned by OMB for grants and cooperative agreements.

- **609(g)**. Funds approved by Congress and apportioned by OMB to fund contracts or grants for the purpose of facilitating the development and/or implementation of a compact between MCC and a partner country.

- **Due Diligence**. Funds apportioned by OMB and used by MCC to cover costs associated with assessing compact proposals developed by eligible countries and providing compact implementation oversight.

- **Threshold**. Funds appropriated by Congress, apportioned by OMB, and used by MCC to assist countries in meeting selection criteria for MCA eligibility. Such countries are considered "on the threshold" of qualifying for eligibility for an MCC Compact.

- **Audit**. Funds appropriated by Congress and apportioned by OMB for audits of MCC operations and programs. The USAID OIG is responsible for conducting MCC audits.

During FY 2011, MCC incurred total obligations of approximately $ 578 million for all program fund categories. Total lifetime obligations incurred by MCC since their inceptions are approximately $ 9 billion (see Exhibit 8). Exhibit 9 shows funds obligated for compacts by country as of the end of FY 2011.

Exhibit 8: Obligations by Fund Category

Fund Category	FY2011 Obligations Incurred ($ million)	Lifetime Obligations Incurred ($ million)
Administrative	95.2	560.2
Compacts (including CIF/Grants)	412.7	7564.6
609(g)	26.4	133.1
614(g)	0.3	0.3
Due Diligence	43	234.4
Threshold*	-3.9	504.8
Audit	3.9	20.2
Total	**$577.60**	**$9,017.60**

as of September 30, 2011

*Represents a deobligation of previously obligated Threshold funds during FY 2011.

Exhibit 9: Compact Obligations (as of September 30, 2011)

MCA/ Country	Total Compact Obligations ($ million)
Armenia	235.7
Benin	307.3
Burkina Faso	480.9
Cape Verde	110.1
El Salvador	460.9
Georgia	395.3
Ghana	547.0
Honduras	205.0
Jordan	2.1
Kenya [3]	0.1
Lesotho	362.6
Madagascar	84.4
Malawi	9.1
Mali	460.8
Moldova	262.0
Mongolia	284.9
Morocco	697.5
Mozambique	506.9
Namibia	304.5
Nicaragua	113.5
Senegal	540.0
Philippines	430.2
Tanzania	698.1
Vanuatu	65.7
Total	**$7,564.6**

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

[3] In 2006 MCC awarded $100,000 to the Center for Strategic & International Studies to establish a Center for Governance in Nairobi, Kenya to serve as a source of analysis, exchange, and policy recommendations on monitoring and curbing endemic corruption especially in the sale and distribution of HIV/AIDS drugs in Kenya where AIDS is a serious health risk.

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. MCC's Senior Assessment Board (SAB) is responsible for making recommendations to the Chief Executive Officer (CEO) on financial management and internal control matters. The SAB oversees MCC's internal control environment, including controls and processes to ensure compliance with pertinent administrative and financial management statutes and regulations.

During FY 2011, MCC began revamping its financial management systems with a more integrated solution. The new Administration & Finance Integrated Financial System (AFIS) once fully functional will integrate operational requirements of various divisions within the Department of Administration and Finance (Information Technology, Human Resources, Contract and Grant Management, and Finance). The following sections present information on MCC's financial systems, controls, and compliance with key laws and regulations.

Management Assurances

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

FY 2011 CEO ASSURANCE STATEMENT

The Millennium Challenge Corporation's (MCC) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). MCC conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control.*

Based on the results of this evaluation, MCC can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2011 was operating effectively and that no material weaknesses were found in the design or operation of the internal controls.

In addition, MCC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A, *Internal Control over Financial Reporting* of OMB Circular A-123. Based on the results of this evaluation, MCC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2011 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

MCC acknowledges the *Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2011 and 2010* identified two matters considered to be material weaknesses. These matters are (1) MCC's Financial Reporting Process Needs Improvement and (2) MCC's Process for Calculating and Reporting Accrued Expenses, Retentions, and Advances Needs Improvement.

MCC acknowledges that the auditor's report identified as a material weakness the lack of a quality control process over the preparation and presentation of financial statements. MCC management identified the same finding in its assessment of the effectiveness of internal control over financial reporting. Based, however, on the nature of errors in the financial statements, management classified the finding as a control deficiency. The underlying balances and amounts reported were properly stated in all material respects. We believe the control deficiency is at the quality control review level.

MCC also acknowledges that the auditor's report identified as a material weakness MCC's process for calculating and reporting accrued expenses, retentions, and advances. MCC management identified the same finding in its assessment of the effectiveness of internal control over financial reporting. Based, however, on management review, actual results for the last three quarters of FY 2011, and a third-party consultant's independent validation and verification of the process, management deemed this to be a significant deficiency.

To address the problems that gave rise to the aforementioned differences, MCC management will develop and document processes to compare the results of management's OMB Circular A-123 Appendix A assessment of control over financial reporting with the financial statement audit report on internal control (i.e., material weaknesses) and review the assurance statements for consistency with the findings specified in the annual financial statement audit report(s). For any reporting difference(s), the process will include investigating the reasons for the reporting difference(s), performing additional tests, and either revising the assurance statement to accommodate changes in results, as applicable, or suggest to the auditors that they revise the financial statement audit report on internal control, based on evidentiary matter.

MCC also conducted reviews of its financial management systems in accordance with OMB Circular A-127, *Financial Management Systems*. Based on the results of these reviews, MCC can provide reasonable assurance that its financial management systems substantially comply with the requirements of the Federal Financial Management Improvement Act (FFMIA) as of September 30, 2011. MCC uses a Federal shared service provider for financial systems called the National Business Center (NBC). The NBC August 15, 2011 Annual Assurance Statement is provided and supports MCC unqualified assurance. NBC also provided a roll-forward assurance letter through September 30, 2011.

Daniel W. Yohannes
Chief Executive Officer
November 15, 2011

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

AUG 15 2011

Memorandum

To: Rhea Suh
Assistant Secretary, Policy, Management, and Budget

Douglass Glenn
Director, Office of Financial Management

Through: Joseph M. Ward, Jr.
Director, National Business Center

From: James W. Beall, CPA
Chief Financial Officer, National Business Center

Subject: FY 2011 Annual Assurance Statement on Management Controls over Financial Reporting

The purpose of this memorandum is to provide an assurance statement regarding the effectiveness of internal controls over financial reporting for the financial systems hosted by the National Business Center (NBC) as of June 30, 2011.

As Chief Financial Officer for the NBC, I am responsible for establishing and maintaining effective internal controls over financial systems hosted by the NBC. This includes the safeguarding of data and compliance with laws and regulations with regard to financial reporting. We have directed an evaluation of the internal and information technology (IT) controls over the financial systems hosted by the NBC and used by Department of the Interior (DOI, Department or Departmental) offices and bureaus. The standards, objectives, and guidelines prescribed by the Federal Manager's Financial Integrity Act (FMFIA) and Federal Financial Management Improvement Act (FFMIA) serve as the bases for our reviews and compliance. The objectives of our actions are to ensure that:

- Programs achieve their intended results;
- Resources are used consistent with agency mission;
- Resources are protected from waste, fraud, and mismanagement;
- Laws and regulations are followed; and
- Reliable and timely information is maintained, reported, and used for decision-making.

We are specifically responsible for the following financial systems which support the Department:

- Federal Financial System (FFS)
- Federal Personnel and Payroll System (FPPS)

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- Interior Department Electronic Acquisition System (IDEAS) - for those instances supported by the NBC
- Hyperion Consolidated Financial Statements (CFS)
- Financial and Business Management System (FBMS)

We are also responsible for financial reporting of the Office of the Secretary and Interior Franchise Fund (IFF). To support our assertions regarding data integrity, the NBC conducted transaction level testing as required by OMB Circular A-123, Appendix A and guidance contained in the Chief Financial Officer's Council (CFOC) Implementation Guide for OMB A-123. This assurance covers those component organizations and the above described systems.

NBC Position Related to FFMIA Compliance

The NBC Internal Control Review (ICR) for FY2011 included collaboration with the DOI Office of Financial Management (PFM) internal control review according to the requirements of Appendix A, OMB A-123, *Management's Responsibility for Internal Control* in concert with Appendix III of OMB Circular A-130, *Management of Federal Information Resources*. We certify that weaknesses identified from our information system security assessments and security program assessments have been incorporated into the appropriate program or system level Plan of Actions and Milestones (POA&Ms). The weakness descriptions in the POA&Ms gave been annotated to identify them as a significant deficiency, a material weakness, or a reportable condition as defined by the Federal Information Security Management Act (FISMA), OMB Bulletin B-07-04, and OMB Circular A-123.

Assessments focused on the minimum baseline security controls outlined in National Institute of Standards and Technology (NIST) SP-800-53 Rev. 3 and the security controls deemed to be key controls by the business process owners and/or as recommended by the DOI Office of the Chief Information Officer (OCIO) annual ICR guidance.

Based upon the results of these assessments, the NBC provides reasonable assurance that the internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations including FFMIA were suitably designed and operating effectively as of June 30, 2011. No material weaknesses were found in the design or operations of the internal controls.

This certification applies to all financial information systems currently in production:

System Name	Date FY 10 Assessment Completed	Date FY 11 Assessment Completed	# of Material Weaknesses (financial systems)	# of Significant Deficiencies (all systems)
Alpha Database Server (ADS)	06/10/2010	06/10/2011	0	0
Consolidated Financial Statement System (CFS)	07/05/2010	05/05/2011	0	0

System Name	Date FY 10 Assessment Completed	Date FY 11 Assessment Completed	# of Material Weaknesses (financial systems)	# of Significant Deficiencies (all systems)
Financial and Business Management System (FBMS)	03/09/2010	04/30/2011	0	0
Federal Financial System (FFS)	05/25/2010	05/15/2011	0	0
Federal Personnel and Payroll System (FPPS)	06/08/2010	06/03/2011	0	0
Interior Department Electronic Acquisition System (IDEAS)	06/12/2010	06/07/2011	0	0
Momentum Equinex (MOM-Equinex)	06/01/2010	04/15/2011	0	0
Momentum Phoenix Data Center (MOM-PDC)	06/15/2010	06/10/2011	0	0
Oracle Federal Financials (OFF)	05/25/2010	05/05/2011	0	0

The specific internal control assessments conducted by NBC, which were relied upon to support the conclusions expressed herein, are documented in the Cyber Security Assessment and Management (CSAM) system.

Related specifically to the Financial and Business Management System (FBMS), the NBC ensures all software and technical changes (hardware, network, and technical processes) for the FBMS system are only accomplished based on approved change request by the FBMS Change Control Board. These change requests are documented and maintained using the DOI owned Clear Quest change control package. The process includes the initial installation and migration of the software or hardware changes from the development landscape, through the Quality Assurance landscape and into the Production and Training landscapes. Each step of the process is tested and documented in the Clear Quest system to ensure changes are thoroughly tested and approved prior to migration. This process includes scheduling approval, assurance of documentation changes and communication and coordination with the FBMS customers.

Further, the NBC also engaged KPMG LLP to conduct a Service Organization Control Report, Statement on Standards for Attestation Engagements SSAE 16 review of internal system controls for the following systems. The results of their review resulted in the following findings:

- Federal Financial System (FFS) - resulted in an unqualified (clean) opinion on 10 control objectives tested.
- Federal Personnel and Payroll System (FPPS) - resulted in an unqualified (clean) opinion on 10 control objectives tested.
- Hyperion Consolidated Financial Statement (CFS) system - resulted in a qualified opinion on one control objective out of 6 control objectives tested as follows:
  - KPMG qualified the control objective "Logical Access" because system logs identifying sensitive activity on the Windows servers were not available for nine months of the review, as the logs were configured to be maintained for only 30 days and the audit server was not in operation for at least two months of the audit period. Consequently, KPMG was unable to determine whether the control objective, "Controls provide reasonable assurance that unauthorized logical access to system files and application data is prevented and detected and access to critical files is monitored" was achieved throughout the period July 2010 through March 2011.
  - The NBC implemented a change to the retention of the log schedule in April 2011 to mitigate the issue. Upon notification NBC took action to manually review the audit logs for the two (2) months the SEIM (Security Event and Incident Management) tool was not monitoring audit logs. KPMG inspected the results of the review and determined no security incidents took place during the time logs were not being reported to the SEIM monitoring tool. KPMG re-performed the test work after NBC remediation and determined that SEIM tool was configured to notify personnel of potential security incidents such as failed login attempts. Security incidents were reviewed and tickets created as necessary. No additional mitigation is required for this control deficiency

The NBC's IT Security Program, Security Division has a clearly defined mission to develop and implement security controls, polices, and practices and to staff this Division with skilled security professionals. NBC maintains effective intrusion detection and prevention systems, conducted periodic file share scanning and monitoring of workstations, strengthened password complexity and expirations, and enhanced physical security at the Denver, CO and Herndon, VA campuses where NBC data centers reside. The result is an enhanced system of controls and oversight. In addition, the Security Division is mature in its certification and accreditation (C&A) program to ensure compliance with NIST 800-53 standards. All C&A's scheduled for FY 2011 will be concluded by the end of the fiscal year.

We have evaluated the results of our reviews, other external reviews, security enhancements and mitigating controls in place as of June 30, 2011, and believe that they provide reasonable assurance of their effectiveness and substantial compliance with FFMIA requirements. We believe that the management, administrative, and system controls in place as of June 30, 2011, are sufficient to assure

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us that the data is safeguarded and the Department's and Office of the Secretary's financial data as reported in the June 30, 2011, financial statement is reasonable and accurate.

NBC Position Related to FMFIA Compliance

The NBC's evaluation of internal controls over financial reporting for the above identified systems and the Office of the Secretary and Interior Franchise Fund (IFF) reporting was conducted in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control,* dated December 21, 2004, and the enhanced requirements identified and implemented by the Department regarding A-123, Appendix A. Our evaluation focused on the financial data submitted to and/or processed by the NBC for the Office of the Secretary and the IFF as reported on the Department's Consolidated Financial Statements. The period of coverage for the A-123 review is July 1, 2010, through June 30, 2011.

In evaluating internal control over financial reporting, the NBC used in-house resources to identify, evaluate and test key controls to determine operating effectiveness and efficiency over financial transaction processing. In particular, the NBC performed the following:

- Evaluated internal control at the entity level to include the five components for internal controls established by the Government Accountability Office (GAO) in *Standards for Internal Control in the Federal Government.* These standards are the Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.
- Evaluated internal control at the process level by documenting key financial reporting processes, identifying key controls, and understanding and assessing the control design.
- Tested internal control at the transaction level based upon guidelines established in the GAO *Financial Audit Manual* (FAM), including testing of key controls and identification of control gaps and compensating controls.
- Documented the results of testing; and
- Established corrective action plans for the internal controls identified as not effective.

For the Office of the Secretary, where the NBC processes financial transactions, we conducted the FY 2011 assessment of internal control 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, 2010, through June 30, 2011. As part of testing at the transaction level, the NBC used a random selection methodology to identify transactions for testing. After applying the random selection methodology, we reviewed the results to ensure that at least one transaction per transaction type processed for each Office of the Secretary component was included in the testing group.

During the FY 2011 A-123 Appendix A testing cycle, the NBC tested 32 key accounting and finance operations processes by completing 138 of 138 (100%) transaction level tests as of July 31, 2011. This included, but was not limited to financial assistance, fund balance and investment management, procurement, financial reporting, and revenue management. The results of our testing have been recorded and provided to the Department's Office of Financial Management (PFM) as required. Our testing revealed no material weaknesses or significant deficiencies, either separately or in the aggregate, that would have a material impact on the financial data reported. As a result, we believe that processes and controls in place as of June 30, 2011, were operating effectively to safeguard data from fraud, waste, and abuse for Office of the Secretary organizations and that the financial data reported is accurate.

The FY 2010 financial statement audit has been officially referred by the Office of Inspector General (OIG) to the Department's Office of Financial Management (PFM) and all NBC Recommendations have been closed through PFM. The NBC began mitigation through its Corrective Action Plan (CAP) process upon receipt of the individual findings and provided supporting closure documentation to PFM with final closure memorandum to the OIG. The NBC had no material weakness.

With regard to financial reporting for the IFF, we have assurance while operating on the Federal Financial System (FFS) that internal controls are in place and operating effectively and that no material weaknesses in the control design or operations have been identified.

Based on the above results of our reviews, evaluation, and testing, the NBC is able to provide reasonable assurance that the internal controls over financial reporting for the identified financial systems and for the Office of the Secretary and IFF financial reporting were operating effectively as of June 30, 2011. No material weaknesses were found in the design or operation of the internal controls over financial reporting and as a result, the NBC is in substantial compliance with FMFIA requirements.

Please contact James W. Beall, CPA, NBC Chief Financial Officer, on 202-208-3892 or Dean N. Martin, NBC Audit Liaison Officer, on 303-969-5195 if you have any questions on this statement.

DJB:JWB:dnm

C: Andrew Jackson, DAS
Pamela K. Haze, DAS
Dean N. Martin, NBC Audit Liaison Officer

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 Elimination and Recovery Act of 2010;
- 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 2011, MCC's prompt payment performance stayed the same as the previous fiscal year at 99.99 percent invoices paid on time.

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 2011, MCC referred no debts to the FMS for collection.

IPIA (as amended by IPERA)

OMB Circular A-123, Appendix C, Part I defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

Risk Assessment

A risk assessment was conducted for each of MCC's 7 funds listed below (referred to as programs). The risk assessment incorporated various risk factors as identified in Appendix C. Based upon the risk assessment, four programs, Compacts, 609G, Admin2, and Due Diligence were considered to have a higher risk of improper payments due to the high volume of transactions and higher dollar amounts of disbursements. All high risk programs were selected for statistical sampling and subsequent determination of an improper payment rate.

List of Programs
Compacts
609G
Admin 2
Due Diligence
Admin
CIF
Audit

Statistical Sampling

The objective of sampling was to:

- Select a statistically valid random sample of sufficient size for each fund to support an estimate with a 90 percent confidence interval of plus or minus 2.5 percentage points around the estimate of the percentage of improper payments.
- Select a sample from all disbursement transactions exceeding $25,000 and compose the population so that each item had an opportunity for selection.
- Select a representative sample to reach a conclusion on the error rate by projecting the results of the sample to the population and calculating the estimated amount of improper payments made in those funds (gross total of both over and under payments (i.e., not the net of over and under payments)).

The sample size was determined using the sample size formula provided in OMB Circular A-123, Appendix C. The estimated percentage of erroneous payments was determined using the improper payment error rate for FY 2010 determined from MCC's Financial Payment Data Report. Known rates are a good indicator of future rates, especially in cases where rates are currently low. In order to increase conservatism and coverage, one percent was added to the improper payment rate. This resulted in an increased sample size and allowed for greater assurance of the improper payment rate reported.

Using the sample size formula (adjusted to increase conservatism and coverage), a minimum of 44 samples was calculated for testing during the FY 2011 IPIA reporting period. This sample size met the precision requirements specified in OMB Circular A-123, Appendix C. To obtain an even number of transactions to be tested each month, the total minimum sample size was adjusted upward to an annual total of 48 transactions, or 4 samples each month.

Samples were randomly selected from all accounting lines, except payroll, exceeding $25,000 that composed the populations so that each item had an opportunity for selection. Transactions under $25,000 were excluded to focus emphasis on more material transactions and overpayments. Transactions under $25,000 did not have a significant impact on IPIA reporting thresholds. Therefore, to gain efficiency, low-dollar transactions were excluded from IPIA sampling procedures.

Improper Payment Reporting

The program risk assessment results did not identify any programs that met the OMB threshold of significant erroneous payments, defined as gross annual improper payments in the program exceeding (1) both 2.5 percent of program outlays and $10,000,000 of all program or activity payments made during the fiscal year reported, or (2) $100,000,000 (regardless of the improper payment percentage of total program outlays). Test results of the four selected programs identified a total of $334,655 in improper payments and a 1.28% improper payment rate for FY 2011.

Corrective Actions

The $334,655 reported as improper payments are part of the OMB defined category of Administrative and Documentation errors. The amounts identified within the Administrative and Documentation category represented interest payments and payments lacking supporting documentation to substantiate a payment.

MCC and its shared services provider, National Business Center (NBC) will work to improve the processing of payments and the maintenance of supporting documentation by implementing the following corrective actions in order to reduce or eliminate this category of payment errors:

- Reviewing and processing invoices timely to avoid payment of interest charges (complying with the Prompt Pay Act); and
- Filing supporting documentation in a manner that is supportive of payment transaction processing and audit information requests.

Federal Information Security Management Act of 2002

In FY2011, MCC continued to improve and enhance implemented security controls in compliance with FISMA and increase the protection of agency systems and information. This year, MCC completed the following major initiatives:

1. Completed our annual FISMA audit, confirming the closure of all prior FISMA audit recommendations
2. Improved our vulnerability management and patching processes
3. Developed and implemented a System Development Lifecycle
4. Reviewed and updated employee transfer and termination procedures
5. Updated employee sanction policy to include information system security violations

Privacy Act of 1974

In October, 2010, MCC acknowledged a material weakness in the lack of administrative controls related to a privacy program as previously administered. As a result of an audit conducted by the OIG on MCCs privacy program, the MCC Senior Assessment Board (SAB) recommended that the CEO report the lack of a privacy program as a material weakness. MCC took final action on the 18 privacy recommendations, including establishing a Senior Agency Official for Privacy (SAOP), and establishing a privacy policy and incident response procedures.

MCC established an agency-wide Privacy Program, introducing additional managerial and technical controls supporting that program, and completed 71% of the implementation plan as of September 2011. We are on schedule for full program operation by December. The SAB recommended the removal of the lack of a Privacy Program as a material weakness at its November, 2011 meeting. We are pleased with the progress made this year. Protecting the personal data we collect is critical to maintaining the trust our overseas partners have placed in us and to how we are perceived throughout the world.

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

For FY 2011, MCC received two material weakness findings related to

1. Controls over financial reporting and;
2. Controls over MCC accrued expenses, retentions, and advances.

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.

Material Weakness: MCC's Financial Reporting Process Needs Improvement

Recommendations from the auditors:

1. Develop and document a financial reporting process that reduces the likelihood of errors, inconsistencies, and inaccuracies and results in efficiencies and effectiveness, consistency, and accuracy of financial data.
2. Enhance the quality control process to detect errors or improper closeout of accounts through additional check totals, training and involvement of additional A&F staff members.

Response from MCC:

MCC concurs with recommendations #1 and #2.

Material Weakness: Controls over MCC Accrued Expenses, Retentions and Advances Need Improvement

Recommendations from the auditors:

3. Develop an appropriate MCC data store of MCA expense information as required by TR-12.
4. In the interim, perform similar data validation employed at year end for each quarter going forward.
5. Prepare an MCC developed estimate for accrued expenses based upon statistical modeling or alternative that is based on MCC obtained data.
6. Record advances in accordance with general accepted accounting principles.
7. Develop and implement a periodic reconciliation process for advances.
8. Develop and implement a quarterly certification for advance transactions processed by the MCAs as part of the quarterly data call submission.
9. Modify MCA audit requirements to include testing and reporting of advances transactions.

Response from MCC:

MCC concurs with recommendations #3 - #9.

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.

Message from the Millennium Challenge Corporation's Chief Financial Officer

I am pleased to present the FY 2011 financial statements of the Millennium Challenge Corporation (MCC). At MCC, we take seriously our responsibilities for stewardship of the resources entrusted to us and for reporting on MCC's budget and performance outcomes. 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. This financial section provides a comprehensive view of MCC's financial activities undertaken to advance MCC's mission of reducing poverty through growth.

Last December, MCC formed the Financial Integrity Task Force (FITF). This cross-functional team developed and implemented a comprehensive Corrective Action Plan toward addressing the underlying causes of the FY 2010 qualified opinion. The FITF worked with our Millennium Challenge Account (MCA) partners to develop and report grant accrual and other financial data. Through sustained collaboration, MCC and the MCAs continuously improved the process to achieve complete and accurate reporting.

As a result, I am very pleased to report that MCC received an unqualified opinion for FY 2011 from our independent auditor. As described below and in the CEO's Message, a lot of hard work went into achieving this. The audit results of MCC's FY 2011 financial statements are clear evidence of that progress. The MCC's independent auditor reported that, in its opinion, MCC's financial statements present fairly, in all material respects, the net position of MCC as of September 30, 2011, and its net cost, changes in net position and budgetary resources for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

We begin this new fiscal year with concentrated effort to resolve completely the material weakness in regard to our grant accrual methodology. As recommended by the auditor, MCC will develop a statistical model and validation process for grant accruals and look to develop this approach by the second quarter. We are also committed to improving the process with advances; while we don't have a complete corrective action plan finalized, we are already exploring alternatives. The auditor's report makes it clear that there is room for improvement in controls over financial reporting. We already are implementing the recommendations identified and are committed to correcting this situation in the near term.   We also received other less serious findings of areas for improvement that will be incorporated into a master corrective action plan for resolution within the fiscal year.

In addition to activities related to financial reporting, these are exciting and busy times at MCC. When I joined the Department of Administration and Finance this October, it was apparent to me that FY 2011 was a period of significant accomplishment. A major priority of the last year has been to launch and complete the first phase of the Automated Financial Information System to deliver an integrated set of solutions to meet the financial, procurement, and human resource requirements of the agency. When MCC launches the second phase of the project in FY 2012, implementation of a contract management system module will transform the way staff submit and monitor contract requests and will improve the compliance, reporting, and overall management of MCC contract actions. The department also has worked closely with our program operations colleagues to define requirements for further improvements to the MCC Integrated Data Analysis System.

Achieving cost savings in all areas was a focus of the department and agency in FY 2011 and will continue. MCC was able to realize significant efficiencies through ongoing improvements to travel practices, monitoring and intelligent management of communications tools, and regular de-obligation of contracting actions. Finally, key changes implemented in FY 2011 to MCC's performance management program have improved the entire agency's ability to define, monitor and reward excellent performance.

MCC's achievements in 2011 and the continued progress we plan for 2012 are made possible only by the exemplary dedication of our committed staff and partner countries. Ultimately, it is through the successful implementation of our programs that we achieve the results of sustainable poverty reduction through economic growth.

Chantale Yokmin Wong
Vice President for Administration and Finance
Chief Financial Officer
November 15, 2011

Financial Section

The Principal Financial Statements report on the financial position and the results of operations of the Millennium Challenge Corporation (MCC). The Statements have been prepared from the books and records of the Agency in accordance with formats prescribed by the Office of Management and Budget (OMB) in OMB Circular A-136, Financial Reporting Requirements. The statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The Agency has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation. Comparative data for FY 2010 have been included. MCC is presenting the following financial statements and additional information:

- Balance Sheets
- Statements of Budgetary Resources
- Statements of Net Cost
- Statements of Changes in Net Position
- Notes to Financial Statements
- Other Accompanying Information
- Audit Reports on the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2011 and 2010

Balance Sheets

	FY 2011	FY 2010
Assets		
Intra-Governmental		
Fund Balance with Treasury (Note 2)	$ 5,875,161,025	$ 6,554,088,712
Advances – Federal (Note 5)	5,861,151	8,778,900
Total Intra-Governmental	5,881,022,176	6,562,867,612
Accounts Receivable (Note 3)	65,098	49,409
General Property, Plant, and Equipment (Note 4)	4,612,820	5,857,213
Advances – Public (Note 5)	192,187,111	182,343,189
Total Assets	$ 6,077,887,205	$ 6,751,117,423
Liabilities		
Intra-Governmental		
Accounts Payable – Federal (Note 1F)	$ 10,290,179	$ 5,055,266
Contributions and Payroll Taxes Payable	527,333	476,667
Total Intra-Governmental	10,817,512	5,531,933
Federal Employee and Veteran Benefits Payable	12,604	12,443
Accounts Payable – Public (Note 1F)	290,366,872	208,104,353
Accrued Funded Liabilities	8,531,046	9,279,041
Total Liabilities	$ 309,728,034	$ 222,927,770
Net Position		
Unexpended Appropriations – Other Funds	$ 5,763,269,299	$ 6,522,071,077
Cumulative Results of Operations – Other Funds	4,889,872	6,118,576
Total Net Position	$ 5,768,159,171	$ 6,528,189,653
Total Liabilities and Net Position	$ 6,077,887,205	$ 6,751,117,423

The notes are an integral part of these financial statements.

Statements of Budgetary Resources

	FY 2011	FY 2010
Budgetary Resources		
Unobligated Balance – Beginning of Period	$ 944,204,120	$ 787,102,593
Recoveries of Prior Years Obligations	4,152,213	4,045,794
Budget Authority:		
Appropriations (Note 1C)	900,000,000	1,105,000,000
Non expenditure Transfers, Net, Anticipated and Actual	0	(2,377,922)
Permanently Not Available	(1,800,000)	(50,000,000)
Total Budgetary Resources	**$ 1,846,556,333**	**$ 1,843,770,465**
Status of Budgetary Resources		
Obligations Incurred		
Direct	$ 581,848,132	$ 899,566,345
Unobligated Balance Available	671,745,269	451,137,424
Unobligated Balance Not Available	592,962,932	493,066,696
Total Status of Budgetary Resources	**$ 1,846,556,333**	**$ 1,843,770,465**
Change in Obligated Balance		
Obligated Balance, Net – as of October 1, 2010		
Unpaid Obligations, Brought Forward, October 1	$ 5,609,507,905	$ 5,868,196,304
Obligations Incurred	581,848,132	899,566,345
Gross Outlays	(1,577,749,645)	(1,154,208,950)
Recoveries of Prior Year Unpaid Obligations, Actual	(4,152,213)	(4,045,794)
Obligated Balance, Net – End of Period		
Unpaid obligations	$ 4,609,454,179	$ 5,609,507,905
Net Outlays		
Gross Outlays	$ 1,577,749,645	$ 1,154,208,950

The notes are an integral part of these financial statements.

Statements of Net Costs

Program	FY 2011	FY 2010
Program Costs (Note 7)		
Compact		
Gross Costs	$ 1,449,285,114	$ 1,020,176,345
Less: Earned Revenue	0	0
Net Program Costs	1,449,285,114	1,020,176,345
609 (g) Programs		
Gross Costs	28,825,091	19,551,450
Less: Earned Revenue	0	0
Net Program Costs	28,825,091	19,551,450
614 (g) Programs		
Gross Costs	50,614	0
Less: Earned Revenue	0	0
Net Program Costs	50,614	0
Threshold Programs		
Gross Costs	49,002,236	58,985,525
Less: Earned Revenue	0	0
Net Program Costs	49,002,236	58,985,525
Due Diligence Programs		
Gross Costs	37,628,706	28,555,929
Less: Earned Revenue	0	0
Net Program Costs	37,628,706	28,555,929
Audit		
Gross Costs	4,087,460	3,517,852
Less: Earned Revenue	0	0
Net Program Costs	4,087,460	3,517,852
Administrative		
Gross Costs	91,811,012	95,580,731
Less: Earned Revenue	0	0
Net Program Costs	91,811,012	95,580,731
Program Costs – Net of All Programs	$ 1,660,690,233	$ 1,226,367,832
Net Costs of Operations	**$ 1,660,690,233**	**$ 1,226,367,832**

The notes are an integral part of these financial statements.

Statements of Changes in Net Position

	FY 2011	FY 2010
Cumulative Results of Operations		
Beginning Balances	$ 6,118,576	$ 4,949,121
Adjustments	0	0
Beginning Balance, as Adjusted	6,118,576	4,949,121
Budgetary Financing Sources		
Appropriations Used	1,657,001,778	1,224,912,387
Other Financing Sources		
Donations and Forfeitures of Property (Note 1P)	236,486	269,514
Imputed Financing	2,223,265	2,355,386
Total Financing Sources	1,659,461,529	1,227,537,287
Net Cost of Operations	(1,660,690,233)	(1,226,367,832)
Net Change	(1,228,704)	1,169,455
Cumulative Results of Operations	**$ 4,889,872**	**$ 6,118,576**
Unexpended Appropriations		
Beginning Balance	$ 6,522,071,077	$ 6,694,361,386
Adjustments	0	0
Correction of errors	0	0
Beginning Balance, as Adjusted	6,522,071,077	6,694,361,386
Budgetary Financing Sources		
Appropriations Received	$ 900,000,000	$ 1,105,000,000
Appropriations Transferred In/Out	0	(2,377,922)
Other adjustments	(1,800,000)	(50,000,000)
Appropriations Used	(1,657,001,778)	(1,224,912,387)
Total Budgetary Financing Sources	(758,801,778)	(172,290,309)
Total Unexpended Appropriations	5,763,269,299	$ 6,522,071,077
Net Position	**$ 5,768,159,171**	**$ 6,528,189,653**

The notes are an integral part of these financial statements.

Notes to Financial Statements (As of September 30, 2011)

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, in 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 (GAAP) for the Federal Government, as promulgated by OMB and prescribed by the Federal Accounting Standards Advisory Board (FASAB). The FASAB has been recognized by the American Institute of Certified Public Accountants (AICPA) as the official accounting standard setting authority for the Federal government.

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 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. OMB apportions MCC program and administrative funds on an annual basis pursuant to statutory limitations in the annual appropriations bill. OMB segregates the 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 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 for future obligation until expended.

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 by the U.S. Treasury. The U.S. 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 2011 were $290 million (non-Federal) and $10.3 million (Federal) and at the end of Fiscal Year 2010 were $208 million (non-Federal) and $5.1 million (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 $3 thousand in FECA liabilities during Fiscal Year 2011 and $0 in Fiscal Year 2010.

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. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. 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.

Federal employee benefits costs paid by the Office of Personnel Management (OPM) and imputed by MCC are reported on the Statement of Net Cost.

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.

During Fiscal Year 2011 the Federal Accounting Standards Advisory Board, issued Technical Release 12 (TR12) Accrual Estimates for Grant Programs and MCC has adopted this methodology for the recording of MCC Compact Grant Accrual Programs. TR12 provides methodologies for both mature grant programs and new grant programs where sufficient relevant and reliable historical data is not yet available. TR 12 also provides guidance on acceptable sources of documentation for grant accrual estimates, including the monitoring and validation of estimates. In the absence of sufficient relevant and reliable historical data on which to base accrual estimates, MCC prepares estimates based upon the best available data at the time the estimates are made.

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 $999 thousand and $377 thousand in interest remittances as of September 30, 2011 and 2010, 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 2011 was $236 thousand and Fiscal Year 2010 was $270 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 2011 and Fiscal Year 2010, MCC transferred budgetary authority to USAID of $0 and $25 million, respectively, 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.

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, 2011 and 2010 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

	FY 2011	FY 2010
Fund Balances		
General Funds	$ 5,875,161	$ 6,554,089
Total	**$ 5,875,161**	**$ 6,554,089**

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

	FY 2011	FY 2010
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 671,745	$ 451,137
Unavailable	592,963	493,067
Obligated Balance	$ 4,609,454	$ 5,609,508
Non-Budgetary FBWT	999	377
Total	**$ 5,875,161**	**$ 6,554,089**

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 2011 and Fiscal Year 2010 were approximately $65 thousand and $49 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 as well as general equipment costs. The book value of all general PP&E for Fiscal Year 2011 and Fiscal Year 2010 was $4.6 million and $5.9 million, respectively.

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 leasehold improvements for both Fiscal Years 2011 and 2010 was $10.9 million. Accumulated amortization was $6.4 million and $5.2 million, respectively. The useful life of the improvements is based on the lease terms: ten (10) years for the Bowen building lease and eight (8) years for the City Center building lease.

MCC's capitalization threshold for all other general property, plant and equipment is an original cost of

$50,000 or more and an estimated useful life of five or more years. Accumulated depreciation was $48 thousand for Fiscal Year 2011 and $20 thousand for Fiscal Year 2010.

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 (IT) 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. MCC does not own its software or IT infrastructure; therefore, no depreciation has been calculated.

Note 5—Advances

Advances reflect amounts provided to compact countries and other Federal agencies in accordance with formal compacts or inter-agency agreements. Advances are liquidated and recorded as expenses upon receipt of expenditure reports from the recipients. MCC reported $198.0 million ($5.9 million Federal and $192.1 million non-federal) and $191.1 million ($8.8 million Federal and $182.3 million non-federal) in advances as of September 30, 2011 and 2010, 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 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 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	$23,019,424	$7,875,210	$30,894,634
Future Lease Payments Due (in dollars)			
Fiscal Year	MCC Vehicle	MCC Copiers	Total
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	$41,175	$55,821	96,996

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)

	Program	609(g)	614(g)	Threshold	Due Diligence	Audit	Administrative	FY 2011 Total (in thousands)	FY 2010 Total (in thousands)
Intra-Governmental	4,518	3,531	0	12,681	5,153	3,871	25,135	54,889	42,228
Public	1,444,767	25,294	51	36,321	32,476	216	66,676	1,605,801	1,184,140
Total - Program	**1,449,285**	**28,825**	**51**	**49,002**	**37,629**	**4,087**	**91,811**	**1,660,690**	**1,226,368**

Note 8—Undelivered Orders at the End of the Period

Exhibit 17 presents Undelivered Orders, paid and unpaid, as of September 30, 2011 and 2010.

Exhibit 17: Undelivered Orders

Undelivered Orders	2011	2010
Administrative	$ 35,653,558	$ 28,539,653
Audit	840,492	1,031,296
609(g)	34,747,822	37,167,213
614(g)	223,767	0
Due Diligence	70,954,703	65,060,507
Program	4,297,756,596	5,334,343,971
Threshold	58,595,317	111,923,479
Total	**$ 4,498,772,255**	**$ 5,578,066,116**

Note 9— Differences between the SBR and the Budget US 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 2010 and the Fiscal Year 2010 actual data reported in the Fiscal Year 2012 budget submission. Fiscal Year 2011 actual data will be published within the 2013 Budget of the United States to be published in February 2012. No material differences were noted.

Note 10—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 for the comparative FY 2011 and FY 2010 fiscal years.

Exhibit 19: Reconciliation of Net Cost of Operations to Budget

Resources Used to Finance Activities		FY 2011 Reported Program Costs	
Budgetary Resources Obligated			
Obligations Incurred	$ 581,848,132	Gross Costs	$1,660,690,233
Recoveries of prior year unpaid obligations	(4,152,213)		
Other financing resources	2,459,751		
Total resources used to finance activities	580,155,670		
Total resources used to finance items not part of the net cost of operations	1,079,290,170	Less: Earned Revenue	-
Total components of net cost of operations that will not require or generate resources	1,244,393		
Net Cost of Operations	**$1,660,690,233**	**Net Cost of Operations**	**$1,660,690,233**

FY 2010 Resources Used to Finance Activities		FY 2010 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

OIG Management Challenges

Office of Inspector General

OCT 28 2011

Mr. Daniel W. 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 audits and additional analyses performed on MCC's 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 2011 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 Mark Norman, the Deputy Assistant Inspector General for MCC.

Sincerely,

Michael Carroll
Acting 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 2011

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) 2011 are in the following areas:

- Financial Management
- Information Technology Management
- Country Compact Implementation
- Political Instability that Has Caused MCC to Place on Hold, Suspend, Terminate, or Cancel Planned Compact Activity

Financial Management

Financial management is critical to providing reliable financial information, managing results, and ensuring the effectiveness and efficiency of operations, including the use of an entity's resources. Significant MCC activities, liabilities, and expenses occur in the compact programs implemented by various Millennium Challenge Accounts (MCAs) across the globe.

We first reported financial management as a management challenge in FY 2008. OIG issued a qualified opinion on MCC's financial statements in FY 2010. The audit report included three material internal control weaknesses that resulted in MCC's FY 2009 expenses being materially understated and FY 2010 expenses being overstated.

During FY 2011, MCC undertook major efforts to address the issues that led to the qualification on MCC's financial statements in FY 2010. These efforts are highlighted below. However, our current audit identified issues that indicate ongoing challenges in MCC's ability to prepare complete and reliable financial statements. The challenges include the following:

- MCA audits do not address compliance with MCC's financial reporting requirements. The work performed during the FY 2011 audit of internal controls identified exceptions where MCA-generated estimates were not always consistent with subsequent payment testing.

- MCC's financial management system follows the guidance prescribed by the Federal Accounting Standards Advisory Board, whereas the MCAs follow an Other Comprehensive Basis of Accounting.

- 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.

- MCAs are requesting disbursements from the National Business Center, MCC's service provider, as expenses instead of advance payments to the vendors. MCC then improperly records these advance payments as expenses, based on reporting from each MCA. This practice may lead MCC to overstate its expenses and understate its advances during the fiscal year.

- The processes, policies and financial systems from one MCA to another are not consistent. This results in monitoring and financial management challenges for MCC. MCC would benefit from centralized and standardized reporting that meets its needs and requirements.

- MCC's Accounting and Finance Office continues to rely on manual financial reporting processes and quality control. This is a significant weakness because manual processes are vulnerable to human error.

MCC has taken the following actions to address its serious management challenges:

- MCC has instituted and continues to improve its monitoring of MCAs' ongoing activities and financial information, as well as the propriety of recording and reporting their financial information into MCC financial systems and financial statements. MCC's management has developed and continues to refine procedures to provide a framework for developing more reasonable estimates of accrued liabilities for MCA activities. These procedures include adopting and enhancing validation techniques, revising related policies and procedures, extensive training of MCA recipients in reporting requirements, and adopting internal quality control measures.

- MCC also requested that MCAs separately report quarterly advances to contractors using a new form in March 2011. This new form is used as a secondary source for information validation purposes only. MCC uses this form to adjust its records and reclassify expenses to advances at the end of each quarter.

However, the effectiveness of the new validation process is questionable; during FY 2011 testing, we noted that not all MCAs followed the new process. As a result, we still consider the area of financial management to be a serious management challenge.

Information Technology Management

Beginning in FY 2008, OIG has reported information technology (IT) management challenges affecting MCC. Last year, OIG reported MCC's privacy program and IT project management as two new challenge areas. In FY 2010, MCC reported that the privacy program was a material weakness. However, in the past year MCC has reported that final action was taken on all 18 recommendations in OIG's July 2010 audit report. Therefore, OIG does not consider the privacy program to be a management challenge for FY 2011. OIG continues to consider IT project management as a challenge, but views it as part of a broader area: IT governance.

2

IT Governance. In June 2011, an OIG contractor reported that weaknesses in MCC's IT governance processes may (1) increase IT project costs, (2) lengthen deployment, and (3) deliver solutions that do not satisfy business needs. Similarly, in January 2011, OIG reported that such risks led MCC to spend more than $6.9 million for a system that only partially met its needs. Between the two reports, OIG made 32 recommendations to help MCC achieve an appropriate level of IT governance and control. In response, MCC developed a 17-month plan as a roadmap to improve IT management. The plan identifies a four-phased approach based on budget impact, sequencing of activities, and resource requirements. MCC plans to complete the final phase by December 2012.

Country Compact Implementation

We first reported that MCC was experiencing serious management challenges with compact implementation in FY 2008. At that time, the challenges involved a low rate of disbursements and increasing costs associated with infrastructure projects. In response to these issues, MCC began and continues to rescope its compacts and focus on projects that are most likely to be completed. In 2008, MCC developed and implemented a new compact development process in an effort to improve its compact implementation process. However, subsequent OIG audits continued to report that MCC was not achieving intended results because compacts were being rescoped.

In a March 2011 audit, we recommended and MCC agreed to identify the requisite studies that will be completed prior to compact signing in an effort to reduce problems during implementation. OIG believes that more planning and the completion of more feasibility studies will enable MCC to better implement projects as intended by the compact.

During the past 6 months, MCC conducted the first comprehensive management review of its compact development process since 2008. The review focused on identifying ways that MCC can minimize compact development timelines and costs while maintaining the quality of due diligence and project implementation. The review generated a series of recommendations aimed at accelerating the start-up phase of compact development, improving compact quality and implementation readiness, and imposing target timelines and budget constraints.

Political Instability Has Caused MCC to Place on Hold, Suspend, Terminate, or Cancel Planned Compact Activities

OIG first reported political instability as a serious management challenge in 2009. In 2009, OIG reported that MCC suspended, terminated, or canceled a total of $340 million in planned activities in 5 of the 19 compact countries because of internal or regional political instability. 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). Even though MCC did not suspend, terminate, or cancel any compact activities in 2010, we continued to report this issue as a serious management challenge.

In 2011, MCC placed its compact activities in Malawi on hold. MCC signed a 5-year, $350 million compact with the Government of Malawi on April 7, 2011. In July 2011, in response to a pattern of actions inconsistent with MCC's criteria for democratic governance, MCC placed an immediate hold on all program operations in order to review its partnership with Malawi. In part, the review will consider whether to recommend to its Board of Directors that MCC suspend or terminate its assistance.

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. MCC compacts require countries to maintain and improve their performance on the policy areas measured by the indicators throughout the life of the compact. Because of weak democratic governance in some of MCC's partner countries, this very serious management challenge will remain a concern.

MCC Responses to OIG Management Challenges

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

TO: Alvin A. Brown
Assistant Inspector General

FROM: Chantale Y. Wong
Vice President, Administration and Finance and
Chief Financial Officer

DATE: November 15, 2011

SUBJECT: Management Response to Statement by the Office of Inspector General (OIG) on MCC's Most Serious Management and Performance Challenges Fiscal Year 2011

In its FY 2011 Statement of MCC's Most Serious Management and Performance Challenges, the OIG notes four areas:

- Financial Management
- Information Technology Management
- Country Compact Implementation
- Political Instability that Has Caused MCC to Place on Hold, Suspend, Terminate or Cancel Planned Compact Activity

Financial Management

MCC is pleased that OIG acknowledges the significant progress MCC has made this past year in strengthening financial management policies, practices, and procedures. Our goal is to provide sound financial management, financial reporting and internal control systems that help ensure successful implementation of programs for sustainable poverty reduction through economic growth.

During FY 2011, MCC established a cross-agency team, the Financial Integrity Task Force (FITF), to address FY 2010 financial audit findings and to make recommendations for systemic change. Of the 17 audit findings, 15 were closed, one was partially implemented (a signature card process) and the last, regarding timeliness of MCA audits, was open, pending further implementation of changes to MCA audit procedures.

We also began applying Federal Accounting Standards Advisory Board (FASAB) Technical Release 12, Accrual Estimates for Grant Programs, where we worked with the MCAs to develop new processes and procedures to provide MCC with data for compiling and recording grant accruals, building our base of historical data, as well as improving procedures for recording advances and retentions. In reviewing documentation provided by the auditors in this area, MCC noted significant improvement in the quality of information provided by MCAs from the first to the fourth quarters of FY2011. MCC's introduction of expanded quality control procedures has significantly reduced the risks related to completeness and accuracy. Our collaboration with MCA partners to introduce and improve these processes included a comprehensive year-end approach that successfully ensured MCC's reinstatement of an unqualified audit opinion this year. The fourth quarter results provide evidence that these controls are in place and functioning as designed.

MCC also implemented an upgrade to the Oracle Federal Financial System that enhanced our efficiency and accuracy by ensuring interoperability of the applications supporting MCC business operations.

In FY 2012, MCC looks ahead to tackling aggressively its management challenges and to continued efforts toward resolution of internal control concerns raised by the OIG and independent third party consultants. In working with the MCA grantees, which are responsible for managing their own contracts, MCC in accordance with TR 12 is looking toward simplifying methodologies for estimation of accruals, based on historical data. We also are assessing avenues to improve MCA related audit procedures. As part of MCC's systems improvements, recently standardized data elements and reporting requirements will help address some standardization issues while potential acquisition of financial reporting software would reduce manual processes.

MCC previously determined that the adoption of the current methodology for advances was an accurate and effective way of compiling data used to prepare quarterly and annual financial statements for presentation in accordance with Generally Accepted Accounting Principles (GAAP). MCC will continue to examine our methodology in light of our FY 2012 comprehensive corrective action plan.

Information Technology Management

MCC is pleased that the OIG no longer considers the privacy program to be a management challenge and agrees that IT governance deserves management attention. MCC is actively engaged in the activities laid out in its 17-month Combined Corrective Action Plan, developed in response to the OIG's findings on IT governance and project management gaps. MCC has delivered the items required for the October 31 deadline and is on target to complete the plan by December 2012.

Country Compact Implementation

MCC continues to face a range of risks and challenges with respect to the implementation of its compact programs. During FY 2011, MCC focused compact management on the careful identification and mitigation of those risks most likely to materially impact compact quality, results, and completion. Risk registers that outline key risks and actions being taken to address them were added to quarterly portfolio reviews conducted by management. Due to the risks inherent in working in developing countries, MCC will continue to face a wide range of political, results, financial, reputational, and other risks, but the agency is taking proactive steps to mitigate and address those risks. As the OIG notes, MCC also conducted a comprehensive review of compact development during FY 2011 to improve due diligence, project preparation, and the planning of compact implementation mechanisms to reduce risks and improve the effectiveness of compact implementation.

Political Instability that Has Caused MCC to Place on Hold, Suspend, Terminate or Cancel Planned Compact Activity

We agree with OIG's assessment that the somewhat unstable political environment in our partner countries continues to be an ongoing challenge for MCC management and the Board of Directors. The recent events of the Arab Spring bring into clear focus the sweeping changes that can quickly remake political landscapes. However, the nature of MCC's mission to assist poor, developing countries means we will continue to confront political and economic instability.

In anticipation of these challenges, MCC's country selection process emphasizes selectivity based on policy performance. In evaluating a country's policy performance, MCC uses objective and quantifiable policy indicators, developed by independent third party institutions, in three core categories: ruling justly, investing in people, and encouraging economic freedom. By working with countries that demonstrate tangible commitment to sound policies in these categories, MCC contributes to the reduction of potential instability. In addition, MCC's compact development process emphasizes broad-based public consultation and country ownership which can help mitigate instability and has, in several of our compact countries, facilitated smooth transitions between changes in political leadership.

For FY 2012, MCC will implement a number of changes that modify the overall evaluation of candidate country performance to strengthen the system's incentive effect and the scorecard's role as a framework for policy dialogue and reform. In addition, MCC will continue its practice of monitoring policy performance and political stability in partner countries on an ongoing basis and communicate concerns to country leadership when necessary. As appropriate, MCC pursues its engagement in concert with the State Department, USG stakeholders, other international organizations, and the broader global donor community.

When a country takes actions that are inconsistent with MCC's policy indicators, MCC engages with country leadership to incentivize corrective actions and to encourage sound policy environments that allow economic growth to thrive. When a country does not take meaningful steps to address MCC's concerns, we uphold our commitment to selectivity and accountability by holding, suspending, or terminating compact activity.

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.

Exhibit 17. Summary of Financial Statement Audit and Management Assurances

Fiscal Year 2011 Financial Statement Audit					
Audit Opinion :	Unqualified				
Restatement:	no				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Controls over MCC Accrued Expenses, Retentions, and Advances	1	0	0	1	1
Compiling Accruals	1	0	0	-1	0
Controls over MCA Activities	1	0	1	0	0
Financial Reporting	0	1	0	0	1
Total Material Weaknesses	3	1	1	0	2
Effectiveness of Internal Control over Financial Reporting					
Statement of Assurance:	Unqualified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Privacy Program	1	0	1	0	0
Total Material Weaknesses	1	0	1	0	0
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 the 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, 2011 AND 2010

AUDIT REPORT NO. M-000-12-001-C
November 15, 2011

WASHINGTON, DC

Office of Inspector General
for the Millennium Challenge Corporation

November 15, 2011

Mr. Daniel Yohannes
Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005-2203

Subject: Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2011 and 2010

Dear Mr. Yohannes,

Enclosed is Williams, Adley & Company-DC, LLP's final report on the subject audit. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of Williams, Adley & Company-DC, LLP to audit the financial statements of the Millennium Challenge Corporation (MCC) for the period ending September 30, 2011. 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 an unqualified opinion on MCC's FY 2011 Financial Statements. The report stated that the financial statements referred to above present fairly, in all material respects, the net position of MCC as of September 30, 2011, and its net cost, changes in net position and budgetary resources for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America. MCC's financial statements as of September 30, 2010 were audited by other auditors.

In its audit of MCC's fiscal year 2011 financial statements the auditors' identified two issues that were considered material weaknesses and two other issues that were considered significant deficiencies. These matters are listed below and are detailed in the auditor's report.

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.

Material Weaknesses

- MCC's Financial Reporting Process Needs Improvement

- MCC's Process for Calculating and Reporting Accrued Expenses, Retentions, and Advances Needs Improvement

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.

Significant Deficiencies

- MCA Required Documentation, Including Audit Reports, Quarterly Disbursement Requests and Compact Closure Plans Are Not Submitted, Reviewed, and/or Approved In A Timely Manner

- Reconciling Fund Balance with Treasury (USAID)

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

In carrying out its oversight responsibilities, the OIG reviewed Williams, Adley & Company-DC, LLP's audit reports and documentation. This review, as differentiated from an audit in accordance with U.S. Generally Accepted Government Auditing Standards was not intended to enable the OIG to express, and we do not express, opinions on MCC's financial statements, or internal control; or on MCC's compliance with other laws and regulations. Williams, Adley & Company-DC, LLP is responsible for the attached auditor's report, dated November 10, 2011, and the conclusions expressed in the report. However, our review disclosed no instances where Williams, Adley & Company-DC, LLP did not comply, in all material respects, with applicable standards.

To address the material weaknesses and significant deficiencies in internal controls reported by Williams, Adley & Company-DC, LLP, we are listing below the findings with fifteen (15) recommendations to MCC's management:

Material Weaknesses

MCC's Financial Reporting Process Needs Improvement

Recommendations: We recommend that MCC's Administration and Finance (A& F) Division:

1. Develop and document a financial reporting process that reduces the likelihood of errors, inconsistencies, and inaccuracies and results in efficiencies and effectiveness, consistency, and accuracy of financial data.

2. Enhance the quality control process to detect errors or improper closeout of accounts through additional check totals, training and involvement of additional A&F staff members.

MCC's Process for Calculating and Reporting Accrued Expenses, Retentions, and Advances Needs Improvement

Recommendations: We recommend that MCC:

3. Develop an appropriate MCC data store of MCA expense information as required by TR-12.

4. In the interim, perform similar data validation employed at year end for each quarter going forward.

5. Prepare a MCC developed estimate for accrued expenses based upon statistical modeling or an alternative that is based on MCC obtained data.

6. Record advances in accordance with generally accepted accounting principles.

7. Develop and implement a periodic reconciliation process for advances.

8. Develop and implement a quarterly certification for advance transactions processed by the MCAs as part of the quarterly data call submission.

9. Modify MCA audit requirements to include testing and reporting of advances transactions.

Significant Deficiencies

MCA Required Documentation, Including Audit Reports, Quarterly Disbursement Requests and Compact Closure Plans Are Not Submitted, Reviewed, and/or Approved In A Timely Manner

Recommendations: We recommend that MCC's Administration & Finance Division and Department of Compact Operations:

10. Collaborate with the OIG and provide the MCA auditors with a document discussing the issues/errors that have led to delays in processing and clearing audit plans and audit reports in a timely manner.

11. Provide comprehensive guidance to MCAs regarding the procurement of firms to perform the Fund Accountability Statement audits with a focus on timeliness and completeness of the audit deliverables and potential penalties.

12. Continue to collaborate with the OIG to improve communications regarding audit status and solutions to moving individual audits to completion on a timely basis.

13. Reiterate the program requirements that Quarterly Disbursement Requests are to be accurate and complete and submitted within the required timelines and provide them with information about issues/things that cause delays.

14. Review the current guidelines for submission of Compact Closure Plans to determine if the timeline is reasonable and realistic. In addition, the Department of Compact Operations should work closely with MCAs to develop and compile a compact closure plan and resolve any outstanding items in advance of compact closure.

Reconciling Fund Balance with Treasury (USAID)

Recommendation: We recommend that MCC's Administration and Finance Division:

15. Continue to follow USAID's progress toward elimination of cash balance differences between USAID and Treasury and timely clearing suspense account items in order to monitor MCC's risk of potential misstatements.

In finalizing the report, Williams, Adley & Company-DC, LLP evaluated MCC's response to the report and acknowledged that management decisions have been reached on all of the recommendations. Williams, Adley & Company-DC, LLP stated that MCC should provide OIG with a timeline to address the recommendations and report to the OIG when final action has been taken on the recommendations.

Subsequently, MCC provided target dates for when the final actions would be completed. Thus, OIG agrees with MCC's management decisions for all 15 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 Williams, Adley during the audit. Please contact Mark Norman at (202) 216-6961, if you have any questions concerning this report.

Sincerely,

Alvin A. Brown
Assistant Inspector General
Millennium Challenge Corporation

WILLIAMS ADLEY

Independent Auditors' Report

Inspector General
United States Agency for International Development

Board of Directors
Millennium Challenge Corporation

We have audited the accompanying Balance Sheet of the Millennium Challenge Corporation (MCC) as of September 30, 2011, and the related Statements of Net Cost, Changes in Net Position and Budgetary Resources for the fiscal year then ended (hereinafter referred to as financial statements). These financial statements are the responsibility of MCC management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of MCC as of September 30, 2010 were audited by other auditors whose qualified report dated November 15, 2010, included an explanatory paragraph that described that the 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. Fiscal year 2009 expenses were understated by accrual amounts, and FY 2010 expenses were overstated by those same amounts.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MCC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of MCC as of September 30, 2011, and its net cost, changes in net position and budgetary resources for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis section is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

The introductory information and performance information are presented for additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 10, 2011, on our consideration of MCC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Williams, Adley & Company – DC, LLP /s/

Washington, D.C.
November 10, 2011

WILLIAMS ADLEY

Independent Auditors' Report on Internal Control

Inspector General
United States Agency for International Development

Board of Directors
Millennium Challenge Corporation

We have audited the Principal Statements (hereinafter referred to as the financial statements) of the Millennium Challenge Corporation (MCC) as of and for the fiscal year (FY) ended September 30, 2011, and have issued our report thereon dated November 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) audit guidance.

MCC's management is responsible for establishing and maintaining effective internal control. In planning and performing our audits, we considered MCC's internal control over financial reporting by obtaining an understanding of MCC's internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements but not to express an opinion on the effectiveness of MCC's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of MCC's internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in the OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. We did not test all internal controls relevant to operating objectives broadly defined by the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) such as those controls relevant to ensuring efficient operations.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects MCC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of MCC's principal financial statements that is more than inconsequential will not be prevented or detected by MCC's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

WILLIAMS, ADLEY & COMPANY-DC, LLP
Certified Public Accountants / Management Consultants
1030 15th Street, NW, Suite 350 W • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161
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As a result of our testing, we consider the findings included in Schedule A to be material weaknesses and those in Schedule B to be a significant deficiencies. The material weaknesses noted in Schedule A were not reported as material weaknesses by MCC in their FMFIA report. We noted other non-reportable matters involving internal control and its operations that we reported to management in a separate letter.

MCC's management comments are in an 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 management of the Millennium Challenge Corporation and its Office of Inspector General, Office of Management and Budget, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Adley & Company – DC, LLP /s/

Washington, D.C.
November 10, 2011

Schedule A – Material Weaknesses

I. **MCC's Financial Reporting Process Needs Improvement**

MCC's financial reporting process needs improvement. In the draft annual financial statements provided to the auditors there were errors amounting to $180 million that were identified by the auditors and reported to MCC for correction. The June 2011 financial statements included an error of $596 million that MCC found prior to our review that required the financial statements to be reissued. MCC's heavy reliance on the manual compilation of financial reports, staffing limitations and tight compilation and reporting timelines resulted in an ineffective quality assurance process and thus the errors that were found.

The quarterly and annual financial reporting process is highly manual and requires several outside entities to provide materially significant financial information on a timely basis in order to prepare MCC's internal and external reports. Currently the time required to compile the financial statements from generation of the initial trial balance from the accounting system, receipt, review and recording of outside data, and the preparation and posting of adjusting entries significantly shortens the time available for the quality assurance process needed to ensure that material errors do not occur.

A summary of the errors we found in our testing of MCC's financial reporting is as follows:

- We noted an incorrect Fund Balance with Treasury balance on the Balance Sheet at June 30, 2011 and thus the financial statements did not total correctly. MCC reported $5,681 million but later revised that amount to $6,278 million, a difference of $596 million, due to a formula error in the Excel worksheet that MCC informed us of prior to our review of those statements.

- In the original submission of the September 30, 2011 draft financial statements, on the Statements of Changes in Net Position, the total financing sources for FY 2010 was overstated by $50 million and the unexpended appropriations beginning balance as adjusted was overstated by $130 million. We reported these errors to MCC who indicated that transposition errors had occurred.

In an effort to address various issues noted in prior year audits, including challenges with financial reporting, MCC established the Financial Integrity Task Force in FY 2011 that resulted in additional training and quality control tools for the Department of Administration and Finance (A&F).

OMB Circular A-123, Management's Responsibility for Internal Control states:

"*Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions:*

- *All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date (existence and occurrence);*
- *All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included (completeness);*

- *All assets are legally owned by the agency and all liabilities are legal obligations of the agency (rights and obligations);*
- *All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (valuation);*
- *The financial report is presented in the proper form and any required disclosures are present (presentation and disclosure);*
- *The transactions are in compliance with applicable laws and regulations (compliance):*
- *All assets have been safeguarded against fraud and abuse; and*
- *Documentation for internal control, all transactions, and other significant events is readily available for examination."*

MCC's Financial Reporting, Financial Audits, and Agency Financial Reports Policy and Procedure Manual, section 8.1 states:

> *"Step 2: The Division of Finance, DCFO/ACFO, reviews, validates and conducts quality assurance on financial statements. If errors are found, the Division of Finance staff make necessary changes and reissue the revised financial statement package."*

MCC's unqualified opinion was obtained through "heroic efforts" because the financial reporting by MCC requires extensive time and effort from MCC personnel. MCC's heavy reliance on manual compilation of financial reports and validation of the underlying data show that improvements are needed to ensure that systems, processes, and controls routinely generate reliable, useful, and timely financial information. This manual process and tight timelines reduces the time for quality control and thus increases the likelihood of misstatement due to human error. MCC does not currently have an effective review process in place to ensure accurate financial reporting. As a result, material errors in the financial statements could mislead readers as to the financial activities of MCC.

Recommendations: We recommend that MCC A&F:

1. Develop and document a financial reporting process that reduces the likelihood of errors, inconsistencies, and inaccuracies and results in efficiencies and effectiveness, consistency, and accuracy of financial data.

2. Enhance the quality control process to detect errors or improper closeout of accounts through additional check totals, training and involvement of additional A&F staff members.

II. Controls over MCC Accrued Expenses, Retentions, and Advances Need Improvement

The controls over the accrued expenses, retentions, and advances need improvement. MCC accrued expenses and retentions related to the Millennium Challenge Accounts (MCAs) are approximately $276 million or 92% of the accounts payable recorded and reported by MCC quarterly. MCA advances are approximately $185 million or 93% of the advances reported on MCC's financial statements. These balances are reported in the financial statements based upon a quarterly data call reporting process that began at the end of the prior fiscal year.

During FY 2011 in response to prior year audit recommendations, MCC provided quarterly instructions and templates to the MCAs regarding the advances, accruals, and retentions data call reporting. However, the instructions and templates changed between the first and second quarters of FY 2011.

Issues with advances have been noted in past financial statement audits as material misstatements that required a restatement of the FY 2009 financial statements and material audit adjustments to the FY 2010 financial statements. Initially, MCC records all advance transactions in the general ledger as an expense. Using the quarterly data call reporting workaround MCC records a journal voucher to move outstanding advances from expenses to advances.

Until the fourth quarter there was no other MCC review to ensure that these material transactions were accurate. Additionally, the timelines used for the majority of the fiscal year for MCA quarterly data call submissions were tight leaving little time for reconciliation and follow-up with the MCA.

Also, during FY 2011 MCC implemented Federal Accounting Standards Advisory Board (FASAB) Technical Release (TR) 12 for estimating accruals for its grant program, i.e. Compacts. Because MCC does not have the historical data store to accurately estimate accrued expenses, MCC relied on the MCAs to act as a "proxy" to provide accurate, reliable, and complete data to produce the estimated accrued expense balances. During most of the year minimal quality assurance checks were performed on the MCA data before recording in the general ledger and quarterly financial statements. In the fourth quarter, however, the level of quality assurance performed by MCC changed and expanded significantly.

As a result of MCC's validation of prior data calls and special reports from MCA auditors, we noted that the quarterly data call reporting on which MCC was placing its reliance contained misstatements. Further, several MCAs did not have internally developed processes to ensure reliable, accurate, complete and consistent reporting to MCC. Due to the high level of audit risk, we performed on-site testing of the data call reporting for accruals, advances, and retentions at six MCAs covering the first, second, and third quarters. Although our primary focus was FY 2011, we did perform tests of the September 2010 balances given the prior year issues noted in the FY 2010 auditors' report. The results of our audit indicated errors in the data call information for advances, retentions, and accruals.

- We noted errors in the MCAs' data call reporting from the first quarter through the third quarter.
- We noted accrual errors at all six MCAs. Most errors involved work in process estimates. The errors caused misstatements ranging from $227 thousand to $10 million. Also, several accruals in each quarterly data call lacked supporting documentation or were duplicates.
- Five of six MCAs had problems in properly reporting retentions quarterly. Errors in retentions ranged from $2 thousand to $3 million. We also noted a lack of supporting documentation and inadequate controls over compliance with contract requirements related to retentions.
- We noted that advances ranging from $66 thousand to $939 thousand were not included in the data calls during the three quarters.
- We noted that two of six MCAs were not using the new Advance Payment Reporting Form (APRF) to report advances after April 1, 2011, as required. MCC implemented the

APRF to serve as a secondary check on the reasonableness of the quarterly reported advances.

Technical Release 12 requires the agency to prepare reliable and timely accrual estimates for grant programs based upon historical data stores. Because MCC is at an interim stage in its implementation of TR 12 and lacks the in-house data stores, it is relying on the data obtained from the MCAs and monitoring of this estimation process.

Through the Financial Integrity Task Force, MCC employed a multi-pronged approach to ensuring data quality that included instructions, standardized reporting, one-on-one training and consultations, frequently asked questions, quarterly regional conference calls with the MCA finance teams and fiscal agents, and on-site assistance. MCC sent key staff to conduct hands on training at selected MCAs in May 2011 and also held multi-day working sessions with MCA finance teams and fiscal agents in May and June, 2011. Because of what was learned during this period MCC expanded training efforts by working with procurement personnel, finance and fiscal agent staff through the fourth quarter.

MCC implemented more extensive quality control procedures at year end to reduce the data quality risks related to completeness, accuracy and consistency. In the 4th quarter MCC's quality control procedures included obtaining MCA data quality certifications, sampling the data call's supporting documentation for completeness and accuracy, and a review of each submission for reasonableness. Because of the herculean efforts of MCC A&F and the Department of Compact Operations (DCO) and the MCAs our testing of the MCAs' fourth quarter data call submissions resulted in a net MCC overstatement of accounts payable of $4 million and an $886 thousand understatement of advances.

Technical Release 12 also requires that the agency assess the cost benefit of the controls over the data. It is unknown however the total cost of the efforts employed by MCC to ensure the data quality of the fourth quarter submissions.

Multiple causes exist for the advances, accruals, and retentions data call errors. They include:

- Insufficient guidance early in the year for development of an accrual methodology, process, and documentation,
- Inadequate review of data call prior to submission to ensure completeness, accuracy, and timeliness,
- Inadequate retention of supporting documentation,
- Lack of engagement of MCA program personnel and other persons with knowledge of the current work status,
- Incorrect use of exchange rates,
- Lack of a standardized system of electronic recording and reporting thereby resulting in a highly manual process,
- Insufficient MCA policies and procedures to ensure completeness, accuracy, timeliness, approvals, and consistency, and

- Lack of a robust quality assurance process by MCC.

Also, for the majority of the fiscal year MCC did not have sufficient controls in place and did not request sufficient documentation from the MCAs to detect errors in data call reporting.

Statement of Federal Financial Accounting Standard Number 1, Accounting for Selected Assets and Liabilities, states:

> *"Advances are cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part of or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires. Examples include … and cash or other assets disbursed under a contract, grant, or cooperative agreement before services or goods are provided by the contractor or grantee. "*

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

> *"Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes."*
>
> *"For an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events."*
>
> *"Control activities help to ensure that all transactions are completely and accurately recorded."*

FASAB TR 12 *Accrual Estimates for Grant Programs* states in paragraph .11 that "preparing reliable and timely accrual estimates for grant programs must be a joint effort between the budget, financial, and program offices at each agency. It also provides that some agencies may not be able to effectively implement the procedures because they have not yet developed the necessary data stores and/or methods for preparing grant accrual estimates and thus should use the alternatives outlined in the TR."

Paragraphs 16-21 of TR 12 relate to preparing accrual estimates for new grant programs or changes to existing grant programs. "In the absence of sufficient relevant and reliable historical data on which to base accrual estimates, agencies should prepare estimates based upon the best available data at the time the estimates are made. Estimates can be based upon historical data, modeling capabilities or informed opinion, in limited instances."

The MCA data calls were inconsistently completed with varying degrees of reliability during the fiscal year. The ability for MCC to rely on the information provided was reduced, thereby, placing its financial reporting and adjustments to accounts payable and program expenses for the accrued MCA expenses ranging from $135 million to $276 million at risk for misstatements.

During the year MCC recorded adjustments for new advances of $142 million and liquidation of FY 2010 and 2011 advances of $123 million based upon the data call information. According to MCC it is more cost beneficial to record advances as expenses first and use the MCA quarterly reporting mechanism to adjust the account balances as needed. Throughout most of FY 2011 MCC did not have sufficient quality assurance procedures related to the MCA quarterly data call to ensure completeness, accuracy, and consistency of the advance data.

The completeness and accuracy of advance amounts reported on the financial statements was a high risk because MCC was using an unreliable source as a secondary check, and relying on MCA data call information and insufficient quality assurance throughout the fiscal year. MCC's financial statements could have been misstated because of control weaknesses associated with recording and reporting advances, accruals, and retentions.

Recommendations: We recommend that MCC:

3. Develop an appropriate MCC data store of MCA expense information as required by TR 12.
4. Perform similar data validation employed at year end for each quarter going forward.
5. Prepare an MCC developed estimate for accrued expenses based upon statistical modeling or alternative that is based on MCC obtained data.
6. Record advances in accordance with generally accepted accounting principles.
7. Develop and implement a periodic reconciliation process for advances.
8. Develop and implement a quarterly certification for advance transactions processed by the MCAs as part of the quarterly data call submission.
9. Modify MCA audit requirements to include testing and reporting of advances transactions.

Schedule B – Significant Deficiencies

III. **MCA Required Documentation, Including Audit Reports, Quarterly Disbursement Requests and Compact Closure Plans Are Not Submitted, Reviewed, and/or Approved in a Timely Manner**

MCC's business is providing funding, supporting MCA activities, and reporting to others on the financial, programmatic and compliance aspects of those activities in order to reduce poverty in poor countries through economic growth. To perform these duties properly MCC requires various documentation and information from the MCAs. During the audit process we noted that audit reports, quarterly disbursement requests and compact closure plans were not always submitted, reviewed, and/or approved in compliance with MCC's own guidelines for various reasons.

Audit Reports
We reviewed the status of audit reports for the period ended December 31, 2010, which were due on March 31, 2011, to determine whether MCC complied with the audit requirements and had proper controls in place to ensure timely submission of audit reports.

Of the 17 MCA audit reports that should have been received by the OIG as of July 2011, our analysis revealed the following:

- 3 Audit Reports were received within the specified timeframe;
- 8 Audit Reports were received late; and
- 6 Audit Reports had not yet been received.

As of September 30, 2011 one draft audit report had still not been received by the Office of the Inspector General (OIG) and only seven reports had been finalized by the OIG. Therefore, approximately $68 million in project expenditures through December 31, 2010 have not been audited (no draft report issued) and final reports have not been issued for approximately $626 million in project expenditures.

A timely audit involves the timely engagement of an audit firm by the MCA, an agreed upon timeline that ensures that the deliverables are provided within the deadlines, quality deliverables from the audit firms, and timely responses from the MCA, and audit firms. MCC and the OIG have responsibilities to monitor the audit process, provide technical assistance, and hold the various organizations accountable for the timely completion of audits and resolution of findings. Because this condition was noted in previous years and in an effort to improve audit report timeliness, MCC and the OIG established monthly meetings to discuss audit status and delays. Also, MCC has also decided to move toward annual audits for more mature MCAs, which is compliant with the compact agreement, in an effort to simplify the contracting and organizational review process.

Further, audit planning documents are routinely reviewed and approved late which directly affects the timing of the MCA audits. For example, draft audit reports were due on March 31, 2011 for the period ended December 31, 2010; however, many audit planning documents were not received until February or March 2011 with an average of two months between submission and approval of planning documents by OIG. The MCA audit cannot begin until audit planning documentation is approved. MCC has instituted a variety of monitoring controls, and most delays are outside of their control, but MCC is ultimately accountable for ensuring that the funds are audited. On a positive note, for the FY 2009 expenses that had been audited MCC has experienced a less than 1% rate for sustained questioned costs.

More can be done to address the root cause of most delays, audit quality. Audit quality issues that can lead to delays include errors or incomplete audit planning documents; non-inclusion of required audit steps; and errors in the report.

Quarterly Disbursement Requests

MCAs did not submit Quarterly Disbursement Requests (QDRs) for all funds in accordance with MCC policy. According to MCC's Compact Management Policies and Procedures, Quarterly Disbursement Requests are due no later than 20 days before the beginning of the quarter (October 1st, January 1st, April 1st, and July 1st). This was previously noted as a prior year audit finding. We reviewed QDRs for all funds for a sample of 10 MCAs and noted that some MCAs were repeatedly failing to submit their QDRs by the required date. In our testwork, we noted that:

- Of the sixteen active compacts required to submit QDRs for the period July 1, 2011 to September 30, 2011, three QDRs were submitted late.
- Of the eighteen active compacts required to submit QDRs in December for the period January 1, 2011 to March 31, 2011, two were submitted late.
- QDRs for the period April 1, 2011 to June 30, 2011 were all submitted on time.

In several instances we noted that the MCAs cited for untimely QDRs may have sent in a portion of the required quarterly documentation for MCC review to ensure that it was being prepared accurately. However, the full package was not received prior to the due date.

Compact Closures

Monitoring MCAs is a key internal control for MCC to ensure the effectiveness and efficiency of operations including use of the entity's resources. One of the mechanisms employed by MCC is the review and approval of the compact closeout. The compact closure plan preparation is an extensive process that requires the time and effort of a significant number of MCA and MCC personnel to ensure its completeness and accuracy. The plan usually goes through several iterations before it is finalized.

MCC has established a standard that Compact Closure Plans (CCPs) be submitted 15 months pre-close and be finalized 12 months pre-close, which implies a three-month approval and revision period.

During our testing of five compact closures, we noted that:

- Three MCAs did not submit their CCP to MCC by the deadline established in the MCC guidance. The longest delay was 247 days past the due date.
- Similarly, according to MCC guidance CCPs should be approved 12 months prior to the compact end date. None of the five compact closure plans were approved within this timeframe. One CCP was not approved until 120 days after the compact closed.

Office of the Inspector General for the Millennium Challenge Corporation's *Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities* (Revised August 3, 2007) states:

> *§1.5: "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."*
>
> §2.3: ***"****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."*

MCC's Financial Management Policies and Procedures (FMPP) on Compact Management, Appendix E States: Appendix E

> *"Disbursement requests are due to MCC no later than the 10th day of the last month of each quarter. Country POCs are the process managers responsible for ensuring the appropriate approvals are received and comprehensive documentation including approvals is filed."*

Two versions of MCC's *Guidelines for Closure of Millennium Challenge Compacts* were applicable during the time of the condition:

Version 2.0., effective September 8, 2009, §5.1 states:

> *"No later than* ***15 months*** *prior to the Compact End Date the Accountable Entity will submit to MCC for approval a plan for the closure of the Program."*

The revised guidance (DCO-2011-1.1), effective May 9, 2011, §5.2.1 states:

> *"No later than* ***15 months*** *prior to the Compact End Date, the Accountable Entity will submit a draft Program Closure Plan to MCC for approval. MCC and the Accountable Entity will consult in good faith with a view to reaching agreement upon the Program Closure Plan at least* ***12 months prior*** *to the Compact End Date."*

Late receipt of audit information could negatively impact MCC's decision-making process. Audit reports containing outdated information are of limited use and do not allow MCC management to provide timely guidance to MCAs. Without timely audits of these funds, improper payments may not be detected and corrected by MCC. Additionally, neither the MCA nor MCC has established repercussions for late reports.

Untimely submission of QDRs does not provide MCC with timely financial information, including projected disbursements. If QDRs are submitted late, MCA cash flow may be impeded, or PRFs may not be processed timely or more work may be required on the part of MCC and/or NBC in order to process disbursement requests.

Untimely submission and approval of CCPs may not allow for the MCA to fully execute the agreed-upon closure activities. MCAs could close out with unresolved contracts, uncollected receivables, and outstanding questioned costs. As a result MCC is required to address the issue, collect the costs from the government or vendor, or accept the loss.

Recommendations: We recommend that MCC A&F and DCO:

10. Collaborate with the OIG and provide the MCA auditors with a document discussing the issues/errors that have led to delays in processing and clearing the audit plans and audit reports in a timely manner.
11. Provide comprehensive guidance to MCAs regarding the procurement of firms to perform the FAS audits with a focus on timeliness and completeness of the audit deliverables and potential penalties.
12. Continue to collaborate with the OIG to improve communications regarding audit status and solutions to moving individual audits to completion on a timely basis.
13. Reiterate the program requirements that QDRs are to be accurate and complete and submitted within the required timelines and provide them with information about issues/things that cause delays.
14. Review their current guidelines for submission of CCPs to determine if the timeline is reasonable and realistic. In addition, DCO should work closely with MCAs to develop and compile a compact closure plan and resolve any outstanding items in advance of compact closure.

IV. **Reconciling Fund Balance with Treasury**

The United States Agency for International Development (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. However, USAID has not 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 *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 errors 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 MCC A&F:

15. 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.

WILLIAMS ADLEY

Independent Auditors' Report on Compliance

Inspector General
United States Agency for International Development

Board of Directors
Millennium Challenge Corporation

We have audited the Principal Statements and Required Supplementary Information (hereinafter referred to as the financial statements) of the Millennium Challenge Corporation (MCC) as of and for the years ended September 30, 2011 and 2010, and have issued our report thereon dated November 10, 2011. 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.

The management of MCC is responsible for complying with laws, regulations, contracts, and grant agreements applicable to MCC. As part of obtaining reasonable assurance about whether MCC's financial statements are free of material misstatement, we performed tests of MCC's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statements amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, including the requirements referred to in the Federal Managers' Financial Integrity Act of 1982 (FMFIA) We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts and grant agreements applicable to MCC. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of management of the Millennium Challenge Corporation and its Office of Inspector General, Office of Management and Budget, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Adley & Company – DC, LLP /s/

Washington, D.C.
November 10, 2011

WILLIAMS, ADLEY & COMPANY-DC, LLP
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Based upon our review of the FY 2011 Report on Internal Controls and Audit Report # M-000-011-001-C, we identified 17 recommendations related to FY 2010 and prior. These recommendations consisted of 14 related to material weaknesses and 3 related to significant deficiencies. We reviewed and assessed MCC corrective actions for each Notice of Finding and Recommendations (NFR) and have made the following determinations.

Prior Year Findings:

1. Reporting Advance Payments – Material Weakness

Recommendation: Modify the Payment Request Form (PRF) to specifically identify requests for advance payments to vendors.

Status: Closed; MCC created an Advance PRF form (APRF) to help distinguish between advance and expense payments. MCC also updated their policies and procedures to require the use of an APRF.

2. Reporting Advance Payments – Material Weakness

Recommendation: 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.

Status: Closed. Training was provided by MCC.

3. Compiling Accruals (Proper Reporting period) – Material Weakness

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

Status: Closed; MCC established a methodology for accrual reporting and distributed this methodology to MCAs in March 2011 as part of the revised data call procedures. However, there were problems and errors with the process and new recommendations were issued with the FY 2011 material weakness.

4. Compiling Accruals (Proper Reporting period) – Material Weakness

Recommendation: Establish consistent communication with NBC and the MCAs for understanding the process and methodology developed.

Status: Closed

5. Compiling Accruals (Proper Reporting period) – Material Weakness

Recommendation: Perform quality control procedures over amounts obtained and recorded. Review the amounts posted for reasonableness, accuracy, and completeness.

Status: Closed; MCC modified policies and procedures in this area; however, they were not effectively implemented. We noted a material weakness with this process in the FY 2011 internal control report.

6. Untimely Performance of MCA Audits – Material Weakness

Recommendation: 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 to ensure that MCA audits are completed in accordance with the compact.

Status: Closed; MCC has implemented a process; however, the audits are still untimely. Additional recommendations were made in the FY 2011 significant deficiency.

7. Untimely Performance of MCA Audits - Material Weakness

Recommendation: 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.

Status: Open

8. Improper and Untimely Quarterly Reporting – Material Weakness

Recommendation: 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.

Status: Closed: MCC implemented a process that has reduced the number of untimely QFRs and Disbursement Requests. However, we noted additional untimely submissions in FY 2011. See the new FY 2011 significant deficiency and recommendations in this area.

9. Improper and Untimely Quarterly Reporting - Material Weakness

Recommendation: 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.

Status: Closed

10. Inadequate Oversight of 609(g) Funded Transactions – Material Weakness

Recommendation: 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.

Status: Closed; New policies and procedures were finalized and implemented in March 2011.

11. Inadequate Oversight of 609(g) Funded Transactions - Material Weakness

Recommendation: Monitor on a quarterly basis the cumulative obligations 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.

Status: Closed

12. Inadequate Oversight of 609(g) Funded Transactions - Material Weakness

Recommendation: Strengthen the CPS Signature Card process to include a MCC authorizing signature, effective and termination dates, and 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.

Status: Open; We noted that the new CPS policies and procedures include a revised signature card. This revised signature card includes an MCC authorizing signature, effective dates, and termination dates. However, MCC has not developed a periodic review process for CPS Signature cards to ensure they are for active users only. Therefore we determine that this recommendation has been partially implemented.

13. Inadequate Processing of Closed Programs - Material Weakness

Recommendation: 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.

Status: Closed

14. Inadequate Processing of Closed Programs - Material Weakness

Recommendation: 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.

Status: Closed

15. Reconciling Fund Balance with Treasury - Significant Deficiency

Recommendation: 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.

Status: Closed; MCC has followed USAID's progress. However, a significant deficiency has been reissued in FY 2011 because USAID continues to have challenges in this area.

16. Control over Financial Reporting - Significant Deficiency

Recommendation: Strengthen quality reviews over financial statements to validate that information presented is accurate, complete, and complies with accounting standards and reporting guidance.

Status: Closed; MCC developed and documented revised policies and procedures in this area, but they have not been effectively implemented. We noted this issue in a new material weakness and recommendations on financial reporting in the FY 2011 audit report.

17. Control over Financial Reporting - Significant Deficiency

Recommendation: 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.

Status: Closed

Management Comments and Our Evaluation

We received and evaluated MCC's management comments to the recommendations made in this report. Based upon MCC's comments, we acknowledge that management decisions have been reached on all of the recommendations. MCC should provide the Office of Inspector General with a timeline to address the recommendations and report to the Office of Inspector General when final action has been taken on the recommendations.

The following is a brief summary of MCC's management comments on the recommendations included in this report and our evaluation of those comments.

Recommendation 1 (Material Weakness 1)
MCC management concurs with this recommendation.

Auditor Evaluation:
We conclude that MCC management has adequately addressed this recommendation.

Recommendation 2 (Material Weakness 1)
MCC management concurs with this recommendation.

Auditor Evaluation:
We conclude that MCC management has adequately addressed this recommendation.

Recommendations 3 - 9 (Material Weakness 2)
MCC concurs with the conditions and recommendations, whereas MCC, in determining the appropriate handling of MCA advances, developed a methodology that records MCA disbursements as expenses and, on a quarterly basis, requests information to determine an accurate adjustment for the Advances balance presented in its financial statements. When developing this methodology, MCC evaluated several alternatives and determined that the adoption of this approach resulted in a more accurate way of compiling data used to prepare quarterly and annual financial statements.

We agree with the auditor documentation which notes that MCA information improved from the 1st to the 3rd quarters of FY2011. MCC's expanded quality control procedures significantly reduced the risks related to completeness and accuracy. The results of the fourth quarter provide the strongest evidence that the MCA submissions' completeness and accuracy were continually improved.

Auditor Evaluation:
MCC management provided one response to recommendations 3 – 9. We conclude that MCC management has adequately addressed this recommendation.

Recommendations 10 - 14 (Significant Deficiency 1)
MCC will adopt the recommendations as stated.

Auditor Evaluation:
We conclude that MCC management has adequately addressed this recommendation.

Recommendation 15 (Significant Deficiency 2)
MCC concurs with the recommendation 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 MCC management has adequately addressed this recommendation.

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

November 10, 2011

Mr. Alvin Brown
Assistant Inspector General
Millennium Challenge Corporation

Dear Mr. Brown:

MCC has reviewed the draft audit report received November 9, 2011. In response to audit findings characterized as material weaknesses and significant deficiencies, as well as the associated recommendations, MCC has the following comments:

Material Weakness: MCC's Financial Reporting Process Needs Improvement

Recommendations from the auditors:

1. Develop and document a financial reporting process that reduces the likelihood of errors, inconsistencies, and inaccuracies and results in efficiencies and effectiveness, consistency, and accuracy of financial data.
2. Enhance the quality control process to detect errors or improper closeout of accounts through additional check totals, training and involvement of additional A&F staff members.

Response from MCC:
MCC concurs with recommendations #1 and #2.

Material Weakness: Controls over MCC Accrued Expenses, Retentions and Advances Need Improvement

Recommendations from the auditors:

3. Develop an appropriate MCC data store of MCA expense information as required by TR-12.
4. In the interim, perform similar data validation employed at year end for each quarter going forward.
5. Prepare an MCC developed estimate for accrued expenses based upon statistical modeling or alternative that is based on MCC obtained data.
6. Record advances in accordance with general accepted accounting principles.
7. Develop and implement a periodic reconciliation process for advances.
8. Develop and implement a quarterly certification for advance transactions processed by the MCAs as part of the quarterly data call submission.
9. Modify MCA audit requirements to include testing and reporting of advances transactions.

Response from MCC:
MCC concurs with recommendations #3 - #9.

Significant Deficiency: MCA Required Documentation, Including Audit Reports, Quarterly Disbursement Requests and Compact Closure Plans Are Not Submitted, Reviewed, and/or Approved In A Timely Manner

Recommendations from the auditors:

10. Collaborate with the OIG and provide the MCA auditors with a document discussing the issues/errors that have led to delays in processing and clearing the audit plans and audit reports in a timely manner.
11. Provide comprehensive guidance to MCAs regarding the procurement of firms to perform the FAS audits with a focus on timeliness and completeness of the audit deliverables and potential penalties.
12. Continue to collaborate with the OIG to improve communications regarding audit status and solutions to moving individual audits to completion on a timely basis.
13. Reiterate the program requirements that QDRs are to be accurate and complete and submitted within the required timelines and provide them with information about issues/things that cause delays.
14. Review their current guidelines for submission of CCPs to determine if the timeline is reasonable and realistic. In addition, DCO should work closely with MCAs to develop and compile a compact closure plan and resolve any outstanding items in advance of compact closure.

Response from MCC:
MCC concurs with recommendations #10 - #14.

Significant Deficiency: Reconciling Fund Balance with Treasury

Recommendation from the auditors:

15. 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.

Response from MCC:
MCC concurs with recommendation #15.

MCC will be addressing each recommendation as part of a comprehensive corrective action plan beginning in the first quarter of FY 2012 with the intent to develop and implement necessary changes as soon as practicable.

Sincerely,

MILLENNIUM CHALLENGE CORPORATION

By:
Chantale Wong
Vice President, Administration and Finance and
Chief Financial Officer
Millennium Challenge Corporation

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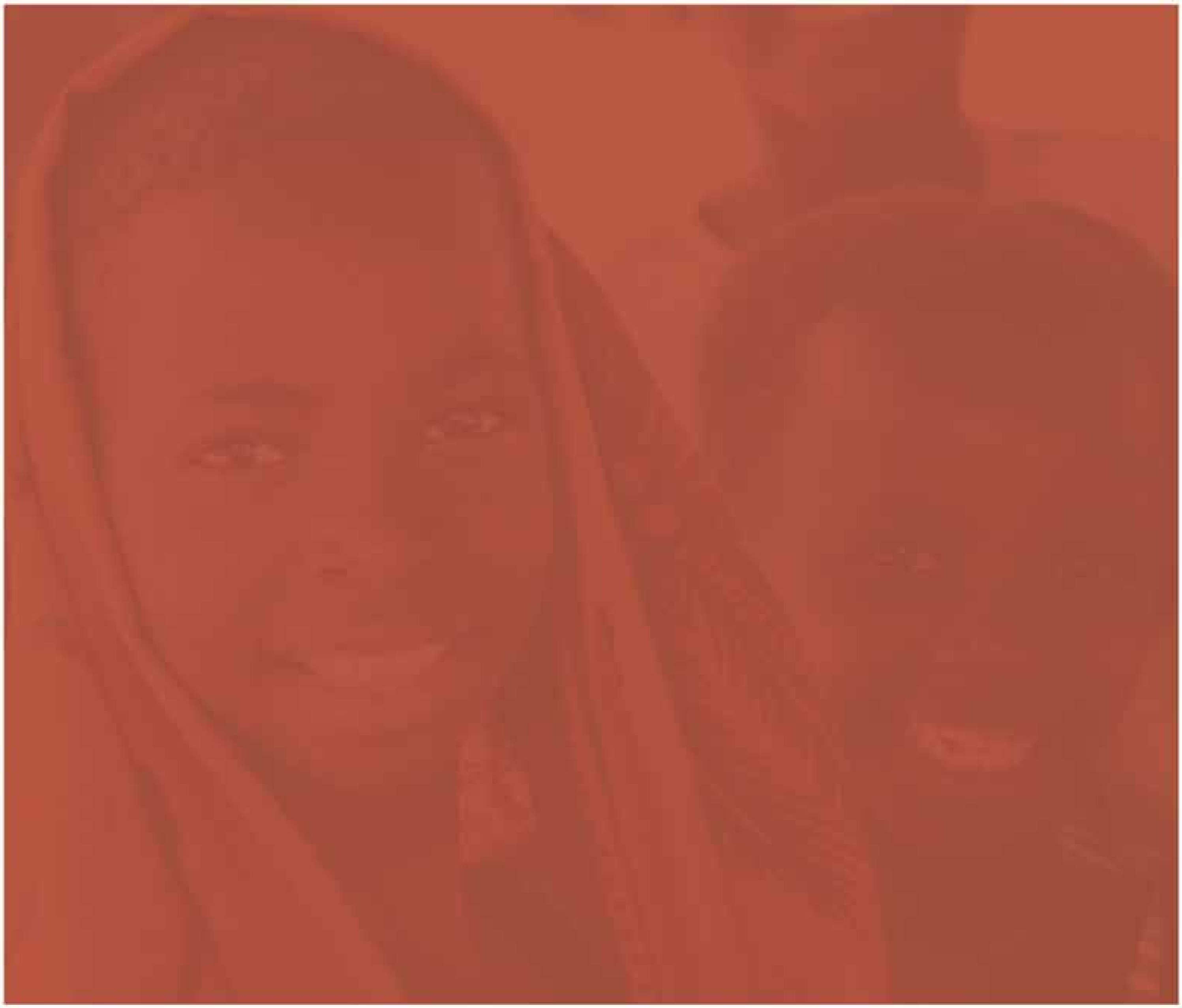

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