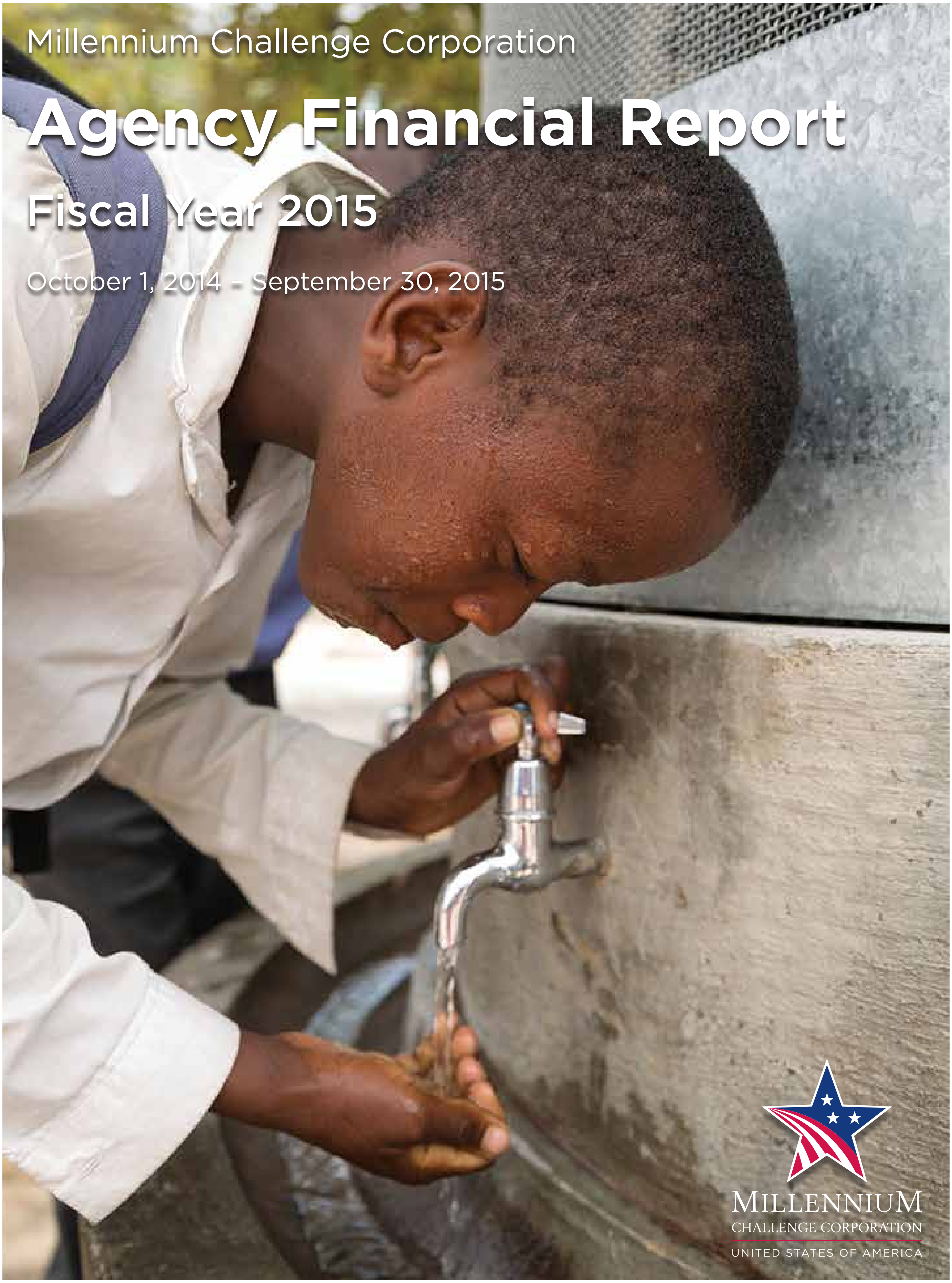
Millennium Challenge Corporation

Agency Financial Report

Fiscal Year 2015

October 1, 2014 – September 30, 2015



MILLENNIUM
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MCC Partner Countries — Compacts and Threshold Programs

MCC has worked with partners in the countries shown on the map below to help reduce poverty through economic growth.

On the Cover

Grade 8 student Simon (14) washes his face at Shikudule Combined School in Oshana Region, Namibia. As part of the MCC-funded renovation, students at Shikudule received new classroom blocks, access to clean water, laboratory and computer equipment, and new textbooks.

Millennium Challenge Corporation: Namibia

March 10, 2014

Photo by Jake Lyell for MCC

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Introduction

MCC's Agency Financial Report (AFR) for fiscal year (FY) 2015 provides the fiscal results that enable the President, Congress and the American people to assess MCC's performance for the reporting period beginning October 1, 2014, and ending September 30, 2015. In particular, the AFR provides an overview of MCC's programs, accomplishments, challenges and management's accountability over the resources entrusted to MCC. This report was prepared in accordance with the requirements of the Office of Management and Budget's (OMB's) Circular No. A-136, *Financial Reporting Requirements.*

MCC will also prepare an Annual Performance Report (APR) for FY 2015 that will be included in MCC's FY 2017 Congressional Budget Justification. The APR will be posted on MCC's website in February 2016. Together, the AFR and APR provide a comprehensive presentation and disclosure of important financial and programmatic information related to MCC's operations and results, including a fair assessment of MCC's leadership and stewardship of the resources entrusted to the agency. Finally, MCC provides further information related to its activities in an Annual Report to its Board of Directors, Congress, stakeholders and the public on its website.

For more information about MCC, visit its website at **http://www.mcc.gov**

Organization of This Report

The FY 2015 AFR includes a message from the Chief Executive Officer (CEO), followed by three sections and appendices:

- **Section I: Management's Discussion and Analysis** integrates performance and financial information with key performance results, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems.
- **Section II: Financial Section** contains a message from the Vice President, Department of Administration and Finance and Chief Financial Officer (CFO), the financial statements and notes, and the independent auditor's report.
- **Section III: Other Information** includes the Office of Inspector General's (OIG's) summary of top management challenges, MCC Management's response to this summary, and MCC's Improper Payments Information Act Report.
- **Appendices** include a list of acronyms used in this report (Appendix A), a summary of MCC's compact and threshold programs (Appendix B), MCC's country selection process and criteria (Appendix C), Sustainable Development Goals (Appendix D) and a list of useful websites for additional information about MCC (Appendix E). The website list includes the web addresses for all hyperlinked documents in the text of this report.

Message from the Millennium Challenge Corporation's Chief Executive Officer

November 16, 2015

This year, the Millennium Challenge Corporation demonstrated its commitment to remaining at the forefront of effective and transparent development. As the head of this pioneering agency, it is a privilege to share with you our 2015 Agency Financial Report (AFR).

Since its inception 11 years ago, MCC has remained laser-focused on its mission to reduce poverty through economic growth. Guided by principles of good governance, country ownership and data-driven accountability, MCC has sought to unleash economic potential in our partner countries and catalyze the private sector for inclusive, sustainable development.

During fiscal year (FY) 2015, the Millennium Challenge Corporation once again put its principles into practice around the globe. MCC completed exciting compacts in Moldova and Senegal that each aimed to unlock agricultural productivity and improve road networks for transportation and trade.

We also expanded or forged new partnerships with nations on both sides of the Atlantic. In Guatemala, MCC signed a $28 million threshold program that supports tax and customs reforms to leverage public resources for education and other essential public services. And we signed a $375 million second compact with Benin that aims to increase access to affordable and reliable power. This investment, which expands MCC's contribution to the U.S. Government's Power Africa effort, underscores MCC's commitment to innovation: it marks MCC's largest investment in solar power and the largest U.S. investment to date in off-grid electrification.

Looking forward, MCC will continue to combine investments in smart infrastructure with policy and institutional reforms to catalyze economic growth. MCC's Board of Directors approved a threshold program with Sierra Leone and new compacts with Liberia and Morocco that will all set the stage for greater private investment. We also continue to explore the potential for regional investments that would support cross-border infrastructure and promote trade capacity between neighbors.

The financial and performance information presented in this AFR helps tell the story of MCC's impact to date in delivering best practices in development to end global poverty, and is fundamentally complete and reliable.

I am pleased to note that in FY 2015, MCC received an unmodified clean opinion on its financial statements for the fifth year in a row, and for the first time since MCC's inception the independent auditors' report does not identify any material weaknesses in our internal control system. The opinion rendered by MCC's auditors reaffirms our dedication to fulfilling our fiduciary responsibility to the American people to manage the resources entrusted to us in compliance with applicable laws and rigorous accounting standards. Furthermore, please see my annual assurance statement, also included in this report, for information regarding MCC's compliance with appropriate financial laws and regulations.

This year, the international community adopted the Sustainable Development Goals and set its sights on ending global poverty. As an innovative tool in the U.S. Government's toolkit, MCC aims to help drive the path forward. I invite our stakeholders to follow MCC's work and provide your feedback.

Dana J. Hyde
Chief Executive Officer

Management's Discussion and Analysis

Khadija Imazzi learns sewing and upholstery at an MCC-funded vocational training course in Agadir, Morocco. Vocational training programs like these are helping young adults across Morocco become empowered with marketable and sought-after skills.

Millennium Challenge Corporation: Morocco

May 6, 2013

Photo by Jake Lyell for MCC

Mission, Values and Organizational Structure

Mission

The Millennium Challenge Act of 2003, contained in Title VI, Division D, of Public Law 108-199 (the Consolidated Appropriations Act, 2004), established MCC as a wholly-owned Government Corporation as defined by the Government Corporation Control Act. MCC's mission is to reduce global poverty through increased economic growth by supporting a new compact for global development. To be eligible for MCC assistance, an eligible country must demonstrate a commitment to just and democratic governance, economic freedom and investing in its own people.

A sign branded with the Millennium Challenge Corporation logo stands outside the Project Management Consultant (Hazen & Sawer/Dar Al-Omran) office for the Zarqa Water & Wastewater Program in Zarqa, Jordan. As part of the $275 million compact with Jordan, MCC is rehabilitating Zarqa's antiquated drinking and wastewater network and helping to expand a new wastewater treatment facility, all of which will increase available water for drinking and irrigation and improve the safety and living conditions of the city's residents. Left to right are Program Manager, Shajan Joykutty, Eman Alhamdan, Program Administrator, Health, Safety and Environmental Specialist, Ali M. Haymour, and MCA Jordan Communications and Outreach Director, Sofian Qurashi.

Millennium Challenge Corporation: Jordan | December 4, 2013 | Photo by Jake Lyell for MCC

Good governance includes political pluralism and the rule of the law, respect for human and civil rights of all citizens, protection of private property rights, commitment to transparency and accountability of governance, and fighting against corruption. Economic freedom establishes the requirement for eligible countries to ensure policies that encourage citizens and firms to participate in the global product and capital markets, promote private sector growth and avoid direct government participation in the economy. Investment by an eligible country in its own citizens should encompass improving the availability of education and health care for all of its people.

MCC provides assistance through two types of grants to eligible countries:

- A ***compact*** is a large, five-year grant to a country that meets MCC eligibility criteria. The grant agreement (known as a compact) establishes a multi-year plan of partnership between the country and MCC for achieving shared development objectives. The compact defines responsibilities including regular benchmarks, timetables and performance goals; and establishes an investment program built on transparency, accountability, sustainability and the involvement of business communities, private and voluntary organizations.
- A ***threshold program*** grant aims to assist a country to become eligible for an MCC compact by supporting policy and institutional reforms that target binding constraints to economic growth. MCC uses a rigorous, structured diagnostic process to develop threshold programs, followed by program design and implementation.

Our programs are focused on various sectors, including agricultural development, education, enterprise and private sector development, governance, health, infrastructure, and trade and investment capacity-building. MCC's governing statute requires MCC to provide its assistance in a manner that promotes economic growth and the elimination of extreme poverty,

MCC is just one part of the U.S. international development program. MCC works closely with the Department of State and the USAID to develop and implement its programs to ensure that they are complementary and maximize the impact of MCC's investments around the world. Strengthening the next generation of emerging markets that will trade and do business with American companies can lead to job creation in the United States. As emerging economies prosper, they become more stable and secure, which promotes America's national security interests.

Values

MCC's values define how we behave on a daily basis, both as individuals and as an institution, in pursuit of MCC's mission. Our values identify who we are and what is important to us. They guide how we make decisions, set priorities, address challenges, manage trade-offs, recruit and develop staff and work together with our country partners and stakeholders. Our values are **CLEAR:**

CLEAR

Embrace Collaboration
We work together toward clear, common goals with a spirit of creativity and teamwork. We believe that bringing different perspectives to the table leads to finding the best solutions.

Always Learn
We question assumptions and seek to understand what works, what doesn't and why. We recognize that failing to reach a goal can be an important source of learning, and we apply and share those lessons broadly.

Practice Excellence
We envision MCC as a leader in global development, and we have high standards for ourselves, our partner countries, and the investments we make. We bring out the best in ourselves and in each other to advance the fight against global poverty.

Be Accountable
We own our actions, are honest about our limits and missteps, and hold ourselves and each other responsible for good performance. We are transparent and explain our decisions.

Respect Individuals and Ideas
We are inclusive, act with humility and value diverse ideas. We listen to each other and foster strong working relationships with our colleagues at MCC, in our partner countries and in the development community.

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Organizational Structure

Board of Directors

MCC is overseen by a nine-member Board of Directors, chaired by the Secretary of State. The Board of Directors also includes the Secretary of the Treasury, who acts as Vice Chair, the U.S. Trade Representative, the USAID Administrator, MCC's CEO, and four private sector representatives appointed by the President of the United States with the advice and consent of the U.S. Senate. The Board of Directors meets four times each year, and provides policy guidance to the Corporation and approves all compacts and threshold programs.

Executive Offices

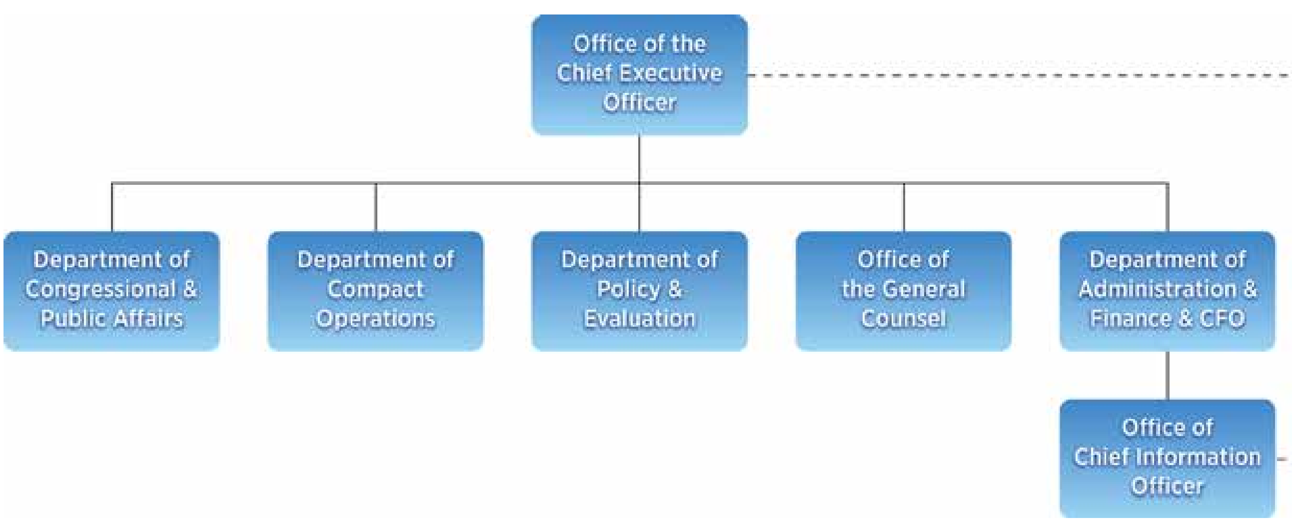
MCC accomplishes its mission through the following executive offices:

Office of the Chief Executive Officer is led by the Senate-confirmed CEO and provides executive leadership and strategic direction for the agency; coordinates activities and communications across departments; manages the agency's Investment Management Committee; and oversees overall agency performance and day-to-day operations.

Department of Compact Operations manages the day-to-day relationships with MCC partners and leads MCC's work in developing and implementing high-impact, sustainable projects around the world; provides political and regional expertise and rigorous oversight of U.S. resources to address constraints to economic growth and reduce poverty; and works with other development agencies and the private sector to coordinate efforts within MCC partner countries. The department divides the management of the MCC compact portfolio into two regional divisions, (1) Africa and (2) Europe, Asia-Pacific and Latin America; and two technical divisions, (1) Sector Operations and (2) Infrastructure, Environment and Private Sector. Its staff has expertise in a wide range of areas, including education, fiscal accountability, infrastructure, agriculture, land policy, procurement, environmental and social performance, gender integration, private sector engagement, and health.

Department of Policy and Evaluation manages MCC's annual country eligibility process; the development and implementation of threshold programs; promotes effective policy improvement and reform; performs economic analysis and monitoring, including rigorous independent evaluations; and provides institutional leadership on interagency engagement.

Office of General Counsel provides advice to MCC's Board of Directors and MCC staff on all legal issues



affecting MCC, its programs, policies, and procedures; advises on all legal aspects of country eligibility, the threshold program, and other policy initiatives; addresses and resolves legal issues associated with compact programs; conducts and evaluates due diligence on country proposals; conducts compact negotiations; provides advice on all issues affecting the internal operations of MCC; advises on matters of statutory interpretation, interagency agreements and communications, and other public initiatives; leads MCC's Anti-Fraud and Corruption Program; serves as Corporate Secretary to the MCC Board of Directors; and manages MCC's ethics program, providing related training and guidance to staff.

Department of Congressional and Public Affairs manages MCC's relationship with the U.S. Congress, other U.S. Government agencies, the media, universities, nongovernmental organizations, think tanks, the private sector and other key groups interested in MCC's mission. It handles all media inquiries and interview requests, manages the MCC speaker's bureau, coordinates all public events, serves as a liaison to the staff of MCC's Board of Directors, maintains MCC's public website and disseminates information to the public via statements, press releases and speeches.

Department of Administration and Finance plans and directs all activities related to financial management and budgeting; manages MCC's human resources; oversees information technology (IT) infrastructure and services; enters into and manages all MCC contracts, acquisitions and grants; ensures personnel and physical security; coordinates and manages MCC's facilities and provides administrative services; maintains official corporate records; coordinates audit interactions with the OIG and the Government Accountability Office; and coordinates and ensures timely and relevant reporting of performance data on compact programs. There is a "dotted line" relationship between the Chief Information Officer and the CEO. The Office of the Chief Information Officer oversees corporate IT investments on behalf of the Corporation.

Staffing

MCC is a small government corporation headquartered in Washington, DC. Table 1 shows Federal employee staffing levels since FY 2013.

Table 1. MCC Staffing — Full Time Equivalent (FTE)*

	FY 2015	FY 2014	FY 2013
Headquarters	254	263	268
Overseas	22	21	25
Total	**276**	**284**	**293**

**Staffing report based on Standard Form (SF)-113A and SF-113G reporting of FTE calculations based on the fourth of each fiscal year.*

Performance Goals, Objectives and Results

MCC is an innovative and independent U.S. foreign aid agency that is helping lead the fight against global poverty. MCC's mission is to reduce poverty by supporting sustainable economic growth in selected developing countries that demonstrate a commitment to sound policies in the areas of democratic governance, economic freedom and investment in people. This is a long-term mission, focused on addressing issues of persistent poverty in low and lower-middle income countries facing critical challenges of capacity, resources and institutional weakness. In doing so, MCC is achieving tangible results with large-scale grants to fund country-led solutions, helping more countries to lay the foundation for sustained growth, and improving the lives of the world's poor. MCC's approach puts into practice selectivity, country ownership, and accountability, drives policy with analysis, and leverages partnerships with donors and the private sector.

As part of its Congressional Budget Justification, MCC will provide an APR, which will be available in February 2016. A high-level summary of MCC's strategic direction and performance during FY 2015 follows.

New water pump house infrastructure is ready for use in Cosnita, Moldova. Infrastructure like this is part of a major rehabilitation of 10 irrigation systems across the country as part of the Transition to High Value Agriculture project portion of MCC's compact with Moldova.

Millennium Challenge Corporation: Moldova | June 10, 2015 | Photo by Jake Lyell for MCC

Strategic Direction

As outlined in MCC's 2011–2015 Strategic Plan, through its programs MCC strives to demonstrate the effectiveness of linking foreign development assistance to demonstrable economic outcomes by concentrating on the four key principles:

- **Results** — success is measured by results, not inputs.
- **Policies** — good policies are critical to achieving sustainable economic growth.
- **Country ownership** — country partnership is essential for achieving sustainable development and reducing dependence on foreign assistance.
- **Accountability and transparency** — accountability is critical for true responsibility; and without transparency there is no accountability.

For FY 2015, MCC continued to build on its 2011–2015 Strategic Plan by establishing the following corporate goals to guide agency activities:

- Improve the quality and speed of the compact development process and present to the Board of Directors three compacts and one threshold program by September 2015.
- Leverage internal, interagency and private sector resources to maximize development impact of and returns on MCC investments and to increase scale of compact programs.
- Streamline business processes to improve cost effectiveness, oversight, organizational efficiency, and compact implementation and closure.
- Strengthen MCC practice and reputation through internal learning efforts, external engagement, and strategic communication.
- Improve organizational performance and health through better planning, decision making, and communication.

In FY 2015, MCC also initiated efforts to develop its next strategic plan, which will frame MCC's strategic direction as it enters its second decade of operations.

Over the next five years, MCC anticipates that the overarching goals below will guide how MCC provides assistance and supports U.S. foreign policy:

- Help countries identify evidence-based priorities in growth strategies that reflect new learning and new opportunities.
- Strengthen reform incentives and accountability.
- Broaden and deepen public and private partnerships for more impact and leverage.
- Lead on results measurement, learning, transparency, and development effectiveness.
- Maximize internal efficiency and productivity, and maintain and motivate a world-class, high-functioning staff.

Consultations on MCC's next strategic plan began at the end of FY 2015 and will continue into early FY 2016. MCC anticipates finalizing and sharing its new strategic plan in early calendar year 2016.

MCC's Approach to Performance Measurement

To fulfill MCC's commitment to transparency, accountability, and learning, monitoring and evaluation (M&E) are integrated into the entire life cycle of a compact program, from concept through implementation and beyond. During compact development, a clear program logic, indicators, baselines, milestones, targets, and benchmarks are identified to measure progress over the life of the compact. After a compact is signed, the partner country's accountable entity (also referred to as Millennium Challenge Account [MCA]) and MCC finalize an M&E plan for the program that provides the framework for monitoring and evaluating compact activities.

The monitoring component of the M&E plan lays out the methodology and process for assessing progress towards the compact goal. It identifies indicators, establishes performance milestones and targets and details the data collection and reporting plan to track progress against targets on a regular basis.

The evaluation component identifies and describes the evaluations that will be conducted, the key evaluation questions and methodologies, and the data collection strategies that will be employed. M&E plans are revised as needed during the life of the compact to adjust to changes in the program's design and to incorporate lessons learned for improved performance monitoring and measurement.

Figure 1 is an illustration of how the results for the various phases are tracked and become part of a feedback loop to improve performance during a compact and to apply lessons learned to future compacts.

Figure 1. Integrating M&E in Compact Operations

Building on MCC's commitment to assess and measure results transparently, in FY 2015 MCC also initiated efforts to develop an enhanced consolidated results framework to capture the breadth and depth of MCC's influence and impact. MCC has a robust system to capture inputs, outputs and outcomes that directly benefit program beneficiaries, and to independently evaluate economic and environmental impact. Moving forward, the agency hopes to add several dimensions to its results framework to measure broader systemic impact and agency performance in achieving institutional goals, including corporate effectiveness and efficiency.

Monitoring Compact Performance

MCC monitors progress by using performance indicators that measure progress *at all levels.* Lower -level process and output level indicators are drawn typically from project and activity work plans, whereas higher-level targets are often, though not always, linked directly to the economic rate of return analysis. MCC conducts this analysis to estimate the impacts of the investment, drawing from benefit streams. MCC reviews data every quarter to assess whether results are being achieved and integrates this information into project management decisions. Data for performance monitoring and reporting comes from baseline and follow-up surveys, project implementers and other entities. MCC strongly supports comprehensive, quality data collection conducted by local resources and frequently uses compact M&E funds to invest in surveys fielded by both private firms and national statistical agencies or other government entities. All collected data, whether from surveys or implementers, undergo regular data quality checks monitored by MCC to ensure integrity and accuracy.

Evaluating Compact Performance

Since MCC began operations in 2004, 25 countries have received funding through 30 compacts (Benin, Cabo Verde, El Salvador, Georgia and Ghana have signed two compacts each) and 23 countries have received funding through 25 threshold programs (Albania and Paraguay each signed two). Burkina Faso, Honduras, Indonesia, Jordan, Malawi, Moldova, Philippines, Tanzania and Zambia have signed both compacts and threshold agreements. MCC publishes quarterly status reports that provide a comprehensive qualitative and quantitative snapshot of each compact project, its commitments and expenditures, and its activities.

In FY 2015, MCC signed one new compact (with Benin on September 9, 2015) and closed two compacts (Moldova and Senegal). Table 2 displays signed grant totals, net of deobligated amounts, for each country through September 30, 2015.

Table 2. Value of Compact Grants at the End of FY 2015 (in thousands)

TOTAL	**$ 10,202,445**	*(100.0%)*
Tanzania	$ 694,546	*(6.8%)*
Morocco	$ 650,164	*(6.4%)*
Indonesia	$ 600,000	*(5.9%)*
Ghana	$ 536,289	*(5.3%)*
Senegal	$ 516,200	*(5.1%)*
Ghana II	$ 498,200	*(4.9%)*
Burkina Faso	$ 474,744	*(4.7%)*
El Salvador	$ 449,567	*(4.4%)*
Mozambique	$ 447,905	*(4.4%)*
Mali	$ 435,597	*(4.3%)*
Philippines	$ 433,910	*(4.3%)*
Georgia	$ 387,179	*(3.8%)*
Benin II	$ 375,000	*(3.7%)*
Lesotho	$ 358,046	*(3.5%)*
Zambia	$ 354,758	*(3.5%)*
Malawi	$ 350,700	*(3.4%)*
Benin	$ 301,810	*(3.0%)*
Namibia	$ 295,719	*(2.9%)*
El Salvador II	$ 277,000	*(2.7%)*
Jordan	$ 275,100	*(2.7%)*
Mongolia	$ 269,002	*(2.6%)*
Moldova	$ 262,000	*(2.6%)*
Honduras	$ 204,015	*(2.0%)*
Armenia	$ 176,550	*(1.7%)*
Georgia II	$ 140,000	*(1.4%)*
Nicaragua	$ 112,703	*(1.1%)*
Cabo Verde	$ 108,512	*(1.1%)*
Madagascar	$ 85,595	*(0.8%)*
Cabo Verde II	$ 66,230	*(0.6%)*
Vanuatu	$ 65,404	*(0.6%)*

MCC aggregates results in key sectors to measure progress in those areas across compacts. Currently, MCC calculates aggregate results on a quarterly basis in five categories: roads, agriculture and irrigation, water and sanitation, education, property rights and land policy (land), and policy reform.

MCC works with the development community to reassess its indicators. MCC may complete early process-level indicators, such as contract dollars disbursed, more quickly than other indicators. The actual construction of the road, for example, will take more time and will be a more relevant indicator as time passes.

Table 3 presents MCC's program results by sector on select output indicators as of June 30, 2015, 2014, and 2013. The table aggregates country-specific output targets and performance data by sector. It represents only a fraction of the performance data that MCC collects and assesses on a quarterly basis. MCC and MCC's partner MCAs collaborate to establish these targets. MCC assesses performance data across all compact programs on a quarterly basis and, where necessary, takes action to address deficiencies, mitigate risks and ensure that the compacts use U.S. taxpayer funding effectively and responsibly.

MCC posts additional data on these five categories in the results pages on its website (www.mcc.gov).

Country Selection Process

The MCC Board of Directors selects countries as eligible for MCC assistance. Transparency regarding the process and criteria that govern and inform selection of country partners is a hallmark of the MCC model. For a country to be selected as eligible for an MCC assistance program, it must demonstrate commitment to just and democratic governance, investments in its people, and economic freedom as measured by different policy indicators. MCC's Board of Directors examines this commitment primarily by consulting annual country "scorecards" of policy performance, as well as relevant supplemental information. It then considers the overall opportunity to reduce poverty and generate economic growth in a country, as well as the funding available.

MCC's selection process relies heavily on these public, data-driven country "scorecards," which allows stakeholders, policy makers, Congress, taxpayers and beneficiaries to hold the agency accountable for its decisions. Table 4 lists the policy indicators included in MCC's annual country scorecards.

Table 3. Program Results by Sector on Select Output Indicators for FYs 2015, 2014, and 2013

	Cumulative Target Through FY 2015	Actual			Performance on Targets[1]		
		June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2015	June 30, 2014	June 30, 2013
Sector — Roads							
Indicator: Value of signed contracts for road work *(dollars in millions)*	$2,243	$2,367	$2,355	$2,329	106%	110%	117%
Indicator: Kilometers of roads under works contracts	3,904	3,918[2]	3,973	3,719	100%	103%	90%
Indicator: Kilometers of roads completed	3,329	2,876	2,444	1,929	86%	64%	96%
Countries Tracked: Armenia, Burkina Faso, Cabo Verde, El Salvador, Georgia, Ghana, Honduras, Mali, Moldova, Mongolia, Mozambique, Nicaragua, Philippines, Senegal, Tanzania, Vanuatu							
Sector — Agriculture and Irrigation							
Indicator: Hectares under new or improved irrigation	292,362	121,795	120,063	138,753	42%	54%	97%
Indicator: Value of agricultural and rural loans *(dollars in millions)*	$87	$85[2]	$87	$85	97%	102%	133%
Indicator: Farmers trained	236,402	274,442	120,063[3]	244,481	116%	105%	96%
Indicator: Enterprises assisted	3,562	4,203	4,137	3,733	118%	114%	NA
Countries Tracked: Armenia, Burkina Faso, Cabo Verde, El Salvador, Georgia, Ghana, Honduras, Indonesia, Madagascar, Mali, Moldova, Morocco, Mozambique, Namibia, Nicaragua, Senegal							
Sector — Water and Sanitation							
Indicator: Value of signed contracts for water and sanitation works *(dollars in millions)*	$507	$590	$574	$447	116%	112%	110%
Countries Tracked: Cabo Verde, El Salvador, Georgia, Ghana, Jordan, Lesotho, Mozambique, Tanzania, Zambia							
Sector — Education							
Indicator: Students participating	268,165	215,160[2]	228,847	200,380[3]	80%	99%	90%
Indicator: Facilities completed	911	746	745[3]	839	82%	99%	95%
Indicator: Value of signed contracts for construction and/or equipping of educational facilities *(dollars in millions)*	$219	$180	$118	$166	82%	101%	93%
Countries Tracked: Burkina Faso, El Salvador, Ghana, Mongolia, Morocco, Namibia							
Sector — Land							
Indicator: Stakeholders trained	27,097	73,211[2]	99,059	26,867	270%	105%	74%
Indicator: Land administration offices established	248	393	249	191	158%	NA	NA
Countries Tracked: Benin, Burkina Faso, Cabo Verde II, Ghana, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Namibia, Nicaragua, Senegal							

[1]*Based on the cumulative target for that year.*

[2]*Data declined due to corrections of misreported data in closed compacts.*

[3]*Data declined due to Monitoring & Evaluation Plan revision or data revision by MCA counterpart.*

Table 4: MCC Selection Criteria

Ruling Justly	Investing In People	Encouraging Economic Freedom
▶ Civil Liberties	▶ Immunization Rates	▶ Land Rights and Access
▶ Political Rights	▶ Health Expenditures	▶ Trade Policy
▶ Control of Corruption	▶ Primary Education Expenditure	▶ Regulatory Quality
▶ Government Effectiveness	▶ Girls' Primary Education Completion	▶ Inflation
▶ Rule of Law	▶ Girls' Secondary Education Enrollment	▶ Fiscal Policy
▶ Freedom of Information	▶ Natural Resource Protection	▶ Access to Credit
	▶ Child Health	▶ Business Start-up
		▶ Gender in the Economy

Compact Development, Implementation, and Closure

Countries seeking to sign a compact with MCC must first be selected as eligible by MCC's Board of Directors as described in the process above. Several principles are key to ensuring countries develop successful compact proposals. Eligible countries should demonstrate **country ownership and commitment** by providing leadership, mobilizing resources, and incorporating broad groups of stakeholders and potential beneficiaries throughout the compact development process. Countries should **focus on economic growth** by directly confronting the main constraints to private investment, even when difficult public policy decisions may be involved, including policy and institutional issues that may be the root causes of these constraints. Compact programs should be based upon **strong program logic** that clearly ties proposed projects to measurable results and **high economic returns** in terms of increased incomes for beneficiaries. Well-developed compact projects also have **manageable technical, financial, environmental and social risks** and allow for **timely implementation** within a fixed five-year compact term, given each country's own oversight and management capacities.

To develop a compact program, eligible countries typically follow a five-phase process. During Phase One, the country works with MCC to undertake preliminary analyses of constraints to growth and poverty reduction. During Phase Two, the country identifies the root causes behind key constraints, and develops the program logic and proposes investment projects to address those issues. The most promising projects are further developed and appraised during Phase Three. MCC and the country agree on the terms of the proposed program and sign the compact during Phase Four. Preparations for compact entry into force then begin in Phase Five. When a compact enters into force, the fixed five-year implementation period begins.

Compact implementation is governed by the terms and conditions of the compact and the program implementation agreement, as well as MCC policies and guidelines. This generally includes a description of the program, including all projects and activities and their associated objectives; the overall grant amount, project allocations and a multi-year financial plan for the program; the obligations and responsibilities of the partner country, including any conditions precedent to the disbursement of compact funding; implementation and oversight responsibilities, including designation of the partner country's accountable entity (also referred to as the MCA), which is responsible for program administration, as well as related oversight structures; a description of the M&E approach, including a summary of indicators and related targets; and all required MCC approvals and associated fiscal and procurement controls.

MCC also has established guidance to ensure the orderly and efficient closure of compacts at the end of their five-year term. This starts with the development of a concise program closure plan by the partner country's accountable entity, which should describe the closure strategy for each project and activity, the wind-up or continuation of the accountable entity, and other important aspects required to close out program activities as detailed in MCC's Program Closure Guidelines. While the content of such closure plans will vary by country, project and activity, all plans must include the components outlined in MCC's guidelines and must be approved by MCC. All compact programs formally close 120 days following the expiration of the compact's five-year term.

Post Compact Evaluations

MCC also conducts **performance** and **impact** evaluations to help evaluate the various analyses.

- **Performance evaluations** estimate the contribution of MCC investments to changes in trends on outcomes, including household income. Performance evaluations serve an accountability purpose by comparing changes between the situation before the MCC investment occurred and after the MCC investment.
- **Impact evaluations** are the most rigorous form of evaluations because they estimate the causal impact of the MCC investment on key outcome indicators. They make it possible to know whether the observed impacts were caused specifically by an MCC investment or were the result of external factors. Impact evaluations compare what happened with the investment to what would have happened without it through use of a counterfactual.

MCC Effect

MCC's approach to selecting partners encourages countries—and not just MCC countries—to improve their economic and social policies before MCC spends a single dollar there. Many call this the "MCC Effect". MCC sees this when government and civil society groups contact MCC or indicator institutions to learn about and improve their scorecard performance. A number of countries set up interministerial committees to improve their scorecard performance and policy data. An independent global survey concluded that the MCC Effect exists and that MCC scorecards inspire more policy reform than any other measure. Many countries also regard their MCC scorecard performance as a stamp of approval that tells their citizens and the private sector that the country is well-governed.

Looking Forward

New Compacts and Threshold Programs

At its quarterly meeting on September 17, 2015, the Board of Directors approved new compacts with Liberia and Morocco and a new threshold program with Sierra Leone. The $257 million compact with Liberia combines infrastructure with policy and institutional reforms that are expected to modernize the country's power sector and strengthen its road maintenance systems.

The $450 million Morocco compact will support high-quality education and land productivity. An employability project is designed to improve the quality, relevance, and equitable access of secondary education and vocational skills training. A land project will also help rural and industrial land markets better respond to investor demand, and modernize property rights' policies.

MCC's investment in Sierra Leone will support policy reforms and improved governance in the water and electricity sectors. This program will create a foundation for delivery of financially sustainable water

Night falls over the hills of Amman, Jordan. As part of the $275 million compact with Jordan, MCC is rehabilitating the nearby city of Zarqa's antiquated drinking and wastewater network and helping to expand a new wastewater treatment facility, all of which will increase available water for drinking and irrigation and improve the safety and living conditions of Zarqa's residents.

Millennium Challenge Corporation: Jordan | November 24, 2013 | Photo by Jake Lyell for MCC

Benin Minister of Finance Komi Koutche, left, and MCC CEO Dana J. Hyde, sign the $375 million Benin Power Compact in the presence of Benin President Dr. Thomas Boni Yayi, and Vice President Joe Biden, September 9, 2015, at the White House.

The $375 million Benin compact aims to strengthen Benin's national utility, attract private sector investment, and fund infrastructure investments in electric generation and distribution as well as off-grid electrification for poor and unserved households. Only one-third of Benin's population has access to electricity and total consumption is low due to limited access and availability. As a result, electricity consumption in Benin is below the average for Africa's low-income countries at 110 kilowatts per hour per capita annually, or 0.01 percent of the average for middle-income economies.

Steve Ruark for MCC

and electricity by establishing independent regulation, strengthening key institutions and increasing transparency and accountability.

Second Compacts

Countries that demonstrate successful implementation of their first compact, improved scorecard policy performance, and a commitment to sectoral reform may be considered by MCC's Board of Directors for a second compact. There is a higher bar for second compact selection. To date, MCC has entered into second compacts with Benin, Cabo Verde, El Salvador, Georgia, Ghana, and Morocco, and is currently developing second compacts with Lesotho, Mongolia, the Philippines, and Tanzania.

Some of the most critical aspects of a country's second compact depend on its ability to implement upfront institutional and policy reform, encourage private sector investment and participation in the sustainability of design, innovative content, financing and implementation mechanisms, and focused projects.

Regional Investment

MCC continues to explore the potential for regional investments that would support cross-border infrastructure and promote trade capacity between neighbors. Over the last several years, MCC has seen ample evidence that economies do not work in isolation, and regional integration is important to further economic growth. Poor countries can grow faster, create more jobs, and attract more investment when they are part of dynamic regional markets. Enhanced regional integration can connect those countries to export opportunities and to the input factors needed for their own economic activity, such as power, water, or raw material. Under the right circumstances, regional investments present opportunities to take advantage of higher rates of return on investment and larger scale reductions in poverty.

For example, by making coordinated regional investments across multiple countries, MCC could:

- Help countries work together to build and grow regional markets.
- Expand and link regional power, transport and water networks to reduce costs and improve service.
- Increase the benefits of MCC investments through capturing more economies of scale.
- Facilitate increased trade and investment.
- Help generate new business and market opportunities for U.S. and other companies.

MCC is pursuing legislative changes needed to facilitate some regional investments, and continues to explore options to develop regional investments through its existing authority.

Power Africa

MCC investments to increase access to electricity in sub-Saharan Africa continue to support the President's *Power Africa* initiative.

Access to reliable and affordable power is critical to creating and sustaining economic growth. MCC's approach starts by working with countries that meet overall good governance standards. This focus on a sound policy environment generally helps create the conditions to attract private sector capital and expertise, which are vital to expanding access to electricity in sub-Saharan Africa.

MCC programs also directly help partner countries to address gaps in their power sector policies, laws and regulations, and to strengthen sector institutions to help create a business-friendly environment. Transparent governance, contract enforcement, creditworthy power buyers and respect for the rule of law are some of the necessary preconditions to attract private sector investment, and are central to MCC's efforts in sub-Saharan Africa's power sector. This includes investing in the capacity of power sector institutions to establish stronger and healthier electric utilities and regulatory entities that create functional markets and attract private investment.

To ensure access, countries must also have the right physical infrastructure in place. To facilitate this, MCC programs also invest in strategically identified power infrastructure, spanning the entire power sector value chain. In a number of countries, this includes support for the development of renewable sources of energy to serve both on- and off-grid communities.

Saber Lahjouji (left) studies woodworking at the Institute of Traditional Arts in Fez, Morocco. MCC has funded vocational and artisanal training for students and the purchase of equipment at the institute.

Millennium Challenge Corporation: Morocco

May 9, 2013

Photo by Jake Lyell for MCC

Analysis of MCC's Financial Statements

Financial Discussion and Analysis

At the end of the fiscal year, MCC prepared four basic financial statements with accompanying notes and presented them to the USAID OIG for audit by an independent accounting firm. The Financial Section of this report contains the financial statements and notes, and the auditors' report. The following analysis provides a high-level summary of MCC's Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position and Statement of Budgetary Resources.

Balance Sheet

The Balance Sheet is a representation of MCC's financial condition at the end of the fiscal year. It shows the resources available to meet its statutory requirements (assets); the amounts it owes that will require payment from the available resources (liabilities); and the difference between assets and liabilities (MCC's net position).

Assets

As of September 30, 2015, MCC held total assets of $4.6 billion, an increase of approximately 3 percent from FY 2014's total assets of $4.5 billion. The majority of MCC's assets (99 percent) are held in its Fund Balance with Treasury (FBwT). FBwT increased $174 million due to differences in Appropriations Received and Gross Outlays. Gross Outlays decreased primarily due to outlays associated with two compacts (Senegal and Moldova) that closed in FY 2015.

Other assets, which total only 1 percent of MCC total assets, include Advances, Property, Plant and Equipment (PP&E) and Accounts Receivable. Advances (Public) decreased by $51 million primarily due to compact closures in September FY 2014 (Burkina Faso and Namibia) and countries in anticipation of compact closures in FY 2015 (Senegal and Moldova). Advances (Intragovernmental) increased by approximately $1 million due primarily to an increase in advances for the Honduras II special advance agreement established between MCC and the Department of the Treasury (Office of Technical Assistance) in September 2014.

MCC has very few capital assets in relation to total assets because it does not own its facilities or other real property and does not capitalize its leases. Further, MCC established its capitalization thresholds at $200 thousand for IT equipment and $50 thousand for other fixed assets. As of September 30, 2015, MCC did not report any fixed assets. This amount decreased $1 million from the amount reported in FY 2014 due to the complete amortization of leasehold improvements for leased office space at MCC headquarters in Washington, DC.

Liabilities

As of September 30, 2015, MCC had $155 million in liabilities, which represented amounts owed to its grantees, vendors, contractors, trading partners and employees. Grant liabilities comprise more than $141 million, or nearly 92 percent, of MCC's total liabilities. Grant liabilities decreased by $1 million primarily due to compact closures in September 2014 (Burkina Faso and Namibia). The compact closures in FY 2014 were offset by compacts that have increased their spending authority in anticipation of compact closure (Senegal and Moldova). Additionally, MCC recorded contract retentions of $43 million in FY 2015, an increase of $20 million, or nearly 87 percent, from FY 2014.

Net Position

MCC's overall net position as of September 30, 2015, was $4.5 billion, an increase of $123 million, or nearly 3 percent from the overall net position reported in FY 2014. The available appropriations reported in MCC's positive net position represent the resources necessary to fund future compacts and demonstrate the lag between appropriation, commitment and expenditure of compact funds.

Statement of Net Cost

This statement shows MCC's net cost of operations, as a whole, by the major programs or appropriation fund categories. Table 5 describes each program.

During FY 2015, MCC incurred $779 million in net program costs, divided among MCC's six programs. Table 6 shows the percentage of FY 2015 net costs by program. Net program costs decreased by $285 million, or 27 percent, from FY 2014 due to a net decrease of compact program costs.

Statement of Changes in Net Position

This statement shows the change in net position during the reporting period. MCC's net position on September 30, 2015, was $4.5 billion, a decrease of $123 million from September 30, 2014. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. As of September 30, 2015, Cumulative Results of Operations amounted to negative $4 million, a decrease of nearly $4.9 million from September 30, 2014. This balance is the cumulative difference, for all previous fiscal years, between funds available to MCC from all financing sources and the net costs of MCC. The second component of net position, Total Unexpended Appropriations, amounted to $4.5 billion, an increase of $128 million, or 3 percent, from FY 2014. This increase in Unexpended Appropriations was the result of compact closures in September FY 2014 (Burkina Faso and Namibia) and only one new compact in FY 2015 (El Salvador II).

Statement of Budgetary Resources

This statement and related disclosures provide information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement derived predominantly from an entity's budgetary general ledger in accordance with budgetary accounting rules. The Statement of Budgetary Resources reflects the format prescribed by OMB Circular No. A-136, *Financial Reporting Requirements.* The total amount displayed for the status of budgetary resources equals the total budgetary resources available to MCC as of September 30, 2015.

For FY 2015, MCC had total budgetary resources of $2.8 billion, an increase of $242 million, or 10 percent, from FY 2014. A total of $900 million of budgetary resources were provided through FY 2015 Congressional appropriations and $1.8 billion were carried forward from appropriations in prior years.

Table 5. MCC Fund Categories

Fund	Source and Purpose
Compact	Funds approved by Congress, apportioned by OMB, and obligated by MCC to cover compacts between MCC and partner countries. Note: Under authority contained in section 609(g) of the MCC Act, MCC provides Compact Implementation Funds (CIFs) when it signs a compact to speed compact implementation by the partner country. OMB apportions grant funds for grants and cooperative agreements.
609(g)	Funds approved by Congress and apportioned by OMB to fund contracts or grants for facilitating the development and/or implementation of a compact between MCC and a partner country.
614(g)	Funds approved by Congress that the CEO may use to contract with any nongovernmental organization (including a university, independent foundation or other organization) in the United States or in a candidate country and, where appropriate, directly with a governmental agency of any such country that is undertaking research aimed at improving data related to eligibility criteria under this title with respect to the country.
Threshold	Funds appropriated by Congress, apportioned by OMB and used by MCC to help countries to become eligible for MCC compact assistance.
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.
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.
Administrative	Funds appropriated by Congress and apportioned by OMB for operating expenses.

Table 6. MCC Net Program Costs (Dollars in Thousands)

Program	FY 2015	FY 2014	% Change	Reason for Change
Compact	$ 620,734	$ 906,028	–31%	The $285 million decrease was due primarily to compact closures in September FY 2014 (Burkina Faso and Namibia) and countries in anticipation of compact closures in FY 2015 (Senegal and Moldova). Additionally, MCC recorded contract retentions of $43 million in FY 2015.
609(g)	13,507	12,084	12%	The $1.4 million increase was primarily the result of increases in expenses for 609(g) grants for the countries of Benin II, Ghana II and Tanzania II.
Threshold	2,108	4,520	–53%	The $2.4 million decrease was primarily the result of decreases in expenses for the USAID threshold because USAID is phasing out the threshold program. Additionally, there was a $1.4 million increase in expenses for the Honduras II special advance agreement established between MCC and the Department of the Treasury (Office of Technical Assistance).
Due Diligence	39,730	34,580	15%	The $5.1 million increase was primarily due to an increase in program costs for interagency agreements, due diligence consultants, and personal service contractors and detailees.
Audit	3,722	3,264	14%	The $458,000 increase was due primarily to an increase in audit expense accrual reversals, offset by decreases in audit operation costs and audit expense accruals.
Administrative	98,816	103,442	–4%	The $4.6 million decrease was primarily due to decreases in operating expenses/program costs for IT contracted services, miscellaneous services, and international cooperative administrative support services.
TOTAL	**$ 778,617**	**$ 1,063,918**	**–27%**	

Analysis of MCC's Systems, Controls, and Legal Compliance

Systems

MCC has no plans to operate its own financial systems and plans to continue to utilize service providers. Currently, the Department of the Interior's Interior Business Center (IBC) is MCC's financial management shared services provider for financial and payroll systems. MCC is responsible for overseeing IBC and ensuring that financial systems and internal controls are in place to fulfill legislated and regulatory financial management requirements.

Controls

The MCC CEO's annual Statement of Assurance and the annual Statement of Assurance of Management Control over Financial Reporting submitted by MCC's service provider follow this section.

On an annual basis, MCC assesses the vulnerability of its programs and systems in alignment with the Federal Managers' Financial Integrity Act (FMFIA) and its implementing guidance, OMB Circular No. A-123, *Management's Responsibility for Internal Control,* as well as the associated guidelines issued by the CFO Council. OMB Circular No. A-123, Appendix A, "Internal Control over Financial Reporting," provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting and reporting on internal control over financial reporting. Appendix A allows for modified implementation to fit the circumstances, conditions and structure of each entity. During FY 2015, the final year of its three-year phased-in improvement plan, MCC continued its efforts to reassess, improve and enhance its financial, systems, program and performance information.

FY 2015 Assurance Statement from CEO

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

November 13, 2015

FY 2015 Assurance Statement from the CEO

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 of 1982 (FMFIA). MCC conducted an assessment of the effectiveness of internal control in achieving effective and efficient operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular Number A-123, *Management's Responsibility for Internal Control.*

Reporting Pursuant to FMFIA Section 2

- **Overall Statement of Assurance**
  Based on the results of its evaluation, MCC can provide unqualified reasonable assurance that its overall internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of June 30, 2015 was operating effectively.

- **Statement of Assurance for Internal Control Over Financial Reporting**
  Based on the results of its evaluation, there were no material weaknesses identified in the design or operation of these controls. MCC provides reasonable assurance that internal controls over financial reporting are operating effectively, as of June 30, 2015.

Reporting Pursuant to FMFIA Section 4

The vulnerability of MCC programs and systems was assessed in accordance with FMFIA and OMB guidance. Our assessment determined that MCC's financial management systems are in substantial conformance with the Section 4 (Financial Systems) requirements of FMFIA as of June 30, 2015.

Sincerely,

Dana J. Hyde
Chief Executive Officer
Millennium Challenge Corporation

875 Fifteenth Street NW | Washington, DC | 20005-2221 | p: (202) 521-3600 | f: (202) 521-3700 | www.mcc.gov

FY 2015 Statement of Assurance from Service Provider

MCC's service provider issued the following Statement of Assurance.

United States Department of the Interior
Office of the Secretary

Interior Business Center

October 1, 2015

Dear Valued Customer:

The purpose of this letter is to provide assurance that the Oracle Federal Financial application controls remained unchanged for the period July 1, 2015, through September 30, 2015.

You were previously notified that KPMG LLP examined the description of the Oracle Federal Financial application controls at the Department of the Interior (Department), Interior Business Center (IBC). The results of their review and analysis were provided in a Service Organization Control Report (SSAE16) covering the period July 1, 2014, through June 30, 2015. A softcopy version of the report was provided to you mid-July 2015.

The SSAE 16 review was conducted for the purpose of expressing an opinion as to whether:

(1) IBC's description of the Oracle application controls presents fairly in all material respects the aspects of the IBC controls that may be relevant to a user organization's internal control;

(2) the controls included in the description were suitably designed to achieve the control objectives specified in the description if those controls were complied with satisfactorily; and

(3) such controls had been placed in operation as of June 30, 2015. KPMG also performed testing procedures designed to determine the effectiveness of the specified controls in meeting control objectives specified by the IBC.

This letter provides representations and assurances related to Oracle Federal Financial application controls at the IBC for the period July 1, 2015, through September 30, 2015. This time period was not covered by the SSAE 16 examination report previously provided. To the best of our knowledge and belief, there have been no subsequent events that would have a significant effect on user organizations that have not been disclosed to you. The controls that have been placed in operation as of June 30, 2015, did not change for the period of July 1, 2015, through September 30, 2015. The description of controls in the FY 2015 SSAE 16 examination report presents fairly the aspects of IBC controls that were in place as of September 30, 2015.

United States Department of the Interior
Office of the Secretary

Interior Business Center

The IBC also conducted an assessment of the effectiveness of internal control over financial reporting for customers where the IBC processes your financial transactions, which includes safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of Appendix A of OMB Circular A-123 and the CFO Council's Implementation Guide dated July 31, 2005, as implemented by the Department. The assessment focused on the specific IBC financial business processes such as financial reporting, revenue management, funds management, and procurement in place as of June 30, 2015. As of that date, the IBC noted no material or significant deficiencies verified through A-123 Appendix A financial transaction testing. Thus, the IBC asserted internal controls over financial reporting were suitably designed and operating effectively. The procedures and management controls for processing financial transactions have not changed since June 30, 2015. As a result, the IBC continues to assert substantial compliance with financial accounting and reporting controls in place from July 1, 2015, through September 30, 2015.

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

Sincerely,

Donna L. Edsall, CPA
Associate Director
Financial Management Directorate
Interior Business Center

Other Management Information, Initiatives and Issues

The Independent Auditor's Report identified three significant deficiencies in internal control over financial reporting for the fiscal year ending September 30, 2015. These deficiencies are:

1. Uncorrected Misstatements in FY 2015 Financial Statement Due to MCC's Failure to Account for Advances and their Liquidation in an MCA's Permitted Account.
2. Validation Control over Grant Accrual Estimates.
3. Systemic Errors Due to Core System Limitations.

MCC will continue to enhance its internal controls to address the noted deficiencies. Specific enhancements in FY 2016 will include:

- Correcting underlying causes for financial management system errors and limitations.
- Developing improved methods for posting accounting transactions (i.e., grant accruals).
- Strengthening the relationship with IBC, MCC's shared services provider.
- Continuing to improve financial reporting and management review processes.

Nurse Sabina Mandondo assists patient Mary Simon and her newborn baby at Bitale Health Center in Bitale village, Kigoma Region, in Western Tanzania. Mrs. Simon gave birth to her baby safely at night at the health center with the assistance of solar lighting installed by the Millennium Challenge Corporation.

Millennium Challenge Corporation: Tanzania | November 1, 2012 | Photo by Jake Lyell for MCC

- Continuing to improve grant accrual and validation policies and procedures.
- Continuing to work with the USAID OIG to improve MCA audit programs.
- Working to improve Information Systems Controls.

Legal Compliance

MCC complies with all applicable Federal statutes and regulations. Key legal requirements include:

Prompt Payment Final Rule

The Prompt Payment Final Rule (Code of Federal Regulations Title 5, Part 1315) requires Federal agencies to pay commercial obligations within certain periods and to pay interest penalties when payments are late. With certain exceptions, payments to vendors are due 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. MCC measures the percentage of all payments made within the specified timeframes for all payments subject to the Prompt Payment Final Rule. In FY 2015, MCC's prompt payment performance was 99 percent. MCC is taking steps to reduce the likelihood of future unnecessary interest payments.

Improper Payments Information Act (as amended by Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012)

The Other Information section of this report contains MCC's Improper Payments Information Act report. The risk assessment results did not identify any funds that met the OMB threshold of significant erroneous payments. Although MCC did not meet the OMB threshold, MCC tested five of its funds to determine if it could identify any significant improper payments. MCC did not identify any improper payments from the sample of disbursements tested.

MCC determined its programs were not susceptible to significant erroneous payments, so it did not include payment recapture audits in the scope of the FY 2015 review.

Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act requires all Federal agencies to refer for collection to the Department of the Treasury's Bureau of the Fiscal Service past due, legally enforceable non-tax debts that are more than 180 days delinquent. During FY 2015, MCC had no debt to refer to the Department of the Treasury.

Federal Information Security Management Act (FISMA) of 2002

In FY 2015, MCC continued to improve FISMA compliance and cybersecurity. MCC scored 94 percent on the OMB Annual Report to Congress (10 percent higher than the previous year); strengthened internal controls by implementing automated mechanisms to enforce audit and accountability, identity and authentication, access control and data management domains; updated and implemented process guides to improve E-Authentication; and closed seven outstanding OIG FISMA audit recommendations. In addition, MCC strengthened (1) cybersecurity by reducing user access privileges by 90 percent, (2) separation of duties on user accounts, and (3) processes in the agency's intrusion detection system.

Furthermore, improvements to the security assessment and authorization program allowed successful transitions to cloud service providers, thereby improving efficiencies and effectiveness to MCC's core mission. Lastly, MCC improved cybersecurity awareness training by implementing the Department of State's Center of Excellence cybersecurity awareness training program.

Privacy Act of 1974

In 2015, MCC implemented automated internal controls on the information system to improve on privacy monitoring, auditing and data integrity. MCC updated retention and disposal records and implemented the Department of State's Center of Excellence cybersecurity awareness training program as part of improving privacy awareness training.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of MCC, pursuant to the requirements of 31 United States Code (U.S.C.) 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by OMB Circular A-136, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Fresh produce is sold in the central market in Chișinau, Moldova. Many farmers in Moldova are transitioning to growing high value agricultural products like the ones sold here as part of the Transition to High Value Agriculture project of MCC's Moldova compact.

Millennium Challenge Corporation: Moldova | June 8, 2015 | Photo by Jake Lyell for MCC

Financial Section

Workers construct a new pump house along the Dniester River as part of the rehabilitation of irrigation schemes in the Transition to High Value Agriculture project of the MCC Moldova compact.

Millennium Challenge Corporation: Moldova

June 11, 2015

Photo by Jake Lyell for MCC

Message from the Vice President and Chief Financial Officer, Department of Administration and Finance

November 13, 2015

As the Millennium Challenge Corporation (MCC) continues to successfully fight poverty around the world by promoting sustainable economic growth, it is our responsibility to effectively measure, monitor, and improve performance of the funds that we and our partners manage. We are strongly committed to rigorous management and responsible oversight of our investments, and we continue to work with our partner countries to raise the standards of accountability and adopt practices that maximize the value of American tax dollars.

This year exemplified the positive impact that MCC investments can have on our partner countries. I am pleased that MCC successfully completed two vital compacts in Senegal and Moldova that are expected to benefit almost 2 million people. And I am equally excited that our Board approved three new compacts and two threshold programs totaling $1.2 billion.

MCC's FY 2015 Agency Financial Report reflects our efficient and transparent use of the funds entrusted to us by the President and U.S. Congress to deliver meaningful programs and achieve sustainable results. Our FY 2015 financial results are also documented in this report.

We are committed to a year-round process of evaluation and continuous improvement supported by dedicated personnel at MCC headquarters and in our field missions. During FY 2015, MCC focused on creating an agency-wide model of collaboration to better align the agency's strategic goals across departments, map department resources and capabilities, and facilitate open sharing of programmatic data and critical success factors. This effort has greatly improved MCC planning, program management and operational processes.

I am pleased that MCC received an unmodified clean opinion on its financial statements for the fifth consecutive year and I am especially proud to report that this is the first year, since the inception of the agency, that we received no material weakness findings in our internal controls. While I am humbled to note this accomplishment, we remain committed to ongoing improvements, particularly as we look to the next fiscal year. We will use the recommendations provided by our independent auditors and the Office of the Inspector General as an opportunity to further our quest for excellence in financial management.

Matthew L. Bohn
Vice President and Chief Financial Officer
Department of Administration and Finance

Financial Statements

The principal financial statements have been prepared to report the financial position and the results of operations of MCC. The financial statements have been prepared from MCC's books and records in accordance with formats prescribed in OMB Circular No. A-136, *Financial Reporting Requirements* (revised on August 4, 2015). The financial 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 September 30, 2015 and September 30, 2014 have been included.

MCC presents the following financial statements and additional information:

- Balance Sheet
- Statement of Net Cost
- Statement of Changes in Net Position
- Statement of Budgetary Resources
- Notes to the Financial Statements
- Independent Auditors' Report

Note that totals may vary slightly due to rounding.

MCC's compact in Senegal is an example of how a good partnership can profoundly transform individual lives as the country works to lift itself out of poverty.

Millennium Challenge Corporation: Senegal | July 21, 2015 | Photo by Scott Fontaine

Balance Sheet

As of September 30, 2015 and September 30, 2014 (in thousands)		
Assets	**FY 2015**	**FY 2014**
Intragovernmental:		
Fund Balance with Treasury *(Note 2)*	$ 4,600,318	$ 4,426,412
Advances *(Note 3)*	2,941	2,308
Total Intragovernmental	**4,603,259**	**4,428,720**
Accounts Receivable, Net *(Note 4)*	1	1
General Property, Plant, and Equipment, Net *(Note 5)*	—	880
Advances *(Note 3)*	41,375	92,063
Total Assets	**$ 4,644,635**	**$ 4,521,664**
Liabilities		
Intragovernmental:		
Accounts Payable *(Note 1L)*	$ 1,520	$ 320
Other Liabilities	288	236
Total Intragovernmental	**1,808**	**556**
Accounts Payable *(Note 1L)*	5,928	6,482
Other Liabilities:		
Accrual — Grant Liabilities *(Note 7)*	141,687	142,846
Accrued Funded Liabilities	5,397	5,127
Total Liabilities	**154,820**	**155,011**
Net Position		
Unexpended Appropriations — All Other Funds	4,493,791	4,365,777
Cumulative Results of Operations — All Other Funds	(3,976)	876
Total Net Position	**4,489,815**	**4,366,653**
Total Liabilities and Net Position	**$ 4,644,635**	**$ 4,521,664**

The accompanying notes are an integral part of these statements.

Statement of Net Cost

For the Years Ended September 30, 2015 and September 30, 2014 (in thousands)		
Program Costs *(Note 9)*	**FY 2015**	**FY 2014**
Compact Program Costs	$ 620,734	$ 906,028
609 (g) Program Costs	13,507	12,084
Threshold Program Costs	2,108	4,520
Due Diligence Program Costs	39,730	34,580
Audit Costs	3,722	3,264
Administrative Costs	98,816	103,442
Net Cost of Operations	**$ 778,617**	**$ 1,063,918**

The accompanying notes are an integral part of these statements.

Statement of Changes in Net Position

For the Years Ended September 30, 2015 and September 30, 2014 (in thousands)	FY 2015	FY 2014
Cumulative Results of Operations:		
Beginning Balances	$ 876	$ 3,150
Budgetary Financing Sources:		
Appropriations Used	771,486	1,058,798
Other Financing Sources:		
Donations and Forfeitures of Property *(Note 8)*	455	546
Imputed Financing	1,824	2,300
Total Financing Sources	**773,765**	**1,061,644**
Net Cost of Operations	**(778,617)**	**(1,063,918)**
Net Change	**(4,852)**	**(2,274)**
Cumulative Results of Operations	**(3,976)**	**876**
Unexpended Appropriations:		
Beginning Balance	4,365,777	4,526,375
Budgetary Financing Sources:		
Appropriations Received	899,500	898,200
Appropriations Used	(771,486)	(1,058,798)
Total Budgetary Financing Sources	**128,014**	**(160,598)**
Total Unexpended Appropriations	**4,493,791**	**4,365,777**
Net Position	**$ 4,489,815**	**$ 4,366,653**

The accompanying notes are an integral part of these statements.

Statement of Budgetary Resources

For the Years Ended September 30, 2015 and September 30, 2014 (in thousands)	FY 2015	FY 2014
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1	$ 1,839,461	$ 1,505,408
Recoveries of Prior Year Unpaid Obligations	40,472	133,763
Unobligated balance from Prior Year Budget Authority, Net	1,879,933	1,639,171
Appropriations *(Note 1E)*	899,500	898,200
Total Budgetary Resources	**$ 2,779,433**	**$ 2,537,371**
Status of Budgetary Resources:		
Obligations Incurred	$ 467,974	$ 697,910
Unobligated Balance, End of Year:		
Apportioned	2,272,687	1,705,250
Unapportioned	38,772	134,211
Total Unobligated Balance, End of Year	2,311,459	1,839,461
Total Budgetary Resources	**$ 2,779,433**	**$ 2,537,371**
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid Obligations, Brought Forward, October 1	$ 2,586,949	$ 3,105,685
Obligations Incurred	467,974	697,910
Outlays (Gross)	(725,600)	(1,082,883)
Recoveries of Prior Year Unpaid Obligations	(40,472)	(133,763)
Unpaid Obligations, End of Year	**$ 2,288,851**	**$ 2,586,949**
Memorandum entries:		
Obligated Balance, Start of Year	**$ 2,586,949**	**$ 3,105,685**
Obligated Balance, End of Year	**$ 2,288,851**	**$ 2,586,949**
Budget Authority and Outlays, Net:		
Budget Authority, Gross	$ 899,500	$ 898,200
Budget Authority, Net (total)	**$ 899,500**	**$ 898,200**
Outlays, Gross	$ 725,600	$ 1,082,883
Outlays, Net (total)	**$ 725,600**	**$ 1,082,883**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

As of September 30, 2015 and September 30, 2014

Note 1 — Summary of Significant Accounting Policies

A. Reporting Entity

The Millennium Challenge Act of 2003, as amended, contained in Title VI, Division D of Public Law 108-199 (the Consolidated Appropriations Act, 2004), established MCC as a wholly-owned Government corporation, as defined by the Government Corporation Control Act. MCC's mission is to reduce poverty through grants by supporting sustainable, transformative economic growth in developing countries that maintain sound policy environments.

B. Reporting by Operational Components

MCC reports the results of its operations, as a whole, by its major programs or appropriation fund categories, which consist of the following:

- **Compact** — Compact funds comprise large, five-year grants for countries meeting MCC's eligibility criteria.
- **609(g) of the Millennium Challenge Act of 2003** — 609(g) funds cover contracts or grants that facilitate the development of a compact between MCC and a partner country.
- **614(g) of the Millennium Challenge Act of 2003** — 614(g) funds comprise research contracts to improve data related to eligibility criteria. The contracts may be with a university, independent foundation, government entity, or other organization in the United States or a candidate country where such entity or country is undertaking research to improve data related to eligibility criteria under this title.
- **Threshold** — Threshold programs are smaller grants awarded to countries that come close to meeting the eligibility criteria for compacts.
- **Due Diligence** — Due Diligence funds support the cost of assessing compact proposals and providing compact implementation oversight.
- **Audit** — Audit funds cover audits of MCC operations and programs. The USAID OIG performs and manages MCC programmatic and financial audits.
- **Administrative** — Administrative funds cover MCC's operating expenses.

C. Basis of Accounting and Presentation

The accompanying financial statements have been prepared in accordance with GAAP and accounting standards issued by the Federal Accounting Standards Advisory Board (FASAB) in the format prescribed by the OMB Circular No. A-136, *Financial Reporting Requirements* (revised on August 4, 2015). FASAB is recognized by the American Institute of Certified Public Accountants as the official accounting standards-setting body for Federal entities. The financial statements present the financial position, net cost of operations, changes in net position, and budgetary resources of MCC, as required by the CFO Act of 1990, the Government Management Reform Act of 1994, and the Government Corporation Control Act (31 U.S.C. §9106).

The accounting structure of Federal activities is designed to reflect both the accrual and budgetary basis of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are prepared using the accrual method of accounting. The Statement of Net Cost reports MCC's gross cost less earned revenues to arrive at net cost of operations. MCC has no earned revenue. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which may be prior to the occurrence of an accrual-based transaction. The Statement of Budgetary Resources is prepared in accordance with budgetary accounting rules.

While the financial statements have been prepared from the books and records of MCC in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. Intradepartmental transactions and balances have been eliminated from the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

MCC's financial statements should be read with the realization that they are for a component of the Federal Government, a sovereign entity, whose liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the Federal Government acting in its capacity as a sovereign entity.

D. Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, and exercise judgment that affects the reported amounts of assets, liabilities, net position, and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of financing sources, expenses and obligations incurred during the reporting period. The assumptions made and estimates used by MCC management to prepare the financial statements are based upon the facts that exist when the statements are prepared, and on various other assumptions that are believed to be reasonable under the circumstances. Changes in estimates are reflected in the period in which they become known. Actual results may differ from those estimates. The Notes to the Financial Statements include information to assist the reader in understanding the effect of changes in assumptions on the related information.

The most significant estimates are a result of the accrued expenses recorded by MCC for grant liability incurred by MCAs. The majority of those liabilities are related to large infrastructure project and quantity estimates made on works performed but not yet invoiced as of the end of the fiscal year. Due to the nature of the infrastructure contracts, the variability in quantities estimated or projected may differ from actual quantities billed through interim or final invoicing.

E. Budgetary Basis of Accounting

MCC's programs and activities are funded 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. These 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.

F. Grant Liabilities Accrual Methodology

Accrued Grant Liabilities represent the carrying value of obligations assumed by MCC for works, goods and services performed/rendered/delivered but not yet invoiced through the Balance Sheet date. MCC's partner countries, through their respective accountable entities (Millennium Challenge Accounts, or MCAs) are allocated a spending authority on a quarterly basis. A spending authority for a given period is the portion of the compact that MCC authorized, approved and made available to MCAs for current and past works, goods and services incurred/delivered/received and for which MCAs can request disbursement in a given quarter. Unused spending authority is the difference between the authorized and approved spending authority and the actual disbursements in a given period.

MCC's grant accrual methodology, assumes that "unused spending authority" in a given period represents the upper limit of the accrual calculation and that invoices on hand at the end of a given period (MCA in-house invoices) represent the lower limit of the accrual calculation. In arriving at a reasonable estimate of the MCA's accrued liabilities using information available at the time of the calculation, MCC discounts the unused spending authority by using a rolling average of actual disbursements to calculate the grant liabilities accrual. When better information is available from MCAs on accrued liabilities, MCC relies on such information in arriving at the best estimate.

MCA's large infrastructure projects are structured to include retentions on invoices. The contract retentions represent a percentage of invoice amounts retained by the MCAs as a guarantee for completion of works contractually agreed upon. The contract retentions are for works completed and are owed to the contractor contingent upon the fulfillment of specific requirements stipulated in the respective contracts. MCAs do not release the retentions or request MCC payment for the retentions until the MCAs have verified that the contractor has met all the requirements and obligations under the contract. MCC recognizes MCA contract retentions as part of the Grant Accrual Liability.

G. Fund Balance with Treasury

(FBwT) represents the aggregate amount of MCC's accounts with Treasury available to pay current and future liabilities and finance authorized purchases, except where prohibited by law. Treasury processes all cash receipts and disbursements on behalf of MCC. MCC's fund balances with Treasury represent no-year funds maintained in appropriated accounts. MCC's records are reconciled with those of Treasury on a monthly basis.

H. Advances

MCC makes funding available to other Federal agencies or MCAs directly through a local bank account called the permitted account or indirectly through a vendor advance payment in accordance with compacts or interagency agreements. The provision of such funding is mainly to address cash flow flexibility for operating and administrative costs, to leverage better foreign exchange translation for the MCAs, or to meet contractual requirements of MCAs such as mobilization of equipment on large infrastructure projects. MCC records advances as assets. The advances are liquidated or amortized as follows: The funding made available to MCAs through the local permitted account is tracked and liquidated on a monthly basis based on Monthly Commitments and Disbursements Reports provided by the MCAs to MCC. The funding advanced to contractors or vendors (mobilization advances) are amortized based on contractual agreed upon schedules.

I. Accounts Receivable, Net

Accounts receivable reflect overpayments of payroll, travel, and other MCC current and former employee expenses. Accounts receivable also reflect disallowed and sustained MCA expenditures. Receivables that exist with foreign countries are considered sovereign debt. Public accounts receivable are presented net of an allowance for doubtful accounts, which is based on analyses of debtors' ability to pay, specific identification of probable losses, aging analyses of past-due receivables or historical collection experience.

J. General Property, Plant, and Equipment, Net

MCC's general PP&E consists of capitalized general equipment costs. MCC's capitalization threshold is $50,000 for all assets, except for IT equipment, for which the capitalization threshold is $200,000. The basis for recording purchased PP&E is the full cost of the acquired asset, including all costs required to bring the asset to the form and location suitable for its intended use.

Leasehold improvements are depreciated using the straight-line method of depreciation over the estimated useful life of improvement (usually between 8 and 10 years), depending on the years in the lease agreement. All other general PP&E is depreciated using the straight-line method over an estimated useful life of five years.

K. Liabilities

Liabilities represent the probable and measurable future outflow or other use of resources as a result of past transactions or events. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or for which funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available congressionally appropriated funds or other amounts, where there is no certainty that the appropriations will be enacted.

L. Accounts Payable

Accounts payable represent amounts due to Federal and non-Federal entities for goods and services received by MCC that have not been paid at the end of the accounting period. Intragovernmental Accounts Payable represents payable transactions with other Federal Government agencies (e.g., USAID, Department of the Interior, etc.), while non-Federal Accounts Payable represents transactions with non-Federal entities.

M. Other Liabilities — Intragovernmental

Accrued Payroll

Accrued payroll consists of salaries, wages and other compensation earned by the employees but not disbursed as of September 30, 2015. The liability is estimated for reporting purposes based on historical pay information.

Employee Retirement Benefits

MCC's employees participate in either the Federal Employees Retirement System (FERS) or the Civil Service Retirement System (CSRS). 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. FERS consists of Social Security, a gross annuity plan, and a Federal Thrift Savings Plan (TSP). MCC and the employee contribute to Social Security and the gross annuity plan at rates prescribed by law. In addition, each year MCC is required to contribute to the Federal TSP a minimum of 1 percent of the gross pay of employees covered by this system, match voluntary employee contributions up to 3 percent of the employees' gross pay, and match one-half of contributions between 3 and 5 percent of the employees' gross pay, for a maximum MCC contribution of 5 percent of pay. For FERS employees, MCC also contributes the employer's share of Medicare.

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 7 percent of their gross pay toward their retirement benefits. A matching contribution of 7 percent is required and is automatically deducted from the employees' gross pay. Employees under CSRS may participate in the TSP, but will not receive MCC's automatic or matching contributions.

Federal employee benefit costs paid by the U.S. Office of Personnel Management (OPM) and imputed by MCC are reported on the Statement of Net Cost. Contributions for FERS, CSRS, and other retirement benefits are insufficient to fund the programs fully and are subsidized by OPM. MCC imputes its share of the OPM subsidy, using cost factors provided by OPM, and reports the full cost of the programs related to its employees.

N. Federal Employee and Veteran Benefits

Federal Employee and Veteran Benefits consist of salaries, wages, leave and benefits earned by employees but not disbursed at the end of the reporting period.

Actuarial Federal Employees' Compensation Act

The Federal Employees' Compensation Act (FECA) (established by Public Law 103-3) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred work-related occupational diseases and beneficiaries of employees.

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 not funded by current appropriations.

O. Other Liabilities — Public

Unfunded Leave

A liability for annual and other vested compensatory leave is accrued as earned and reduced when taken. 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.

Custodial Liabilities

Under current policies 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 returned to Treasury's General Fund.

P. 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. Cumulative results of operations represent the net differences between financing sources and expenses since MCC's inception.

Q. Judgment Fund

Certain legal matters in 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 for Federal Tort Claims Act settlements or awards pertaining to these litigations are funded from a special appropriation administered by Treasury called the Judgment Fund. Although the ultimate disposition of any potential Judgment Fund proceedings cannot be determined, MCC management expects that any liability or expense that might ensue would not be material to MCC's financial statements.

R. Parent/Child Relationships with Other Federal Agencies

MCC is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and receiving (child) entity. Allocation transfers are legal delegations by one department of its ability 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 incurred by the child entity are also charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, 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 and budget apportionments are derived. In accordance with OMB guidance, child transfer activities are to be included and parent transfer activities are to be excluded in trial balances. MCC allocates funds as the *parent* to USAID. MCC may receive allocation transfers as the *child* from the President's Emergency Plan for AIDS Relief, Office of the United States Global AIDS Coordinator. As a result, there are amounts reported in MCC's Balance Sheet, Statement of Net Cost, Statement of Changes in

Net Position, and Statement of Budgetary Resources for which the activity is performed by USAID acting as the child in this financial relationship.

S. Contingencies

A loss contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible loss to MCC. The uncertainty ultimately should be resolved when one or more future events occur or fail to occur. The likelihood that the future event or events will occur confirms the loss; the incurrence of a liability can range from probable to remote. Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government,* as amended by SFFAS No. 12, *Recognition of Contingent Liabilities from Litigation,* contains the criteria for recognition and disclosure of contingent liabilities.

MCC could be a party to various administrative proceedings, legal actions, and claims brought by or against it. With the exception of pending, threatened or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is more likely than not to occur, and the related future outflow or sacrifice of resources is measurable. For pending, threatened or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely to occur, and the related future outflow or sacrifice of resources is measurable.

T. Intragovernmental Transactions and Relationships

Intragovernmental transactions are transactions in which only Federal entities are parties to the transaction. MCC has intragovernmental relationships with various Federal entities. Transactions with the public are transactions in which one party to the transaction is a Federal entity and the other is a non-federal entity.

If a Federal entity purchases goods or services from another Federal entity and sells them to the public, the exchange revenue is classified as with the public, but the related costs are classified as intragovernmental. The purpose of the classification is to enable the Federal Government to prepare consolidated financial statements that eliminate intragovernmental transactions.

U. Foreign Currency Transactions

The functional currency of the agency is the U.S. dollars (USDs) and MCC's financial statements are presented in that currency. Each MCC compact's budget amount is fixed and denominated in USDs. The financial execution of compacts cannot exceed the total budgeted amount. Disbursements occurring in other currencies are translated into and recorded in USDs. The MCAs bear all currency translation risk and as such MCC does not record any foreign translation gain or loss in its financial statements.

Note 2 — Fund Balance with Treasury

MCC's FBwT balance is comprised of only General Funds, which consist primarily of no-year appropriated funds.

Fund Balance with Treasury as of September 30, 2015 and September 30, 2014 (in thousands)

Fund Balances	2015	2014
General Funds	$ 4,600,318	$ 4,426,412
Total	**$ 4,600,318**	**$ 4,426,412**

The Status of Fund Balance with Treasury is primarily the total fund balance as recorded in the general ledger for unobligated and obligated balances:

- **Unobligated Balance – Available** — The amount remaining in appropriated funds available for obligation in future fiscal years.
- **Unobligated Balance – Unavailable** — The amount remaining in appropriated funds used only for adjustments to previously recorded obligations.

- **Obligated Balance – Not Yet Disbursed** — The cumulative amount of obligations incurred for which outlays have not been made.
- **Non-Budgetary Fund Balance with Treasury** — Comprised of amounts in General Fund Proprietary Receipts, Proceeds of Sales, Personal Property, and Undistributed Intragovernmental Payment funds.

Status of Fund Balance with Treasury as of September 30, 2015 and September 30, 2014 (in thousands)

Status of Fund Balance with Treasury	2015	2014
Unobligated Balance		
Available	$ 2,272,687	$ 1,705,250
Unavailable	38,772	134,211
Obligated Balance not yet Disbursed	2,288,851	2,586,949
Non-Budgetary FBWT	8	2
Total	**$ 4,600,318**	**$ 4,426,412**

Note 3 — Advances

As of September 30, 2015, MCC reported intragovernmental advances totaling $2,941 thousand, and public advances totaling $41,375 thousand. As of September 30, 2014, the amounts reported were $2,308 thousand and $92,063 thousand, respectively. The $50,688 thousand net decrease in public advances is composed primarily of the net effect of compact closures, the addition of new compacts, and fluctuations in advance balances in ongoing compacts.

Between FY 2013 and FY 2014, one MCA misclassified a few contracts; therefore, these contracts were treated as expenses rather than advances in these fiscal years. MCC management determined that these adjustments made to FY 2015 were not material to the financial statements taken as a whole.

Note 4 — Accounts Receivable, Net

Total receivables at September 30, 2015, and September 30, 2014 were $1 thousand and $1 thousand, respectively. The Accounts Receivable balance represents net valid claims by MCC to cash or other assets of other entities. Accounts Receivable Due from the Public is the total of miscellaneous debts due to MCC from employees and/or smaller reimbursements from other non-federal entities. A periodic evaluation of public accounts receivable is performed to estimate any uncollectible amounts based on current status. An allowance for doubtful accounts is recorded, for Accounts Receivable Due from the Public, to bring Accounts Receivable to its Net Realizable Value in accordance with SFFAS No. 1, *Accounting for Selected Assets and Liabilities.*

Note 5 — General Property, Plant, and Equipment, Net

MCC reports depreciation expense using the straight-line method over an asset's estimated useful life, beginning with the month the asset is placed in service. General PP&E is presented net of accumulated depreciation.

Status of General Property, Plant, and Equipment, Net as of September 30, 2015 (in thousands)

	Estimated Useful Life	Cost	Accumulated Depreciation	Book Value
General PP&E				
Leasehold Improvements	8–10 years	$ 10,924	$ 10,924	$ —
Other General PP&E	5 years	139	139	—
Total		**$ 11,063**	**$ 11,063**	**$ —**

Status of General Property, Plant, and Equipment, Net as of September 30, 2014 (in thousands)	Estimated Useful Life	Cost	Accumulated Depreciation	Book Value
General PP&E				
Leasehold Improvements	8–10 years	$ 10,924	$ 10,052	$ 872
Other General PP&E	5 years	139	131	8
Total		**$ 11,063**	**$ 10,183**	**$ 880**

Note 6 — Leases

MCC leases office space in two adjacent locations in Washington, D.C. These operating leases are on 10-year (Bowen Building) and 8-year (City Center Building) lease terms that terminated on May 25 and May 26, 2015, respectively. MCC has extended the leases for both the Bowen and City Center buildings through April 2016 and December 2015, respectively. MCC has signed a new lease for Franklin Court in anticipation of the lease terminations for the Bowen and City Center Buildings. The Franklin Court office space is a 10-year operating lease for which lease payments commence in February 2016.

MCC also has short-term leases for one corporate vehicle (through March 27, 2016), a new corporate vehicle lease (through September 13, 2020), and 14 copier machines (through September 29, 2017). The future lease payments due for the buildings and copier machines are depicted below.

Future Lease Payments Due — Buildings (in thousands)	Asset Category			
	Bowen Building	City Center	Franklin Court	Totals
FY 2016	$ 2,728	$ 590	$ —	$ 3,318
FY 2017	—	—	4,173	4,173
FY 2018	—	—	6,195	6,195
FY 2019	—	—	6,332	6,332
FY 2020	—	—	6,473	6,473
After FY 2020	—	—	35,206	35,206
Total Future Lease Payments	**$ 2,728**	**$ 590**	**$ 58,379**	**$ 61,697**

Future Lease Payments Due — Equipment (in thousands)	Asset Category		
	Vehicle	Copier	Totals
FY 2016	$ 13	$ 44	$ 57
FY 2017	8	44	52
FY 2018	8	—	8
FY 2019	6	—	6
FY 2020	6	—	6
Total Future Lease Payments	**$ 41**	**$ 88**	**$ 129**

Note 7 — Accrual – Grant Liabilities

On September 30, 2015, and September 30, 2014, MCC had grant liabilities of $141,687 thousand and $142,846 thousand, respectively. The $1,159 thousand decrease in grant liabilities was the result of changes in the compact portfolio in FY 2014 and FY 2015.

Note 8 — Donated Services

On occasion, MCC may utilize donated services from other Federal agencies, individuals and private firms in the course of its normal business operations. The approximate fair market value of donated services was $455 thousand for FY 2015 and $546 for FY 2014.

Note 9 — Intragovernmental Costs

The table below illustrates the value of exchange transactions between MCC and other Federal entities, as well as non-federal (public) entities. Intragovernmental costs relate to transactions between MCC and other Federal entities. Public costs relate to transactions between MCC and non-federal entities.

Intragovernmental Costs (in thousands)

	2015	2014
Compact Programs		
Intragovernmental	$ 1,242	$ 790
Public	619,492	905,238
Total Compact Costs	**620,734**	**906,028**
609(g) Programs		
Intragovernmental	7,088	1,992
Public	6,419	10,092
Total 609(g) Costs	**13,507**	**12,084**
Threshold Programs		
Intragovernmental	1,138	1,338
Public	970	3,182
Total Threshold Costs	**2,108**	**4,520**
Due Diligence Programs		
Intragovernmental	5,609	3,669
Public	34,121	30,911
Total Due Diligence Costs	**39,730**	**34,580**
Audit Programs		
Intragovernmental	3,450	3,024
Public	272	240
Total Audit Costs	**3,722**	**3,264**
Administrative Programs		
Intragovernmental	22,602	27,772
Public	76,214	75,670
Total Administrative Costs	**98,816**	**103,442**
Total Program Costs	**$ 778,617**	**$ 1,063,918**

Note 10 — Undelivered Orders at the End of the Period

Undelivered orders at the end of the period totaled $2,182,317 thousand and $2,526,304 thousand as of September 30, 2015, and September 30, 2014, respectively.

Undelivered Orders at September 30, 2015 and September 30, 2014 (in thousands)

Programs	2015	2014
Compact	$ 1,931,860	$ 2,306,353
609(g)	42,210	18,090
614(g)	—	4
Threshold	18,208	22,045
Due Diligence	98,444	100,341
Audit	2,310	1,830
Administrative	89,285	77,641
Total	**$ 2,182,317**	**$ 2,526,304**

Note 11 — Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the U.S. Government

The table below documents the differences between the FY 2014 Statement of Budgetary Resources and the actual amounts reported for FY 2014 in the Budget of the Federal Government. Since the FY 2015 financial statements will be reported prior to the release of the Budget of the Federal Government, MCC is reporting for FY 2014 only. Typically, the Budget of the Federal Government with the FY 2015 actual data is published in February of the subsequent year. Once published, the FY 2015 actual data will be available on www.whitehouse.gov/omb.

Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the U.S. Government (in millions)

	Budgetary Resources	Obligations Incurred	Net Outlays
Statement of Budgetary Resources	$ 2,537	$ 698	$ 1,083
Deductions	—	—	2
Budget of the U.S. Government	**$ 2,537**	**$ 698**	**$ 1,081**

The $2 million difference for Net Outlays is due to rounding.

Note 12 — Reconciliation of Net Cost of Operations to Budget

SFFAS No. 7, *Accounting for Revenues and Other Financing Concepts for Reconciling Budgetary and Financial Accounting,* requires a reconciliation of proprietary and budgetary accounting information. Accrual-based measures used in the Statement of Net Cost differ from the obligation-based measures used in the Statement of Budgetary Resources. The table below note reconciles the net obligations derived from the Statement of Budgetary Resources and net costs of operations derived from the Statement of Net Cost by identifying key items that affect one financial statement but not the other for September 30, 2015, and September 30, 2014, respectively. Total Resources Used to Finance Items Not Part of the Net Cost of Operations at the end of the period totaled $343,979 thousand and $494,866 thousand as of September 30, 2015, and September 30, 2014, respectively, and is comprised of current year Unpaid Obligations, Advances, and Recoveries of Prior Year Obligations.

Reconciliation of Net Cost of Operations to Budget for the Year Ending September 30, 2015 (in thousands)

Resources Used to Finance Activities			FY 2015 Reported Program Costs		
Budgetary Resources Obligated			Gross Costs		
Obligations Incurred	$	467,974	Net Program Costs	$	778,617
Recoveries of Prior Year Unpaid Obligations		(40,472)			
Other Financing Sources		2,279			
Total Resources Used to Finance Activities		429,781			
Total Resources Used to Finance Items Not Part of the Net Cost of Operations		343,979	Less: Earned Revenue		
Total Components of Net Cost of Operations that will Not Require or Generate Resources		4,857	Net Program Revenue		—
Net Cost of Operations per the Budget	**$**	**778,617**	**Net Cost of Operations per the Statement of Net Cost**	**$**	**778,617**

Reconciliation of Net Cost of Operations to Budget for the Year Ending September 30, 2014 (in thousands)

Resources Used to Finance Activities			FY 2014 Reported Program Costs		
Budgetary Resources Obligated			Gross Costs		
Obligations Incurred	$	697,910	Net Program Costs	$	1,063,918
Recoveries of Prior Year Unpaid Obligations		(133,763)			
Other Financing Sources		2,846			
Total Resources Used to Finance Activities		566,993			
Total Resources Used to Finance Items Not Part of the Net Cost of Operations		494,866	Less: Earned Revenue		
Total Components of Net Cost of Operations that will Not Require or Generate Resources		2,059	Net Program Revenue		—
Net Cost of Operations per the Budget	**$**	**1,063,918**	**Net Cost of Operations per the Statement of Net Cost**	**$**	**1,063,918**

Independent Auditors' Report

OFFICE OF INSPECTOR GENERAL

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S FINANCIAL STATEMENTS, INTERNAL CONTROLS, AND COMPLIANCE FOR THE FISCAL YEARS ENDING SEPTEMBER 30, 2015, AND 2014

AUDIT REPORT NO. M-000-16-001-C
NOVEMBER 13, 2015

WASHINGTON, D.C.

Office of Inspector General

November 13, 2015

Ms. Dana J. Hyde
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 Fiscal Years Ending September 30, 2015, and 2014 (Audit Report No. M-000-16-001-C)

Dear Ms. Hyde:

Enclosed is CliftonLarsonAllen LLP's final report on the subject audit. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm to audit the financial statements of the Millennium Challenge Corporation (MCC) for the fiscal years (FYs) ending September 30, 2015, and 2014. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget (OMB) Bulletin 15-02, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/President's Council on Integrity and Efficiency *Financial Audit Manual*.

The independent auditor expressed an unmodified opinion on MCC's FY 2015 financial statements. The report states that they present fairly, in all material respects, the net position of MCC as of September 30, 2015, and 2014, and its net cost, changes in net position, and budgetary resources for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States. In addition, CliftonLarsonAllen reported no instances of noncompliance with certain provisions of laws and regulations that could have a direct and material effect on the determination of the amounts in the financial statements.

In MCC's FY 2015 financial statements, the auditor identified three matters involving the internal control over financial reporting that were considered significant deficiencies. These matters are listed below and are detailed in the auditor's report.

Office of Inspector General
Millennium Challenge Corporation
1300 Pennsylvania Avenue, NW
Washington, DC 20523
http://oig.usaid.gov

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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The three significant deficiencies were:

- Uncorrected misstatements in FY 2015 financial statement because of MCC's failure to account for advances and their liquidation in a Millennium Challenge Account's (MCA's) permitted account (new finding)

- Validation controls over grant accrual estimates were weak (modified repeat finding)

- Core (general ledger) system's systemic errors (modified repeat finding)

In carrying out its oversight responsibilities, OIG reviewed the audit report and audit documentation provided by CliftonLarsonAllen. This review is different from an audit in accordance with U.S. generally accepted government auditing standards and was not intended to enable OIG to express, and we do not express, opinions on MCC's financial statements, internal control, or compliance with laws, regulations, contracts, or grant agreements. CliftonLarsonAllen is responsible for the attached auditor's report, dated November 13, 2015, and the conclusions expressed in it. However, our review disclosed no instances in which CliftonLarsonAllen did not comply, in all material respects, with applicable standards.

To address the three significant deficiencies in internal controls reported by CliftonLarsonAllen, we are listing four recommendations to MCC's management below.

> ***Recommendation 1.*** *We recommend that MCC's Department of Administration and Finance perform a more comprehensive review of advances by comparing MCA advances reported to MCC to the source data maintained by the fiscal agent.*
>
> ***Recommendation 2.*** *We recommend that MCC's Department of Administration and Finance employ substantive fluctuation and trend analyses of the advances account and promptly investigate unusual fluctuation and trends.*
>
> ***Recommendation 3.*** *We recommend that MCC enhance its Expense Accruals Financial Management Division Procedure Manual to:*
>
> a. *Define the criteria for when the assumption that MCC's maximum liability being equivalent to unused spending authority at the end of the quarter is not valid and why.*
>
> b. *Fully address the MCA confirmation process and how it is carried out and documented.*
>
> c. *Incorporate the desk procedures so that the procedures are formally reviewed and approved.*
>
> d. *Address how a grant accrual estimate provided by an MCA should be evaluated to determine if it is reasonable.*

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e. *Establish a procedure to ensure that MCC provides an MCA with sufficient time to address MCC's request to assess the reasonableness of the MCC calculated grant accrual for an MCA.*

f. *Formalize the guidance provided to an MCA on what supporting documentation should be provided to address the reasonableness of the MCC calculated grant accrual for an MCA or providing an accrual estimate for an MCA to MCC.*

Recommendation 4. *We repeat the prior years' recommendation that MCC's Department of Administration and Finance continue to investigate and correct the root causes for the system limitations or problems that prevent or delay the recording, processing, and summarizing of accounting transactions.*

OIG acknowledges MCC's management decisions for all four recommendations. Please inform us when final action has been achieved.

We appreciate the cooperation and courtesies extended to our staff and to the staff of CliftonLarsonAllen during the audit. Please contact Fred Jones at (202) 216-6963 if you have any questions concerning this report.

Sincerely,

Nathan Lokos
Assistant Inspector General for Audit
U.S. Agency for International Development
Office of Inspector General

cc: Parita Shah, Chief of Staff
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MILLENNIUM CHALLENGE CORPORATION

September 30, 2015

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CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

To the Inspector General
U.S. Agency for International Development

To the Board of Directors
Millennium Challenge Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the Millennium Challenge Corporation (MCC), which comprise the balance sheets as of September 30, 2015 and 2014, and the related statements of net cost, changes in net position, and budgetary resources, for the years then ended, and the related notes to the financial statements (financial statements).

Management's Responsibility for the Financial Statements

MCC management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); this includes the design, implementation and maintenance of internal control relevant to the preparation, and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 15-02). Those standards and OMB Bulletin 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MCC's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (Continued)

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Millennium Challenge Corporation as of September 30, 2015 and 2014, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the U.S. issued by the Federal Accounting Standards Advisory Board (FASAB) require that the MCC's Management Discussion and Analysis (MD&A) on pages 7 through 32 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by FASAB who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the MD&A because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Message from the Chief Executive Officer on pages 3 and 4, Message from the Vice President, Department of Administration and Finance (DAF) and Chief Financial Officer on page 35, and other information on pages 75 to 109, are presented for purposes of additional analysis and is not a required part of the financial statements or Required Supplementary Information. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered MCC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MCC's internal control or on management's statement of assurance on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of MCC's internal control or on management's assertion on internal control included in the MD&A. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

INDEPENDENT AUDITORS' REPORT (Continued)

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described below and in Exhibit 1 that we consider to be significant deficiencies.

1. Uncorrected misstatements in FY 2015 financial statement because of MCC's failure to account for advances and their liquidation in an MCA's permitted account (new finding) - MCC DAF recorded the change in Advances in FY 2015 quarter 1 without considering the impact of the error on the FY 2015 financial statements until we requested an analysis. The accounting error resulted in FY 2015 expenses being understated by $19 million, and FY 2014 and FY 2013 expenses overstated by $0.6 million and $18.4 million, respectively. MCC included the uncorrected misstatements adjusting entries in a schedule attached to the MCC representation letter provided to the auditor. Also, the MCA incorrectly omitted $1.4 million advance liquidation in its June 30, 2015, certified data call report thereby overstating the Advances and understating the expenses. This error was corrected at September 30, 2015.

2. Validation control over grant accrual estimates were weak (modified repeat finding) - We noted certain issues that impacted the quarterly grant accrual during the year evidencing the need to continue strengthening the validation control and to enhance the grant accrual policy and procedures.

3. Core (general ledger) system's systemic errors (modified repeat finding) - The root causes of recording errors are due to system's limitations [for example: a) Purchase Order (PO) module does not interface properly with the GL module; b) Accounts Payable (AP) module does not interface properly with the GL module, c) incorrect accounting posting model, d) system module interface errors, and f) obligation/funding and/or disbursement posting errors], these systemic errors continue to exist.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance

As part of obtaining reasonable assurance about whether MCC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of

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INDEPENDENT AUDITORS' REPORT (Continued)

laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards* or OMB Bulletin No. 15-02.

Management's Responsibilities for Internal Control and Compliance

Management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under FMFIA, (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and (3) complying with other applicable laws, regulations, contracts, and grant agreements.

Auditors' Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, and (2) testing compliance with certain provisions of laws, regulations, contracts, and grant agreements applicable to MCC noncompliance with which could have a direct and material effect on the determination of financial statements amounts.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws, regulations, contracts and grant agreements applicable to MCC. We limited our tests of compliance to certain provisions of laws, regulations, contracts, and grant agreements applicable to MCC noncompliance with which could have a direct and material effect on the determination of financial statements amounts. 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. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Management's Response to Findings

Management's response to the findings identified in our report is presented in Exhibit 2. We did not audit MCC's response and, accordingly, we express no opinion on it.

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of MCC's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 12, 2014. The status of prior year findings is presented in Exhibit 3.

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INDEPENDENT AUDITORS' REPORT (Continued)

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of MCC's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MCC's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
November 13, 2015

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EXHIBIT 1
Significant Deficiencies

1. Uncorrected Misstatements in FY 2015 Financial Statement because of MCC's Failure to Account for Advances and their Liquidation in an MCA's Permitted Account (New Finding)

A permitted account is a bank account used by a Millennium Challenge Account (MCA) like a petty cash account primarily to pay smaller purchases or vendors in local currency. Using a permitted account for large disbursements including advances is not a typical process for the MCAs. However, one MCA was allowed by the MCC Department of Compact Operations (DCO) to use permitted account to make disbursements, including Advances, after it demonstrated that the local currency provided a better exchange rate. The MCA started using the permitted account to make Advances on its contracts beginning in 2013. Although the MCC DCO was aware of this arrangement, the MCC Department of Administration and Finance (DAF) was not aware that an MCA was using its permitted account differently from other MCAs until FY 2015.

There are two different ways disbursements made to MCA are recorded that impact Advances:

(1) The typical Advance is originally recorded as an expense when MCC makes a disbursement. At the end of each quarter, MCC DAF initiates data calls to MCAs requesting information on Advances as of a reporting date. MCC DAF then records the Advances reported by the MCAs as an asset by reducing previously recorded expenses.

(2) The untypical Advance is a disbursement made to a permitted account, which is recorded immediately as an Advance at the time of disbursement, then is liquidated based on the monthly reporting provided by the MCAs.

Due to the untypical nature of the Advances from permitted account and the lack of clarity of the data call instructions, the MCA had not reported the Advances paid out of the permitted accounts in 2013 and 2014. However, for FY 2015 quarter 1, MCC DCO, working with MCC DAF, clarified its instructions to the MCA and required the MCA to report all Advances (typical and untypical). As a result, the MCA advances went up from $79,000 at September 30, 2014, to $18.1 million at December 31, 2014.

MCC DAF recorded the change in Advances in FY 2015 quarter one without considering the impact of the error on the FY 2015 financial statements until we requested an analysis. The accounting error resulted in FY 2015 expenses being understated by $19 million, and FY 2014 and FY 2013 expenses overstated by $0.6 million and $18.4 million, respectively. Since the uncorrected misstatements in FY 2014 and 2015 were not material to the financial statements taken as a whole, MCC included the uncorrected misstatements adjusting entries in a schedule attached to the MCC management representation letter provided to the auditor.

In addition to the control deficiency described above on the MCC's failure to record Advances from the permitted account due to the deficiency in the data call process, we also noted a data call reporting error for $1.4 million in the MCA's June 30, 2015, certified data call. The MCA incorrectly omitted a $1.4 million advance liquidation thereby overstating the Advances and understating the expenses. This error was corrected at September 30, 2015.

GAO *Standards for Internal Control* in the Federal Government states internal control is not one event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis. Some control activities include: proper execution of transactions and events and accurate and timely recording of transactions and events.

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EXHIBIT 1
Significant Deficiencies

Recommendation 1. *We recommend that MCC Department of Administration and Finance perform a more comprehensive review of advances by comparing MCA advances reported to MCC to the source data maintained by the fiscal agent.*

Recommendation 2. *We recommend that MCC Department of Administration and Finance employ substantive fluctuation and trend analyses of the advances account and promptly investigate unusual fluctuation and trends.*

2. Validation Control over Grant Accrual Estimates were Weak (Modified Repeat Finding)

MCC reported approximately $621 million in compact grant related expenses and an accrued grant liability of $142 million for expenditures incurred by the MCC Compact Accountable Entities (also known as Millennium Challenge Accounts or MCAs) but not yet paid by MCC as of September 30, 2015.

In FY 2015, MCC continues to refine its accrual methodology and continues to accumulate data store to validate its methodology. However, we noted certain issues discussed below that impacted the quarterly grant accrual during the year evidencing the need to continue strengthening the validation control and to enhance the grant accrual policy and procedures.

- The grant accrual policy and procedures allows MCC staff to use accrual estimates provided by the MCAs under certain conditions, but it does not indicate what validation steps MCC staff should take to ensure that the accrual estimate is reasonable. Accordingly, certain quarterly accruals were recorded without full validation of the reasonableness of the amount. For example:
    - The first quarter 2015 total accrued estimated liability was approximately $122 million. The MCC grant accrual validation or look back analysis only accounted for $65 million, resulting in a difference of approximately $57 million. $55 million of the $57 million difference was due to one MCA, whose compact ended in September 2015. This MCA's accrued amount was $83 million (68 percent of the $122 million) and the MCC look back analysis was only $27 million. This MCA's estimated accrual reported to MCC exceeded the MCA's unused spending authority by approximately $24 million, or 42 percent. Had MCC DAF performed a trend analysis of this MCA's past history, it would show that this MCA was unlikely to exceed its unused spending authority. MCC did not take sufficient steps to ensure that the accrual estimate provided by the MCA was reasonable.
- The following deviations related to the grant accrual methodology process occurred:
    - For the first and fourth quarters, MCC accepted a grant accrual from several MCAs that were closing this fiscal year that exceeded the MCAs' unused spending authority. This is contrary to MCC's assumption that the maximum liability is the unused spending authority for the end of that quarter. In addition, a non-closing MCA also provided grant accrual estimates for the first three quarters that exceeded the MCA's unused spending authority for those quarters. MCC did not address this conflict by providing a justification under what circumstances that this assumption would not be valid and why. Inconsistency in applying the

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EXHIBIT 1
Significant Deficiencies

grant accrual methodology could adversely impact the grant accrual results and the reliability of the grant accrual data.

- MCC's *Expense Accruals Financial Management Division Procedure Manual*, dated June 2015, 1.3. Country Grant Accruals, states,

  In addition, MCC must take a different approach for determining the amount of the quarterly grant accrual in any of the following situations:

  - The MCA or fiscal accountability director provides the accrual amount

  The bullet above does not identify the situation in which the MCC would accept an accrual amount from the MCA or fiscal accountability director. However, we were informed that after each quarter the Financial Management Division (FMD) issues an email to the DCO, Fiscal Accountability Officer to provide the MCAs with the calculated accrual amount, which is supposed to represent the amount of work completed before the end of the quarter. The MCAs were to review the figure and confirm that it is a reasonable estimation of work completed before the end of the quarter, but not yet billed or paid by the end of the quarter. For those compacts that were closing this fiscal year, the MCA must provide FMD with the accrual amount to enable a better estimate of work completed, but not yet paid or invoiced. MCC management indicated that starting in the fourth quarter FY 2015, the emails were sent directly to the MCAs and the DCO received a copy. This process is only addressed by a single sentence in an informal desk procedure.

  MCC did not update its grant accrual procedures to reflect this key control that involves the confirmation from the MCA on whether or not MCC's calculated grant accrual estimate is reasonable and to provide actual accrual estimates when they are in their final year of the compact. MCC is relying on informal desk procedures to document the process. If procedures are not clear regarding what is to be done, then there is a potential for errors to occur later on due to turnover in staff positions and the loss of internal MCC knowledge.

FASAB Federal Financial Accounting Technical Release (TR) 12, *Accrual Estimates for Grant Programs,* states that "As part of agencies' internal control procedures to ensure that grant accrual estimates for the basic financial statements were reasonable, agencies should validate grant accrual estimates by comparing the estimates with subsequent grantee reporting." "Agencies should document and maintain support for the data and assumptions used to develop grant accrual estimates. The documentation will facilitate the agency's review of the assumptions, a key internal control, and will facilitate the auditor's testing of the estimates."

TR 12 also states that "Documented procedures are important to communicate relevant information on the grant accrual estimation to employees and management as well as other interested parties, such as auditors. As an agency experiences employee turnover, these documented procedures can provide vital information for new employees on how to complete reliable, well supported grant accrual estimates. Such documentation may be used to establish consistent procedures for developing grant accrual estimates across grant programs with similar characteristics."

EXHIBIT 1
Significant Deficiencies

Recommendation 3. *We recommend that MCC enhance its Expense Accruals Financial Management Division Procedure Manual to:*

a. *Define the criteria for when the assumption that MCC's maximum liability being equivalent to unused spending authority at the end of the quarter is not valid and why.*

b. *Fully address the MCA confirmation process and how it is carried out and documented.*

c. *Incorporate the desk procedures so that the procedures are formally reviewed and approved.*

d. *Address how a grant accrual estimate provided by an MCA should be evaluated to determine if it is reasonable.*

e. *Establish a procedure to ensure that MCC provides an MCA with sufficient time to address MCC's request to assess the reasonableness of the MCC calculated grant accrual for an MCA.*

f. *Formalize the guidance provided to an MCA on what supporting documentation should be provided to address the reasonableness of the MCC calculated grant accrual for an MCA or providing an accrual estimate for an MCA to MCC.*

3. Core (General Ledger) System's Systemic Errors (Modified Repeat Finding)

MCC made substantial progress in implementing prior years' audit recommendation that management investigate and resolve legacy transactions and system open tickets and errors. Our audit identified many prior years' longstanding errors were finally corrected in the first half of FY 2015 and the number of system open tickets have substantially decreased. However, since the root causes of these errors are due to system's limitations, these systemic errors continue to exist. The system limitations include [for example: (1) Purchase Order (PO) module does not interface properly with the GL module; (2) Accounts Payable (AP) module does not properly with the GL module, (3) incorrect accounting posting model, (4) system module interface errors, and (5) obligation/funding and/or disbursement posting errors]. Accordingly, MCC continues to prepare journal entries – sometimes repeating same journal entries every reporting period – to adjust balances at the financial statements level until errors are finally researched and corrected in the system.

Certain financial activities entered at the onset of accounting events are still inherently prone to error and require intensive monitoring and further manual corrections and/or system fixes when errors are found. As a result, the accounting and financial reporting processes, as a whole, are inefficient, duplicative, and the risks are high that internal controls may not effective in order to timely prevent, or detect and correct errors, increasing the possibility of a material misstatement in the financial statements.

GAO *Standards for Internal Control in the Federal Government* states that internal control is not one event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis. Control activities may be applied in a computerized information system environment or through manual processes. Information system control should be installed at an

1-4

EXHIBIT 1
Significant Deficiencies

application's interfaces with other systems to ensure that all inputs are received and are valid and outputs are correct and properly distributed. Some examples of control activities include: proper execution of transactions and events, accurate and timely recording of transactions and events, and appropriate documentation of transactions and internal control.

> ***Recommendation 4.*** *We repeat the prior years' recommendation that MCC's Department of Administration and Finance continue to investigate and correct the root causes for the system limitations or problems that prevent or delay the recording, processing, and summarizing of accounting transactions.*

EXHIBIT 2
Management's Response to Findings

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

November 13, 2015

Ms. Mia Leswing
Principal
CliftonLarsonAllen, LLP
4250 N. Fairfax Drive, Suite 1020
Arlington, VA 22203

Ms. Donell Ries
Deputy Assistant Inspector General for MCC
Office of Inspector General
U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20005

Dear Ms. Leswing and Ms. Ries:

In response to the audit findings and recommendations provided in your financial statement audit report, MCC has the following comments:

Significant Deficiency: Uncorrected Misstatements in FY 2015 Financial Statement Due to MCC's Failure to Account for Advances and their Liquidation in an MCA's Permitted Account (New)

Recommendation 1:

We recommend that MCC DAF perform a more comprehensive review of Advances by comparing MCA Advances reported to MCC to the source data maintained by the Fiscal Agent.

Recommendation 2:

We recommend that MCC DAF employ substantive fluctuation and trend analysis of the Advances account and promptly investigate unusual fluctuation and trends.

Response from MCC:

MCC concurs with recommendations 1 and 2. A comprehensive corrective action plan will be developed and implemented to address the deficiency noted.

Significant Deficiency: Validation Control over Grant Accrual Estimates Needs to be Strengthened (Modified Repeat Finding)
Recommendation 3

We recommend that MCC enhance its *Expense Accruals Financial Management Division Procedure Manual* to:

875 Fifteenth Street NW | Washington, DC | 20005-2221 | p: (202) 521-3600 | f: (202) 521-3700 | www.mcc.gov

2-1

EXHIBIT 2
Management's Response to Findings

a. Define the criteria for when the assumption that MCC's maximum liability being equivalent to unused spending authority at the end of the quarter is not valid and why.
b. Fully address the MCA confirmation process and how it is carried out and documented.
c. Incorporate the desk procedures so that the procedures are formally reviewed and approved.
d. Address how a grant accrual estimate provided by the MCAs should be evaluated to determine if it is reasonable.
e. Establish a procedure to ensure that MCC provides the MCA with sufficient time to address MCC's request to assess the reasonableness of the MCC calculated grant accrual for the MCA.
f. Formalize the guidance provided to the MCA on what supporting documentation should be provided to address the reasonableness of the MCC calculated grant accrual for the MCA or providing an accrual estimate for the MCA to MCC.

Response from MCC:

MCC concurs with recommendation 3. A comprehensive corrective action plan will be developed and implemented to address the deficiency noted.

Significant Deficiency: Core (General Ledger) System's Systemic Errors (Modified Repeat Finding)

Recommendation 4:

We repeat the prior years' recommendation that MCC DAF continue to investigate and correct the root causes for the system limitations or problems that prevent or delay the recording, processing and summarizing of accounting transactions.

Response from MCC:

MCC concurs with recommendation 4. A comprehensive corrective action plan will be developed and implemented to address the deficiency noted.

Sincerely,

Matthew L. Bohn
Vice President and Chief Financial Officer
Department of Administration and Finance

2-2

EXHIBIT 3
Status of Prior Year Findings and Recommendations

Our assessment of the current status of the recommendations related to findings identified in the prior year audit is presented below:

FY 2014 Findings	FY 2014 Summary of Recommendations	FY 2015 Status
Material Weakness: Ineffective and Inefficient Integration of Data, Processes, and Controls within the Financial Management Systems (Modified Repeat Finding)	1. Perform a comprehensive review and determine whether the Shared Service Provider's (SSP) financial management system is meeting its financial management and reporting needs. As part of this review, management should continue to evaluate whether: a. a separate grants management system that focuses on program and financial administrations that interfaces with the core financial system is needed, or b. to establish alternatives to recording numerous data lines in the Oracle and AP and PO modules which is manual intensive and prone to errors.	Closed – MCC performed a comprehensive review in FY 2015 and concluded that the SSP's financial management system is meeting its financial management and reporting needs.
	2. Investigate and correct the underlying causes for the system errors and limitations that prevent or delay the recording, processing, and summarizing of accounting transactions. Key issues that remain unresolved should be escalated immediately rather than back-log the problem. MCC should ensure that errors and open tickets are resolved appropriately and timely by the SSP and that routine MCA accounting activities recorded in Oracle within the specified timeline. Moreover, manual adjusting journal entries should be used for limited transactions like unusual one-time entries or correcting entries.	Open – reported as SD# 3. Core System's Systemic Errors, modified repeat finding
	3. In collaboration with the SSP, formalize in writing the system's issues and standardize the resolution processes and policy/procedures.	Closed
	4. Further review SSP data entries relating to MCA payment processing and related adjustments (i.e. obligation/disbursement adjustments). Perform reconciliation of AP and PO on a monthly basis and proactively resolve all differences in a timely manner.	Closed
Significant Deficiency: Validation Control over Grant Accrual	5. Update its *Expense Accruals Financial Management Division Procedure Manual* to: a. Provide clear guidance regarding the accrual process as it relates to compacts that are in	a. Open – reported as SD#2, Validation

3-1

EXHIBIT 3
Status of Prior Year Findings and Recommendations

Estimates Needs to be Strengthened (Modified Repeat Finding)	their final year as to how the accrual will be determined; b. Address how contract retentions will be accounted for and included in the grant accrual estimate; and c. Provide a logical and supportable look-back analysis and validation process to assess the reasonableness of the grant accrual on a quarterly basis. The look-back analysis should provide MCC with sufficient and appropriate information to explain unusual variances between actual and estimates, or support updating the current grant accrual methodology. Such periodic assessment of the adequacy of the grant accrual methodology should be documented and supported by data analysis. The accrued liability amount is subject to the risks that actual subsequent disbursement amount may be significantly different from management's estimate. When this occurs, management should further analyze the drivers/factors to ensure the validity and reasonableness of the estimation methodology.	Control over Grant Accrual Estimates were weak, modified repeat finding b. Closed c. Closed
	6. Ensure that policies and procedures developed are current and are fully implemented by MCC staff during the grant accrual process to avoid potential calculation errors in the future.	Open – reported as SD SD#2, Validation Control over Grant Accrual Estimates were weak, modified repeat finding

3-2

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue, NW
Washington, DC 20523
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Fax: 202-216-3047
http://oig.usaid.gov/
Audit Task No. 3M100115

Zanzibaris enjoy recreation along the Stonetown waterfront. The Millennium Challenge Corporation is increasing electrical infrastructure on the Zanzibar Archipelago by bringing a new submarine cable from mainland Tanzania, constructing new electrical sub-stations, and installing new power lines.

Millennium Challenge Corporation: Zanzibar, Tanzania | October 29, 2012 | Photo by Jake Lyell for MCC

A nighttime market is lit by solar power in Msimba village, Kigoma Region, Western Tanzania. The Millennium Challenge Corporation's solar energy programs have brought electricity to markets and dispensaries in Msimba and dozens of other markets, schools, hospitals, and dispensaries across the region.

Millennium Challenge Corporation: Kigoma Region, Tanzania | November 2, 2012 | Photo by Jake Lyell for MCC

Other Information

Women, including Karima Elidrissi, attend an MCC-funded evening functional literacy course in Agadir, Morocco.

Millennium Challenge Corporation: Morocco

May 6, 2013

Photo by Jake Lyell for MCC

Management Challenges Identified by the Inspector General

Office of Inspector General

OCT 14 2015

Ms. Dana J. Hyde
Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005

Dear Ms. Hyde:

The enclosed statement summarizes the Office of Inspector General's conclusions on the most serious management and performance challenges for the Millennium Challenge Corporation (MCC) in fiscal year 2015. We based decisions on which challenges to report primarily on audits and analyses of MCC's operations. More challenges may exist in areas that we have not yet reviewed, and other significant findings may result from future work.

The Reports Consolidation Act of 2000 (Public Law 106–531) requires that each federal agency include in its performance and accountability report a statement by its inspector general summarizing the most serious management and performance challenges facing the agency and assessing its progress in addressing those challenges. The enclosed statement will be included in MCC's fiscal year 2015 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, I would be happy to meet with you.

Sincerely,

Catherine Trujillo
Acting Deputy Inspector General

Enclosure: a/s

Office of Inspector General
U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
http://oig.usaid.gov

Statement by the Office of Inspector General on the Millennium Challenge Corporation's Most Serious Management and Performance Challenges Fiscal Year 2015

The Millennium Challenge Corporation (MCC) provides foreign aid to countries that meet its policy indicators of ruling justly, investing in people, and encouraging economic freedom. The compacts are designed to reduce poverty and increase economic growth through projects in sectors such as agriculture, education, transportation, and water and sanitation. At the end of the fiscal year, MCC had nine current compacts worth $3 billion: Cabo Verde II, El Salvador II, Georgia II, Ghana II, Indonesia, Jordan, Malawi, Philippines, and Zambia. MCC continues to face its most serious management challenges in the following areas:

- Developing Compacts
- Implementing Compacts
- Sustaining Compact Benefits
- Managing Finances Efficiently

Developing Compacts

MCC and its partner countries take approximately 2 years to develop compacts. They do preparatory analysis, project definition, project development and appraisal, compact negotiation and signing, and preparation for entry into force. Once a compact enters into force, the fixed, 5-year implementation period starts. The compact development process is collaborative, involving partner-country stakeholders and MCC.

A recent Office of Inspector (OIG) review identified the need for improvement in compact development, specifically during the due diligence review of proposed projects when identifying alternative proposals should be done.

- In July 2015,[1] OIG reported that MCC did not consider alternatives in designing the Centralized Irrigation System Rehabilitation Activity in the Moldova compact. The due diligence review at the time accepted the country's proposal to rehabilitate existing Soviet-era systems. However, during compact implementation, construction could not proceed because insufficient funding was available to build the systems in the manner planned. This required MCC to conduct a study at that point to identify alternatives, resulting in delays to the implementation of the irrigation system rehabilitation.

Implementing Compacts

MCC and its partner countries, through Millennium Challenge Accounts (MCAs), complete the compact implementation process over the compact term. Each MCA is staffed by a team of professionals in management, procurement, finance, monitoring and evaluation, and law and by specialists in sectors covered by the compact, such as infrastructure and agriculture. The MCA procures contractors to implement the compact projects and oversees them with the assistance of contracted specialists.
Two recent reviews, one of MCA procurement,[2] the other of a small-scale fisheries project,[3] illustrate, respectively, challenges encountered during compact implementation.

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[1] *Review of the Millennium Challenge Corporation's Transition to High-Value Agriculture Project in Moldova*, Report No. M-000-15-005-S, July 28, 2015. Fieldwork on this review was completed on September 20, 2013.
[2] *Review of the Millennium Challenge Corporation's Procurement Process for Selected Country Programs*, Report No. M-000-15-006-S, August 12, 2015. Fieldwork on this review was completed on September 4, 2014.

- Auditors found three areas for improvement in the procurement process: MCC did not have written requirements for MCA market outreach to help attract a sufficient number of quality bidders. MCA terms of reference were not always accurate and clear, resulting in failed procurements. Contractor past performance information was not always used by the MCAs when selecting contractors.

- Because MCC and the MCA did not have an effective plan for overseeing a nationwide mobile fish vendor project, it did not achieve its project goals. The $3.3 million project for mobile vendors was to train 2,000 vendors and provide them with motorbikes equipped with coolers. Instead, it trained 1,234 mobile vendors, achieving 62 percent of the training goal, and gave motorbikes to 699 of them, achieving 35 percent of the equipment goal.

Sustaining Compact Benefits

To ensure that project benefits can be sustained over time, MCC requires that sustainability be part of compact design and development. Sustainability can take a number of forms, like requiring a partner country to increase its contributions to a road maintenance fund so that when the MCC-funded road is completed, the partner country has adequate funding for upkeep. Recent OIG audits[1,3] showed that sustainability measures could be improved.

- OIG reported that the sustainability of certain project activities was at risk. Under the first Morocco compact, 15 of 30 completed fishery infrastructure projects were not operational (fully functioning) at compact end, including boat landing sites, ports, and wholesale fish markets. Delivery of planned sustainability benefits would not occur unless the projects become operational.

- The sustainability of irrigation systems was at risk because the water user associations charged with managing and maintaining them had not received all planned training or experience on operating them.

Managing Finances Efficiently

Strong financial management is critical to effective and efficient operations. MCC must not only manage its finances well but also see that MCAs do so.

- MCC received an unqualified audit opinion on its fiscal year (FY) 2014 financial statements and demonstrated further progress in improving its financial management practices. The audit report cited one material weakness and one significant deficiency in internal control. The latter, described below, represents an ongoing challenge to MCC's ability to prepare complete, reliable financial statements.

- MCC's financial management system follows the guidance prescribed by the Federal Accounting Standards Advisory Board, whereas the independent MCAs established by recipient countries do not. MCC addresses this challenge by adjusting its grant liabilities at headquarters to bring the cash-basis reporting by MCAs in line with MCC's accrual basis. In FY 2012, MCC revised its methodology for estimating grant accruals by examining disbursement history, unused spending authority, and invoices received but not paid. In FY 2014, MCC further revised its process so that it includes contract retentions as part of its grant accrual estimates. Further, in FY 2014 it was noted that accumulating sufficient MCA disbursement data to reasonably validate grant accrual estimates was a challenge and

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[3] *Review of the Millennium Challenge Corporation-Funded Small-Scale Fisheries Project in Morocco*, Report No. M-000-15-004-S, March 30, 2015. Fieldwork on this review was completed on October 12, 2013.

2

time-consuming. As we perform the current financial statement audit, we continue to examine MCC's method for validating accrual estimates.

3

MCC Management's Response to the Inspector General

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

November 13, 2015

Catherine Trujillo
Acting Inspector General
U.S. Agency of International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523

Dear Ms. Trujillo:

In its *Statement by the Office of Inspector General on Millennium Challenge Corporation's (MCC) Most Serious Management and Performance Challenges in Fiscal Year 2015* (the "OIG 2015 Statement"), the OIG identified concerns in four areas: (1) developing compacts, (2) implementing compacts, (3) sustaining compact benefits, and (4) managing finances efficiently. Most of the audits and reviews that support the OIG's FY 2015 Statement were conducted in FY 2014 or earlier; in the time since, MCC has addressed the concerns, as detailed in the attachment to this letter.

We appreciate that the OIG recognizes MCC's efforts to date, and we welcome your continued involvement as we enhance our ability to perform MCC's mission effectively. MCC thanks the OIG for acknowledging MCC's progress in improving programmatic and financial management practices to successfully mitigate the serious management challenges identified in prior fiscal years.

Sincerely,

Dana J. Hyde
Chief Executive Officer
Millennium Challenge Corporation

Attachment

875 Fifteenth Street NW | Washington, DC | 20005-2221 | p: (202) 521-3600 | f: (202) 521-3700 | www.mcc.gov

Attachment: Detailed Response to OIG Management and Performance Challenges Letter

Developing Compacts

In the *Review of the Millennium Challenge Corporation's Transition to High-Value Agriculture Project in Moldova*[1], conducted in September 2013, the OIG reported that MCC did not consider alternatives in the design of one of the project activities during the due diligence phase.

Although OIG reported that this caused delays in implementation, in fact, the Centralized Irrigation System Rehabilitation Activity discussed in the OIG 2015 Statement was completed before the Moldova Compact closed on September 1, 2015.

While there were challenges during design and implementation, the successful adjustment and resulting improvement over original plans is evidence that MCC is a learning organization committed to addressing problems in real time and finding effective solutions.

In particular, MCC conducted an alternatives analysis in 2013 to review the irrigation systems' design and costs. (The findings of this review were shared with the OIG during the course of the referenced audit.) Based upon this analysis, MCC and MCA-Moldova pivoted to a different project design, which lowered costs, incorporated new technologies and standards, improved project efficiencies, and maintained the project activity completion dates.

As a result, at compact close on September 1, 2015, the ten systems targeted by the innovative midstream correction were completed in full, bringing the expected hectares under irrigation to approximately 12,000 hectares, with the possibility of expanding irrigation to an additional 3,000 hectares with private investment. (The compact originally targeted 15,000 under irrigation.) The Moldova Compact achieved original output targets within the compact scope for both major projects.

Implementing Compacts

The OIG 2015 Statement points to three areas for improvement in MCC program procurements as discussed in the OIG's *Review of Millennium Challenge Corporation's Procurement Process for Selected Country Programs*[2], conducted in September 2014.

MCC acknowledges these findings and, in the period since the review was completed, has addressed the findings, as discussed below.

With respect to market outreach, MCC is focusing its efforts on increasing market awareness for compact-related procurement opportunities by directly engaging the private sector community both in the U.S. and overseas, as well as encouraging and equipping MCAs to do the same.

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[1] Review of the Millennium Challenge Corporation's Transition to High-Value Agriculture Project in Moldova, Report No. M-000-15-005-S, July 28, 2015. Fieldwork on this review was completed on September 20, 2013.
[2] Review of the Millennium Challenge Corporation's Procurement Process for Selected Country Programs, Report No. M-000-15-006-S, August 12, 2015. Fieldwork on this review was completed on September 4, 2014.

MCC has developed a "market analysis toolkit" that will be tested with new compacts to advance deeper market understanding and more robust and targeted compact procurement planning.

Further, MCC will continue to remind the MCAs and procurement agents of the requirements to convene outreach seminars in the country, open to the general public, industry associations and foreign embassy representatives and, as mandated by MCC's Program Procurement Guidelines, to hold pre-bid conferences on all large contracts.

In addition, MCC is instituting more active outreach to U.S. bidding community through (a) participation of MCC procurement experts in MCC domestic outreach events and (b) organization of domestic procurement conferences with the help of US Chamber of Commerce's regional offices.

In addition, with respect to terms of reference (TORs), MCC has been conducting training programs for MCAs on this topic through classroom methods and direct support on TOR drafting.

Finally, with respect to contractor past performance, MCC maintains a Contractor Past Performance Reporting System (CPPRS) database into which all MCAs are required to regularly submit their review of a contractor. MCC Program Policy Guidelines and Standard Bidding Documents require MCAs to check the CPPRS database during the evaluation process. MCC Procurement Directors regularly reinforce the need for CPPRS compliance with MCA procurement staff.

The OIG 2015 Statement also points to a challenge concerning the Mobile Fish Vendor Activity, one of the activities under the Small-Scale Fisheries Project of the Morocco Compact. Specifically, the OIG states that the activity, which was the subject of OIG's *Review of the Millennium Challenge Corporation-Funded Small-Scale Fisheries Project in Morocco*[3], conducted in October 2013, did not achieve its project goals.

Although OIG describes this project as a "nationwide" project, this activity was not intended to be nationwide; it was decentralized by design and, importantly, accounted for less than 3% of the Small-Scale Fisheries Project's total disbursements. Whereas the OIG points to the lack of an effective plan for oversight as leading to the reduced scope of the program, in fact, financial constraints and a lack of qualified participants were what led to a decision to adjust the scope of this activity from 2,000 to 1,234 beneficiaries. Further, under the compact, MCC and MCA-Morocco were required to identify beneficiaries who demonstrated an ability to save and amortize the equipment granted to them, and who had worked as mobile fish vendors for a defined period of time. The inability to find beneficiaries who met this criteria at four locations – Agadir, Fes, Marrakech and Rabat – therefore accounted for the difference between the revised target of 1,234 and the actual number delivered, 933. Despite this, compact partners succeeded in implementing the activity as planned at 14 locations around Morocco.

[3] Review of the Millennium Challenge Corporation-Funded Small-Scale Fisheries Project in Morocco, Report No. M-000-15-004-S, March 30, 2015. Fieldwork on this review was completed on October 12, 2013.

Sustaining Compact Benefits

The OIG's *Review of the Millennium Challenge Corporation's Transition to High-Value Agriculture Project in Moldova*[4], conducted in September 2013, noted the need for improvement in sustainability measures related to Water Users Associations training.

As noted earlier in this letter, the Moldova Compact closed on September 1, 2015. Eleven water users associations (WUA) were established by compact end date. MCC and MCA-Moldova conducted sustainability workshops in Moldova in June and July of 2013 (prior to the start of the referenced performance audit) in order to identify the biggest risks to sustainability of compact investments. Following such workshops, MCC and MCA-Moldova developed a sustainability plan in which potential WUA risks were a top priority.

As a result of this plan and focus, MCC and MCA-Moldova developed a strong path to sustainability for the WUAs, which includes: (1) USAID will provide robust technical support to the WUAs to help them enhance and grow their skills in operating and maintaining the new irrigation systems; (2) the Government of Moldova will provide up to $8 million to continue the operation of the compact implementing unit for at least two years approximately after compact end date; MCC approved a budget and scope of work that prioritizes support for WUA sustainability; and (3) as of November 2015, and as a direct result of an MCC-sponsored donors forum held in July 2015, the European Union is in discussions with the Government of Moldova, MCC, and MCA-Moldova about providing substantial capital funding to extend the MCC funded irrigation systems in the south of the country by about 80%, adding an additional 3,000 hectares under irrigation.

The OIG Statement also concludes that the sustainability of certain project activities was at risk as discussed in its *Review of the Millennium Challenge Corporation-Funded Small-Scale Fisheries Project in Morocco*[5], completed in October 2013.

Although OIG notes that half of the projects were not operational at compact end, all construction sites – 11 improved landing sites, 10 ports, and 5 wholesale markets – had achieved provisional acceptance by the compact end date. And per the most recent Post-Compact Report in May 2015, nine of eleven improved landing sites, eight of ten ports, four of the five wholesale fish markets, and all three marine protected areas are operational. The May report does not address the status of one site, the Port of Safi that received equipment but did not benefit from any construction. [In the context of MCC's engagement with Morocco on a second compact, MCC continues to push the Government of Morocco to address open issues from the first compact; the government has accepted its commitments and responsibility to complete and operationalize the few remaining artisanal fishing sites, and has made substantial progress to that objective.]

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[4] Review of the Millennium Challenge Corporation's Transition to High-Value Agriculture Project in Moldova, Report No. M-000-15-005-S, July 28, 2015. Fieldwork on this review was completed on September 20, 2013.
[5] Review of the Millennium Challenge Corporation-Funded Small-Scale Fisheries Project in Morocco, Report No. M-000-15-004-S, March 30, 2015. Fieldwork on this review was completed on October 12, 2013.

Managing Finances Efficiently

MCC is continually improving its financial management practices, as evidenced by the unmodified opinion of the independent audit firm engaged by the OIG to conduct MCC's FY2015 annual financial statement audit.

In addition, in its FY 2015 financial statement audit report, MCC eliminated the FY2014 material weakness regarding the financial management system. The Corrective Action Plan (CAP) noted below was critical to MCC's success in addressing FY2014 audit findings.

As noted in Exhibit 2 of the AFR (Status of Prior Year Findings) and through the CAP submitted to the OIG, MCC has completed actions to address and close the three (3) elements identified by the independent auditors concerning MCC's financial management system: (1) key processes and procedures that ensure system accuracy and improve Oracle system functionality, (2) the need for a separate grant management system, and (3) establishing an alternative to recording detailed data in Oracle AP and PO modules.

The implementation of these improvements has increased assurance that MCC will continue to be an excellent steward of funds and a global leader in financial data transparency, and is able to achieve successfully its mission of reducing poverty through economic growth.

Traffic moves along the Tanga–Horohoro trunk road in Northeastern Tanzania. The highway, which reaches to the Kenya border, was recently completed as part of the Millennium Challenge Corporation's Rehabilitation and Construction of Roads Project.

Millennium Challenge Corporation: Tanga Region, Tanzania
October 30, 2012 | Photo by Jake Lyell for MCC

Summaries of Financial Statements Audit and Management Assurances

Table 1. Summary of Financial Statement Audit					
Audit Opinion	Unmodified Opinion				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Ineffective and Inefficient Integration of Data, Processes, and Controls within the Financial Management Systems	1		1		0
Total Material Weaknesses	1		1		0

Table 2. Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA §2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0					0
Total Material Weaknesses	0					0
Effectiveness of Internal Control over Operations (FMFIA §2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0					0
Total Material Weaknesses	0					0
Conformance with Federal Financial Management System Requirements (FMFIA §4)						
Statement of Assurance	System conforms					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0					0
Total Non-Conformances	0					0

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)[15]		
	Agency	Auditor[16]
1. System Requirements	No lack of substantial compliance noted	No lack of substantial compliance noted
2. Accounting Standards	No lack of substantial compliance noted	No lack of substantial compliance noted
3. USSGL at Transaction Level	No lack of substantial compliance noted	No lack of substantial compliance noted

Improper Payments Information Act Report

The Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012, requires MCC to report annually information on improper payments to the President and Congress. OMB Circular No. A-123, *Management's Responsibility for Internal Control,* Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments," 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 made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credits or applicable discounts, and 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 because of insufficient or lack of documentation, the agency must consider this payment as improper.

Risk Assessment

MCC conducted a risk assessment for each of its eight funds. The assessment incorporated various risk factors as identified in OMB Circular No. A-123, Appendix C. Based upon the risk assessment, five funds, Compacts, Compact Implementation Fund (CIF), 609(g), Administrative 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. MCC self-identified improper payments within these funds during the risk assessment review period.[1] MCC conducted statistical sampling of these funds and determined an improper payment rate.

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 +/– 2.5 percent around the estimate of the percentage of improper payments.
- Select a representative sample for each fund 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 No. A-123, Appendix C. MCC based the estimated percentage of erroneous payments on the improper payment error rate calculated as part of the risk assessment. To increase conservatism and coverage, MCC added 1 percent 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), MCC calculated that it needed a minimum of 42 samples to test during the FY 2015 Improper Payments Information Act reporting period. This sample size met the precision requirements specified in OMB Circular No. A-123, Appendix C.

MCC selected samples randomly from all accounting lines that comprised the populations, with the

[1] *Self-identified improper payments within the risk assessment review period were reported in the MCC FY 2014 AFR.*

exception of payroll and intragovernmental payment and collection transactions, so that each item had an opportunity for selection. MCC excluded transactions under $25,000 to focus emphasis on more material transactions and overpayments. Transactions under $25,000 did not have a significant impact on improper payment reporting thresholds.

Improper Payment Reporting

The risk assessment results did not identify any funds that met the OMB threshold of significant erroneous payments.[2] Although MCC did not meet the OMB threshold, MCC tested five of its funds to determine if it could identify any significant improper payments.

MCC did not identify any improper payments from the sample of disbursements tested.

MCC determined its programs were not susceptible to significant erroneous payments, so it did not include payment recapture audits in the scope of the FY 2015 review. This decision was approved by OMB on July 1, 2015.

Do Not Pay Initiative

MCC, with the assistance of the Interior Business Center, has incorporated the IPERIA requirements into its existing business processes to improve payment accuracy. Prior to processing payments, IBC reviews vendor information to ensure that it is accurate to reduce the potential for improper payments. IBC interfaces with the Do Not Pay (DNP) portal on a weekly basis and provides the data to MCC. The data sources used in the analysis are the System for Award Management, Death Master File, and public and private Excluded Party List Systems. MCC researches the issues identified during the validation process and submits the results to IBC, and IBC completes a vendor update in the Oracle Federal Financial System.

In FY 2015, there was a total of 6,461 payments valued at $109.54 million verified through DNP, and no payments were considered improper. Because of IBC's vendor review prior to processing payments, there were no payments stopped resulting from the DNP interface.

[2] *Defined by OMB as gross annual improper payments in the program exceeding (1) both 1.5 % 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)*

Appendices

From installing energy-efficient stoves in gers to equipping vocational students with job skills, the Mongolia Compact is making a difference in the lives of people across the country.

Millennium Challenge Corporation: Mongolia

Photo by MCC

Appendix A: Acronyms

Acronym	Definition
AFR	Agency Financial Report
APR	Annual Performance Report
CAP	Corrective Action Plan
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIESIN	Center for International Earth Science Information Network
CIF	Compact Implementation Fund
CPPRS	Contractor Past Performance Reporting System
CSRS	Civil Service Retirement System
DAF	Department of Administration and Finance
DNP	Do Not Pay
DOL	Department of Labor
ESA	Environmental and Social Assessment
FASAB	Federal Accounting Standards Advisory Board
FBwT	Fund Balance With Treasury
FECA	Federal Employees' Compensation Act
FERS	Federal Employees' Retirement System
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Management Security Act of 2002
FMFIA	Federal Managers' Financial Integrity Act of 1982
FTE	Full-time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
IBC	Interior Business Center of the Department of the Interior; MCC's payroll and financial services provider
IG	Inspector General
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act
IT	Information technology
LIC	Low Income Country
LMIC	Lower Middle Income Country
M&E	Monitoring & Evaluation
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MIS	Management Information System
OIG	Office of Inspector General
OMB	Office of Management and Budget

Acronym	Definition
OPM	Office of Personnel Management
PP&E	Property, Plant, & Equipment
SBR	Statement of Budgetary Resources
SF	Standard Form
SFFAS	Statement of Federal Financial Accounting Standards
SSAE	Statement on Standards for Attestation Engagements
TOR	Terms of Reference
TSP	Thrift Savings Plan
UNESCO	United Nations Educational, Scientific and Cultural Organization
USAID	United States Agency for International Development
U.S.C.	United States Code
USD	U.S. Dollars
USSGL	United States Standard General Ledger
WUA	Water User Associations
WEO	World Economic Outlook
WGI	Worldwide Governance Indicators

Appendix B: Summaries of FY 2015 Compact and Threshold Programs

MCC is an innovative and independent U.S. foreign aid agency that is helping lead the fight against global poverty. Created in 2004 with strong bipartisan support, MCC is changing the conversation on how best to deliver smart U.S. foreign aid by focusing on good policies, country ownership and results.

MCC Compacts Lead to Economic Growth

A compact is a multi-year agreement between MCC and a partner country to fund specific programs designed to reduce poverty and stimulate economic growth. Recognizing that sustainable development is achieved best by fostering country ownership, good policies and investment in people, MCC works with selected eligible countries 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 30 compacts totaling $10.2 billion. MCC issues quarterly status reports that provide a comprehensive qualitative and quantitative snapshot of a compact project, its commitments and expenditures and its activities.

Summary of MCC Compacts by Country

Armenia

This compact focused on increasing economic performance in the agricultural sector through 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. It increased productivity of 250,000 farmer households through improved water supply, higher yields, higher-value crops and a more competitive agricultural sector. In June 2009, MCC enacted a hold on funding for further road construction and rehabilitation because of Government of Armenia actions inconsistent with MCC principles promoting democratic governance. Armenia completed its compact in September 2011.

Benin

This compact sought to increase investment and private sector activity in Benin through four projects: (1) increasing access to land through more secure and useful land tenure, (2) expanding access to financial services through grants given to micro-, small and medium enterprises, (3) providing access to justice by bringing courts closer to rural populations, and (4) improving access to markets by eliminating physical and procedural constraints currently hindering the flow of goods through the Port of Cotonou. Benin completed this compact in September 2011. A second compact for Benin was approved and signed by the MCC Board of Directors on September 9, 2015.

Burkina Faso

This compact is designed to (1) increase investment in rural productivity by improving land tenure security and land management, (2) increase the volume and value of agricultural production through investments in water management and irrigation, technical assistance to farmers and rural credit, and (3) increase opportunities for farmers to sell agricultural goods and livestock by rehabilitating rural and primary roads. As an extension of Burkina Faso's successful MCC Threshold Program, the compact also funds the construction of three classrooms each at 132 "girl-friendly" schools for grades four through six.

Tower cranes work on the periphery of the As Samra Wastewater Treatment Plant in Zarqa, Jordan. As part of the $275 Million compact with Jordan, MCC is assisting in the expansion of the existing plant in order to increase its capacity to handle sewage and produce much needed treated water for drinking and irrigation.

Millennium Challenge Corporation: Jordan | November 24, 2013

Photo by Jake Lyell for MCC

Cabo Verde I and II

The first compact helped Cabo Verde achieve its national development goal of transforming its economy from aid-dependency to sustainable, private sector-led growth. The compact increased 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. Cabo Verde completed this compact in October 2010.

The second compact, signed in February 2012, is comprised of two projects intended to increase household incomes by reforming two sectors identified as current constraints to economic growth: the water and sanitation sector and the land management sector. This compact builds on the success of the first compact and upholds high standards for accountability, transparency and achieving results.

El Salvador I and II

The first compact sought to improve the lives of Salvadorans through strategic investments in education, public services, enterprise development and transportation infrastructure. Its Human Development Project increased employment opportunities for the region's poorest inhabitants and provided greater access to safe water and sanitation services. El Salvador completed this compact in September 2012. MCC approved a second compact with El Salvador in September 2013, which focuses on improving transportation infrastructure, human capital through education and the country's investment climate.

Georgia I and II

The first compact helped Georgians reduce poverty by renovating key regional infrastructure and improving the development of regional enterprises. The compact enhanced productivity in farms, agribusinesses and other enterprises that will increase jobs and rural income; rehabilitated a major highway; and improved energy and water security. Georgia completed this compact in April 2011.

The second compact, signed in July 2013, seeks to improve the quality of education in the science, technology, engineering and math fields and increase the earning potential of Georgians through strategic investments from the start of a student's general education to graduation from technical training and advanced degree programs. The compact includes a focus on increasing women's participation in these professions.

Ghana I and II

This compact reduced poverty by raising farmer incomes through private sector-led agribusiness development. MCC investments increased the production and productivity of high-value cash and food staple crops in some of Ghana's poorest regions and enhanced the competitiveness of Ghana's agricultural products in regional and international markets. Ghana completed this compact in February 2012; MCC and Ghana signed a second compact focused on power sector reform in August 2014.

Honduras

This compact sought to reduce poverty by increasing farmer productivity and entrepreneurship, and reducing transportation costs between targeted production centers and national, regional and global markets. In September 2009, MCC partially terminated the compact because of Government of Honduras actions inconsistent with MCC's eligibility criteria. Honduras completed this compact in September 2010.

Indonesia

This compact seeks to increase household incomes through three projects designed to (1) support low-carbon development by increasing productivity, reducing energy costs and improving natural resource management, (2) reduce and prevent low birth weight, childhood stunting and malnourishment of children, and (3) improve procurement of public sector growth-enhancing goods and services.

Jordan

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

Lesotho

This compact sought to increase water supplies for industrial and domestic use; alleviate the devastating effects 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. Lesotho completed this compact in September 2013. In December 2013, MCC selected Lesotho as eligible to develop a proposal for a second compact.

Watermelon sellers uses flashlights to assist their business during a blackout in Zanzibar, Tanzania. The Millennium Challenge Corporation is increasing electrical infrastructure on the Zanzibar Archipelago by bringing a new submarine cable from mainland Tanzania, constructing new electrical sub-stations, and installing new power lines.

Millennium Challenge Corporation: Zanzibar, Tanzania
October 29, 2012 | Photo by Jake Lyell for MCC

The new 93 kilometer stretch of road from Sarateni to Soroca, rehabilitated under MCC's Moldova Compact, is in use and being enjoyed by travelers.

Millennium Challenge Corporation: Moldova | June 12, 2015
Photo by Jake Lyell for MCC

More than 1 million Zambians are expected to benefit from MCC's $355 million compact, which is designed to help improve city drainage, water and sanitation and the Zambian Government's ongoing efforts at water sector reform.

Millennium Challenge Corporation: Zambia | March 17, 2014
Photo by Andrew Ladson

The Nampula-Rio Ligonha Road in Northern Mozambique is currently under construction as part of the Millennium Challenge Corporation's Rehabilitation and Construction of Roads Project. Once completed, traffic on the 109 km stretch of road is expected to increase from about 4,600 vehicles per day to around 5,500 per day.

Millennium Challenge Corporation: Mozambique
October 23, 2012 | Photo by Jake Lyell for MCC

Madagascar

This compact sought to raise incomes by assisting the rural population in transitioning from subsistence agriculture to a market-driven growth. The compact helped rural Malagasy secure formal property rights to land; access credit and protect savings; and receive training in agricultural production, management and marketing techniques. In August 2009, MCC terminated this compact because of Government of Madagascar actions inconsistent with MCC's eligibility criteria.

Malawi

This compact is a single-sector program focusing on activities 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 preserve and create employment opportunities in the economy.

Mali

This compact sought to increase the productivity of agriculture and regional enterprises and serve as a catalyst for sustainable economic growth and poverty reduction through key infrastructure investments capitalizing 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. In August 2012, MCC terminated the compact due to an undemocratic change in government.

Moldova

This compact will improve and provide a new model for 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

This compact sought to improve 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 also promoted alternative energy and energy-efficient products to the market economy and constructed transportation infrastructure along sections of the critical north-south road corridor. Mongolia completed this compact in September 2013. In December 2014, MCC selected Mongolia as eligible to develop a proposal for a second compact.

Morocco I and II

This compact sought to increase productivity and improved employment in high-potential sectors including investments in fruit tree productivity, small-scale fisheries and artisan crafts. Investments in financial services also supported entrepreneurship, small business development and market growth. Morocco completed this compact in September 2013. The MCC Board of Directors approved a second compact for Morocco on September 17, 2015.

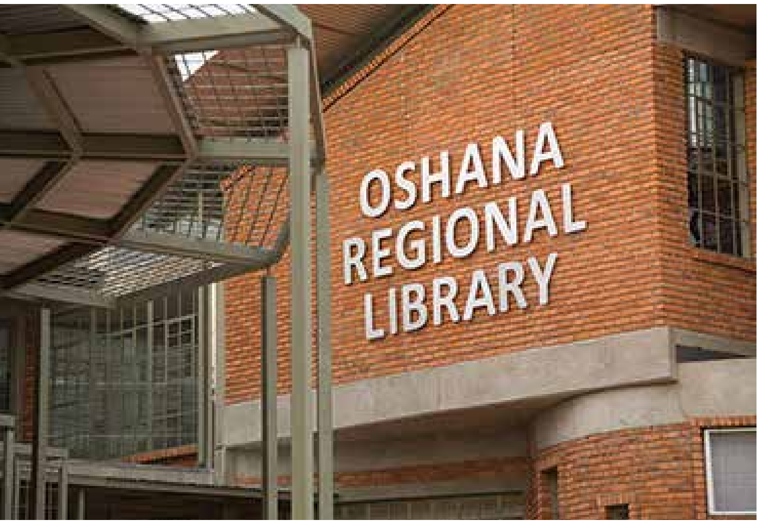
Mozambique

This compact sought to increase productive capacity in selected districts by reducing the poverty rate, increasing household income and employment and reducing chronic malnutrition. Compact projects sought to improve water systems, sanitation, access to markets, land tenure services and agriculture in the targeted districts. Mozambique completed this compact in September 2013.

Workers, including Soulaimani Lahcen (center) and Rachit Idljsegr (right), weigh fresh fish ahead of auction at an MCC-funded improved fish landing site in Tifnit, Morocco. MCC's Small-Scale Fisheries project is transforming the Moroccan small-scale fisheries sector through a number of channels including constructing new landing sites, building and upgrading fishery facilities, improving fisherman's access to markets, providing technical training, and helping to fund fresh-fish transportation for mobile fish vendors in coastal areas of Morocco.

Millennium Challenge Corporation: Morocco | May 6, 2013

Photo by Jake Lyell for MCC



The Oshana Regional Library is an MCC-funded resource center in Oshakati, Namibia. Under the Namibia Compact's Education Project, MCC is constructing many regional resource and study centers like the one seen here in underserved areas in an effort to improve access to information, resources, training materials and programs, and study facilities.

Millennium Challenge Corporation: Namibia | March 10, 2014
Photo by Jake Lyell for MCC

Namibia

This compact aims to 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

This compact was designed to reduce transportation costs, improve access to markets, strengthen property rights, increase investment and raise incomes for farms and rural businesses. In July 2009, MCC partially terminated the compact because of political conditions in Nicaragua inconsistent with MCC's eligibility criteria. Nicaragua completed this compact in May 2011.

Philippines

This compact includes funds to improve 220 kilometers of the key road in Samar province. 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. In December 2014, MCC selected the Philippines as eligible to develop a proposal for a second compact.

Senegal

This compact is designed to 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

This compact sought to rehabilitate roads to connect communities with markets, schools and health clinics and expanded economic opportunities by reducing transport costs. It improved the reliability and quality of electric power and extended electricity services to communities previously not served. It also funded water infrastructure improvements that will increase access to potable water and mitigate incidences of water-related disease, burdensome health care costs and decreased workforce productivity. Tanzania completed this compact in September 2013. In December 2012, MCC selected Tanzania as eligible to develop a proposal for a second compact.

Vanuatu

This compact improved the country's poor road conditions by constructing and sealing two national roads, the Efate Ring Road and the Santo East Coast Road. The compact benefited poor, rural agricultural producers and the tourism industry by reducing transportation costs and improving road conditions. Vanuatu completed this compact in April 2011.

Zambia

This compact seeks to address one of Zambia's most binding constraints to economic growth through infrastructure investment in Lusaka, the rapidly urbanizing capital. The compact will invest in water supply, sanitation and drainage infrastructure to decrease the incidence and prevalence of water-related disease, reduce productive days lost due to disease and time spent collecting water, and lower costs. It also will support the Government of Zambia's ongoing efforts to reform its water sector by strengthening partner institutions.

Threshold Programs: Improving Capacity, Reducing Corruption

MCC redesigned the Threshold Program in 2010 to enhance the focus on policy and institutional reform and to give candidate countries the opportunity to demonstrate that they would be good compact partners. If implemented successfully, these reforms will reduce constraints to faster economic growth and will provide MCC with critical information about the country's political will and capacity to undertake the types of reforms and investments that would have the greatest impacts in compacts.

Not all countries with threshold programs will be selected for compact eligibility. Those countries that are selected will gain significant advantages with the compact. MCC will have greater confidence in the country partner's ability to design and implement those investments that will generate the greatest results, and MCC will have a head start on the work and relationship necessary to design a high-impact compact. In some cases, MCC may also be able to make early progress in longer duration reforms that ultimately enhance compact success, if the country becomes compact eligible.

The new programs are being developed through a structured and disciplined diagnostic and design

Students and teachers of the Magsaysay National High School in Occidental Mindoro, Philippines are grateful for the new school building constructed by the local community using funds from MCC.

Millennium Challenge Corporation: Philippines

Women, including Milondia Afezzi (right), attend an MCC-funded functional literacy course in Agadir, Morocco.

Millennium Challenge Corporation: Morocco | May 6, 2013
Photo by Jake Lyell for MCC

process. They begin with a rigorous analysis of the constraints to economic growth and the policies and institutions that reinforce those constraints. MCC will support government efforts at reform in these areas that have the potential for the greatest impact on growth.

The prospect of a compact program will create incentives for countries to implement the targeted reforms of the threshold program effectively and expeditiously and provide MCC with important information about the country's commitment to reform.

The second generation Threshold Program currently includes three countries. MCC signed the $15.6 million Honduras Threshold Program in August 2013 and the $28.0 million Guatemala Threshold Program April 2015. The MCC Board of Directors approved Sierra Leone in September 2015; the program is in the design phase.

Mercia Rapido and her daughter Eliza Adolfo draw clean water from a borehole in Mecupes village, Mozambique. The Millennium Challenge Corporation has brought fresh water access to a number of remote villages including Mecupes through the drilling of boreholes and the installation of water access points.

Millennium Challenge Corporation: Mozambique
November 28, 2012 | Photo by Jake Lyell for MCC

Summary of MCC Threshold Programs

Albania I and II

The first program focused on reducing corruption by reforming tax administration, public procurement and business administration. It sought to reduce bribes and bureaucracy related to starting a business, and to increase the national tax base. In October 2008, MCC signed a second threshold program with Albania.

The second program built upon the successes of the first and focused on anti-corruption through targeted reforms in the areas of public administration and judicial capacity-building. Albania completed both programs.

Burkina Faso

This program focused on increasing the number of girls completing primary education. The program included the construction of "girl-friendly" schools, teacher training, take-home dry rations for girls who maintain a 90 percent school attendance rate and literacy training center for mothers. Burkina Faso completed its threshold program and signed an MCC compact in July 2008.

Guatemala

This three-year program will support the Government of Guatemala in implementing policy and institutional reforms aimed at providing quality educational opportunities that have relevance to the labor market, and reforms aimed at mobilizing additional government resources needed to address binding constraints to economic growth. The program will be implemented through a combination of a Government of Guatemala-designated accountable entity (PRONACOM, the Guatemala National Competitiveness Program), the Department of the Treasury's Office of Technical Assistance, and MCC-procured consulting services. MCC will oversee the implementation, monitoring and evaluation of the threshold program.

Guyana

This program sought to improve Guyana's fiscal policies and create a more business-friendly environment. The grant helped the Government of Guyana implement a new value-added tax system and develop ways to assist and educate taxpayers, while better planning and controlling spending. The program was designed to reduce the number of days and costs to start a business by modernizing and streamlining the business registration process. Guyana completed its threshold program.

Honduras

This three-year program aims to bring good governance practices to Honduras by improving public financial management and creating more effective and transparent public-private partnerships. It follows the successful implementation of the country's compact, which closed in September 2010. The threshold program will help the Government of Honduras save money in providing public services, improving the delivery of public services and reducing opportunities for corruption. MCA-Honduras, a Honduran Government organization set up under the previous MCC compact but now used by multiple donors, will manage the program. The Department of the Treasury's Office of Technical Assistance will implement a portion of the Public Financial Management Project, and MCC will oversee the implementation, monitoring and evaluation of the threshold program.

Indonesia

This program sought to immunize at least 80 percent of children under the age of one for diphtheria, tetanus and pertussis and 90 percent of all children for measles. The program also included a component aimed at curbing public corruption by reforming the judiciary. Indonesia completed its threshold program and signed an MCC compact in November 2011.

Mohamed Gonalay is a student learning weaving at the Institute of Traditional Arts in Fez, Morocco. MCC has funded vocational and artisanal training for students and the purchase of equipment at the institute.

Millennium Challenge Corporation: Morocco | May 9, 2013

Photo by Jake Lyell for MCC

Jordan

This program strengthened democratic institutions by supporting Jordan's efforts to broaden public participation in the political and electoral process, increasing government transparency and accountability and enhancing the efficiency and effectiveness of customs administration. Jordan completed its threshold program; it signed an MCC compact in October 2010.

Kenya

This program focused on reducing opportunities for corruption in public governance. The program targeted corruption in public procurement, the delivery of health care and the monitoring and evaluation of reforms. Kenya completed its threshold program.

Philippines Resident Country Director John Polk shares in the joy surrounding Barangay Baslay's new "Footbridge in the Sky" with a group of children and project volunteers in Dauin, Negros Oriental. Through projects like this, MCC's $434 million investment in the Philippines is helping bridge the gaps that have constrained inclusive growth in the Philippines.

Millennium Challenge Corporation: Philippines | August 22, 2014
Photo by John Polk

Kyrgyz Republic

This program sought to increase the independence and effectiveness of the judicial system, develop a more functional and trusted police force, improve the government's capacity to investigate and prosecute corruption cases, educate the public and media on the dangers of corruption and strengthen the financial disclosure system. The Kyrgyz Republic completed its threshold program.

Liberia

This three-year program promoted equal access to land and increased land security through better understanding of property rights issues and improved land administration. The program also focused on improving girls' primary education enrollment and retention, and supported efforts to improve trade policy and practices, specifically in harmonizing tariffs, engaging regional and global bodies and strengthening the regulatory environment. In December 2012, MCC selected Liberia as eligible to develop a compact. Liberia completed its threshold program in December 2013.

Malawi

This program focused on combating corruption, enhancing oversight functions and building enforcement and deterrence capacity. The program strived to create more effective legislative and judicial branches of government, provide support for anti-corruption agencies, strengthen independent media coverage and expand the work of civil society organizations. Malawi completed its threshold program in 2008 and signed a compact in April 2011.

Moldova

This program sought to reduce corruption in the public sector through reforms to the judicial, health, tax and customs systems. The reforms complemented Moldova's national strategy aimed at reducing corruption. Moldova completed its threshold program and signed an MCC compact in January 2010.

Niger

This program focused on reducing public corruption within the health and education sectors; streamlining the process of starting a business; reducing the time and costs associated with land ownership transfer, land valuation, building permitting and notarization; and bolstering girls' education. In December 2009, MCC voted to suspend MCC's program with Niger based on Government of Niger actions inconsistent with MCC policies; MCC reinstated assistance under the program in December 2011. In August 2012, USAID began implementation of a $2 million program to complete and extend the activities of Niger's original threshold program. The program, approved by MCC in March 2012, supports school-based strategies to improve academic performance and to increase girls' enrollment, retention and completion. In December 2012, MCC selected Niger as eligible to develop a compact.

Paraguay I and II

The first Paraguay threshold program focused on reducing corruption. The program sought to strengthen the rule of law by increasing penalties for corruption and building a transparent business environment. Additionally, it included a business development component aimed at reducing the number of days necessary to start a business.

In April 2009, MCC signed a second threshold program with Paraguay that built upon the successes of the first program. It focused on anti-corruption efforts in sectors of economic importance that are especially prone to corruption, such as customs, law enforcement, health care and the judiciary. The goal was not only to reduce opportunities for corruption and increase successful prosecution of wrongdoers, but also to improve public understanding and perception of these sectors, and reinforce the Government of Paraguay's commitment to combating corruption. Paraguay completed its second threshold program in July 2012.

Peru

This program sought to increase immunization rates of children in rural areas against diseases such as measles, diphtheria, pertussis and tetanus in eight targeted regions, and assist Peru's Ministry of Health in strengthening information and vaccination management systems. The program also helped Peru combat corruption by working with the government and civil society organizations to improve internal controls, as well as analyze and simplify administrative processes to reduce opportunities for corruption. Peru completed its program in September 2012.

Philippines

This program sought to improve revenue administration and anti-corruption efforts by strengthening the Office of the Ombudsman and strengthening enforcement within three departments in the Department of Finance. The Philippines completed its threshold program and signed an MCC compact in September 2010.

Rwanda

This program focused on strengthening civic participation and promoting civil liberties by providing training, technical support and grants to local and national civil society organizations, and supporting independent community radio stations to enhance citizen engagement. The program also reinforced Rwanda's efforts to support judicial capacity- building legislative reforms and to improve overall public administration. Rwanda completed its threshold program.

Saõ Tomé and Principe

This program sought to increase revenue through improved tax administration and enforcement. The program also modernized Saõ Tomé and Principe's customs service to increase efficiency and reduce the time and cost of starting a business. Saõ Tomé and Principe completed this threshold program.

MCC's compact in Senegal is an example of how a good partnership can profoundly transform individual lives as the country works to lift itself out of poverty.

Millennium Challenge Corporation: Senegal | July 15, 2014

Photo by Scott Fontaine

Tanzania

This program focused on four specific anti-corruption initiatives, including building the nongovernmental sectors' monitoring capacity, strengthening the rule of law for good governance, establishing a Financial Intelligence Unit and curbing corruption in public procurement. Tanzania completed its threshold program and signed an MCC compact in February 2008.

Timor-Leste

This program sought to reduce corruption by building a network of functioning and effective anti-corruption institutions and actors strengthening capacity, increasing coordination and improving processes and procedures to deter and detect instances of corruption. The program also aimed to improve access to immunization services by creating a more capable and effective community health system. Timor-Leste completed its threshold program in March 2014.

Workers put the finishing touches on the Tabucan Bridge, part of the Secondary National Roads Development Project on Samar Island, improving access and climate resiliency through MCC's $434 million Compact with the Philippines.

Millennium Challenge Corporation: Philippines | February 2014
Photo by John Polk

Uganda

This program focused on reducing corruption by improving public procurement and financial management practices, strengthening the role of civil society and building capacity to facilitate more effective follow-up of reported malpractices. Uganda completed its threshold program.

Ukraine

This program focused on reducing corruption by strengthening civil society's ability to monitor and expose it. The program also enabled the Government of Ukraine to increase monitoring and enforcement of ethical and administrative standards. Ukraine completed its threshold program.

Zambia

This program focused on reducing corruption and improving government effectiveness. The program funded three components aimed at (1) increasing control of corruption within the public sector, (2) improving public service delivery to the private sector and (3) strengthening border management of trade. Zambia completed its threshold program and signed an MCC compact in May 2012.

Appendix C: MCC Country Selection Process

Selection Indicators

MCC uses a variety of indicators within the categories of economic freedom, investing in people and ruling justly to determine country eligibility for program assistance. The Board of Directors looks at several elements in choosing its selection factors, including:

- Development by a third party.
- Linkage to policies that the government can influence within a two–three year horizon.
- Linkage—theoretically or empirically—to economic growth and poverty reduction.
- Use of an analytically rigorous methodology and objective and high-quality data.
- Broad country coverage and comparability across countries.
- Consistency in results from year to year.

Use of Supplemental Information

MCC's Board of Directors also may take into account other quantitative and qualitative information. It uses supplemental information to inform its understanding of a country's policy performance relative to its peers, and MCC's ability to reduce poverty and generate economic growth in a country. If the Board of Directors is considering a country that has completed a compact, or will complete a compact shortly, then the Board of Directors also considers that country's performance during the compact implementation window.

There are elements of the eligibility criteria set out in MCC's legislation for which there is either limited quantitative information or no well-developed performance indicator, so MCC may turn to supplemental sources for assessments of these policy issues. The Board of Directors may also consider information to address gaps, time lags, measurement error or other weaknesses in the indicators to assist in assessing whether MCC funds might reduce poverty and promote economic growth in a country.

Examples of the supplemental information used by MCC include the reports listed below:

- The U.S. Department of State's Human Rights Report
- The U.S. Department of State's Trafficking in Persons Report
- Transparency International's Corruption Perceptions Index
- Global Integrity Report
- The World Bank's World Development Indicators
- The World Bank's Doing Business Report
- The World Economic Forum's Global Competitiveness Report (2013–2014)

MCC published its FY 2015 Guide to the Indicators and the Selection Process, which the Board of Directors used to determine country eligibility for MCC program assistance. The Guide addressed the indicators shown on the table below. The source column contains links to the organizations that developed the indicators.

FY 2015 Selection Indicators	
Indicator	**Source**
Category: Encouraging Economic Freedom	
Business Start-Up	International Finance Corporation
Land Rights and Access	International Fund for Agricultural Development International Finance Corporation
Trade Policy	The Heritage Foundation
Regulatory Quality	World Bank/Brookings Institution Worldwide Governance Indicators (WGI)
Inflation	International Monetary Fund World Economic Outlook (WEO) Database
Fiscal Policy	International Monetary Fund World Economic Outlook (WEO) Database
Access to Credit	International Finance Corporation
Gender in the Economy	International Finance Corporation
Category: Investing in People	
Immunization Rates	World Health Organization/UNICEF
Public Expenditure on Health	World Health Organization
Girls' Education	UNESCO
▶ Primary Education Completion Rate Indicator	Scorecard (Lower Income Country only)
▶ Girls' Secondary Education Enrollment Ratio Indicator	Scorecard (Lower Middle Income Country only)
Public Expenditure on Primary Education	UNESCO
Child Health	Columbia University/Yale University Center for International Earth Science Information Network (CIESIN) Yale Center for Environmental Law & Policy
Natural Resource Protection	Columbia University/Yale University Center for International Earth Science Information Network (CIESIN) Yale Center for Environmental Law & Policy
Category: Ruling Justly	
Civil Liberties	Freedom House
Political Rights	Freedom House
Control of Corruption	World Bank/Brookings Institution
Government Effectiveness	World Bank/Brookings Institution Worldwide Governance Indicators (WGI)
Rule of Law	World Bank/Brookings Institution Worldwide Governance Indicators (WGI)
Freedom of Information Indicator	Freedom House Open Net Initiative Freedominfo.org

Appendix D: Sustainable Development Goals

On September 25, 2015, the United Nations General Assembly adopted 17 Sustainable Development Goals — to replace and improve on the expiring Millennium Development Goals. MCC CEO Dana Hyde attended the session, noting that "These goals represent the culmination of years of collaborative input from countries and organizations around the world, including substantial guidance from MCC. They set new, ambitious objectives to end poverty and improve lives globally while focusing on inclusive economic growth and effective, accountable institutions to sustain and accelerate development. In addition to Goals 1 and 8 that focus on eliminating poverty and promoting economic growth, respectively, each of these interconnected goals ties in with MCC's work."

Sustainable Development Goals

1. End poverty in all its forms everywhere
2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture
3. Ensure healthy lives and promote well-being for all at all ages
4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
5. Achieve gender equality and empower all women and girls
6. Ensure availability and sustainable management of water and sanitation for all
7. Ensure access to affordable, reliable, sustainable and modern energy for all
8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
10. Reduce inequality within and among countries
11. Make cities and human settlements inclusive, safe, resilient and sustainable
12. Ensure sustainable consumption and production patterns
13. Take urgent action to combat climate change and its impacts
14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development
15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
17. Strengthen the means of implementation and revitalize the global partnership for sustainable development

Mr. Jaffar Mfaume Hamad inspects the newly installed electrical submarine cable at its emergence point from the Indian Ocean along the shores of Zanzibar. The Millennium Challenge Corporation is increasing electrical infrastructure on the Zanzibar Archipelago by bringing the new cable from mainland Tanzania, constructing new electrical sub-stations, and installing new power lines.

Millennium Challenge Corporation: Zanzibar, Tanzania
October 29, 2012 | Photo by Jake Lyell for MCC

Appendix E: Useful Websites

The following websites contain additional information related to MCC activities. This Appendix includes documents referenced in this report and will help readers who are reading a paper copy of this report locate the links embedded in the electronic version.

http://**www.mcc.gov**

MCC's website, which contains a wide variety of information about MCC's programs and activities. There are links to MCC's electronic versions of this AFR and previous reports, Annual Reports, and the Congressional Budget Justifications, which contain the APRs. In addition, there are links to selection indicators, evaluations, and individual country reports.

https://**www.mcc.gov**/pages/contact

Contact for comments or questions about this report.

http://**www.state.gov**/j/drl/rls/hrrpt/index.htm

The U.S. Department of State's Human Rights Report.

http://**www.state.gov**/j/tip/rls/tiprpt/index.htm

The U.S. Department of State's Trafficking in Persons Report.

http://**www.transparency.org**/research/cpi/overview

Transparency International's Corruption Perceptions Index.

http://**data.worldbank.org**/indicator

Global Integrity Report.

http://**www.freedomhouse.org**/report/countries-crossroads/countries-crossroads-2012

Freedom House's Countries at the Crossroads.

http://**data.worldbank.org**/indicator

The World Bank's World Development Indicators.

http://**www.doingbusiness.org**

The World Bank's Doing Business Report.

http://**www.weforum.org**/issues/global-competitiveness

The World Economic Forum's Global Competitiveness Report.

http://**www.fasab.gov**

The Federal Accounting Standards Advisory Board website. MCC prepares its financial statements in accordance with GAAP promulgated by FASAB.

http://**www.whitehouse.gov**/omb

OMB's website, which contains Circulars No. A-123 and A-136 that MCC follows to prepare its FMFIA and financial reports.

MCC Welcomes Your Comments

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2015-001-1747-01